Aviva plc

Annual Report and Accounts 2004

Highlights of the year

£2,344m
Operating profit before tax*

£17.2bn
Worldwide long-term savings new business sales**

25.36p
Full year dividend

£12.9bn
Shareholders funds†

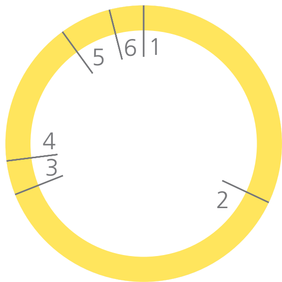
Operational highlights

- Strong performance in both long-term savings and general insurance businesses
- Improved life result; higher new business contribution across all major business units and sustained sales growth in continental Europe
- Excellent general insurance result with strong profit growth and a combined operating ratio‡ of 97%, beating our group target
- Strong capital position and a significant increase in shareholder funds†

* From continuing operations, including Life European Embedded Value (EEV) operating return before amortisation of goodwill and exceptional items.
** From continuing operations, including share of associates' premiums.
† On an EEV basis.
‡ Combined operating ratio (COR) broadly expresses the total of claims costs, commission and expenses as a percentage of premiums and is one of our key performance measures.
≠ Including health premium income.
With reference to net premium income from continuing operations.
~ Based on gross worldwide premiums.
≈ Based on gross worldwide premiums, including share of associates' premiums.
All growth rates in this document are quoted at constant rates of exchange.

Life profits reporting In reporting the Aviva plc headline operating profit, life profits have been included using the European embedded value (EEV) basis. The modified statutory basis, which is used in our accounts, is also identified in the headline figures. We have focused on the EEV basis, as we believe life EEV operating return is a more realistic measure of the performance of life businesses than the modified statutory basis. Life modified statutory operating profit before tax amounted to £1,185 million. The basis used for reporting EEV profit is consistent with the principles launched in May 2004 by the CFOs Forum, a group of 19 insurers with implementation required by no later than 31 December 2005. We have chosen to adopt the EEV principles early. This is used throughout the Aviva group to assess performance and as it is adopted by our peers will be used by the investment community to assess performance. The results for 2003 shown as comparatives which were previously reported to an achieved profits basis have been restated to an EEV basis.

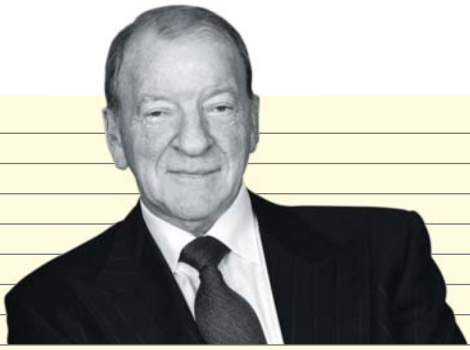
Geographical breakdown of worldwide business mix[#]

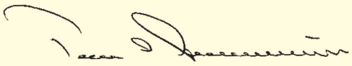


Long-term saving[≠]		General insurance	
1 UK	32%	4 UK	17%
2 Continental Europe	37%	5 Continental Europe	6%
3 Rest of world	4%	6 Rest of world	4%

Aviva is the world's fifth-largest insurance group[~] and the biggest in the UK. It is one of the leading providers of life and pensions products in Europe and has substantial businesses elsewhere around the world. Its main activities are long-term savings, fund management and general insurance. It has premium income and investment sales of £33 billion[≈] and £273 billion of assets under management. The group has 49,000 employees serving 30 million customers worldwide.

Chairman's statement





Pehr G Gyllenhammar
Chairman

Group strategy

- To grow our long-term savings business aggressively and profitably.
- To build a world-class fund management business.
- To take a focused approach to general insurance, with disciplined underwriting and efficient claims handling.
- To build top-five positions in key markets.
- To withdraw from lines of business or markets which do not offer the potential for market-leading positions or superior returns.

Aviva has had a good year, with robust performance. Patient and persistent actions to improve efficiency and productivity have created higher earnings of improved quality.

We compare ourselves with the "best in class" in all that we do. Our consistent efforts have made us market leaders in many aspects of our business. Our aim is to continue to outperform.

The insurance sector has not offered easy opportunities to show positive results, particularly as the underlying assets – equities and fixed income – have had a bumpy ride, although there have been some improvements in 2004.

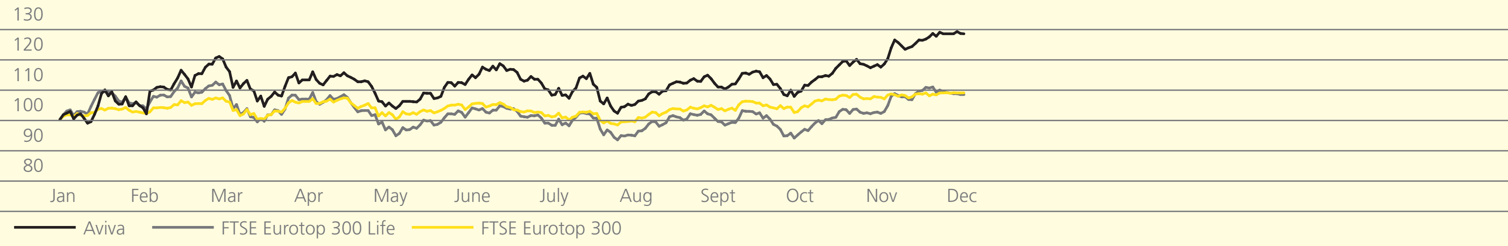
Growth has been modest in the UK, but we have consolidated our market share. Our life portfolio is yielding better returns and the general insurance business continues to deliver excellent and consistent results.

We are registering higher growth in continental Europe and can see the promising development of our business model and of our profits. Our operations in France, Spain, the Netherlands and Italy are all doing well. In Poland and other markets in Eastern Europe we are prominent or gaining market share.

Our general insurance businesses in Ireland and Canada are making good progress with high profitability. We have sold our small general insurance portfolio in South East Asia for a good price, and are concentrating our efforts on growing our life businesses in the expanding markets of China and India.

Our exposure to the catastrophic effects of the tsunami in Asia was limited. We were obviously shocked and saddened by the suddenness and severity of this disaster and we feel deep sympathy for the victims and their families. Thankfully, none of our growing number of staff in this region lost their lives.

Aviva relative to FTSE Eurotop 300 Life and FTSE Eurotop 300, for 2004



The successful growth of our important front and back office activities in India and Sri Lanka has contributed to lower total costs, higher efficiency and gradually improved service levels for our customers. It must be admitted that we have not provided the required service in every case, but we are making intense efforts to get there and have seen improvements. Our Asian administrative capacity has helped us to contain and reduce problems.

We have managed our capital situation with care. Our sound profits and cash flow have allowed us to increase our dividend in line with our policy. We have gone to the market twice for subordinated debt and most recently in November 2004 we issued a direct capital instrument. We managed to get the timing right for good terms and high demand. Consequently we are in a very good capital position.

After several years of difficult market conditions we can see the fruits of our systematic efforts to increase efficiency and financial strength. Your company is therefore gradually entering a phase of more aggressive growth, whether organically or through acquisitions.

The board has recommended a final dividend of 16.00 pence net per share which brings the total for the year to 25.36 pence. We have lived up to our commitment to increase dividends by around 5% a year on the condition that we have sufficient dividend cover.

Our shares did quite well last year, after a difficult period of depressed equity markets. We outperformed our peers in the insurance sector, both in the UK and in Europe at large. We measure our performance against our competitors with an ambition to continue to outperform.

It is important to have good governance, and the board is completely supportive of this ambition. I believe we are one of the best in class in terms of compliance.

The European Financial Services Round Table, which I founded and which I chair, continues to push for an open and transparent European market for financial services. Progress is slow, but we are heard and we are moving forward. We have just welcomed three new members from Switzerland.

On corporate social responsibility, we are participating both in the United Nations Global Compact programme and in European activities. We wish to be the best, and we are pleased to be recognised as one of the prime movers in this field.

As regards accounting standards, new demands are put upon us. We are well prepared for the adoption of the new international financial reporting standards (IFRS) and are also meeting the capital and solvency requirements that have been introduced.

Aviva has a new finance director, Andrew Moss, and three new non-executive board directors, Richard Goeltz, Russell Walls, and most recently, Lord Sharman of Redlynch OBE. Each of these individuals brings wide experience from the financial services industry and from working internationally.

Market conditions have not been easy. Our staff are resilient, hard working, and show high morale in spite of tough conditions. I think they have done an excellent job.

We continue to strive for greater efficiency and excellence in our profession, and on that basis we aim to improve shareholder value.

Business overview

Long-term savings

Our credentials

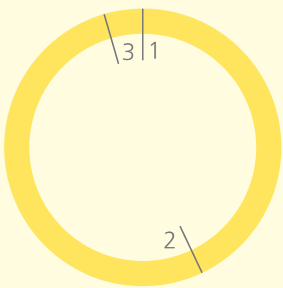
Our strategy is to grow this business aggressively and profitably by building strong positions in our chosen markets. Aviva is one of the leading life and pensions providers in Europe. We are the largest company in the UK long-term savings market and have a leading bancassurance business in the Spanish life market. We are among the top five in the Netherlands, Ireland, Poland, Turkey and Singapore, among the top 10 in France, Italy, Belgium, Romania and Australia, and have significant operations in the United States and Germany. We have also established businesses with strong long-term potential in India and China.

Performance

Operating profit before tax from continuing operations, including life European embedded value (EEV) operating return

£1,611m

Geographical analysis of net premium income and investment sales from continuing operations



1 UK	£9,107m
2 Continental Europe	£11,138m
3 Rest of world	£954m
Total	£21,199m

Including health premium income of £994 million.

Five-year trend for performance

Worldwide long-term savings new business sales £billion

Developments in 2004

- New bancassurance partnership with Crédit du Nord – gives greatly strengthened distribution capability in an important channel in the French long-term savings market.
- Life and pensions new business sales increased to £15.6 billion with growth of 22% in continental Europe.
- In the run-up to depolarisation in the UK, announcement of multi-tie agreements with leading IFA networks and discussions with a number of other major distributors.
- Joint venture in India expanded to six bancassurance partnerships and a 3000-strong direct sales force. Joint venture in China now operational in three cities.
- Higher profits generated on improved new business sales, with new business contribution** increased to £706 million.

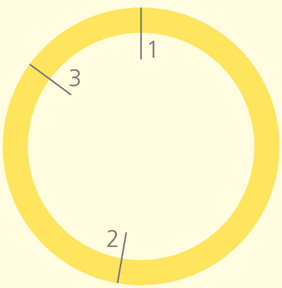
* On a modified statutory solvency basis (MSSB). On a European embedded value (EEV) basis the operating profit of our fund management business is £23 million.

** New business contribution is the present value of the projected stream of distributable profit from new business sales.

Fund management

We continue to develop our presence as a leading international fund manager, with worldwide assets under management of £273 billion. We are the second-largest UK-based fund manager and among the top five in Ireland. We also have significant businesses in France, the Netherlands and in Australia through our investment platform, Navigator. This in-house expertise aims to generate superior investment performance for shareholders, policyholders and third party institutional clients, and supports our long-term savings businesses by investing funds on their behalf.

£43m*



1 UK	£859m
2 Continental Europe	£527m
3 Rest of world	£243m
Total	£1,629m

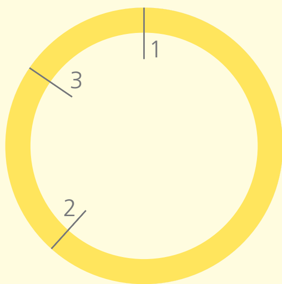
Worldwide assets under management £billion

- Launch of a number of new funds during 2004 – further expansion into European property funds planned in 2005.
- Strong investment performance in France recognised through winning a significant number of prestigious awards.
- Improved investment performance led to an increase in funds under management to £273 billion, including significant mandate wins in the UK and the Netherlands.
- Investment administration service in conjunction with JPMorgan Investor Services fully operational allowing us to focus on our core capabilities.
- Quality of our property operation recognised through winning the title of property fund manager of the year in *Property Week*'s Property Awards 2004.

General insurance

Rigorous cost control, disciplined underwriting, excellent customer service and product innovation are at the core of our general insurance business. We aim to deliver high quality sustainable earnings from market-leading positions in personal insurance and selected commercial lines. Our profitability gives us a solid platform to provide high-quality service, strengthen relationships with our customers and broaden our range of propositions. Aviva is the leading general insurer in the UK and Ireland, the second-largest in Canada, and among the top five in the Netherlands. We also have a significant business in France.

£1,326m

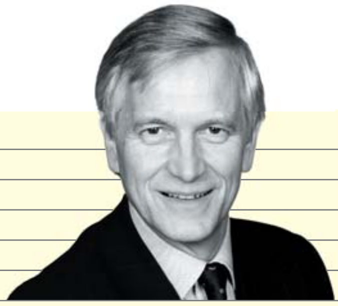


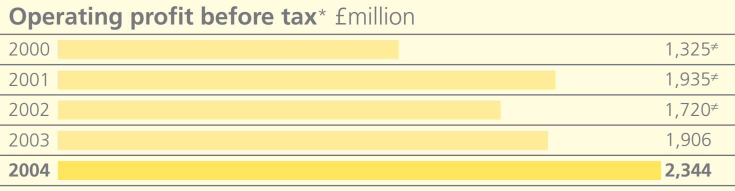
1 UK	£5,434m
2 Continental Europe	£2,018m
3 Rest of world	£1,363m
Total	£8,815m

Combined operating ratio from continuing operations %

- Sustainability of excellent results demonstrated by a further improvement in the group combined operating ratio to 97%, beating our group target of 100%.
- Further increase in operational efficiency through cost reduction and improvements across product delivery, administration and claims handling.
- Norwich Union the winner of a number of awards for customer service and for most trusted insurance company in *Reader's Digest* 2004 Trusted Brand Awards.
- Product innovations benefiting both customers and shareholders remain a key part of our strategy – Pay As You Drive™ pilot and digital flood map implementation both well underway.
- Extension of the penalty point initiative by Hibernian in Ireland – now offers even higher discounts to drivers without penalty points.

Group chief executive's review





Richard Harvey

Richard Harvey
Group chief executive

Overview
During 2004 we strengthened our competitive position in our key markets. Our continuing rigorous focus on profitable growth has resulted in Aviva delivering another strong performance.

We benefit from our diversified business model, which combines substantial life and general insurance operations, supported by a broad range of products sold through a variety of distribution channels.

The long-term savings environment continues to be tough, but there are some signs of recovery. The general insurance markets in which we operate are becoming more competitive.

We achieved our operational targets for the year. We set about improving value for money, and delivering cost and service excellence for our customers. We manage our performance against return on capital targets. We employ an efficient capital structure which means we can allocate our capital across the group in a manner that maximises the potential for profitable growth.

These results are a solid base on which we can build for the future as we focus on growth of our business, enhancing our returns to shareholders and delivering on our promises to customers, who continue to expect high quality at competitive prices.

Group results
Our pre-tax operating profit* of £2,344 million *(2003: £1,906 million)* reflected a stronger performance across our businesses coupled with the benefit of the actions we have taken to reduce costs. Our annualised return on capital employed of 14.4%** *(2003: 13.1%)* reflects these strong results.

Worldwide long-term savings new business sales were £17.2 billion *(2003: £14.9 billion)* as we saw some recovery in equity markets. Long-term savings new business sales in continental Europe were £8,339 million *(2003: £6,932 million)*, with strong performances from our bancassurance distribution agreements. Worldwide gross premiums written were £33,043 million *(2003: £31,184 million)*. Pre-tax life operating return on a European embedded value (EEV) basis was £1,611 million *(2003: £1,496 million)*.

Our general insurance operating profit of £1,326 million *(2003: £911 million)* was another excellent result. We achieved a combined operating ratio (COR)† of 97%, beating our group COR target, which is 100% in each of the three years from the start of 2004.

On a modified statutory basis, group operating profit before tax was £1,861 million *(2003: £1,490 million)*. Our total dividend for 2004 is 25.36 pence, an increase of 5% with a dividend cover of 2.25 times, in line with our dividend policy. The group delivered an overall profit before tax of £1,488 million *(2003: £1,390 million)*.

Group capital and financial strength
Shareholders' funds‡ increased to £12.9 billion *(2003: £10.8 billion)* boosted by our strong operational performance and the issuance of the direct capital instrument. Net asset value per share‡ was up 10% to 532 pence *(2003: 484 pence per share)*.

The solvency position of our main trading operations remains robust, with excess capital measured on the Insurance Groups Directive of £3.6 billion *(2003: £2.4 billion)* and the orphan estate of our UK life businesses was £4.5 billion *(2003: £4.3 billion)*, based on a realistic assumption of liabilities.

The group's capital position was further strengthened by the issue of a direct capital instrument of £1.0 billion in November 2004, which was four times oversubscribed. The transaction allowed us to lock into favourable funding rates.

Attaining operational excellence
Controlling costs is an important element in our drive for profitable growth. We continue to improve our operational efficiency by taking advantage of economies of scale. We also apply strict financial targets for developments and new projects across our businesses.

We plan to create a further 950 jobs offshore in 2005 to service our Norwich Union businesses in the UK. This builds on the 3,700 jobs we have already created offshore and is a further major investment as part of our focus on excellent customer service. We expect to conclude our offshoring plans by the end of 2007, by which time we shall have up to 7,000 roles offshore.

Reflecting this spirit of focus, in 2004 we have continued the rollout of the Aviva brand. We now manage a more focused brand portfolio. Aviva has a presence across Europe, Asia and North America and in 2005 we will work to further strengthen this young brand. The international reach of the brand has helped unite our people and opened the door to new international marketing opportunities – such as our sponsorship of the Asian badminton tour and the Australian Open tennis tournament.

14.4%
Return on capital employed**

Taking into account all our cost-efficiencies during 2004, the net pre-tax benefit to the profit and loss account for the year relative to 2003 was £52 million. This was ahead of our target.

Financial reporting

In 2005, Aviva will report its statutory results in line with new International Financial Reporting Standard (IFRS). We have chosen to adopt the European embedded value (EEV) principles early for our 2004 supplementary results. These principles are a refinement of our approach and provide significantly enhanced disclosures to assist the investment markets. We have also been preparing to meet the requirements of the Prudential Sourcebook (PSB) for insurers introduced by the Financial Services Authority.

Taken together, IFRS, EEV and PSB represent a substantial change in how we report our financial position and performance. Thanks to our investment in a groupwide programme to update our financial reporting and financial management systems – and the hard work of hundreds of our staff – Aviva is well positioned to meet the technical and regulatory challenges that these changes represent.

Industry perspective

In my role as chairman of the Association of British Insurers, I have continued to lead the industry's work on improving communications with governments, regulators and consumers.

The trust of stakeholders in our industry has been eroded. Customer confidence has been damaged by the fall in value of their savings. We have worked with regulators to introduce far-reaching changes to further protect consumers and raise standards. This has occurred most recently with the introduction of new standards in general insurance.

As we emerge from these tough times, the winners will be those companies that demonstrate their integrity and regain the trust of their customers and shareholders first.

Depolarisation in the UK will bring further changes to the industry, with many independent financial advisers (IFAs) choosing to represent a reduced number of core providers, while single-company suppliers may add others to their range. We are responding to these changes, having signed a series of multi-tie agreements with major IFAs, and we are in discussion with a number of other major distributors.

People

Aviva excels in managing complexity. We face a number of challenges, including an increasingly tough regulatory environment, changes to accounting standards, evolving customer needs, diverse markets and distribution channels.

We are turning these challenges into a potential competitive advantage by using our size to drive down costs and achieve economies of scale, by transferring our best ideas across the group, and by directing resource and expertise to manage change. We have made great efforts to listen to our customers and respond to their needs.

Our competitive advantage depends on employing people with different backgrounds, experiences and perspectives, and who feel valued for the positive contribution they can make to Aviva's success. I thank all our staff worldwide for what they have achieved and continue to do so on behalf of our customers and shareholders.

Outlook

Overall, Aviva is in a strong, competitive position. Our long-term saving operations are focused on writing profitable business and improving margins ahead of increased sales volumes. We have a disciplined general insurance business producing high-quality earnings. Our cost-efficiency initiatives put us in a strong position to achieve growth with improved profitability.

There are signs that consumers are slowly regaining their appetite for saving. Our business mix, geographical spread and distribution capability mean Aviva is well placed to capture more than our fair share of an upturn. We have set ourselves ambitious and challenging growth targets for 2005. We are pushing ourselves to reach even higher levels of performance. I am confident that we shall succeed.

* Including life European embedded value (EEV) operating return before amortisation of goodwill and exceptional items.

**Return based on opening equity shareholders' funds on an EEV basis.

† Combined operating ratio (COR) broadly expresses the total of claims costs, commission and expenses as a percentage of premiums, and is one of our key performance measures.

‡ On an EEV basis.

≠ Including life achieved operating profit before amortisation of goodwill and exceptional items and has not been restated.

Long-term savings

We have focused on improving cost-efficiency over the past two years, an important factor in sustaining our profitability. This, along with our operating model, customer service improvements and geographical spread, has put us in a strong position to benefit from further market upturns. Aviva's leading market positions in the UK and continental Europe mean we are well-placed for further growth. Our operations in the developing markets of Eastern Europe and Asia provide us with excellent opportunities for the long term.

Business strategy
Our long-term savings business is the group's major engine for growth, accounting for 73% of total net premiums written. Our strategy is to achieve profitable growth by providing customers with a wide choice of high-quality products through a mix of distribution channels.

We operate in a combination of mature and developing markets, which offer excellent opportunities for both short-term and long-term growth. We have leading businesses in the UK and continental Europe, and more recent businesses in India, China and Eastern Europe where we see opportunities for substantial long-term growth. Our diverse and cost-efficient business model puts us in a strong position to benefit from further market upturns, particularly with the need for increased retirement savings in many countries. We share product knowledge and distribution expertise across the group to benefit all our businesses.

Market position
Aviva is one of the leading providers of life and pensions in Europe, the UK's largest long-term savings company, and has a leading bancassurance business in the Spanish life market. Norwich Union consolidated its position as the UK leader, and continues to focus on retaining its position while growing both value and market share. It has over six million customers. We have grown our Spanish business considerably in the past few years and we have a life market share of around 10%.

Hibernian consolidated its position as Ireland's number three life and pensions company, with a market share of 11%. We are also among the top five in the Netherlands, Poland, Turkey, Lithuania and Singapore, among the top 10 in France, Italy, Belgium, Romania, Australia and India, and have significant operations in the United States and Germany. Our long-term savings operations in India and China are developing well, with large potential for growth over the longer term.

Distribution
We believe that a strong multi-distribution capability is a fundamental part of offering choice and excellent service to our customers.

Independent advisers continue to be our largest source of new business, providing around 47% of worldwide sales. Bancassurance is important, generating 23% of the group's business, and is the dominant sales channel in a number of our markets. Direct sales represent 26% of the total and partnerships with non-banking organisations provide the remaining 4% of sales.

Our strategy is to align our distribution model to each market and our distribution mix continues to evolve as we develop our businesses.

Multi-distribution capability
In more developed markets, such as the UK, the Netherlands and France, we have built the capacity to meet customer demand for a wider choice of products sold in a variety of ways, including through independent advisers.

In the UK, independent financial advisers (IFAs) continue to be our main channel, producing around 75% of sales. In the run-up to depolarisation, we have announced multi-tie agreements with leading IFA networks Bankhall, Sesame and Millfield, the Portman Building Society, Barclays and Fidelity.

Our distribution platform is supported by our joint venture bancassurance agreement with The Royal Bank of Scotland Group, a strategic partnership with Tesco, and sales through 19 building societies.

We are also building our new product development capability. Norwich Union is developing a market-leading "wrap" proposition through Lifetime, now a Norwich Union subsidiary company following an increased equity investment in October 2004. This provides an IT service platform that allows financial advisers to manage and transact a range of different client investments online. Through Lifetime we aim to secure new distribution relationships, open new revenue channels through fees charged, and further strengthen relationships with our distribution partners.

* Including share of associates' premiums.

Life and pensions premium income* (after reinsurance) £million

2000	14,848
2001	17,590
2002	18,172
2003	19,035
2004	**20,205**

+17%
Growth in bancassurance new business sales

Aviva France sells through a mix of tied agents, brokers, a salaried sales force, direct operations and a partnership with France's largest savings association, AFER. In addition, our bancassurance partnership with Crédit du Nord, launched in October 2004, has greatly strengthened our distribution capability in what is the main sales channel in the French long-term savings market. The joint venture has access to the bank's 1.3 million customers for the sale of long-term savings products.

In the Netherlands, Delta Lloyd's bancassurance joint venture with ABN AMRO has brought significant benefits to sales volumes and profitability. This channel sells life and general insurance products and is an important part of what we believe is an industry-leading approach in the choice we offer to customers. We also sell through independent advisers under our Delta Lloyd operating brand and directly to customers through our OHRA brand. Our agreement with MKB Nederland, the Dutch organisation advising small and medium-sized businesses on pension schemes, gives us access to an important part of the market with significant potential for growth.

In Ireland, Hibernian's key strength is its leading position in the broker market, through which its life and pensions products are predominantly sold. We are experiencing an environment of increased regulation, but expect brokers to continue to be the main distribution channel, and aim to increase our market share.

In Australia, independent advisers are the main channel for distribution. Navigator, our online investment platform, has also been very effective in winning new business. In the United States we have a network of agents and brokers, and distribution agreements with several leading banks.

We operate a joint venture in India with Dabur Group, one of that country's largest groups of companies. About 70% of our sales are generated through six bancassurance partnerships – with ABN AMRO, American Express, Bank of Bahrain and Kuwait, Canara Bank, Lakshmi Vilas Bank and, most recently, Punjab & Sind Bank. Through our bancassurance partners, corporate agents and brokers, Aviva products are now available in more than 130 locations around the country. Our direct sales force has also grown and now comprises more than 3,000 specialist financial planning advisers.

Our joint venture in China with COFCO to sell life and pensions products through banks, direct sales, brokers and agents continues to expand. In addition to our operation in Guangzhou, we opened branches in Beijing and Chengdu in September 2004.

Bancassurance

Aviva has a leading position in bancassurance distribution. We generate significant sales volumes through our agreements across a number of markets. Bancassurance has become a highly important source of new business in recent years reflected by the new agreements we have recently entered into. It is an integral part of our strategy in some countries, and the dominant channel in others.

Our Italian and Spanish bancassurance businesses present us with strong growth prospects as market penetration for life and pension products still remains at relatively low levels.

Sales through our bancassurance partners in Italy – UniCredito Italiano, Banca Popolare di Lodi Group, Banca delle Marche and Banche Popolari Unite – account for over 90% of our new business sales in that country. We have extended our agreement with Banche Popolari Unite to include a further 380 branches, with sales starting in early 2005.

Our Spanish bancassurance business contributes over 95% of our total new business sales in that market and gives us access to 10 million customers through 3,800 branches. Our partners – Bancaja, Unicaja, Caixa Galicia, Caja España and Caja de Granada – provide a strong presence in the fastest-growing regions of Spain.

Our bancassurance partnerships with DBS in Singapore and Hong Kong continue to develop, and we have a leading position in the developing broker market.

Long-term savings
continued

Worldwide new business sales* £billion

2000	13.5
2001	15.0
2002	14.6
2003	14.9
2004	**17.2**

Direct sales
Business generated through direct sales forces, by phone and over the internet provides a valuable stream of income in many of the countries in which we operate. We see this as an important channel for more commoditised products due to the low cost base.

Our businesses in the emerging markets of Central and Eastern Europe use specialist direct sales forces as their main distribution method, but we are also looking for opportunities to diversify distribution as customer preferences and demands change.

Customer service
We are committed to delivering excellent service to our customers. We are driving best practice throughout our business by sharing expertise, and have achieved good standards of service across our life businesses.

We continue to reinforce the improvement made in the UK, which was reflected in the retention of our three-star rating in the Financial Services Awards in November 2004. In Ireland, Hibernian earned a recognition of excellence award from the European Foundation of Quality Management, and was overall winner at the Irish Quality and Excellence Awards 2004.

We have established a major operational site in Pune, India, which employs around 600 people and provides us with enhanced service capability and flexibility. Customer service levels in India are ranked on a par with those in the UK, where we have seen consistent improvements following a series of initiatives focused on raising standards. At the beginning of 2004 we began a process excellence programme reviewing over 50% of our major processes in the UK, resulting in service and quality improvements together with significant cost savings. We also launched market-leading technology for point-of-sale and tele-underwriting for term assurance and mortgage protection products.

We shall continue to build on these initiatives during 2005, giving us greater flexibility to improve our customer service.

Performance
Many of our businesses outperformed in their market, particularly in continental Europe, despite some tough economic conditions.

Worldwide long-term savings new business sales* were higher at £17.2 billion *(2003: £14.9 billion)*. This reflected improving confidence in some markets, while others remained difficult. Life and pension new business sales were up at £15.6 billion *(2003: £13.8 billion)*. A good performance by our continental European businesses saw an increase in new business life and pensions sales of 22% to £7.8 billion *(2003: £6.6 billion)*. Continental European new business sales account for half of our total life and pension sales and over half of our operating return on a European embedded value (EEV) basis.

Pre-tax EEV operating return was £1,611 million *(2003: £1,496 million)*, driven by improved new business contribution and increased returns on a higher value of assets at the start of the year. The higher new business contribution amounted to £706 million *(2003: £646 million)* and reflected growth in the UK, France and the Netherlands.

UK
Total new business sales, including investment products and sales through our UK equity release business, were £7.9 billion *(2003: £7.1 billion)*. Investor confidence returned slowly and the overall market was broadly flat. We increased business levels against 2003 but remain selective about where we compete. We are aiming to build long-term sustainable business with good margins rather than chase sales volume.

We continue in talks with the UK government about the future development of the UK long-term savings market. During the year we had confirmation of the price cap for stakeholder products. While not as much as we had hoped for, it creates potential for us to sell a greater number of products. During the final quarter of 2004 we took a number of actions to reposition our pension product offering. We reduced commission levels on individual "stakeholder" pensions and introduced a new "non-stakeholder" personal pension for the "full advice" market giving customers the opportunity to pay for their advice through fees, commission or a combination of both. We will continue to design and manage our pricing and commission structures to attract appropriate volumes and value of business.

Life operating return £million

2000	1,533†
2001	1,665†
2002	1,524†
2003	1,496**
2004	**1,611****

We are one of only three significant remaining players in the with-profit market and expect to benefit from a continued flight to quality as customers seek the reassurance of trusted brands. We are also building business in the unit-linked market where there is evidence of returning confidence.

Sales of bonds were up 21%, and sales of investment funds – supported via our bancassurance joint venture with The Royal Bank of Scotland Group (RBSG) – rose by 26%. During 2005 we plan to launch a stakeholder child trust fund product through a relationship with The Children's Mutual, and are developing a stakeholder medium-term savings plan.

We reported an operating return** of £551 million *(2003: £597 million),* which reflected higher new business contribution and returns on assets, offset by increased lapse experience and costs associated with implementing regulatory change and the restructuring of our UK business.

In 2004 Norwich Union consolidated its market-leading position and starts 2005 with a greater degree of confidence in the market. Some further market growth is expected over the next 12 months with a stronger pick-up beyond then, and we are confident that our multi-distribution capability, strong brand and wide product range will enable us to capitalise on this.

France
Our long-term savings business in France, which serves some 1.5 million customers, reported total new business sales of £2.5 billion *(2003: £2.0 billion)* and an operating return** of £286 million *(2003: £228 million).* This business is positioned for further growth following the launch of our bancassurance partnership with Crédit du Nord, and the continuation of a strong relationship with our long-term partner, AFER.

New business sales of single-premium euro funds through the AFER savings association increased by 23% to £1,389 million *(2003: £1,157 million)*. Encouraging signs for this partnership included a significant increase of 38,000 new AFER members.

Total new business sales of unit-linked funds almost doubled to £698 million *(2003: £358 million)*, against overall growth of around 34% in the unit-linked life and savings market. The unit-linked proportion of our total new business sales increased year-on-year from 18% to 28% in 2004. This reflected our strategy of promoting unit-linked investments to our customers, supported by steadily improving stock markets.

Following the French government's introduction of a new pension framework, Aviva France launched its Plan d'Epargne Retraite Populaire (PERP) in June 2004. Sales to date of the PERP product have been moderate, as higher net worth individuals, who are the target market for Aviva France, have yet to embrace annuity type products. However, the publicity surrounding the launch of the government's pension reforms was used to stimulate investment in other existing products, in particular regular premium savings plans.

We continued our drive to achieve cost efficiencies and reduce operating expenses while preparing our back office teams to combine the in-force and future business generated by the Crédit du Nord partnership.

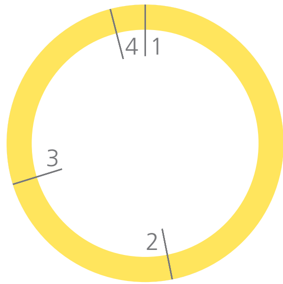
Ireland
Investor confidence in Ireland is returning only slowly, despite more stable markets. Unit-linked sales have been similarly slow to recover. Hibernian reported total new business sales of £269 million *(2003: £250 million)*. Operating return** was £40 million *(2003: £57 million)* reflecting increased competition and a change in lapse assumptions in certain product classes.

Pensions business is the main sector in the Irish market. Our focus on winning new pensions business resulted in an increase in single premium sales to £149 million *(2003: £137 million)* and regular premium sales to £48 million *(2003: £46 million)*. Sales of personal retirement savings account (PRSA) products remained low, in line with experience across the industry. However, the publicity from these products has boosted sales of pensions business overall.

* Including share of associates' premiums.
**On a European embedded value (EEV) basis.
† On an achieved profits basis.

Long-term savings
continued

Worldwide new business sales* by distribution channels



1 Independent advisers	£8,073m
2 Bancassurance	£4,022m
3 Direct	£4,432m
4 Partnerships with non-banking organisations	£697m
Total	£17,224m

Life regular premium sales increased to £18 million *(2003: £16 million),* reflecting an increase in protection business and additional new premiums on existing Special Savings Incentive Account (SSIA) policies.

In the third quarter of 2004, we launched a web-enabled new business system, Write Now. This system will deliver improvements to the quality and efficiency of our service to brokers in processing new business sales.

Italy
New business sales in Italy increased to £1,574 million *(2003: £1,453 million)*, ahead of modest market growth. This included sales through our bancassurance partnerships of £1,458 million *(2003: £1,245 million)*. Operating return** improved to £79 million *(2003: £70 million)*.

The proportion of bancassurance new business is expected to increase when our agreement covering additional branches of Banche Popolari Unite starts in early 2005.

Aviva is one of the most cost-efficient providers in the Italian bancassurance market. Our business model allows us to maintain a low ratio of expenses to premiums.

Spain
We achieved good underlying growth in Spain, with new business sales up 16% to £1,657 million *(2003: £1,464 million)*. This excludes one-off sales of £242 million *(2003: £149 million)* from a large bulk pension transfer during the year.

Total sales through our bancassurance partnerships were £1,579 million *(2003: £1,407 million)*. We are also seeing growth in Aviva Vida y Pensiones, which sells through professional intermediaries and a direct sales force, supported by a branch network.

In line with our strategy of pursuing profit over volume, our focus during 2004 was to sell higher-margin protection products rather than traditional savings plans. Operating return** increased to £180 million *(2003: £165 million)*.

We continue to keep our costs low in both Spain and Italy by using a "factory" company in each country to produce and administer bancassurance products. This operating model provides considerable cost and scale efficiencies.

Netherlands, including Belgium and Luxembourg
Delta Lloyd achieved a 32% increase in life and pensions new business sales to £1,279 million *(2003: £989 million)*. This included improved sales of £238 million *(2003: £227 million)* from our bancassurance partnership with ABN AMRO in the Netherlands, where bonds and regular premium mortgage products were particularly successful. Operating return** improved strongly to £277 million *(2003: £198 million)*.

Sales were also higher through our intermediary and direct channels, with a strong improvement in group pensions new business. Total life sales were higher at £563 million *(2003: £420 million)*, with improved sales of bonds and savings products. Unit-linked products became more attractive to investors as equity markets showed more stability.

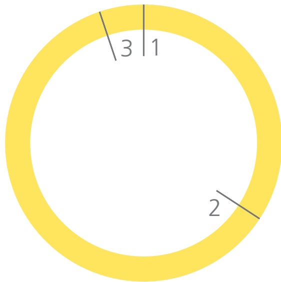
Cost control remains a key focus for our Dutch business. Our shared service centre for administrative functions will be expanded to bring further economies of scale. In May 2004 we outsourced Delta Lloyd's information and communication technology (ICT) infrastructure services, which is expected to bring further savings. Life sales in Belgium increased, reaffirming our position as a top 10 provider in the market.

Other European operations
Total new business sales from our other European operations were £848 million *(2003: £576 million)*, reflecting growth in life and pension sales across all our other European territories.

In Turkey we are achieving good growth and are now the second-largest provider in the life market and third-largest in the pensions market. Sales of individual pensions increased encouragingly and we will enter the group pension market in 2005.

Sales in Germany were £218 million *(2003: £163 million)*, benefiting from sales of tax-efficient products ahead of the introduction of a revised tax regime in 2005.

Geographical analysis of pre-tax life operating return**



1 UK	£551m
2 Continental Europe	£977m
3 Rest of world	£83m
Total	£1,611m

CU Polska remains a leading provider in Poland, with a share of the life market of around 14% (measured by premium income) and 28% of the private pensions market (measured by assets under management). Sales of life products increased but sales of mutual funds were lower. However, following accession to the European Union, the economic outlook looks more positive.

We saw strong growth in Lithuania, including good sales of pension products launched in late 2003. Sales through Norwich Union's Dublin-based offshore life and savings business were £110 million *(2003: £82 million)*.

International operations

Total new business sales through our International operations were £1,008 million *(2003: £951 million)*.

Our business in Australia reported life and pension new business sales of £230 million *(2003: £230 million)*, with encouraging sales of our corporate pension products. Unit trust sales rose as customer sentiment improved in line with more stable equity markets. During 2004, financial advisers voted Aviva equal first in Australia's largest independent study of the life insurance and wealth management industry.

Sales of single premium fixed annuities in the United States continue to be affected by the low interest rate environment, which was reflected in reduced total sales of £359 million *(2003: £538 million)*. We are maintaining price disciplines and revising our product terms as appropriate.

In Singapore and Hong Kong we enjoyed increased new business sales through our bancassurance partnership with DBS. Sales in Singapore were focused on higher-margin regular premium products supported by a successful single premium product launch during the third quarter. In Singapore we have around 50% of the regular premium bancassurance market and lead the employee benefits and healthcare business, and the developing broker market. In Hong Kong, total new business sales of primarily single premium products also increased strongly.

In India our joint venture with Dabur Group is developing well. We are ranked eighth among private providers. During 2004 we launched a series of unit-linked funds, with encouraging initial sales. Our 26% share of new business sales was £5 million *(2003: £2 million)*.

Our joint venture life and pensions business in China, Aviva-COFCO, expanded during 2004 and now operates in three cities. Our 50% share of new business sales was £3 million *(2003: £1 million)*.

Outlook

We saw some improvement in world markets in 2004, and expect this to continue through 2005. This improvement has led to increasing customer confidence, although it has been slower to return than expected in some places, most notably in the UK. We did however see further signs of growth returning in the UK during the second half of 2004, and we anticipate that this momentum will continue into 2005.

We have focused on improving cost-efficiency over the past two years, an important factor in sustaining our profitability. This, along with our operating model, customer service improvements and geographical spread, has put us in a strong position to achieve growth and improve profitability as we benefit from further market upturns. Our established businesses in the UK and Europe offer further opportunities for growth while our operations in the developing markets of Eastern Europe and Asia provide excellent prospects for the long term.

* Including share of associates' premiums.
**On a European embedded value (EEV) basis.

Fund management

Funds under management by value £billion

2000	220
2001	209
2002	208
2003	240
2004	**273**

The investment and distribution activities of our fund management businesses are concentrated in markets where our expertise means we can compete against the best. We are focusing on improving investment performance, building on the progress made in the past 12 months.

Business strategy

Aviva's in-house fund management businesses operate on behalf of shareholders, policyholders and institutional clients, with the aim of generating superior investment performance. Our operations in the UK, France and the Netherlands support our long-term savings businesses by investing funds on their behalf.

We continue to develop our business internationally and to focus on our core strengths in fund management. Our aim is to lead in our chosen markets through our research and investment expertise.

Market position

Although some stability returned to global equity markets during 2004, the second half witnessed a period of some stagnation. There are, however, signs of investor confidence slowly returning, particularly in continental Europe.

We are the second-largest UK-based fund manager, among the top five in Ireland (through Hibernian) and a leading fund manager in the Netherlands (through Delta Lloyd). We also have significant fund management businesses in France and as an investment platform provider in Australia (through Navigator).

Performance

Total retail investment sales improved 44% to £1,629 million *(2003: £1,141 million)*, with good performances in the UK, Luxembourg and Australia.

Worldwide assets under management at the end of 2004 increased to £273 billion *(2003: £240 billion)*, reflecting the benefit of new business flows and improved investment markets. Operating profit, on a modified statutory solvency basis (MSSB), rose to £43 million *(2003: £10 million)*. This included profits of £20 million *(2003: £14 million)* from the management of group internal life funds. The improvement in profits reflected higher fee income and lower operating costs.

Morley Fund Management

Morley is one of the largest UK-based fund management houses, managing a wide range of asset classes, including equities, bonds and property. It provides fund management expertise to Aviva businesses, external pension funds, public sector organisations and public and private companies.

Morley is committed to providing a fund management business capable of competing against the best in our chosen markets. Our focus is on delivering consistent outperformance in our core asset classes of pan-European equities, fixed income, property, and through strategic asset allocation. We also specialise in socially responsible investment, private equity, alternative investments and global and emerging market equities. As a leading institutional investor, we recognise our responsibilities as a major shareholder and take an active interest in the companies in which we invest.

We have made significant progress in reshaping our business through our initiative with JPMorgan to create a ground-breaking investment administration service. We have transferred almost 200 employees to JPMorgan Investor Services, allowing us to focus on our core capabilities of the manufacture and distribution of investment products in our target European markets.

During 2004 we continued to centralise our international equity fund management operation, transferring our US equity fund management and analysis function from Boston to London. Fund administration for our Irish subsidiary, Hibernian Investment Managers, has been moved from Dublin to London. We have also announced the closure of our Singapore office.

In 2004, Morley secured £2.2 billion of new funded external mandates *(2003: £3.1 billion)* from our institutional and retail UK-based businesses. In addition, we secured £1.1 billion of new funded external mandates in respect of property partnership vehicles, £0.7 billion from overseas operations, and £0.3 billion from pooled pensions business.
Our expertise in asset allocation was acknowledged when we won an innovative mandate to manage the asset mix of a £200 million pension fund. The breadth and quality of our property operation was recognised when we were voted property fund manager of the year in *Property Week*'s Property Awards 2004.

+44%

Increase in worldwide sales of investment products during the year

A number of new funds were launched during 2004, including property partnership vehicles, a pan-European equity fund and a new Aviva Multimanager fund of funds that can be sold across Europe. We are launching the Central European Property Fund, which will invest in commercial property in the developing markets of Poland, Hungary and the Czech Republic. We continue to build on our hedge fund capability with the planned launch in early 2005 of the Central European Long Short Fund, aimed at European institutional investors and high-net-worth individuals. We have also been promoting specialist fixed income products to meet increasing interest from pension fund consultants.

Morley's operating profit of £12 million *(2003: £3 million)* for its institutional and retail UK-based businesses was an encouraging result. Within the Aviva group results there are additional profits of £12 million *(2003: £6 million)* from other Morley businesses, including our pooled pensions business and overseas operations. This brings the total Morley group profit to £24 million *(2003: £9 million)* for the year.

Assets under management for Morley's global operations increased to £134 billion.

Other UK

In addition to mutual fund sales under the Morley brand, we sell retail Isas, unit trusts, open-ended investment companies (Oeics) and structured products under the Norwich Union and The Royal Bank of Scotland Group (RBSG) brands.

The operating result from our Norwich Union business improved to a profit of £5 million *(2003: loss of £3 million)* as a result of lower costs. Our joint venture with RBSG reported an operating loss of £7 million *(2003: loss of £6 million)*, due to significant upfront costs associated with the sale of regular premium investment products.

UK sales

Total sales of retail investment products through Morley and Norwich Union were £789 million *(2003: £577 million)*. Our share of sales through our collective investment joint venture with RBSG was £70 million *(2003: £103 million)*.

France

Aviva Gestion d'Actifs maintained its reputation for strong investment performance, with over 65% of our funds in the top quartile for returns over three years. Our excellent investment performance was once again widely recognised in the financial press.

Awards won in 2004 included best provider with a large range of funds over one, three and five years from *La Tribune*/Standard & Poor's – the first time this has been achieved. We won seven awards from *Le Revenu*, one of France's leading investment magazines, for fund management performance over three and 10 years, and our AFER/SFER fund earned the *AGEFI* grand prix for our diversified funds.

We have £45 billion of assets under management, most of which are invested on behalf of our own operations. Operating profit was £17 million *(2003: £13 million)*.

Netherlands and Belgium

Delta Lloyd is among the leading fund managers in the Netherlands, with an increase in assets under management to £36 billion *(2003: £34 billion)*.

The inflow of new funds grew strongly, driven by an increase in funds from retail investors and a series of large mandates won by Delta Lloyd Asset Management, including €270 million from the Dutch Xerox Pension Fund.

Navigator

Navigator is a one of Australia's largest investment portfolio administration services, with £4.0 billion of combined funds under administration.

Sales increased to £648 million *(2003: £617 million)* as more stable investment markets saw a gradual improvement in investor confidence. Sales through our Navigator business in Singapore were £13 million *(2003: £8 million)*.

Outlook

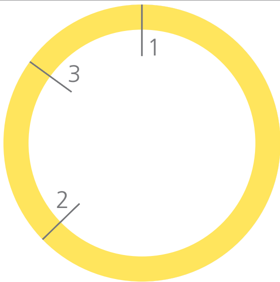
We saw some improvement and stabilisation in world markets during 2004, leading to a gradual return of investor confidence.

We concentrate our investment and distribution activities in markets where our expertise means we can compete against the best. We will continue to focus on improving investment performance, building on the progress made in the past 12 months.

General insurance

Our general insurance operations continue to focus on product and distribution innovation, as well as looking to extend our product offerings to non-insurance products where clear synergies are identified. This, along with our scale and strength of our brand, means we are confident of achieving our long-term goal of delivering sustainable results.

Geographical analysis of pre-tax general insurance operating profit



1 UK	£832m
2 Continental Europe	£295m
3 Rest of world	£199m
Total	£1,326m

Business strategy
Our general insurance businesses are focused on their core strategy of disciplined underwriting, product innovation, excellent customer service and strict cost control. Our overall aim is to deliver a strong and sustainable operating result from our chosen markets of personal lines and small and medium-sized commercial lines. We have set a group COR target of 100% in each of the three years from the start of 2004.

We have a strong multi-distribution capability using, where possible, a range of sales channels in each market. Providing choice is a key factor in meeting our customers' changing needs and, along with high standards of service and a range of innovative products, this will allow us to maintain our leading market positions and sustain our excellent performance.

Market position
Aviva is the leading general insurer in the UK, where Norwich Union has a market share of 14%, and in Ireland, where Hibernian has a market share of around 20%.

We are the second-largest insurer in Canada, with a 9% market share, are among the top five in the Netherlands, and have a significant business in France.

Multi-distribution capability
A key part of our strategy is to use a range of distribution methods appropriate to individual markets. We offer our customers choice in the way they do business with us, while ensuring that our distribution methods meet their needs and make buying our products as straightforward as possible.

Norwich Union has a multi-distribution approach, which enables us to build upon the strength of our brand and maintain strong positions in the broker, corporate partner and direct markets. We are focused on growing sales through our direct operation with 22% growth in premiums in 2004. During 2004 we closed our Hill House Hammond high street broking operation and are on track to deliver around 500,000 policies into our direct operation, at a cost of £50 million.

Among developments in 2004 were our new three-year partnership with HSBC to provide household insurance products and the renewal of our partnership with Abbey. Norwich Union is in advanced negotiations with Barclays to become their sole provider of general insurance products. This deal will include the provision of household products and adds to the Barclays motor and travel business that we already underwrite.

In France, we operate through Aviva Assurances, which sells through a network of 840 tied agents; Eurofil, the second-largest direct insurance business in the French market for which our partnership with Crédit du Nord is an important source of business; and La Paix, a subsidiary of Aviva Assurances specialising in legal protection.

Distribution of our general insurance products in the Netherlands, where Delta Lloyd sells through intermediaries and OHRA serves direct customers, has been enhanced by our bancassurance partnership with ABN AMRO. Our shared service centre, which supports intermediaries and direct customers, continues to deliver efficiencies as part of our focus on cost control.

In Ireland, Hibernian's multi-channel capacity is an important strength in a market primarily focused on sales via brokers. We continue to expand our direct capability, with 20% more direct policies in force during 2004.

Aviva Canada sells a broad range of traditional personal and small commercial insurance products through a network of independent brokers. In addition, in 2003 we launched our first corporate partner relationship with Loblaws, Canada's largest supermarket chain, under the highly regarded President's Choice brand. This partnership continues to progress well.

£1,326m

General insurance operating profit from continuing operations *(2003: £911 million).*

General insurance net written premiums from continuing operations £million

2000	8,356
2001	7,850
2002	7,805
2003	8,524
2004	**8,815**

Customer offering

We believe that high standards of customer service and satisfaction are crucial. Our strategy is to offer our customers innovative products at a fair price, backed by high-quality service.

In a survey by *Professional Broking* magazine, Norwich Union was voted the best insurer for service. We were the *Insurance Times*' general insurer of the year for the second year running and won the category for most trusted insurance company in the *Reader's Digest* 2004 trusted brands awards, underlining the success of our "Quote Me Happy" advertising campaign.

In March 2004, Norwich Union launched its digital flood maps, which give us a better understanding of flood risks, and enable us to offer household insurance to 600,000 more properties in high-risk areas. With Pay As You DriveTM, we have reached our target to recruit over 5,000 customers in the UK to pilot this new approach to motor insurance. We have launched a Pay As You Drive™ Young Drivers product aimed at customers aged 18-21. Young drivers now have the chance to get more affordable insurance premiums, which will be based on when and how often they drive their car.

Increasing the range of services that we offer beyond insurance is an important part of our strategy to provide solutions more tailored to individual requirements. In August 2004 we purchased HPI Group, the UK's leading independent provider of vehicle information and checking services. This acquisition strengthens our position as a service provider and grows our non-insurance income.

Other initiatives include Norwich Union Rescue, our vehicle breakdown service, which continues to expand with more than 270,000 customers at the end of 2004. Sales of Physiofast, which offers fast-track recovery treatment as an add-on to our UK motor policies, increased significantly. Volumes of our home emergency products also rose.

A key achievement during the year for Aviva Assurances in France was completing the rollout of our dedicated web portal to the entire network of agents. This online tool is a valuable means of streamlining communications between agents and ourselves, thereby improving the service delivered to the customer.

We are also pursuing a strategy to distribute life products, particularly unit-linked savings, through our Aviva Assurances network. We are undertaking specialised agent recruitment and training initiatives as part of a managed programme of expansion.

In Ireland, we have begun to roll out a series of customer service initiatives during 2005 including the Provisional Licence Holder initiative as part of the Ignition inexperienced driver lifecycle solution. We are also adopting geocoding across our property accounts. This process will provide us with more information on the locations of our exposures, and the associated risk of flooding and other perils, and assist us in our underwriting decisions and pricing.

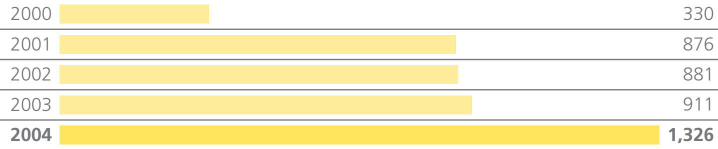
In Canada, our focus on delivering a high standard of customer service is reflected in the complimentary feedback our claims team has received from policyholders about its claims service. In 2005 testing will begin on Autograph, an innovative programme that enables drivers to track their daily driving habits and to gain potential premium discounts.

Performance

Our general insurance operations had another strong year in 2004, despite market conditions becoming increasingly competitive, particularly across our commercial lines business. Our disciplined approach to underwriting and pricing, coupled with efficient claims handling and strict cost control, enabled us to deliver a consistently strong operational result.

General insurance
continued

General insurance operating profit before tax £million



We achieved an excellent combined operating ratio (COR) of 97% *(2003: 100%)*, with strong performances across all of our businesses. We beat our group COR target, which is to deliver 100% in each of the three years from the start of 2004. COR broadly expresses the total of claims costs, commission and expenses as a percentage of premiums, and is one of our key performance measures. Operating profit of £1,326 million *(2003: £911 million)* was an excellent result, reflecting our disciplined underwriting and the action we have taken to reduce costs and improve operational efficiency. Worldwide net premiums written increased to £8.8 billion *(2003: £8.5 billion)*.

Our focus remains to deliver operational efficiencies through cost reductions and continuing efficiency improvements across product delivery, administration and claims handling. We continue to develop innovative products to meet customers' changing needs and help sustain our market-leading positions.

During the year we expanded our call and claims offshore processing operations to service our UK general insurance business, with around 2,600 jobs created overall at the end of 2004. We also began the process of extending the cost and service benefits from the UK across our other general insurance businesses, with a number of jobs created offshore in 2004 to service our Canadian business.

UK
Norwich Union Insurance in the UK contributes 62% of Aviva's general insurance business sales. Quality and consistency of earnings are central to our strategy. Our cost-efficient processes help to ensure that we remain profitable and competitive in a challenging environment.

The success of our strategy is demonstrated in an improved operating profit of £832 million *(2003: £676 million)* and a 6% year-on-year growth in net premiums written to £5.4 billion *(2003: £5.1 billion)*. Better-than-expected weather benefited the result by £50 million *(2003: £30 million)*. We achieved an excellent COR of 97% *(2003: 99%)*.

Our balanced personal and commercial portfolio allows us to achieve sustainable operating results through the underwriting cycle. Personal lines business is keenly priced but we are achieving small rate increases. These, allied with an increase of over £55 million in claims costs savings through our supply chain management, have enabled us to sustain profitability. Although the level of competition in commercial lines has grown, our focus on the small and medium-sized business sector, and rigorous underwriting, enable us to increase rates and retain our target business. Our retail operation achieved strong growth in premiums, while maintaining profitability.

We achieved an expense ratio of 10.0% *(2003: 10.5%)*. Our substantial investment in operational efficiency, including our offshore capability in India, and product development initiatives, create competitive advantage and help to provide a sound platform for future profitability.

France
Our business in France reported an operating profit of £32 million *(2003: £35 million)*, with net premiums written of £524 million *(2003: £515 million)*. We achieved an improved COR of 101% *(2003: 102%)* through our selective rating approach, underwriting discipline and strict cost controls. We are focused on continuing to drive down the COR going forward.

Ireland
Hibernian reported a strong operating result of £153 million *(2003: £91 million)* on net premiums written of £545 million *(2003: £611 million)*. This performance reflected significantly lower than expected claims and resulted in an improved COR of 87% *(2003: 97%)*. The Irish market remains very price competitive, with continuing pressure from politicians and lobby groups for providers to reduce rates and lower their profits. The government is taking steps to reduce motor claims costs which will be reflected in lower premiums to drivers.

97%
Group combined operating ratio *(2003: 100%)*.

Hibernian extended its "penalty points" initiative from August 2004 to offer drivers without penalty points on their licences an additional 7.5% premium discount, bringing the total discount to 17.5%. We extended our highly successful Ignition inexperienced driver scheme to selected provisional licence holders caught up in the current backlog in the driving test system. We have also begun a project to take advantage of the flood insurance expertise across the Aviva group, which will benefit Irish home and commercial property insurance customers.

Netherlands

In the Netherlands operating profit was £71 million *(2003: £35 million)* on higher net premiums written of £719 million *(2003: £563 million)*. Net premiums written for business sold through ABN AMRO increased strongly, primarily as a result of converting previously brokered business to our account from 1 January 2004. Delta Lloyd achieved an improved COR of 95% *(2003: 101%)*.

A number of products were updated and new products launched during the year to complement our existing offering. Our focus is on the personal insurance sector, primarily motor and household policies, and on small commercial business, particularly in the income protection and absenteeism sectors, where we believe a profitable market will continue to grow.

Canada

Aviva Canada, our second-largest general insurance business, reported a COR of 97% *(2003: 108%)* and operating profit of £152 million *(2003: £12 million)*. This reflected improvements in claims frequencies and lower costs following the government's auto reforms. In addition the profit reflected an improvement in the results from the Involuntary Auto Pools and the non-recurrence of £70 million reserves strengthening in Pilot, one of our subsidiaries, in 2003.

There have been concerns over motor insurance costs in Canada. Motor insurance reforms and changes in legislation have been completed in a number of provinces, which provides a more stable environment in which to price our products profitably.

We have launched Aviva Autograph, an exclusive new programme which records a policyholder's driving habits using data-gathering equipment installed in the vehicle and calculates their insurance premium. Autograph will be piloted in Ontario from the first quarter of 2005.

Our efficient claims operations continue to use technology and shared experience from around the group to achieve low costs and high standards of customer service. This included creating a number of jobs offshore in 2004 to service our Canadian business.

Asia

In September 2004, we agreed to sell our Asian general insurance operations to Mitsui Sumitomo Insurance Co Limited for £250 million, a multiple of 3.5 times book value. These operations comprise our general insurance businesses in Singapore, Malaysia, Thailand, Indonesia, Hong Kong, the Philippines, Marianas, Macau and Taiwan. The sale is expected to complete in stages, with the first stage having completed on 28 February 2005.

Outlook

We continue to adhere to our strategy of delivering consistent performance and sustainable profits across the cycle. We achieved a COR of 97% in the year, beating the group's COR target, which is to achieve 100% in each of the three years from the start of 2004. We have also delivered further cost savings through improved efficiency in distribution and claims handling.

Our general insurance operations continue to focus on product and distribution innovation within their core insurance businesses, as well as looking to extend our product offerings to non-insurance products where clear synergies are identified. This, along with our scale and the strength of our brand, means we are confident of achieving our long-term goal of delivering sustainable results.

Employees

Aviva Diversity Vision

Diversity is about everyone. We believe in a working culture that respects, celebrates and harnesses difference to the benefit of customers, employees, shareholders, business partners and the wider communities.

Our competitive advantage depends on business teams that include people with different backgrounds, experiences and perspectives, who feel valued for the positive contribution they can make to Aviva's success.

Together We Are Stronger

Our people
Aviva aspires to be world's most trusted financial services provider. To fulfil this aspiration, we need customer focused, high performing, diverse and committed employees living Aviva's values – performance, integrity, progressiveness and teamwork.

We operate in over 25 countries worldwide. In each, our strategy is to:

- Attract and retain top talent while embodying corporate governance best practice;
- Foster morale in times of radical change;
- Deliver excellent customer service while exploring and implementing new customer service models; and
- Invest in the development of our employees while controlling costs.

Examples of the progress we made during 2004 are Aviva India's ranking as the best insurer to work for in the country's "Great Places to Work" survey, and Hibernian Life and Pensions' recent top 50 ranking in the EU-sponsored list of "Companies to Work for in Ireland".

Our commitment to our employees
The morale of our employees is key to the success of our business. Involved and motivated employees deliver higher standards of service to their customers. To build this involvement and motivation, we are providing increased opportunities for flexible working, improving management working styles and behaviours, and enhancing communication through staff consultative forums. In 2004, the establishment of consultative employee forums in our major UK business units and the continued strengthening of our European Consultative Forum has helped further our dialogue with employees on topics ranging from new working methods to offshoring.

The majority of our employees' views are canvassed through local monthly and annual opinion surveys. In 2004 we have been working on a groupwide opinion survey for introduction in 2005. This survey will enable us to benchmark employee responses, to draw upon good practice across the group and to focus future strategies accordingly. Employee morale will become a key performance indicator in the group's performance management framework and a factor in management reward.

Norwich Union Life has been working with its leadership team to develop a vision to lead it through the next three years. Consultation and engagement has been a key part of this process with over 1,000 managers taking part in discussions about the vision and its implications for how we work together to achieve our aspirations. The vision work has produced a real emphasis on enhancing the customer experience.

Norwich Union Life entered into an innovative partnership with IBM consulting to transform the Business Services function. Experienced IBM staff work alongside our own people with a brief to transfer skills and develop capability so that at the end of the contract we will have transformed our skill base.

Working for our customers
Great customer service and operational efficiency are central to our success. We are delivering value to our customers by building the capabilities of our employees, using incentive plans to reward the achievement of customer satisfaction, and by employing people and resources in the most cost-effective way.

Pursuing its core purpose as "A service provider with insurance at its core and care at its heart," Norwich Union Insurance has developed a Leadership and Care programme putting customers and staff firmly at the organisation's centre.

The aim is to maximise performance through changing the culture. 2004 surveys show a 9% reduction in customer service blockages with staff turnover in call centres dropping from 25% to 15% on average.

Our new offshore operations provide the capacity for around-the-clock claims processing and enable us to meet the rigorous demands of our customers at lower cost. By the end of 2004, we had created 3,700 jobs in India, with plans to increase our offshoring capacity by a further 1,200 jobs in 2005, reaching a total of 7,000 by the end of 2007. These changes are essential to the delivery of high quality service and value-for-money to our customers. The impact of this continual change puts added demands on leadership to maintain the morale of our employees. We do as much as possible to support leavers and minimise compulsory redundancies through natural staff turnover and redeployment, relocation and retraining (further detail is available in our 2005 Corporate Social Responsibility report).

Diversity
We actively seek diversity in our workforce because to understand and respond to our customers, we need to reflect their diverse origins, lifestyles and cultures. A diverse workforce provides an enriched pool of talent and ideas for us to draw upon. In 2004 we appointed a group diversity director and established the group's diversity steering group of senior executives from around the world.

We drew up a diversity vision and the steering group has created a strategy and action plans to embed diversity in Aviva.

Our UK investment arm Morley Fund Management, successfully developed a "Respect at Work" programme aimed at fostering teamwork and ensuring that we embody integrity at all times. So far, all Morley Managers and more than half of Morley's UK-based staff have participated in the workshops. Morley designed the programme to promote the ethos of a positive working environment, by addressing issues such as organisational culture and climate, working relationships and embracing difference.

Leadership
Identifying and developing tomorrow's leaders is a key activity for management in all our businesses. Annual organisation and development reviews are used as the basis for assessing organisational and individual effectiveness and the potential and development needs of the group's managers. The need to broaden or deepen experience, or readiness to move into a new role, is assessed and development plans built accordingly.

Complementing this process, the Aviva leadership academy is a groupwide suite of development programmes that, along with learning and development initiatives within our business units, supports the group's future management planning. The Academy and its partners (London Business School, INSEAD/CEDEP and Wharton and Columbia business schools) have worked with over 700 high-potential and senior Aviva employees, from new managers to the senior leadership, enabling their personal development and increasing their ability to address our key business challenges.

This section on Our people is a new entry in the Annual Report and Accounts. Its inclusion reflects the recognition of the contribution of all our employees towards the success and competitive advantage of Aviva.

Corporate social responsibility

In 2004, Aviva was ranked first in its sector in Business in the Community's CR Index.

UK-managed properties now use 100% carbon neutral electricity.

Aviva is included in the annual Corporate Knights Global 100 Most Sustainable Corporations list.

Corporate Social Responsibility (CSR) focuses on the management of good corporate performance in respect of standards of business conduct, the environment, human rights and health and safety as well as the promotion of good and fair relations with our employees, our suppliers, our customers and the community.

Aviva believes that the practice of CSR contributes strongly to both the short and long-term value of our business. We are now in the seventh year of reporting on this subject and our CSR programme, which has both an internal and an external focus, grows incrementally stronger each year. Internally, we aim to improve progressively our performance across the CSR spectrum. Externally, we are keen participants in ventures which seek to explore and illuminate the practice of good CSR.

A central focus for our future progress can be found in the direction given by the United Nations Global Compact. We chair the UK Forum of the Global Compact and devote significant effort to developing this important new mechanism to engage the global corporate world in meeting the challenges of sustainability, while interacting with European partners to help develop a joint approach. We also participate in a joint venture between the European Foundation for Management Development and the Global Compact – the Global Responsibility Initiative – which seeks to develop and disseminate learning, which will help enhance global responsibility among future business leaders.

We continue to chair the UK Forge group of banks and insurers. This is a financial focus group, which works with stakeholders to explore, define and apply better CSR practices within financial services. It is currently focusing on producing practical performance indicators for financial services.

The United Nations Environment Programme's Finance Initiative (UNEP FI) continues to be a key grouping for Aviva. We are represented on its climate change and asset management working groups and are helping to establish a new group on general insurance.

Our most significant CSR investment in 2004, has been the establishment of the Aviva Chair in Leadership and Responsibility at INSEAD, a leading international business school. This has both external and internal benefits. The chair will generate learning, which will be shared within Aviva, particularly in the development of our senior managers, as well as produce research, which will seek to raise the external understanding and appreciation of the practice of CSR.

We continue to review and manage the key CSR issues impacting our business and the industry as a whole. These are climate change, offshoring and the promotion of trust and integrity. Fuller coverage of these issues and how they are managed can be found in our CSR report.

CSR in practice

In January 2005, the directors of Aviva approved the revised CSR policy, which now requires a regular review of programme and progress by the chief executives in each of our businesses.

Our internal CSR programme has witnessed significant progress across our businesses worldwide over the year. Some key achievements are shown below.

Standards of business conduct and human rights

In January 2004, the Aviva board approved the revised policies of Standards of Business Conduct and Human Rights, following internal and external consultation. The revisions were made to enhance understanding and in the case of human rights, the revision took account of the International Labour Organisation's core labour standards. We continue to work to further integrate the provision of these policies into our operational practice.

Customers

Fair treatment of customers is, fundamentally, good business practice and is key to securing customer confidence in financial services. All our businesses are focused on that goal.

By way of example, Norwich Union Life in the UK has revised its marketing processes to ensure consumer needs are at the heart of product development and customer communication. In addition, it has formed a board-level committee responsible for overseeing how it meets the needs of existing customers. The company was also one of the first Raising Standards accredited brands in the UK and fully supports the aims of the Financial Services Authority's *Treating Customers Fairly* initiative.

Suppliers

In the UK, Norwich Union Central Services began to include questions on a company's CSR performance in the supplier tendering process, having previously only sought information on environmental performance. Most of our other large businesses also include elements of CSR performance in their supplier tendering process.

Community

In 2004, we donated over £4.6 million to various community initiatives and charitable causes worldwide. This figure includes not only cash support, but also strong elements of staff volunteering, gifts in kind and management time.

Additionally, businesses around the group reacted swiftly to the worldwide call for aid to help those affected by the tsunami in Asia. By the end of February, the group had committed more than £500,000, some of which represented matched funding for donations by staff. Many employees further supported the appeal through collections of blankets, clothing and other essential supplies.

Staff involvement in company-supported initiatives continues to grow, with some 19,000 hours of volunteering taking place in 2004. Besides volunteering opportunities, the company supports schemes such as payroll giving, whereby staff can donate directly to charities through their salary, and also matched funding by the company of staff supported initiatives.

All of our businesses enthusiastically engage in community programmes. In India, for example, we have linked up with charities supporting the elderly and underprivileged children.

In the UK, the successful partnership between Norwich Union and NCH, the UK's leading children's charity, has enabled some 630 employees to help make a difference to the lives of vulnerable young people.

Environment

In 2004, the environmental management programme continued to be further embedded throughout all our businesses worldwide. Innovative environmental initiatives, sharing of best practice and increased staff awareness in the businesses helped to facilitate such development.

In the UK, our managed properties reached their target consumption of 100% carbon neutral electricity – the equivalent of removing 46,273 tonnes of carbon dioxide from the atmosphere. Also, Hibernian in Ireland obtained 28% of its electricity from renewable sources. In addition, many businesses have focused on reducing consumption of one or more energy sources and in some cases have achieved a reduction of 10% or more.

Climate change directly affects the whole spectrum of our business both in life and general insurance. Taking account of that fact, some of our products and services have beneficial environmental impacts. In the UK, Norwich Union's "Pay As You Drive" and "Autograph" in Aviva Canada reward not only safer, but more environmentally responsible driving practices. Further, the highly regarded digital flood mapping initiative in the UK gives a more accurate assessment of exposure to flood than was possible before. We have freely shared elements of this research with the Environment Agency. In addition, Morley Fund Management continues to play its part as a responsible investor by encouraging environmental reporting.

In November 2004, the Aviva executive agreed the establishment of a Climate Change Forum, which will review the separate responses our businesses make to the climate change challenge and seek to promote synergies.

Health and safety

Aviva's Group Health and Safety policy commits all Aviva business units to providing a working environment that is both safe and fit for the intended business purpose. In doing so it ensures that health and safety issues are a matter of priority for all business operations. In 2004, a review was conducted of health and safety activities across the group's operating units to ensure compliance with the policy and to begin developing a platform for good practice sharing and continuous improvement.

The preceding report on employees provides extensive coverage of our performance in that important element of CSR.

How others view Aviva

Aviva continues to be seen as one of the CSR leaders within the industry. In 2004 we were ranked top of our sector and overall fifth in Business in the Community's CR Index results. We continue to be included in Business in the Environment's Index of Corporate Environmental Engagement and were placed first in our sector and 29th overall in 2004.

We continue to be the only UK insurer included in both the Dow Jones Sustainability World and STOXX Indexes and are a member of the FTSE4Good Index Series.

We are committed to the ongoing embedding of CSR across all our businesses in 2005 and will strive to maintain our leading position in the financial services community. Further details of our programme activities in 2004 and commitments for 2005 can be found in the 2005 CSR Report, available at www.aviva.com/csr. Alternatively, a printed summary copy can be obtained from the group company secretary.

Financial review

Andrew Moss
Group Finance Director

Introduction

2004 saw a return to more favourable investment market conditions although some sense of economic uncertainty continues to pervade. We managed our business through these conditions with strict performance management disciplines underpinned by strong corporate governance. Likewise the management of the group's capital base and resources is critical to enhancing the group's financial strength. We continue to evolve our governance structures to ensure their high quality and to meet the demands of changing external requirements. This report is structured as follows:

- Section 1: outlines our strong performance in 2004 by reference to our key financial measures;
- Section 2: sets out the status and impact of the International Financial Reporting Standards (IFRS) on our balance sheet at 31 December 2003;
- Section 3: reports on the group's capital strength by reference to accounting, regulatory and economic measures of capital. This section also includes the new disclosures required by Financial Reporting Standard (FRS) 27; and
- Section 4: explains our risk and capital management framework, and the governance processes that underpin this.

Section 1

Developments in the year

Throughout 2004 we have continued to focus on cost and operational efficiency and to build on the progress made to date. As a result of our ongoing cost management initiatives, the benefit to the profit and loss account in 2004 was £52 million, relative to 2003.

As part of our focus on improving our balance sheet strength, we took advantage of the low interest rate environment and favourable market conditions to issue a direct capital instrument which was four times oversubscribed and raised a sterling equivalent of £990 million: this allowed us to lock into favourable funding rates and the proceeds are being used to repay existing, senior debt over the course of 2005. The transaction enhanced our strong regulatory capital position, whilst leaving the financial leverage of the group unchanged.

The UK insurance industry continues to experience unprecedented levels of change and developments in statutory, regulatory and value-based reporting, as well as preparing for the introduction of the Financial Services Authority's (FSA) new prudential supervision regime. Our preparation for all these changes is well-advanced. We have been among the leaders in the debate over the direction of life insurance financial reporting and have pursued a strategy of communicating early the impact on our financials. In line with this, we have early adopted European embedded value (EEV) principles in our 2004 supplementary reporting.

A number of the other changes will be implemented and become mandatory in 2005, with the most fundamental change being the requirement to report under IFRS for financial years starting 1 January 2005 onwards. During 2004 we provided an indication of the impact of implementing IFRS on our balance sheet at 31 December 2003 and have shown that there will be a reduction of £250 million to our statutory shareholders' funds. In addition, from 1 January 2005 we are required to assess and monitor our capital position under the Prudential Sourcebook (PSB) regime as prescribed by the FSA.

In anticipation of these changes, Aviva has made a significant investment of £171 million to date in our global finance transformation programme, in anticipation of these changes and we are now moving into a phase of embedding these new requirements into our underlying processes and overall governance framework. We have made good progress though we still have much to do.

Performance management

Key financial objectives

In 2004, the group's strategy was underpinned by the following key financial objectives:

- Delivering an after-tax operating profit, including profit on a European Embedded Value (EEV) basis, equivalent to a 10% net real return on opening equity capital;
- Maintaining a dividend cover between 1.5 and 2.0 times based on statutory after tax operating profits; and
- Achieving a combined operating ratio (COR), on general insurance business across the group, of 100% in each of the three years from the start of 2004.

These objectives were supported by robust and reliable financial management systems.

Key financial objectives

	Target	2004	2003	2002
Return on Capital Employed (ROCE)*	10% + inflation‡	**14.4%**	13.1%	9.7%
COR**	100%	**97%**	100%	102%
Proposed ordinary dividend per share	increase by around 5% pa	**25.36p**	24.15p	23p
Dividend cover†	1.5-2.0x	**2.25x**	1.82x	1.51x

* Calculated using after-tax returns and opening equity capital, based on operating profit, including profit on an EEV basis, before amortisation of goodwill and exceptional items. The ROCE for 2002 is on an achieved profits basis and has not been restated.

** Combined Operating Ratio (COR) expresses the extent to which expenses and claims cover insurance premiums.
It is the sum of expenses, including commissions, expressed as a percentage of net written premiums, and claims as a percentage of net earned premiums.

† Measured on operating earnings after tax, on a modified statutory solvency basis, expressed as a multiple of the ordinary dividend for the year.

‡ Inflation in the years 2004, 2003 and 2002 was 3.5%, 2.8% and 2.9% respectively.

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards and the modified statutory solvency basis of reporting as required by statute. The statutory operating profit excludes amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items. The accounts have also been prepared in accordance with the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of Business Insurers (ABI) in November 2003 which the group adopted early with effect from 1 January 2003.

Supplementary information using the EEV basis has been adopted for the first time for the year ended 31 December 2004. The EEV basis replaces the achieved profits basis which was used previously. The main difference between EEV and modified statutory basis method is that the EEV basis measures the economic profit on insurance contracts at the point of sale, whereas the modified statutory basis measures profits that can be distributed to shareholders.

In May 2004 the CFO Forum, a group representing the Chief Financial Officers of major European insurers and of which Aviva is a member, launched the 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 at the 2004 year end. The directors have decided to adopt these principles in respect of the financial year ended 31 December 2004 and to restate comparative financial information.

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 the group's primary reporting arising from the two-phased approach to accounting for insurance business under IFRS.

The directors believe that the EEV methodology is a refinement to the achieved profits basis and represents the most meaningful and transparent basis of reporting the underlying value of our life business and the underlying drivers of performance. The financial statements include supplementary information on EEV reporting on pages 128 to 145 and the group's incentive schemes and internal management reporting are aligned to that basis.

The directors and many of our investors continue to believe that shareholders' funds incorporating internally-generated AVIF presents a more realistic view of assets. We have therefore included an EEV basis summarised consolidated balance sheet within the supplementary information section of these accounts. This combines the modified statutory basis net assets with the internally-generated AVIF. All growth rates in the financial review are quoted at constant rates of exchange.

Accounting policies

Other than for the adoption of the EEV principles, there have been no changes to the group's accounting policies in 2004.

Financial Reporting Standard 27 (FRS27), "Life Assurance"

FRS27 was issued by the Accounting Standards Board (ASB), on 13 December 2004, following the Penrose enquiry and is mandatory for reporting periods ending on or after 23 December 2005. Aviva, along with other major insurance companies and the ABI, has signed a Memorandum of Understanding (MoU) with the ASB relating to FRS27. Under this MoU Aviva has agreed to provide voluntarily early disclosure in accordance with the requirements in 2004 and then to adopt fully the standard from 2005 onwards within the Group's IFRS financial statements. Accordingly we have provided appropriate disclosures on the UK with-profit funds' realistic balance sheet, the group's capital position statement and information relating to guarantees and options.

Financial review
continued

Operating profit (figure 1)

Year ended 31 December	MSSB basis 2004 £m	MSSB basis 2003 £m	EEV basis 2004 £m	EEV basis 2003 £m
Pre-tax operating profit, before amortisation of goodwill and exceptional items				
– Life modified statutory solvency profit	**1,185**	1,122	**–**	–
– Life result on an EEV basis	**–**	–	**1,611**	1,496
Health	**58**	61	**58**	61
Fund management	**43**	10	**23**	(4)
General insurance	**1,326**	911	**1,326**	911
Non-insurance operations	**(108)**	(48)	**(31)**	8
Corporate costs	**(178)**	(160)	**(178)**	(160)
Unallocated interest charges	**(465)**	(406)	**(465)**	(406)
Operating profit before amortisation of goodwill and exceptional items	**1,861**	1,490	**2,344**	1,906
Deduction for: taxation on operating profit, minorities preference dividends and direct capital instrument appropriation	**(570)**	(499)	**(828)**	(713)
Operating profit*				
– including modified statutory solvency profit	**1,291**	991	**–**	–
– including result on an EEV basis	**–**	–	**1,516**	1,193
Operating earnings per share				
– modified statutory solvency basis	**57.2p**	44.0p	**–**	–
– result on an EEV basis			**67.2p**	53.0p
Proposed ordinary dividend per share	**25.36p**	24.15p	**25.36p**	24.15p

* Operating profit before amortisation of goodwill and exceptional items after tax, attributable to equity shareholders in respect of continuing operations. The modified statutory solvency operating earnings is also stated before the amortisation of acquired additional value of in-force long-term business.

Results on a modified statutory basis

Modified statutory operating profit (see figure 1)

On a modified statutory basis operating profit before tax showed a 27% increase to £1,861 million *(2003: £1,490 million)*, which is predominantly driven by the excellent general insurance result. The life result has also improved, albeit to a lesser extent, to £1,185 million *(2003: £1,122 million)*.

The increase in our operating profit from our life operations is attributable to an improvement in results across a number of our European businesses, particularly in the Netherlands, Italy and Spain largely driven by increased investment income. In the UK the non profit result increased reflecting higher new business surplus arising from changes in business mix and increased investment income. Offsetting these increases was the lower result from the UK with-profit funds due to lower annual and final bonus rates to our with-profit policyholders and the non-recurrence of a one-off benefit of £21 million in Poland in 2003 following regulatory changes in the level of required reserves on pensions business.

Profit and loss account – modified statutory basis (see figure 2)

The group reported an increased profit on ordinary activities before tax on a modified statutory basis of £1,488 million *(2003: £1,390 million)*, driven by the increase in the operational performance of the business. The short-term fluctuation in investment return for non-life businesses of £64 million *(2003: £83 million)* is a combination of the positive impact of decreases in short and medium term bond yields across our major European businesses year on year and higher actual returns on equities compared to our longer term investment return assumptions.

In 2004, the group disposed of its estate agency and e.surveying business for a total consideration of £42 million, with net assets disposed of £12 million. The loss on disposal of £141 million is calculated after writing back goodwill of £167 million previously written off to reserves and deducting the associated costs of sale of £4 million. The same goodwill amount is also credited directly to the profit and loss account reserve and therefore has a neutral effect on shareholders' funds. Other disposals generated a profit on sale of £5 million in total.

The effective rate of tax on operating profit from continuing operations was 24.5% *(2003: 27.0%)*. The total tax charge on profit on ordinary activities before tax was £355 million *(2003: £367 million)*. The lower tax charge includes one-off tax credits of £200 million as a result of offsetting tax losses from prior years against current year profits.

The profit for the year attributable to equity shareholders on a modified statutory basis was £1,034 million *(2003: £932 million)*. This resulted in earnings per share of 45.8 pence *(2003: 41.4 pence per share)*. Retained profit post-ordinary dividend on a modified statutory basis was £459 million *(2003: £387 million)*.

Ordinary dividends

The directors establish the appropriate level for dividends with reference to the longer-term trend in business performance, keeping in mind the need to retain earnings to fund future growth. Total ordinary dividends for 2004 were £575 million *(2003: £545 million)* representing an increase of 5.0% to 25.36 pence net per share *(2003: 24.15 pence net per share)*, in line with the group's dividend policy.

Dividend cover

The proposed full year ordinary dividend of £575 million is covered by the post tax statutory basis operating profit 2.25 times *(2003: 1.82 times)*.

Profit attributable to equity shareholders (figure 2)

Year ended 31 December	MSSB basis 2004 £m	2003 £m	EEV basis 2004 £m	2003 £m
Profit/(loss) for the financial year attributable to equity shareholders				
Pre-tax operating profit*, including life result on an EEV basis	**–**	–	**2,344**	1,906
Pre-tax operating profit*, including modified statutory life operating profit	**1,861**	1,490	**–**	–
Amortisation of goodwill	**(120)**	(103)	**(120)**	(103)
Amortisation of acquired additional value of in-force long-term business	**(126)**	(135)	**–**	–
Financial Services Compensation Scheme and other levies	**(49)**	–	**(49)**	–
Operating profit before tax	**1,566**	1,252	**2,175**	1,803
Short-term fluctuation in investment return	**131**	212	**–**	–
Variation from longer term investment return	**–**	–	**565**	779
Effect of economic assumption changes	**–**	–	**(318)**	(55)
Change in the equalisation provision	**(23)**	(49)	**(23)**	(49)
Net loss on the disposal of subsidiary and associated undertakings	**(136)**	(6)	**(136)**	(6)
Exceptional costs for termination of operations	**(50)**	(19)	**(50)**	(19)
Profit on ordinary activities before tax	**1,488**	1,390	**2,213**	2,453
Tax	**(355)**	(367)	**(647)**	(739)
Profit on ordinary activities after tax	**1,133**	1,023	**1,566**	1,714
Minority interests, preference dividends and direct capital instrument appropriations	**(99)**	(91)	**(189)**	(138)
Profit for the financial year attributable to equity shareholders	**1,034**	932	**1,377**	1,576
Ordinary dividends	**(575)**	(545)	**(575)**	(545)
Retained profit	**459**	387	**802**	1,031
Earnings per share attributable to equity shareholders				
– EEV basis	**–**	–	**61.0p**	70.0p
– modified statutory solvency basis	**45.8p**	41.4p	**–**	–

* Pre-tax operating profit before amortisation of goodwill and exceptional items. All operating profit arises from continuing operations.
The modified statutory solvency operating earnings is also stated before the amortisation of acquired additional value of in-force long-term business.

Results on a European Embedded Value (EEV) basis

Operating result on an EEV basis (see figure 1)

The group's operating profit before tax, including life EEV return, was up 25% to £2,344 million *(2003: £1,906 million)*, driven by the excellent result from our general insurance business. This profit equates to an increase in the normalised post tax return on opening equity capital of 14.4% *(2003: 13.1%)* and exceeds our target return on equity capital of 10% net real.

Our operating result has increased as a result of a good performance in our continental European life businesses which have increased in total by 20% to £977 million *(2003: £835 million)* combined with an excellent result from our portfolio of general insurance businesses. Profits from our general insurance businesses were up 47% to £1,326 million *(2003: £911 million)*.

Profit and loss account – on an EEV basis (see figure 2)

The strong operational performance combined with the positive contribution from the long-term investment return variances of £565 million *(2003: £779 million)* and the impact of economic assumption changes of negative £318 million *(2003: £55 million)* resulted in a profit before tax of £2,213 million *(2003: £2,453 million)*. This reflects the benefit of improved investment market conditions during the year and higher market values for fixed income securities as a result of lower bond yields. Lower long-term economic assumptions have the effect of reducing the expected value of future profits thereby reducing profits.

The tax for the year included a charge of £651 million *(2003: £563 million)* in respect of operating profit. The effective rate of tax on EEV operating return was 27.8% *(2003: 29.5%)* and is predominantly driven by lower tax suffered on the general insurance business following the utilisation of tax losses from earlier years. These losses were previously not recognised as deferred tax assets.

Cost savings (see figure 3)

Reducing costs and improving our operational efficiency continued to be one of our key objectives for 2004. Throughout the year we have taken actions and announced a number of initiatives to reduce our cost base. At the 2003 year end, we announced that we expected to achieve in 2004 estimated annualised savings of £250 million and earned savings of £225 million, both relative to the 2002 cost base. We have successfully achieved these targets delivering earned savings of £225 million in 2004 and accordingly, we expect to achieve annualised savings of £250 million in 2005.

In 2004, we achieved a net pre-tax benefit to the profit and loss account in 2004, relative to 2003, of £52 million, which is greater than the £20 million previously announced. This benefit includes the lower than anticipated GFTP costs for 2004. Figure 3 provides an analysis of the net pre-tax benefit to the profit and loss account across each business in respect of the £52 million saved in 2004 relative to 2003.

By the end of 2004 we successfully completed the offshoring migration of 3,700 roles across our UK life and general insurance operations to India to service the group's UK life and general insurance businesses and our general insurance operations in Canada. In 2004, total upfront costs incurred on these initiatives were around £50 million *(2003: £66 million)*. As previously announced, we expect to have around 7,000 staff working in our offshore operations by 2007.

In addition to the cost initiatives shown above, we have also announced the restructuring of our UK life business. The one-off cost incurred in 2004 to achieve cost savings was £65 million and further one-off costs of £88 million are expected over the next three years. These are expected to deliver annualised savings of £130 million by the end of 2007.

Net pre-tax profit and loss benefit by business unit (figure 3)

	Benefit to the profit and loss account £m
UK Life	43
UK General insurance	27
Other businesses	–
Corporate costs	(18)
	52

Financial review
continued

Long-term savings: new business contribution* (figure 4)

Year ended 31 December	2004 £m	2003 £m
UK	**269**	250
France	**95**	72
Ireland	**19**	28
Italy	**48**	45
Netherlands (including Belgium and Luxembourg)	**80**	69
Poland	**11**	5
Spain	**143**	141
Other Europe	**5**	(1)
International	**36**	37
Total	**706**	646

* Includes NUER and excludes retail investment sales and is stated before the effect of required capital.

Long-term savings new business margin* (figure 5)

	PVNBP basis**		APE basis†	
Year ended 31 December	2004 %	2003 %	2004 %	2003 %
UK	**2.9**	2.9	**23.1**	22.4
France	**3.4**	3.2	**30.9**	29.9
Ireland	**3.4**	5.3	**22.0**	34.7
Italy	**2.7**	2.6	**24.3**	23.2
Netherlands (including Belgium and Luxembourg)	**3.7**	3.8	**30.6**	30.8
Poland	**4.6**	2.2	**29.7**	14.2
Spain	**6.8**	7.2	**57.8**	57.2
Other Europe	**0.6**	(0.2)	**4.0**	(1.0)
International	**3.4**	3.1	**21.1**	19.8
Total	**3.4**	3.4	**27.2**	26.6

* Includes NUER and excludes retail investment sales and is stated before the effect of required capital.

**The ratio of long-term savings new business contribution to sales measured on a present value of new business premium (PVNBP) basis. PVNBP 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 ratio of long-term savings new business contribution to sales measured on an annual premium equivalent basis.

Long-term savings

Total new business sales were £17.2 billion *(2003: £14.9 billion)* which corresponds to life and pensions sales on a present value of new business premiums (PVNBP) basis of £20.7 billion *(2003: £18.8 billion)* and investment sales of £1,629 million *(2003: £1,141 million)*. In 2004 we saw a gradual return of customer confidence in many of our markets.

In the UK, we continued our focus on profitable growth and the new business sales reflect a strong performance given pricing actions taken throughout the year in pensions, annuities and protection business. Our continental European businesses now account for over half of new business sales as our businesses in France, the Netherlands, Italy and Spain outperformed local market growth estimates and our bancassurance sales in these business units made strong contributions to local performance. Total bancassurance sales were up 17% to £4,022 million *(2003: £3,507 million)* and include our new arrangement in France with Crédit du Nord.

We measure the sales performance of our business on two bases – volumes and contribution. Volumes are expressed as PVNBP which is a new measure developed for the purposes of EEV reporting. PVNBP is equal to total single premium sales for the year plus the discounted value of regular premiums expected to be received over the term of the new contracts, calculated at the point of sale. In effect PVNBP is the total revenue we expect to receive over the term of the new contracts sold during the year, at today's value. Contribution is the present value of the projected stream of after tax distributable profit from new business sales – this is then grossed up at the appropriate rate of corporation tax. New business margin is the ratio of new business contribution to sales measured on a PVNBP basis.

New business contribution increased by 11% to £706 million (see figure 4) for the year which represents a new business margin using PVNBP of 3.4% *(2003: 3.4%)*. The strong growth in contribution is predominantly driven by increases in the UK, France and the Netherlands. The margin reflects the shift towards unit-linked products coupled with the benefits of pricing and cost control measures.

All business units with the exception of Ireland and the Netherlands experienced margin improvements. In the UK, there has been continued focus on strict pricing and cost actions and this coupled with the benefit of the securitisation of our equity release business and a change in business mix towards higher margin products has enabled us to maintain our margins. Higher new business contribution in France and the Netherlands reflect changes in business mix. The lower margin in Ireland reflects changes in lapse assumptions on unit-linked business and the competitive market for protection products.

Long-term savings: life EEV operating profit (figure 6)

Year ended 31 December	2004 £m	2003 £m
New business contribution*	**516**	474
Profit from existing business		
Expected return	**819**	761
Experience variances	**(15)**	(31)
Operating assumption changes	**(7)**	19
Expected return on shareholders' net worth	**298**	273
Life EEV operating result	**1,611**	1,496

* On a post cost of capital basis.

Life EEV operating profit before tax increased to £1,611 million *(2003: £1,496 million)* driven by new business and higher operational profits from existing business. Expected returns on existing business and shareholders' net worth were higher at £1,117 million *(2003: £1,034 million)* due to the higher start of year embedded value. The net impact of experience variances and operating assumption changes were broadly flat compared to the prior period although there were a significant number of positive and negative variances in our life business.

In the UK, the life EEV operating return was lower at £551 million *(2003: £597 million)* predominantly driven by adverse experience variances and operating assumption changes, the most significant of which was the change in persistancy assumptions on bond, protection, pension and endowment products of £110 million. The change in assumptions reflects, in part, the actual experience. In addition, the UK life business has incurred adverse exceptional expenses of £153 million on project costs associated with the required regulatory change and the restructuring occurring within the business. These have been partially offset by the benefits of cost savings on maintenance expenses and improved mortality profits and default experience. In the continental European businesses, operating assumptions and experience variances are positive largely as a result of improved mortality profits across the businesses and tax profits in France and the Netherlands.

General insurance: combined operating ratio* (figure 7)

Year ended 31 December	2004 %	2003 %
UK	**97**	99
France	**101**	102
Ireland	**87**	97
Netherlands (including Belgium and Luxembourg)	**95**	101
Other Europe	**99**	103
Canada	**97**	108
Other international	**97**	103
Group	**97**	100

* Combined Operating Ratio (COR) expresses the extent to which expenses and claims cover insurance premiums. It is the sum of expenses, including commissions, as a percentage of net written premiums, and claims as a percentage of net earned premiums.

General insurance: operating profit (figure 8)

Year ended 31 December	2004 £m	2003 £m
UK	**832**	676
France	**32**	35
Ireland	**153**	91
Netherlands (including Belgium and Luxembourg)	**71**	35
Other Europe	**39**	32
Canada	**152**	12
Other international	**47**	30
Total	**1,326**	911

General Insurance

Worldwide general insurance net premium income increased to £8,815 million *(2003: £8,524 million)* principally reflecting premium rate increases achieved during the year. The markets we operate in have become more competitive during 2004 though we have continued to maintain our focus on writing for value over volume.

The group COR improved to 97% *(2003: 100%)*, beating our group COR target of 100% in each of the three years from the start of 2004. The group operating result of £1,326 million *(2003: £911 million)* benefits from strong underwriting disciplines, lower claims frequency, better than expected weather-related claims of £50 million *(2003: £40 million)* and our continued focus on achieving further efficiencies in the business.

We achieved a strong COR in all of our business units with particularly strong results in the UK, Ireland and Canada. The improved COR of 97% *(2003: 108%)* for our Canadian business reflects improved efficiency in our claims operations and the non-recurrence of the prior year reserve strengthening of £70 million in Pilot, one of our subsidiaries.

The higher operating profit (see figure 8) comprised an underwriting profit of £301 million *(2003: loss of £54 million)* and a higher normalised investment return of £1,025 million *(2003: £965 million)*, as a result of higher start of year investment values and cash generation during the year. The improvement in the underwriting result reflects a disciplined approach to risk and the continued achievement of small rating increases in a number of markets, despite an increasingly competitive environment. We are also seeing the benefit of our actions to improve efficiency and reduce costs.

The improved group expense ratio of 10.9% *(2003: 11.3%)* reflects our continued focus on achieving enhanced efficiencies and the benefit of our cost savings initiatives. In particular we achieved lower expense ratios in the UK, France and the Netherlands.

Our claims reserves are calculated within a range of possible outcomes. Our actuarial analysis suggests that our claims reserves across the group are strong.

Fund management

The continuing recovery across global equity markets during 2004 resulted in increased operating profits on an MSSB basis of £43 million *(2003: £10 million)* for our worldwide fund management operations. Assets under management at 31 December 2004 increased to £273 billion *(2003: £240 billion)*, driven by the benefit of new business flows in the period and the improvement in worldwide investment markets.

Our UK fund management business comprises Morley Fund Management, a retail and institutional business, a retail investment operation operating as Norwich Union and our new collective investments business with the Royal Bank of Scotland Group (RBSG). The combined UK operations reported a profit of £10 million *(2003: loss of £6 million)*. Morley's combined UK operations reported a profit of £12 million *(2003: £3 million)*, while our UK retail business reported a profit of £5 million *(2003: loss of £3 million)*. Our RBSG collective investments reported a loss of £7 million *(2003: loss of £6 million)* due to significant new business strain from sales of regular premium investment business. Within the group results are additional profits of £12 million *(2003: £6 million)* relating to other Morley businesses including the pooled pensions business and the overseas operations. This brings the contribution that Morley makes to the total group result to £24 million *(2003: £9 million)*.

Financial review
continued

On an EEV basis, fund management operating profits were £23 million *(2003: loss of £4 million)* which excludes the profits from the management of group internal life funds of £20 million *(2003: £14 million)*.

Fund management: operating result (figure 9)

	2004 £m	2003 £m
Morley		
– UK business	**12**	3
– overseas business	**8**	4
Subtotal Morley	**20**	7
Other fund management operations		
UK		
– Royal Bank of Scotland	**(7)**	(6)
– Norwich Union Investment funds	**5**	(3)
France	**17**	13
Other Europe	**1**	–
International	**7**	(1)
	43	10

Non-insurance
The non-insurance result on an MSSB basis was a loss of £108 million *(2003: loss of £48 million)* and includes a one-off provision of £40 million in respect of vacant properties following the completion of a UK wide owner occupied property strategy review which assessed current requirements in light of headcount reductions in the UK in recent years. In addition, £65 million for reorganisation costs in our UK life service company is also included.

Corporate costs
Corporate costs were higher in the year at £178 million *(2003: £160 million)* due to the expected increase in costs associated with our global finance transformation programme (GFTP). The GFTP costs reflect the peak of the considerable investment required in response to the significant accounting and regulatory changes that the group must comply with now and in the foreseeable future. We expect these costs to reduce in 2005 to around £40 million. Other corporate costs were lower at £93 million *(2003: £100 million)*.

Section 2

International Financial Reporting Standards (IFRS)
The European Union requires all European listed groups to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board (IASB) with effect from 1 January 2005. The Aviva group's consolidated accounts for 2005 will therefore be prepared under IFRS, rather than UK GAAP. Comparative figures will be required for 2004, together with reconciliations of income and shareholders' equity to the previously-reported UK GAAP figures.

We made excellent progress through 2004 in our preparations for reporting under IFRS and continued to be a leading participant in the dialogue with the IASB in helping to shape the new accounting and reporting framework for our sector.

In the course of 2004, we commenced a market education of the impact of IFRS on Aviva's financials and highlighted the likely consequences of adopting these new reporting standards. In accordance with the guidance from The Committee of European Securities Regulators (CESR) we have incorporated within the 2004 Report and Accounts balance sheet restatement information relating to 31 December 2003, together with those accounting policies that Aviva will adopt for 2005, which apply to the balance sheet. Accounting policies relating to the income statement will be published in August 2005 with our first set of IFRS results.

In overview our work to date on implementing IFRS has led us to the following preliminary conclusions:

- Accounting for substantially all of the general insurance business and approximately 85% of our long-term business will be unchanged. The remaining 15% of our life products will be accounted under International Accounting Standard (IAS) 39 – Financial Instruments;
- IFRS is a technical accounting change to the way we report and present our consolidated MSSB results. There is no change to the underlying economics of Aviva's business;
- IFRS will not impact our dividend policy nor significantly impact the group's solvency calculations which are the subject of separate regulation.

As anticipated, the impact of implementing IFRS on our balance sheet at 31 December 2003 is a reduction of £250 million on our reported statutory basis equity shareholders' funds. Life EEV is unaffected by the impact of IFRS and so those adjustments relating to the life segment do not change life shareholders' funds on an EEV basis. The reduction of £250 million includes a £106 million decrease to the life segment's equity shareholders' funds. This is stated after a notional allocation of £211 million of the IAS19 pension deficit relating to UK life covered business. A reconciliation between UK GAAP and IFRS basis shareholders' funds is also included on pages 114 to 126. We will report our first set of results under IFRS as part of the interim announcement in August 2005.

Section 3

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

The group is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk. Overall, the group comfortably meets all of these requirements and has significant resources and financial strength. We report on these below. The ratings of the group's main operating subsidiaries are AA/AA ("very strong") with a stable outlook from Standard & Poor's and Aa2 ("excellent") from Moody's. These ratings were reaffirmed in September 2004 and reflect the group's financial and capital strength, strong underlying earnings and positive strategic management.

Capital management
In managing its capital, the group seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in each business. In the case of the group's life operations, which have long-term liabilities, the majority of capital is held in fixed income securities. A significant proportion of the capital supporting the group's general insurance and health operations is held in equities, reflecting the relatively low risk profile of these businesses;

(ii) Maintain financial strength to support new business growth and satisfy the requirements of its policyholders, regulators and rating agencies;

(iii) Retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit lines, and access to a range of capital markets;

(iv) Allocate capital efficiently to support growth and repatriate excess capital where appropriate; and

(v) Manage exposures to movement in exchange rates by aligning the deployment of capital by currency with the group's capital requirements by currency.

An important aspect of the group's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the group is focused on the creation of value for shareholders.

The group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital.

Different measures of capital
The group measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the group operates and those which the directors consider appropriate for the management of the business. The measures which the group uses are:

(i) Accounting bases
Although the group is required to report its results on the modified statutory solvency basis, the directors consider that the European Embedded Value methodology provides a more accurate and meaningful reflection of the group's life operations and accordingly we analyse and measure the net asset value and total capital employed for the group on this basis.

(ii) Regulatory bases
In reporting the financial strength of our insurance subsidiaries the group measures the capital and solvency using the regulations prescribed by the Financial Services Authority (FSA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the group's insurance subsidiaries.

(iii) Economic bases
Notwithstanding the required levels of capital laid out by the FSA, the group also measures its capital using risk based capital techniques which take into account a more realistic set of assumptions. These bases have been under considerable development over the past few years and have become more relevant in the assessment of the group's financial strength. In addition they include measures used by rating agencies in measuring and assessing the financial strength of the group.

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

Financial review
continued

Deployment of equity shareholders' funds - EEV basis

	Equities £m	Fixed income securities £m	Other investments £m	Other net assets £m	2004 Total £m	Restated* 2003 Total £m
Assets						
Long-term savings	**685**	**4,347**	**1,718**	**938**	**7,688**	6,923
General insurance, health, and other business	**3,149**	**970**	**722**	**147**	**4,988**	4,767
	3,834	**5,317**	**2,440**	**1,085**	**12,676**	11,690
Goodwill					**1,339**	1,323
Additional value of in-force long-term business					**5,326**	4,828
Assets backing total capital employed in continuing operations					**19,341**	17,841
External debt					**(1,412)**	(1,709)
Net internal debt					**(987)**	(1,613)
Subordinated debt					**(2,823)**	(2,814)
					14,119	11,705
Minority interests					**(1,182)**	(953)
Direct capital instrument					**(990)**	–
Preference capital					**(200)**	(200)
Equity shareholders' funds					**11,747**	10,552

* Restated for the effect of implementing European embedded value principles, and for the reclassification of internal debt.

At 31 December 2004 the group had £19.3 billion *(31 December 2003: £17.8 billion)* of total capital employed in its trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, subordinated debt and internal and external borrowings.

The group has a number of internal debt arrangements in place. These have allowed assets supporting technical liabilities to be invested into the pool of central assets for use across the group. They have also enabled the shareholders to deploy cash from some parts of the business to others in order to fund growth.

In 2004 we have revised the presentation of internal debt to show a net debt position which represents the upstream of internal loans from business operations to corporate and holding entities net of tangible assets held by these entities as this better reflects the underlying level of internal leverage. The reduction in the net internal debt reflects, in part, the repayment by the corporate and holding entities of upstream loans and an increase in the tangible assets held by corporate entities arising from a combination of capital raising activity and dividends received from business operations.

External debt has fallen during the year as £300 million of the direct capital instrument proceeds have been used to repay commercial paper. As indicated at the time of issuing the direct capital instrument, a further £650 million of senior debt will be repaid in 2005, thereby reducing the level of external borrowings further. This repayment will be made from tangible assets held by corporate entities and, accordingly, the net internal debt will increase by a corresponding amount. This leaves the overall external and net internal leverage position unchanged.

	2004	2003
Shareholders' funds – EEV	**£14.1bn**	£11.7bn
Total capital employed	**£19.3bn**	£17.8bn
Net asset value per share	**532 pence**	484 pence

The improvement in shareholders' funds reflects strong operational performance and the issuance of a direct capital instrument which raised £990 million. Net asset value per ordinary share, based on equity shareholders' funds, was higher at 532 pence per share after adding back the equalisation provision of £388 million *(31 December 2003: £364 million)*.

Regulatory bases
EU Group's Directive

	2004	2003
Insurance Group's Directive (IGD) excess solvency £bn	**3.6**	2.4
Cover (times) over EU minimum	**1.9**	1.7

Aviva group had estimated excess regulatory capital, as measured under the EU Groups Directive, of £3.6 billion at 31 December 2004 *(31 December 2003: £2.4 billion)*. This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the group's UK life funds. The minimum solvency requirement for the group's European businesses is based on the Solvency 1 Directive. In broad terms for EU operations, this is set at 4% and 1% of non-linked and unit-linked reserves respectively and for Aviva's general insurance portfolio of businesses is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For the group's major non-European businesses, eg USA, Australia and Canada, a risk charge on asset and liabilities approach is used.

In November 2004 the group enhanced its strong regulatory position through issuing £990 million of a direct capital instrument. Completion of the Asia general insurance sale in 2005 will improve the IGD excess solvency by £0.2 billion.

From 1 January 2005, the group is required to monitor its capital in accordance with the requirements of the Prudential Sourcebook (PSB) as set out by the FSA. As a result, during the course of 2004 we have evolved the group's risk and governance frameworks to ensure compliance and have finalised the parameters and assumptions that underpin the internal capital assessment (ICA). An evaluation of our framework by the FSA will take place during the course of 2005.

Furthermore, from 1 January 2006, the group will be required to have a positive IGD basis solvency level at all times. The FSA has introduced further changes to the valuation rules which will apply during 2005. These include changes to the valuation of non-insurance subsidiaries which will be restated from market value to net asset value (estimated to reduce IGD by £0.6 billion) and an allowance for pension scheme deficits (estimated to reduce IGD by £0.4 billion). The former change will be applied from 1 January 2005 while the latter will apply from 1 July 2005.

General insurance

Regulatory basis

Our principal UK general insurance regulated subsidiaries are CGU International Insurance group (CGUII) and Norwich Union Insurance (NUI). The combined businesses of the CGUII group and NUI group have strong solvency positions. On an aggregate basis the estimate excess solvency margin (representing the regulatory value of excess available assets over the required minimum margin) increased significantly to £5.5 billion *(31 December 2003: £4.0 billion)* after covering the required minimum margin of £3.9 billion *(31 December 2003: £3.4 billion)*. The table below sets out the regulatory basis of these general insurance groups at 31 December 2004 and 31 December 2003.

			2004
	NUI plc	CGUII group	NUI and CGUII group pro forma
Regulated asset value £bn	**1.0**	**8.4**	**9.4**
Required minimum margin £bn	**0.4**	**3.5**	**3.9**
Excess solvency margin £bn	**0.6**	**4.9**	**5.5**
Cover (times)	**2.6**	**2.4**	**2.4**

			2003
	NUI plc	CGUII group	NUI and CGUII group pro forma
Regulated asset value £bn	0.9	6.5	7.4
Required minimum margin £bn	0.3	3.1	3.4
Excess solvency margin £bn	0.6	3.4	4.0
Cover (times)	3.0	2.1	2.1

Economic bases – Risk based capital

The group uses risk based capital as one of several measures to assess its capital requirements for its general insurance businesses. Financial modelling techniques enhance our practice of active capital management, ensuring sufficient capital is available to protect against unforeseen events and adverse scenarios, and risk management. Our aim continues to be the optimal usage of capital through appropriate allocation to our businesses.

The introduction of the Internal Capital Assessment (ICA) regime has resulted in the calculation of the realistic capital needed to meet policyholder requirements under a range of adverse scenarios. As a result we have been in discussion with our regulator for both our life and general insurance business to agree specific risk adjusted capital requirements. Our risk based capital model underpins our ICA modelling, and will form the basis of our discussions with the regulator in agreeing such capital requirements, along with our strong risk management processes. We continue to develop our risk based capital modelling capability for both our life and general insurance businesses as part of our longer-term development programme for more complex risk modelling techniques, and increasingly operate our business by reference to economic and risk based capital requirements.

Our current risk based capital methodology for general insurance business assesses insurance, market and credit risks and makes prudent allowance for diversification benefits. We look at the level of capital necessary to enable the general insurance business to meet the statutory minimum solvency margin over a five year period with 99% probability of not requiring further capital. We consider risks over a five year period allowing for planned levels of business growth. Based on our model, our risk based capital requirement may be expressed as 34% of net written premiums which is equivalent to £3.3 billion *(2003: £3.3 billion)* of capital. This compares with a total of £4.6 billion *(2003: £4.5 billion)* of shareholders' capital deployed in the general insurance businesses.

Life operations

Economic bases

For the group's non-participating worldwide life assurance business the group has set its capital requirements as the higher of:

- Target levels set by reference to own internal risk assessment and internal objectives;
- Minimum capital level (ie level of solvency capital at which local regulator empowered to take action).

Having undertaken an assessment of the level of operational, demographic, market and currency risk of each of our life businesses, we have quantified the levels of capital required for each business. We have expressed these as a percentage of the EU minimum. The required capital across all the group's businesses varies between 100% and 200% of EU minimum or equivalent. In the UK we have assessed the required capital for our annuity book at 200% of the EU minimum and the remainder of the non-profit portfolio has been set at 100% of the EU minimum. The weighted average level of required capital for the totality of the group's non-participating life business, expressed as a percentage of the EU minimum solvency margin is 135%. This is a blended rate and we would expect this to change over time with product mix. These levels of required capital are used in the calculation of the group's embedded value to evaluate the cost of locked in capital. At 31 December 2004 the regulatory capital held in the group's long term business amounted to £6.3 billion which represents 175% of the EU minimum requirements.

UK Life operations

We manage the strength of our funds through a variety of different means. We have the option to use, where appropriate, financial reinsurance, securitisation, shareholder funds and policyholder funds.

UK non-profit funds

In July 2004 we announced our proposals to simplify the structure of many of our non-profit funds by transferring them into Norwich Union Life and Pensions (NUL&P). The transfer of these funds occurred effective 1 January 2005 and will create a simpler and more efficient structure for Norwich Union. We continue to evaluate the reattribution of the orphan estate as a strategy in the interests of both policyholders and shareholders.

Financial review
continued

UK with-profit funds

Under the MoU entered into with the ASB relating to FRS27, we are required to disclose information on the realistic balance sheets for the group's UK life with-profit funds, the group's capital position statement and financial options and guarantees. These are set out in the following paragraphs.

Regulatory basis

The FSA published the Prudential Sourcebook (PSB) for insurers which in 2004, is applicable for 31 December 2004 year ends. The PSB formally introduces the FSA's realistic reporting regime setting out a realistic basis of measurement for assets and liabilities and also the realistic capital requirements.

The group's UK life businesses are required to hold sufficient capital to meet the FSA's capital requirements. Under the FSA's realistic reporting regime, the UK with-profits business' capital requirement is determined from the "twin peaks" approach, such that capital resources must be sufficient to cover the greater of the statutory and realistic liability and capital requirements. The businesses must also take into account the ICA which considers certain business risks not reflected in the twin peaks approach. For UK non-participating business, the capital requirement is calculated on the statutory basis, which is based on EU Directives.

In 2004 realistic results have been prepared in accordance with the PSB. The results make appropriate allowance for all the liabilities of the with-profit funds, including provision for future bonuses, the fair value of guarantees, options and promises on a market consistent basis and, the cost of shareholder transfers and tax associated with future bonuses. The calculations also make allowance for how the with-profit funds are expected to be run, for example investment policy, and how policyholders are expected to behave, for example persistency.

The available capital of the with-profit funds is represented by the realistic orphan estate. The estate represents the assets of the long-term with-profit funds less the realistic liabilities for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

Realistic balance sheet information is shown for the three main UK with-profit funds, CGNU Life, Commercial Union Life Assurance Company (CULAC) and Norwich Union Life and Pensions (NUL&P).

	Estimated realistic assets £bn	Estimated realistic liabilities*† £bn	Estimated realistic orphan estate‡ £bn	Estimated required capital margin≠ £bn	Estimated excess £bn
CGNU Life	12.2	10.5	1.7	0.3	1.4
CULAC	13.5	11.9	1.6	0.4	1.2
NUL&P	26.3	25.1	1.2	1.0	0.2
Aggregate	52.0	47.5	4.5	1.7	2.8

* Realistic liabilities include the shareholders' share of future bonuses of £0.5 billion. Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £47 billion.

† These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £0.6 billion, £0.9 billion and £3.3 billion for CGNU Life, CULAC and NUL&P respectively.

‡ Realistic orphan estate at 31 December 2003 was £1.3 billion, £1.6 billion and £1.4 billion for CGNU Life, CULAC and NUL&P respectively.

≠ The Required Capital Margin (RCM) is 2.6 times covered by the orphan estate in aggregate *(2003: 2.5 times)*.

The aggregate investment mix of the realistic assets at the year end was:

	31 December 2004 %	31 December 2003 %
Equity	**36%**	38%
Property	**15%**	16%
Fixed interest	**43%**	42%
Other	**6%**	4%
	100%	100%

Equity backing ratios, including property, supporting with-profit asset shares are 66% in CGNU Life and CULAC and 54% in NUL&P. With-profit new business is mainly written through CGNU Life.

Calculation of the realistic liabilities requires various assumptions to be made as follows:

Investment related assumptions – Our objective in setting these assumptions is that, where parameters can be determined from instruments traded in the market, then our assumptions would reproduce the prices of these traded instruments. This approach is taken for assumptions for risk free rates, equity and fixed interest volatility. Where assumptions can not be determined in this way, for example correlation, then this is based on past market experience.

Risk free rates at 31 December 2004 have been determined as the annualised spot yields for the gilt market, sourced from the Bank of England, increased by 10 b.p. The increase reflects the result that gilt yield is a little less than true risk free because of the highly liquid nature. Assumptions for volatility have been sourced from various investment banks based on the market price of traded options.

Demographic assumptions – Assumptions for persistency, mortality and option take up rates are set to achieve a realistic best estimate. Assumptions are based on own and industry experience, and allow for anticipated future trends.

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Management assumptions – Management may exercise discretion in the operation of the with-profit business, through for example, smoothing of payouts, the level of annual bonuses and investment policy. How management exercises this discretion is described in the Principles and Practices of Financial Management (PPFM). The assumptions made about how management will exercise discretion in the calculation of the realistic liability are consistent with the PPFM, with the objective of achieving a realistic best estimate.

The key assumptions for the three main with-profit funds are shown below:

	CGNU	CULAC	NUL&P
Financial			
Risk free rate	4.66%	4.66%	4.68%
Equity volatility	18.3%	18.3%	18.3%
Property volatility	15.0%	15.0%	15.0%
Option take up			
Guarantee annuity	75.0%	85.0%	90.0%
No MVR guarantee	75.0% first opportunity; 25.0% second opportunity		

FRS27 Group capital statement

In addition to the new FSA realistic reporting regime, the UK Accounting Standards Board issued a new financial reporting standard in December 2004, known as FRS27, requiring certain capital disclosures to be made. The purpose of the capital statement is to set out the financial strength of the entity and to provide an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital. The capital statement below has been prepared in accordance with the Memorandum of Understanding signed by Aviva in relation to the application of FRS27 in 2004, and shows available capital resources for the group.

						2004
	UK with-profit funds £bn	Other UK life operations† £bn	Overseas life operations £bn	Total life operations £bn	Other operations‡ £bn	Total £bn
Total shareholders' funds	–	**3.0**	**4.1**	**7.1**	**2.1**	**9.2**
Other sources of capital*	–	–	**0.2**	**0.2**	**2.8**	**3.0**
Fund for future appropriations	**8.1**	**0.3**	**0.8**	**9.2**	–	**9.2**
Adjustments onto a regulatory basis**	**(3.6)**	**(1.9)**	**(0.6)**	**(6.1)**	**(2.5)**	**(8.6)**
Total available capital	**4.5**	**1.4**	**4.5**	**10.4**	**2.4**	**12.8**

* Other sources of capital represents: Subordinated debt of £2,823 million issued by Aviva plc and £129 million subordinated perpetual loan issued by a Dutch subsidiary undertaking.

**Including an adjustment for minorities.

† Other UK life operations include £300 million of fund for future appropriations, relating to Hibernian life which is owned by UK life shareholders' funds.

‡ Other operations include general insurance and fund management businesses.

In aggregate the group has at its disposal a total available capital of £12.8 billion, representing the aggregation of the solvency capital of all our businesses. This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

The UK with-profit funds' available capital of £4.5 billion can only be used to provide support for UK with-profits business and is not available to cover other shareholder risks. At £4.5 billion, it is comfortably in excess of the required capital margin and, therefore, the shareholders are not required to provide further capital support to this business.

For the remaining life and general insurance operations, the total available capital amounting to £8.3 billion is significantly higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

As the total available capital of £12.8 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently, it understates the economic capital of the business which is considerably higher. This is a limitation of the group capital statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our group.

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the group. The principal restrictions are:

(i) UK with-profit funds (CGNU Life, CULAC & NULAP) – any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and shareholders. With-profits policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund in the case of CGNU Life, CULAC and NUL&P.

(ii) UK non-participating funds – any available surplus held in these is attributable to shareholders. Capital within the non profit funds may be made available to meet requirements elsewhere in the group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the group.

(iii) Overseas life operations – the capital requirements and corresponding regulatory capital held by overseas businesses, are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the group.

Financial review
continued

In addition to its external funding sources, the group has a number of internal loan arrangements in place. These have allowed assets supporting technical liabilities to be invested into the pool of central assets for use across the group. They have also enabled shareholders to deploy cash from some parts of the business to others in order to fund growth. In addition to these internal loan arrangements, the group has in place a number of internal reinsurance contracts which are structured to manage the capital position between certain life funds. All these internal contracts satisfy arm's length criteria, and all payments have been made when due.

Sensitivity analysis

Sensitivity of group shareholders' funds
The sensitivity of the group's shareholders' funds at 31 December 2004 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

31 December 2003 £bn		31 December 2004 £bn	Equities down 10% £bn	Interest rates up 1% £bn
12.0	Long-term savings*	**13.2**	**12.5**	**13.1**
5.8	General insurance and other	**6.1**	**5.9**	**5.8**
(6.1)	Borrowings**	**(5.2)**	**(5.2)**	**(5.2)**
11.7	**Shareholders' funds**	**14.1**	**13.2**	**13.7**

* Assumes EEV assumptions adjusted to reflect revised bond yields.
**Comprising internal, external and subordinated debt, net of corporate tangible net assets.
These sensitivities assume a full tax charge/credit on market value appreciation/falls.

Sensitivity of insurance liabilities
Insurance liabilities are sensitive to changes in market conditions and other assumptions which have been factored into their calculation, such as mortality or persistency rates. In some cases allowance is also made when calculating liabilities for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender values.

Market conditions – assumptions are made about investment returns and interest rates. Any adverse change in either variable will increase liabilities with the effect of reducing available capital. However such changes will also impact corresponding asset valuation, changes in which may result in further decreases in available capital, or in certain cases may offset the impact of liability movements.

Assumptions – long-term trend differences in mortality, morbidity or persistency rates will result in the need to change assumptions. This may require a strengthening or release of reserves. Depending on policy type this sensitivity will differ, for example a change in mortality rates will have a different impact for annuity contract liabilities when compared to term assurance liabilities. In addition to assumptions made for persistency, assumptions are made about policyholders behaviour in relation to guarantees and options. In turn these assumptions are sensitive to both investment return and interest rates.

UK with-profit funds – available capital
The amount of available capital, that is the excess of the value of assets over the realistic value of the liabilities, is sensitive to both the current level of investment markets, and the assumptions made. In addition the capital requirement for with-profit funds which is based on the FSA's risk capital margin (RCM), takes into account the sensitivity to certain changes in conditions. The level of the RCM is set such that sufficient capital is required to meet a series of prescribed adverse shocks, consisting of falls in equity and property values, changes in fixed interest yields, rises in defaults on corporate bonds and similar instruments and adverse persistency experience. Within these shocks, allowance is made for how management would respond, consistent with PPFM, for example through changes to bonus rates and investment profiles.

Financial guarantees and options

As a normal part of operating activities, various group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and fund management products.

Valuation of guarantees and options under EEV
The reported cost to shareholders of the options and guarantees provided under life contracts is represented by the valuation of options and guarantees under the EEV methodology. This includes two components: the intrinsic value and the time value. The intrinsic value is the cost to shareholders arising under the best estimate assumptions and is allowed for in the calculation of the present value of in-force business. The time value, which is calculated separately, is the additional cost to shareholders arising from variability of future investment returns, and reflects the fact that in some adverse economic scenarios shareholders will incur additional costs associated with the guarantees under the EEV methodology. The time value is calculated on a stochastic basis, using "real world" assumptions to evaluate the mean cost, which is deducted from the embedded value. At 31 December 2004 this amounted to £274 million *(2003: £232 million)*.

Provision for guarantees and options under MSSB reporting
The costs of guarantees and options are not material to the level of technical provisions held and the overall level of shareholders' capital. Most guarantees are in the UK with-profit fund and are covered by the estate. Elsewhere, where guarantees exist, they are matched by a high quality government and corporate bond portfolio which reduces the time value costs. Where the exposure is not fully matched, we adopt hedging techniques and hold appropriate technical reserves; and finally, where interest rate guarantees are provided in our current product set, these are set-up rates of 1-2% and are priced into the contracts.
As required by FRS27, additional disclosure setting out details of material guarantees and options has been provided below. A financial option or guarantee is one whose potential value is affected by the behaviour of financial variables, and not by those features of life assurance contracts where the potential changes in policyholder benefits arise solely from insurance risk.

Except for "UK life with-profits" business the liabilities for guarantee and option costs described below relate to the statutory provision currently held within the groups MSSB liabilities. These liabilities are different to the shareholder cost of guarantees and options under EEV as discussed above. The main reasons for the difference are as follows:

- In many cases, the shareholder cost of guarantees and options is lower than the full amount of the liability. For example, for UK with-profit business, the shareholder cost is lower because some of the cost can be absorbed by the excess assets in the with-profit fund;
- The shareholder cost of guarantees and options is calculated using "real world" stochastic economic scenarios, whereas the guarantee and option liabilities are calculated using a combination of market consistent stochastic scenarios in the UK and deterministic regulatory assumptions elsewhere.

In providing these guarantees and options, the group's capital position is sensitive to market risk, such as adverse fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options (GAOs), are sensitive to interest rates falling below the guaranteed level, other guarantees such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

The group carefully manages its exposure to market risk. These processes are described in the "Risk management policies" section of this report.

UK Life with-profits business
In the UK, from 31 December 2004, life insurers are required to comply with the FSA's realistic reporting regime for their with-profit funds for the calculation of FSA liabilities. Provision is made for guarantees and options within the FSA realistic liabilities of the UK life with-profit funds. Under the FSA's rules these must be measured at fair value using market consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions. The time value is evaluated by projecting a large number of possible future outcomes under a wide range of economic scenarios, for example possible outcomes for interest rates and equity returns.

The group's UK life insurance subsidiaries have written various with-profit life insurance contracts which include guarantees and options. The group's with-profit liabilities measured on a realistic basis, include explicit provision for these guarantees and options, which have been measured in accordance with the FSA's rules.

These realistic liabilities have not been included within the MSSB balance sheet for 2004 but will be incorporated in the statutory balance sheet from 1 January 2005 in accordance with FRS27.

The material guarantees and options in UK with-profits are:
Maturity value guarantees – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition the guarantee fund has offered maturity value guarantees on certain unit linked products.

No market valuation reduction (MVR) guarantees – For unitised business, there are a number of circumstances where a "no MVR" guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the guaranteed value of the policy and the market value of the underlying assets.

Guaranteed annuity options – The group's UK with-profit funds have written individual and group pensions which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of annuity based on guaranteed conversion rates. The group also has exposure to GAOs and similar options on deferred annuities.

Guaranteed minimum pension (Transfer Plan (section 32)) – The group's UK with-profit funds also have certain section 32 policies which contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

In addition, while these do not constitute guarantees, the group has made promises to certain policyholders in relation to mortgage endowments that payments on these policies will meet the mortgage value, provided investment returns exceed 6% per annum net of tax between 1 January 2000 and maturity and the investment returns on the free reserves are sufficient to meet the top up costs.

Non-profit business
The group's UK life business has also written contracts which include guarantees and options within its non-profit funds. The group's UK non-profit funds are not subject to the requirements of the FSA's realistic reporting regime and therefore liabilities are evaluated by reference to local statutory reserving rules. Provision for guarantees and options in the non-profit funds has been included within the MSSB liabilities.

Guaranteed annuity options – Similar options to those written in the with-profit fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market consistent stochastic model and amounts to £47 million at 31 December 2004.

Guaranteed unit price on certain products – Certain unit linked pension products linked to long-term life insurance funds provide policyholders with a guaranteed unit price of £1 at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

Financial review
continued

Overseas life business

In addition to guarantees written within the group's UK life businesses, the group's overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity type investments. Policy reserves equal guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, "Provision pour Aléas Financiers" (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No such PAF was established at the end of 2004.

The most significant of these contracts is the AFER Euro fund which has total liabilities of £21 billion at 31 December 2004. The guaranteed bonus on this contract equals 65% of the average of the last two years' declared bonus rates (or 60% of the TME index rates if higher) and was 3.69% for 2004 in comparison to an accounting income from the fund of 5.25% after charges.

Non-AFER contracts with guaranteed surrender values had liabilities of £6 billion at 31 December 2004 and guaranteed annual bonus rates are between 0% and 4.5% (except for some larger guarantees of up to 7% on some older contracts which account for less than 2.4% of these liabilities). For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2004.

Guaranteed death and maturity benefit

In France the group has also sold unit linked policies where the death and maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the group's MSSB balance sheet at the end of 2004 for this guarantee is £17 million. The reserve for guaranteed death and maturity benefits is determined using a realistic reserving basis under which the cost of guarantees is calculated using a standard option pricing formula. At end 2004 total sums at risk for these contracts were £182 million in comparison to total unit linked funds of £6 billion. The average age of policyholders was approximately 53. It is estimated that this cost would increase by £18 million if yields were to increase by 1% per annum and equity markets were to decline by 10% from end 2004 levels. These figures do not take into account that Aviva has the ability to review the charges for this option.

Netherlands

Guaranteed minimum return at maturity

In the Netherlands it is market practice to guarantee a minimum return at maturity on traditional savings and pensions contracts. Guarantees on older lines of business are 4% per annum, while for business written since 1 September 1999 the guarantee is 3% per annum. In accordance with market practice, it is expected that guarantees will be financed from unrealised gains on assets. On group pensions business, it is often possible to recapture guarantee costs through adjustments to surrender values or to premium rates.

Under Dutch regulation, liability testing is carried out to determine if additional liabilities are required for portfolio guarantees. No such reserves were required at the end of 2004.

The total liabilities for traditional business at end 2004 are £8 billion analysed as follows:

	Liabilities 3% guarantee £m	Liabilities 4% guarantee £m
Individual	1,104	3,408
Group pensions	263	3,702
Total	1,367	7,110

Although interest rates were below 4% at end 2004, no adequacy reserves were required. A further fall in interest rates below 3% would require adequacy reserves to be set up to prevent liabilities from becoming inadequately covered.

Delta Lloyd has certain unit-linked contracts which provide a guaranteed minimum return at maturity from 4% pa to 2% pa. Provisions consist of unit values plus an additional reserve for the guarantee. The additional provision for the guarantee was £118 million. An additional provision of £27 million in respect of investment return guarantees on group segregated fund business is held. It is estimated that the provision would increase by £234 million if yields were to reduce by 1% pa and by £49 million if equity markets were to decline by 10% from end 2004 levels.

Ireland

Guaranteed annuity options

Products with similar GAOs to those offered in the UK, have been issued in Ireland. The current net of reinsurance provision for such options is £125 million. This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality and long-term interest rates.

These GAOs are "in the money" at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of reinsurance using derivatives (swaptions). The swaptions effectively guarantee that an interest rate of 5% will be available at the vesting date of these benefits so there is no exposure to a further decrease in interest rates. The current liability is therefore valued at its maximum value.

"No MVR" guarantees
Certain unitised with-profit policies containing "no MVR" guarantees, similar to those in the UK, have been sold in Ireland. The current provision for these guarantees is £102 million which has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value of the guarantees. The value of these guarantees is sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies. An adverse change in market conditions such as a 20% fall in equity values would reduce available free assets by £69 million.

Spain and Italy
Guaranteed investment returns and guaranteed surrender values
The group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy, where traditional profit sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At end 2004, total liabilities for Spanish business were £2 billion with a further reserve of £13 million for guarantees. Total liabilities for Italian business were £4 billion with a further provision of £49 million for guarantees. Liabilities are most sensitive to changes in the level of interest rates; it is estimated that provisions for guarantees would need to increase by £56 million in Spain and £14 million in Italy if interest rates fell by 1% from end 2004 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively assuming a long-term market interest rate of 1.68% and no lapses or premium discontinuances.

Section 4

Risk management policies

The group's approach to risk and capital management
The primary objective of our risk and financial management framework is to protect us from anything that hinders the sustainable achievement of the group's objectives and financial performance, including failing to exploit opportunities. The group recognises the critical importance of having efficient and effective risk management systems in place. To this end, the group has an established governance framework which has three key elements:

- Clear terms of reference for the board, its committees, and the associated executive management committees;
- A clear organisation structure with documented delegated authorities and responsibilities; and
- A group policy framework which sets out risk appetite, risk management, control and business conduct standards for the group's worldwide operations.

During 2004 the policies were reviewed and amended to reflect changing commercial and regulatory requirements. In particular, increased focus by the group on risk appetite and the FSA's new Prudential Sourcebook which requires documentation of risk for each key risk area – market, credit, liquidity, insurance, operational risk as well as impact on overall group reputation, capital management and strategy.

The group has also established an Asset Liability Management Committee which ensures that the underlying governance structures and processes embed a clear understanding as to the level of group financial risk appetite and that the capital of the group is managed in a way that delivers optimised returns within this stated risk appetite.

Integration of risk and capital management
The group has developed an Internal Capital Assessment (ICA) framework for identifying the risks to which each of its business units and the group as a whole are exposed, and quantifying their impact on the volatility of economic capital. The ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. This is carried out by all material parts of the group and combines the results of financial tests with the group's risk reporting model. The financial tests are currently based on stress and scenario analyses although these have been informed by full stochastic risk-based capital (RBC) models where available. Although the ICA is an internal process, from 2005 the FSA will use ICA to inform the target regulatory capital levels it sets for the group and the UK insurance businesses.

Financial review
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Insurance business risk
A large portion of our long-term savings operations consists of products where the majority of investment risks are borne by our policyholders. Risks attributable to policyholders are actively managed to ensure that such risks are prudent and that they satisfy our policyholders' risk and reward objectives. In addition, our worldwide insurance operations are subject to local regulatory requirements in most jurisdictions, which prescribe both the type, quality and concentration of investments and the level of assets to be maintained in local currency in order to meet local insurance liabilities. These requirements help to ensure that our risk levels are maintained at an acceptable level.

Management of financial and non financial risks

Market risk
Market risk is the risk of adverse impact due to changes in fair values of financial instruments, due to fluctuations in foreign currency exchange rates, interest rates, real estate prices and equity prices. Market risk arises within business units due to fluctuations in liabilities arising from products sold and the value of investments held. At group level it arises in relation to the overall portfolio of businesses. The management of market risk is undertaken at two levels: within business units, and at group level. Policies and procedures are in place for each of the major components of market risk, described in more detail below.

Derivatives are used only to a limited extent, based on policy guidelines agreed by the board of directors. Derivatives are used for investment or debt-hedging purposes or to structure specific retail-savings products. Speculative activity is generally prohibited unless approved by the group Derivatives committee. Derivative transactions are fully covered by either cash or corresponding assets and liabilities. Derivative contracts are entered into only with approved counterparties, in accordance with our group policies, thereby reducing the risk of credit loss.

Foreign currency exchange risk
The group operates internationally and is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. The financial results and competitiveness are also affected indirectly by the domestic currencies of our main competitors, principally in sterling and euros. Approximately half of our premium income arises in currencies other than sterling, and our net assets are denominated in a variety of currencies, of which the largest are the euro and sterling. In managing our foreign currency exposures, the group does not hedge revenues as these are substantially retained locally to support the growth of our business and meet local regulatory and market requirements.

The group foreign exchange policy requires that each of our subsidiaries maintain sufficient assets in their local currencies to meet local currency liabilities. Therefore, capital held by our business units should be able to support local insurance activities despite foreign currency movements. However, such movements may impact the value of our consolidated shareholders' equity, which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against predetermined limits. As at 31 December 2004, the group had entered into forward foreign exchange contracts to mitigate the effects of potential adverse foreign currency exchange movements. Net assets by principal currency were 41% in sterling and 47% in euros.

Interest rate risk
Interest rate risk arises primarily from our investments, long-term debt and fixed income securities. Interest rate risk is managed through the use of a variety of derivative instruments, including futures, options and swaps, in order to hedge against unfavourable market movements in interest rates inherent in the underlying assets and liabilities.

As of 31 December 2004, the group had entered into interest rate swap agreements to mitigate the effects of potential adverse interest rate movements.

Equity price risk
The group is subject to equity price risk due to daily changes in the market values of our equity securities portfolio. Equity price risk is actively managed through the use of derivative instruments, including futures and options, in order to mitigate anticipated unfavourable market movements. The group does not have material holdings of unquoted equity securities.

As of 31 December 2004, the group had entered into futures and option agreements to mitigate the effects of potential adverse equity price movements.

Credit risk
Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The group's management of credit risk includes measurement of large individual counterparty exposures where aggregate data is monitored at group level, against centrally set limits reflecting the credit ratings by companies such as Standard & Poor's. The process measures exposure to individual counterparties across a broad range of asset types including fixed income securities, bank deposits and mortgages. In addition, the group evaluates the concentration of exposures by industry sector and geographic region.

Liquidity risk
Robust liquidity management forms an important component of the group's financial management practices. Liquidity risk is the risk that the group does not have sufficient liquid assets to meet its obligations as they fall due.

Each business unit is required to identify sources of liquidity risk, implement systems to measure and monitor liquidity exposures and install controls to manage its liquidity requirements in line with its liquidity profile.

At group level, liquidity is maintained at a prudent level and consistent with the expectations of the FSA and the investment community. The group also ensures there is an adequate liquidity buffer to cover contingencies including the provision of temporary liquidity to business units which experience short-term liquidity shortfalls.

General insurance risk management
Risks are primarily managed within each of the business unit's transacting general insurance. Mechanisms are in place within each business unit to identify, quantify and manage accumulated exposures to ensure that they are contained within the limits of the group risk appetite. Reinsurance is utilised to assist in the management of the catastrophic risk potential and reduce the volatility of earnings. The basis of these arrangements is underpinned by extensive financial modelling and actuarial analysis to optimise the cost and risk management benefits of these arrangements. The reinsurance is placed with providers who meet group counterparty security standards.

There are group policies for underwriting, claims, reinsurance and reserving which operate within the group risk management framework. A group General Insurance Risk Committee has been established to oversee management of this risk.

Life insurance risk
Life insurance risk arises from the non-financial risks in life insurance contracts such as mortality, morbidity and lapses. These risks are managed in several ways; for example by underwriting of the health of potential policyholders, monitoring of the incidence of risk and consequent management of product pricing, claims management and reinsurance of risks exceeding risk appetite.

The process for managing life insurance risk is primarily carried out in our insurance businesses, in accordance with group policy. There is also a group Life Insurance Risk Committee which has an oversight role.

The group has exposure to the full range of life insurance risks. This includes a large exposure to annuity business and the associated longevity risk. Longevity statistics are monitored in detail, and the results are used to inform the reserving for, and pricing of, annuities. Inevitably, there remains uncertainty about future longevity that cannot be removed. This, and other insurance risks, will continue to be monitored.

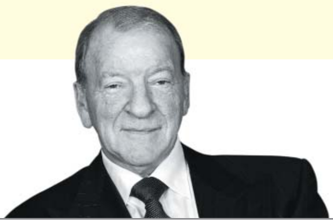
Operational risk
Operational risk arises as a result of inadequate or failed internal processes, people or systems; or from external events. This definition is intended to include all risk exposures that the group is exposed to, other than the financial risks described above, and strategic and group risks that are considered briefly below. Hence operational risks include, for example, IT, information security, project, outsourcing, tax, legal, fraud and compliance risks.

As with other risk categories, line management of business areas have primary responsibility for the effective identification, management, monitoring and reporting of risks to the business unit executive and group, in accordance with group policies. Business unit risk management and governance functions are responsible for implementing the group risk management methodologies and frameworks to assist line management in this work. They also provide support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans. In this way the business unit executive satisfies itself that material risks are being mitigated and managed to an acceptable level.

Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria. Operational risks are reported, as with other risks, on a quarterly basis to group. Risks assessed by business units to be at the two highest impact assessments are escalated to group intra quarter. A holistic view of the group's financial and non financial risks, including operational risks, is monitored by the group risk committee on a quarterly basis.

Conclusion
2004 has been a year of considerable progress in our business development. Our financial performance was strong, our balance sheet strength has been enhanced, we have improved our risk management and governance and we have achieved significant progress in preparing for external reporting changes and demonstrated this through continuous communication with the investment market. We are not complacent and will continue to seek excellence in our financial and risk management.

Board of directors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1. Pehr Gyllenhammar (69) Chairman
Appointed to the board in 1997, becoming chairman in 1998. Currently vice-chairman Europe at Rothschild *(banking)*, chairman of Reuters Founders Share Company Limited, AB Kinnevik *(media)* and Swedish Ships Mortgage Bank *(banking)* and a member of the supervisory board of Lagardère SCA *(media and technology)*. Chairman of the European Financial Services Roundtable and of the Rothschild pension funds. Former executive chairman of AB Volvo *(automotive)*. *Chairman of the nomination committee*.

2. Richard Harvey FIA (54) Group chief executive
Appointed group chief executive in April 2001. Joined Norwich Union in 1992, holding senior positions in New Zealand and the UK before joining the Norwich Union board in 1995 and becoming group chief executive of Norwich Union in 1998. Chairman of the Association of British Insurers. *Member of the nomination committee.*

3. George Paul DL (65) Deputy chairman and senior independent non-executive director
Appointed to the board in May 2000 as deputy chairman. Joined the Norwich Union board as a non-executive director in 1990, becoming chairman in 1994. Currently non-executive chairman of Agricola Group Limited *(agricultural)* and JPMorgan Fleming Overseas Investment Trust plc *(asset management)* and a non-executive director of Notcutts Limited *(horticulture)*. A former chairman and chief executive officer of Harrisons & Crosfield plc *(manufacturing)*. It is the intention that Mr Paul will retire from the board on or before 31 December 2005. *Chairman of the remuneration committee.*

4. Guillermo de la Dehesa (63) Independent non-executive director
Appointed to the board in May 2000. Joined the board of Norwich Union as a non-executive director in 1999. Currently non-executive chairman of Aviva's operations in Spain, non-executive vice-chairman of Goldman Sachs Europe *(banking)* and a director of Campofrio *(consumer)*, Unión Eléctrica Fenosa *(utility)*, Bank Santander Central Hispano *(banking)* and Telepizza *(consumer)*. Chairman for the Centre of Economic Policy Research. Former chief executive and director of Banco Pastor *(banking)*. A former deputy governor of the International Monetary Fund and the World Bank, a former deputy general manager of the Bank of Spain and former Secretary of State of Finance in Spain. *Member of the nomination committee.*

5. Wim Dik (66) Independent non-executive director
Appointed to the board in 1999, having served as chairman of Nuts Ohra, a Dutch insurer acquired by the group in 1999. Currently chairman of the supervisory board of Casema Holding BV *(telecommunications)* and Tele Atlas NV *(information systems)*, a member of the supervisory board of ABN AMRO NV *(banking)*, a non-executive director of Unilever NV and Unilever plc *(consumer)* and of LogicaCMG plc *(computer services)*. Former Minister for Foreign Trade in the Netherlands, a former chairman of Nederlandse Unilever Bedrijven BV *(consumer)* and former chairman and chief executive officer of KPN Royal Dutch Telecom *(telecommunications)*. A former chairman of the supervisory board of Holland Casino *(gaming)* and a former member of the supervisory boards of TNT Post Group *(mail services)* and Vos Logistics *(transport)*. *Member of the nomination and remuneration committees.*

6. Richard Karl Goeltz (62) Independent non-executive director
Appointed to the board in May 2004. Currently non-executive director of the Warnaco Group Inc, Federal Home Loan Mortgage Corporation (Freddie Mac), New Germany Fund *(Investment trust)* and a director of The London School of Economics and Political Science. A former chief financial officer of American Express Company, NatWest Group plc and The Seagram Company Ltd and a former member of the Accounting Standards Board (UK). *Member of the audit and remuneration committees.*

7. Andrew Moss (46) Group finance director
Appointed to the board in May 2004 upon joining the company. Previously director-finance, risk management and operations in Lloyd's *(insurance)* and has held a number of senior management positions in HSBC plc.

8. Carole Piwnica (47) Independent non-executive director
Appointed to the board in May 2003. Currently non-executive vice-chairman-governmental affairs for Tate & Lyle plc *(agriculture/industrial)* and a former chairman of Amylum Group *(agriculture/industrial)*. A member of the New York and Paris bars, practising law in Europe and the United States specialising in mergers and acquisitions, and EU regulatory matters. *Member of the audit committee.*

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9. Philip Scott FIA (51) Executive director
Appointed to the board in May 2000. Joined Norwich Union in 1973, held a number of senior positions and was appointed to the board of Norwich Union in 1993. Currently responsible for the group's continental European and international life assurance and long-term savings business and fund management operations. Former chief executive and executive chairman of Norwich Union Life (Aviva's life assurance and long-term savings business in the UK).

10. Lord Sharman of Redlynch OBE (62)
Independent non-executive director
Appointed to the board in January 2005. Currently chairman of Aegis Group plc *(media services)*, deputy chairman of Group 4 Securicor plc *(security services),* an independent non-executive director of BG Group plc *(utility)* and Reed Elsevier plc *(publisher)* and a member of the supervisory board of ABN AMRO NV *(banking)*. A former independent non-executive director of Young & Co.'s Brewery PLC and AEA Technology plc. Former chairman of KPMG International.

11. Patrick Snowball (54) Executive director
Appointed to the board in March 2001 as chief executive of Norwich Union Insurance (Aviva's general insurance operation in the UK). Currently responsible for the group's worldwide general insurance operations and the provision of shared services across the UK. Previously a director of Norwich Union, appointed in October 1999, having joined that company in 1994.

12. Derek Stevens (66) Independent non-executive director
Appointed to the board in 1995. Currently non-executive chairman of The Airline Group Limited *(transport)*, non-executive director of NATS Holdings Limited *(transport)*, a member of the financial sector committee of the Accounting Standards Board, chairman of The Royal Academy of Arts Pension Scheme board and a trustee of the Rothschild pension funds, a member of the Council of the Institute of Education at the University of London, a member of the fundraising advisory board of VSO *(charity)* and chairman of The Travel Foundation *(charity)*. A former director and chief financial officer of British Airways Plc *(transport)*, a former finance director of TSB Group plc *(banking)* and a former chairman of the trustees of British Airways pension schemes. *Chairman of the audit committee and of Aviva Staff Pension Trustee Limited.*

13. Elizabeth Vallance (59) Independent non-executive director
Appointed to the board in May 2000. Joined the board of Norwich Union as a non-executive director in 1995. Currently Fellow of Queen Mary College University of London, chairman of Council of the Institute of Education University of London, vice-chairman of the Health Foundation, non-executive director of Charter Pan European Trust plc *(asset management)*, member of the Committee on Standards in Public Life, and a director of The Medical Protection Society. A former non-executive director of HMV Group Limited *(music retail)* and former chairman of both the NHS Advisory Committee on Distinction awards and Clinical Excellence awards. It is the intention that Dr Vallance will retire from the board on or before 31 December 2005. *Member of the remuneration committee.*

14. André Villeneuve (60) Independent non-executive director
Appointed to the board in 1996. Non-executive chairman of Euronext Liffe *(financial services),* a non-executive director of United Technologies Corporation *(aerospace)* and a director of the Institut Français de Relations Internationales. A former executive chairman of Instinet Corporation *(securities broker)*, a former executive director of Reuters plc *(media)* and a former chairman of Promethee. *Member of the nomination and remuneration committees.*

15. Russell Walls (61) Independent non-executive director
Appointed to the board in May 2004. Currently a non-executive director of Signet Group plc *(retail)* and the senior independent non-executive director of Stagecoach Group plc *(transport)*. A former group finance director of BAA plc *(transport)*, Wellcome plc *(pharmaceuticals)* and Coats Viyella plc *(textiles)*. Former non-executive director of Hilton Group plc *(leisure)* and the Mersey Docks and Harbour Company. *Member of the audit committee.*

Richard Whitaker LLB, DMS, FCII
Group company secretary

Contents

Directors' report

The directors submit their report and accounts for Aviva plc, together with the consolidated accounts of the Aviva Group of companies, for the year ended 31 December 2004. The directors' corporate governance and remuneration reports are set out on pages 47 and 53.

Review of operations, current position and future prospects
Details of the Group's operations for the accounting period, its current position and future prospects are contained in the Chairman's statement, Group Chief Executive's review, operating review and financial review set out on pages 2 to 41.

Principal activities
Aviva plc is the holding company of the Aviva Group of companies. The principal activities of the Group are life assurance and long-term savings business, asset management and all classes of general insurance through its subsidiaries, associates and branches in the UK, continental Europe and Ireland, North America, Asia and Australia.

Details of material acquisitions and disposals made by the Group during the year are contained on pages 86 to 88.

Going concern
After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Results
The Group results for the year are shown in the Consolidated profit and loss account on pages 67 to 69.

Dividend
The directors are recommending a final dividend of 16.00 pence *(2003: 15.15 pence)* per share which, together with the interim dividend of 9.36 pence *(2003: 9.00 pence)* per share, produces a total dividend for the year of 25.36 pence *(2003: 24.15 pence)* per share. The total cost of dividends for 2004, including preference dividends and direct capital instrument appropriation will amount to £598 million *(2003: £562 million)*, leaving £459 million to be transferred to reserves *(2003: £387 million transferred to reserves)*.

The final dividend for 2004 will be paid on 17 May 2005 to all holders of ordinary shares on the Register of Members at the close of business on 18 March 2005. The Company's Scrip Dividend Scheme will be available to shareholders in respect of the payment of the final dividend. In addition, a local currency payment service will be available to shareholders residing in certain participating countries outside the UK. Further details of these arrangements can be found within the shareholder information on page 148.

Share capital
The ordinary share capital of the Company was increased by 25.1 million ordinary shares during the year as a result of shares issued under the Group's employee share plans and the Aviva Scrip Dividend Scheme. At 31 December 2004 the issued ordinary share capital totalled 2,282 million shares. Details of the share capital and shares under option as at 31 December 2004, and shares issued during the year, are given in note 30 on pages 96 and 97.

At the forthcoming Annual General Meeting shareholders' approval will be sought to increase the Company's authorised share capital from £950 million to £1.45 billion and €700 million by the creation of 500 million new preference shares of £1 each and 700 million new preference shares of €1 each. Under the terms and conditions of the direct capital instruments issued by the Company on 25 November 2004 the Company will have the option to issue these new classes of preference share should certain events occur. Further details are set out in the notice of the Annual General Meeting.

Authority to purchase own shares
At the Annual General Meeting held on 27 April 2004 shareholders renewed the Company's authority to make market purchases of up to 225 million ordinary shares, up to 100 million 8¾% preference shares and up to 100 million 8⅜% preference shares. This authority was not used during the year and at the forthcoming Annual General Meeting shareholders will be asked to renew these authorities for another year. Details are contained in the Notice of Meeting. The Company held no Treasury shares during the year.

Directors
The names of the present members of the Board and their biographical notes appear on pages 42 and 43.

Philip Twyman retired from the Board on 31 March 2004 upon reaching his normal retirement date and Anna Catalano resigned from the close of the Annual General Meeting on 27 April 2004.

On 3 May 2004 Richard Goeltz and Russell Walls were appointed to the Board and on 14 January 2005 Lord Sharman of Redlynch was appointed to the Board – each as an independent non-executive director. Andrew Moss joined the Board on 10 May 2004 as Group Finance Director. As these directors joined the Board after the date of the last Annual General Meeting they will, in accordance with the Company's articles of association, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for election by shareholders. Andrew Moss has a service contract with a Group company, details of which can be found on page 56.

The directors retiring by rotation in accordance with the articles of association at the Annual General Meeting and, being eligible, offering themselves for re-election are Guillermo de la Dehesa, Wim Dik, Derek Stevens and André Villeneuve. None of these directors have a service contract with a Group company.

George Paul and Elizabeth Vallance, independent non-executive directors, were re-elected by shareholders at last year's Annual General Meeting. As they have both served in excess of nine years with the Company, or one of the legacy companies, they will retire and seek re-election again at this year's meeting. However, in line with the Board's plans to renew and refresh its composition, it is the intention that, if re-elected, these directors will retire on or before 31 December 2005.

Directors' interests
Other than a deed of indemnity between each director and the Company and service contracts between the executive directors and a Group company, no director had a material interest at any time during the year in any contract of significance with the Company or any of its subsidiary undertakings.

Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Directors' remuneration report on page 53.

Substantial shareholdings
As at 8 March 2005, the Company's register of substantial shareholdings maintained in accordance with the provisions of Section 211 of the Companies Act 1985 showed that the holdings exceeding the 3% disclosure threshold were those of Barclays Plc which held 98,669,290 ordinary shares, representing an interest of 4.32%, and Legal & General Group Plc which held 84,829,941 ordinary shares, representing an interest of 3.72% of the issued ordinary share capital of the Company.

Group employees
The Group's statement on its employees is set out on pages 20 and 21.

In summary, the Group's commitment to communication and dialogue with employees continues. A strong emphasis is placed on the provision of news through a variety of media, including intranets (both a Group-wide intranet, Arena, and local business unit intranets), Aviva radio, which can be accessed via mobile phone or computer, and poster campaigns. Employees have opportunities to voice their opinions and ask questions through intranet sites and climate surveys. Face to face briefings and team meetings are actively encouraged and are held in all business units across the Group.

Directors' report continued

Corporate Social Responsibility (CSR)
Aviva defines corporate social responsibility (CSR) as embracing corporate performance in respect of standards of business conduct, human rights, the environment and health and safety as well as the promotion of good and fair relations with employees, customers, suppliers and the community. The Group recognises that these issues present it with both opportunities and risks.

Trust and integrity are integral to the wellbeing of a financial services company and therefore the Group sees CSR as presenting a vital business opportunity. The CSR section of the annual report which gives further details of the programme and how the Group is exploring opportunities in this area can be found on pages 22 and 23. Aviva also prepares a separate CSR report each year which includes full details of the Group's CSR programme and the progress achieved during the year. A copy of the printed summary of the CSR report is available from the Group Company Secretary and the full report may be viewed on www.aviva.com/csr.

In terms of managing CSR risks, the Group has an established system of business risk management which is embedded into its business planning and performance monitoring processes. This system includes the management of risks relating to social, environmental and ethical (SEE) matters. Further details of this process are contained within the Audit Committee Report on pages 50 and 51. During the year this process did not identify any purely SEE risks which were considered to be critical to the Group's operations.

The Group reports annually on progress in accordance with the Forge management and reporting guidelines for banks and insurers and duly respects the disclosure guidelines issued by the Association of British Insurers. Governance of the programme is subject to both a regular schedule and continual review. The Board observes plans and progress annually, whilst the annual meeting of Aviva's CSR Review Group brings together representatives from the Aviva head office, the businesses, partner non-governmental organisations and auditors to review the Group's performance. Quarterly reviews are also carried out by a CSR Steering Group, which includes senior management from the principal businesses.

The Group's businesses review their progress and undertake a self assessment of their performance annually. This assessment is subject to an external assurance review which in 2004 was carried out by Ernst & Young LLP.

Employee practice
Aviva Group companies are committed to providing equal opportunities to all employees, irrespective of their sex, sexual orientation, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

Health and Safety
The health and safety of staff is a priority and is reviewed at regular intervals. Each business unit has an appointed health and safety representative, whose role is to bring to the attention of senior management any areas of concern that should be addressed within the health and safety programme.

Information on health and safety matters is communicated to staff through the normal communication channels. Under the Group's Health and Safety Policy the Group Chief Executive is accountable for health and safety.

Standards of Business Conduct
The Group operates a Standards of Business Conduct Policy which provides guidance for every employee, Group-wide, to act with integrity in all business relationships.

Charitable donations
Aviva has continued to support community initiatives and charitable causes worldwide and the total Group commitment during the year was over £4.6 million *(2003: £4.6 million)*, as measured in accordance with Business in the Community's PerCent Standard.

In 2004, the Group's community investment in the UK totalled £3.4 million *(2003: £3.2 million)* of which £1.3 million *(2003: £1.3 million)* was in the form of cash donations to charitable organisations. The Company's policy regarding charitable giving in the UK is to support local charities and community organisations particularly in the areas of the country in which the Group has significant operations. The Company allocates a part of its budget to matching contributions raised by staff and also to providing financial support to charities and communities where members of staff give a personal commitment in terms of their time. In addition, the Company provides a significant level of support to a small number of national charities. During 2004 the Company continued its commitment to Breakthrough Breast Cancer, Cruse Bereavement Care and The Princess Royal Trust for Carers and, in addition, supported the Association of Children's Hospices, which was chosen by staff in the UK as their "charity of the year" and NCH, the children's charity. At the end of 2004 the Group made a substantial donation to the Asian Tsunami appeal.

Political donations
No political donations were made in the UK or elsewhere during the year *(2003: £nil)*. It is the Company's policy not to make donations to political organisations or for political causes, and it has no intention of changing this policy.

At the 2004 Annual General Meeting, shareholders passed a resolution authorising the Board to incur expenditure, up to an aggregate limit of £100,000 per annum for the following four years, on activities which fall under the Political Parties, Elections and Referendums Act (PPER). This piece of legislation introduced a very broad definition of political expenditure, such that some of the activities undertaken throughout the Group's businesses could now fall within that definition. The Board sought shareholders' authority so as to avoid any inadvertent breaches of the PPER. The Board does not believe that the Group has incurred any such political expenditure in the past year.

Creditor payment policy and practice
It is the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

Aviva plc, the holding company of the Group, has no trade creditors. In respect of Group activities in the UK, the amounts due to trade creditors at 31 December 2004 represented approximately 21 days of average daily purchases through the year *(2003: 29 days)*.

Auditor
In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company. A resolution will also be proposed authorising the directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, its effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee Report on pages 50 and 51.

Annual General Meeting
The Annual General Meeting of the Company will be held on 26 April 2005 at The Barbican Centre, Silk Street, London EC2Y 8DS at 11am. A separate document accompanying the Annual Report and Accounts contains the notice convening the Annual General Meeting and a description of the business to be conducted thereat.

By order of the Board

Richard Whitaker
Group Company Secretary
8 March 2005

Corporate governance

Application of the Combined Code
The directors' report on the Company's compliance with the applicable provisions of the Combined Code during 2004 is set out below.

The Financial Services Authority requires listed companies to disclose, in relation to Section 1 of the Combined Code (Combined Code), how they have applied its principles and whether they have complied with its provisions throughout the accounting year.

The Board of Directors
The Board currently comprises the Chairman, 10 independent non-executive directors and four executive directors. Each non-executive director serves for a fixed term not exceeding three years which may be renewed by mutual agreement. Subject to the Board being satisfied as to the director's performance, independence and commitment, there is no specified limit regarding the number of terms a director may serve. The Company's articles of association require that following appointment by the Board, directors submit themselves for election by shareholders at the next Annual General Meeting. The articles also provide that one-third of directors shall retire by rotation each year but are eligible to submit themselves for re-election by shareholders, and that directors shall not serve longer than the third Annual General Meeting following their election without being re-elected by shareholders. Non-executive directors who serve on the Board of the Company for nine years or more submit themselves for re-election annually.

It is the Board's policy to appoint and retain non-executive directors who are able to apply their wider knowledge and experiences to their understanding of the Aviva Group and, through a programme of rotational retirement, to refresh regularly the skills and experiences which it requires. In addition to the strengths of experience, diversity and an international perspective, the Board also seeks to comply with the requirements of the Combined Code relating to the independence of directors.

Against the above background the Board has appointed three new independent non-executive directors. Richard Goeltz and Russell Walls in May 2004 and Lord Sharman of Redlynch in January 2005. The biographical details of these directors are set out on pages 42 and 43. All these directors have had distinguished careers in finance. Richard Goeltz and Russell Walls are both former group finance directors of major companies and Lord Sharman spent his career with KPMG becoming its international chairman. At a time of major accounting changes these new directors with their strong financial skills and international management experience make very strong additions to the Board and Richard Goeltz and Russell Walls have been appointed to the Board's Audit Committee. Another new director is Andrew Moss who was appointed Group Finance Director in May 2004. Andrew Moss joined the Company from Lloyd's of London where he was Director of Finance, Risk Management and Operations. In accordance with the Company's articles of association these new directors will stand for election by shareholders at the forthcoming Annual General Meeting.

The directors retiring in accordance with the Company's articles of association and proposed for re-election at the forthcoming Annual General Meeting are Guillermo de la Dehesa, Wim Dik, Derek Stevens and André Villeneuve. Guillermo de la Dehesa, a Spanish national, and Wim Dik, a Dutch national, have both served as directors for five years. In addition to their considerable management experience they bring a valuable European perspective to the Board's discussions. Derek Stevens, who has now served as a director for nine years, is a member of the financial sector committee of the Accounting Standards Board and is a former Chief Financial Officer of British Airways and of the TSB Group. He therefore is able to contribute recent and relevant financial experience and chairs the Board's Audit Committee. Andre Villeneuve has served as a director for just less than nine years. He has knowledge of the broking and financial markets and wide general management experience in the UK and the United States. In line with its succession plans it is the Board's intention that Derek Stevens and Andre Villeneuve, if re-elected by shareholders at the forthcoming Annual General Meeting, will retire from the Board on or before 31 December 2006.

George Paul and Elizabeth Vallance who have both served as directors for over nine years will also stand for re-election by shareholders at the Annual General Meeting. In line with the Board's succession plans, and as previously disclosed, it is the intention that, if re-elected, they will retire from the Board on or before 31 December 2005.

All the directors being proposed for re-election have been subject to a formal performance evaluation during 2004 including a peer review. Full biographical details of all the directors, including those proposed for election/re-election, are set out on pages 42 and 43.

To satisfy the Board that the non-executive directors are able to exercise an independence of judgement, the Nomination Committee undertakes an annual review of directors' interests in which all potential or perceived conflicts, including time commitments, length of service and other issues relevant to their independence, are considered. Based on the outcome of the December 2004 review, the Board is of the opinion that all of the current non-executive directors are independent of management and free from any relationship or circumstances that could affect, or appear to affect, the exercise of their independent judgement. Notwithstanding that George Paul, Derek Stevens and Elizabeth Vallance have each served on the Board, or the board of a legacy company, for more than nine years the Board does not believe that this fact alone affects their independence.

The principal commitments of all the directors are summarised in the biographical details on pages 42 and 43. Pehr Gyllenhammar was appointed chairman of AB Kinnevik in August 2004 and prior to his appointment the Board was consulted and satisfied itself that the appointment would have no material effect on the time which he would have available to commit to the Company.

The Board is also satisfied that all the directors are able to devote sufficient time to their duties to the Company. The Board had eight scheduled meetings in 2004. The attendance record of the directors at the Board and Board committee meetings which they were entitled to attend during 2004 is set out below.

Board and Board committee attendance 2004

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	8	5	6	5
Percentage of meetings attended*				
Pehr Gyllenhammar	100	–	–	80
Anna Catalano	66	–	50	–
Guillermo de la Dehesa	88	66	–	100
Wim Dik	75	–	66	100
Richard Goeltz	100	100	100	–
Richard Harvey	100	–	–	100
George Paul	100	100	100	–
Carole Piwnica	88	100	–	–
Andrew Moss	100	–	–	–
Philip Scott	100	–	–	–
Derek Stevens	100	100	–	–
Patrick Snowball	100	–	–	–
Elizabeth Vallance	88	–	66	100
André Villeneuve	88	–	66	80
Russell Walls	100	100	–	–

* The table shows the number of meetings attended by each director, expressed as a percentage of the number of meetings held during the year, or during the period since they joined or until they left the Board or Committee.

The Board has appointed George Paul, the Deputy Chairman, to be the Company's senior independent non-executive director.

Corporate governance continued

Board process

The duties of the Board and its committees are set out clearly in formal terms of reference which are reviewed annually by the Board. These terms of reference address a wide range of corporate governance issues and set out those items which are specifically reserved for decision by the Board. These include the approval of the Group's strategy and business plans, acquisitions and disposals and other transactions outside delegated limits, material changes to accounting policies or practices, significant financial decisions, dividend policy, shareholder documentation, the constitution of Board committees and the approval of key business policies including the remuneration policy. Matters which are not specifically reserved to the Board and its committees under the terms of reference, or to shareholders in General Meeting, are delegated to the Group Chief Executive. The document also sets out those matters which must be reported to the Board such as significant litigation or material breaches of compliance and covers how those matters requiring consideration by the Board outside scheduled Board meetings, are dealt with.

The Board's terms of reference set out the procedure whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense if considered appropriate. No director obtained any such independent professional advice during 2004. The document also sets out the separate roles and responsibilities of the Chairman and the Group Chief Executive.

Directors are fully briefed in advance of Board and committee meetings on all matters to be discussed and at Board meetings they receive regular reports on the Group's financial position, risk management, regulatory compliance, key areas of the Group's business operations and other material issues. The Board and its committees operate in line with a work plan agreed prior to the start of each year.

The Group Company Secretary is responsible for advising the Board, through the Chairman, on governance matters and ensuring that Board procedures are followed. All directors have access to his advice and services.

In line with the Board's work plan the Chairman and the non-executive directors met on two occasions in the absence of the executive directors to discuss the Group Chief Executive's performance and executive succession planning.

The Board has established a number of standing committees, including Remuneration, Audit, and Nomination Committees. Each committee operates within defined terms of reference and the minutes of their meetings are circulated to the Board. Details of the work of the respective committees, including their membership and duties, are set out in the reports of the committees on pages 50 to 53.

Performance reviews and directors' development

The Company has for a number of years undertaken annual performance reviews to assess how well the Board, its committees or its directors are performing. Directors complete a questionnaire in which they assess the Board's and Committees' processes and effectiveness and consider areas where such may be improved. In 2004 for the first time the process included a peer group review where the directors assessed their own and their fellow directors' performance against set criteria, including the skills they bring and the contribution they make. This process was complemented with separate meetings between each director and the Chairman. The Board discussed the feedback from the process when it met in September and a number of actions were agreed. The review was conducted by the Chairman with the assistance of the Group Company Secretary.

The performance of the Chairman is also reviewed annually using a similar peer review process. Prior to the Board meeting at which the review is to take place the directors are asked for their views about the Chairman's performance against the key aspects of the role. At the meeting the Chairman leaves whilst a summary of the views expressed by the directors is used as an introduction for discussion. This process is managed by the senior independent non-executive director who completes it by providing feedback to the Chairman.

The Board believes strongly in the development of all its employees, including its directors, and it is a requirement of directors' appointments that they commit to continue their development. The form which this development takes varies depending upon each director's requirements and the quality/relevance of the training available. During the year directors attended a number of external courses and seminars on issues ranging from board effectiveness to pensions simplification. In addition, directors received an internal training session outside of the formal Board meeting regarding life assurance profit reporting. Two such internal training sessions have been built into the Board's work plan for 2005. The Board made two site visits during the year in order to gain a closer understanding of the businesses visited. Richard Goeltz and Russell Walls who joined the Board in May 2004 completed a detailed induction programme which was conducted over a six month period comprising 13 separate sessions including external visits to the Group's main operating businesses and meetings with the external auditor and one of the Company's corporate brokers. Lord Sharman who joined the Board in January 2005 has commenced a similar programme.

Relations with shareholders

The Company places considerable importance on communication with shareholders and engages with them on a wide range of issues. As part of a comprehensive review of senior management remuneration conducted in 2004 the chairman of the Remuneration Committee consulted with institutional shareholder bodies, including the Association of British Insurers and the National Association of Pension Funds, and also with the Company's 20 largest shareholders. The Company's Investor Relations Department is dedicated to facilitating communication with institutional investors and won a number of investor relations awards in 2004. The Group has an ongoing programme of dialogue and meetings between the executive directors and its major institutional shareholders, where a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of the information already known to the market.

The directors consider it is important to understand the views of shareholders and in particular any issues which concern them. At each Board meeting they receive a note of the issues which have been raised with management at the regular meetings held with the large investors. During the year, the Chairman met with a number of major shareholders and the senior independent non-executive director spent two separate days accompanying management at their regular meetings held with major shareholders in order to note any issues of particular relevance to the non-executive directors. Both the Chairman and the senior independent non-executive director subsequently reported to the Board the issues which were raised. Arrangements for major shareholders to meet with the non-executive directors can be made through the Company Secretary.

The Board is equally interested in the concerns of the Company's private shareholders. In March 2004 the Company issued a postage paid reply card with its Annual General Meeting documentation to enable shareholders to put questions to the directors. This was particularly helpful for those shareholders unable to attend the meeting. Each question received a written response either through a brochure containing answers to the most frequently asked questions or, where appropriate, a personal letter. All material information reported to the regulatory news services is simultaneously published on the Group's website affording all shareholders full access to the announcements.

The Company's Annual General Meeting provides a valuable opportunity to communicate with private investors. At the meeting, the Company complies with the Combined Code as it relates to voting, including votes withheld, the separation of resolutions and the attendance of committee chairmen. The Company gave 26 working days' notice of its Annual General Meeting in 2004.

Details of the proxy voting by shareholders are made available on request and are placed on the Company's website. Whenever possible all directors attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and have an opportunity to meet with the directors after the conclusion of the formal part of the meeting.

The Company's Annual report and accounts and Annual review, together with the Company's interim reports, trading statements and other public announcements are designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement, Group Chief Executive's review, operating and financial reviews on pages 2 to 41 provide an assessment of the Group's affairs and will be supported by a presentation to be made at the Annual General Meeting.

Institutional investor

Morley Fund Management Limited, the Group's asset management company believes that good governance contributes to better performance and practices. Therefore, as a major investor, the Group monitors the governance of the companies in which it invests. To this end Morley holds regular meetings with the senior management of companies where it will raise matters which may affect the future performance of those companies.

Morley maintains a detailed Corporate Governance and Voting Policy as part of its investment strategy, which underpins its approach to engaging and voting at company general meetings. The policy also extends to cover social, environmental and ethical issues. Its policy is applied pragmatically, after careful consideration of all relevant information. In addition, Morley makes detailed voting reports available to clients and publishes summary statistics on its website.

Directors' responsibilities

Directors are required to ensure that accounts are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985, and which give a true and fair view of the state of affairs of the Company and the Group as at the end of the accounting period and of the profit or loss for the period. Suitable accounting policies have to be used and applied consistently in preparing accounts, using reasonable and prudent judgements and estimates on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business. Applicable accounting and financial reporting standards also have to be followed, with any material departures being disclosed and explained.

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also ultimately responsible for the systems of internal control maintained by the Group for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities. Further details of the systems of internal controls maintained by the Group are more fully described in the report of the Audit Committee on pages 50 and 51.

Compliance with the Combined Code

It is the Board's view that the Company has complied fully throughout the accounting period with the provisions set down in Section 1 of the Combined Code. The auditors' report on page 63 covers its review of the Company's compliance with the relevant provisions of the Combined Code as applicable to the Company during the year under review.

Audit committee report

This report provides details of the role of the Audit Committee and the work it has undertaken during the year.

The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial announcements, the assessment of the effectiveness of the systems of risk management, internal control and regulatory compliance and to oversee the objectivity and effectiveness of the internal and external auditors. A copy of the Committee's terms of reference is available from the Group Company Secretary and can be viewed on the Company's website.

The Audit Committee
The Audit Committee currently comprises the following independent non-executive directors, appointed by the Board:

Derek Stevens (Chairman)
Richard Goeltz
Carole Piwnica
Russell Walls

Richard Goeltz and Russell Walls were appointed members of the Committee in July 2004 and George Paul and Guillermo de la Dehesa stood down from membership respectively in August and September 2004. The Committee met on five occasions in 2004 and the members' attendance record is set out on page 47. The Group Company secretary acts as the secretary to the Committee.

Derek Stevens, a Chartered Accountant, is a member of the financial sector committee of the Accounting Standards Board and is a former Chief Financial Officer of British Airways plc and the TSB Group plc. Richard Goeltz is a former Chief Financial Officer of American Express Company, NatWest Group plc and The Seagram Company Limited. Russell Walls is a former Group Finance Director of BAA plc, Wellcome plc and Coats Viyella plc. The Board is satisfied that all these directors have recent and relevant financial experience.

The Group Chief Executive, Group Finance Director, Group Audit Director and the external auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate in order to present reports. In undertaking its duties, the Committee has access to the services of the Group Audit Director and the Group Company Secretary and their resources, as well as access to external professional advice.

The Committee undertakes its duties in line with an agreed annual work plan. It reviews, with members of management and the internal and external auditors, the Company's formal financial announcements including the Annual report and accounts to shareholders and associated documentation, with a particular emphasis on their fair representation and the reasonableness of the judgmental factors and appropriateness of significant accounting policies used in their preparation. At each meeting, the Committee receives a report from the Group Audit Director. Twice each year, the Committee receives reports regarding the adequacy of the Group's life assurance and general insurance reserves and on a regular basis it receives reports on risk management, fraud, anti money laundering, legal and corporate governance matters in order to help it assess the effectiveness of the risk management and control frameworks. These reports include material notifications arising under the Group policy on "whistleblowing". The Committee also reviews the annual operating plan for the Group's internal audit function. The Group Compliance Director reports to the Committee regularly on the Group's compliance with appropriate rules and regulations and highlights any significant regulatory developments and compliance issues which have arisen.

The Committee has responsibility for considering any proposed changes in accounting practices and policies. During the year the Committee reviewed the principles underlying the European Embedded Value (EEV) basis of reporting life assurance results. The Committee considered the assumptions and the methodology used and reviewed the restatements of the Company's 2003 and half year 2004 financial statements on the EEV basis. Following a report from the Committee, the Company made a recommendation to the Board to adopt the EEV principles in place of the achieved profit basis for supplementary reporting for the year ended 31 December 2004. The EEV basis is considered to provide a better reflection of the results of the business, a greater level of transparency and, once other companies report on this basis, comparability.

With the implementation of International Financial Reporting Standards (IFRS) for the 2005 financial year the Committee has reviewed the progress of the Group's preparation for reporting under the new standards and the processes that have been embedded throughout the Group. The Committee has also reviewed the impact of adopting IFRS on the opening balance sheet at 1 January 2004 and was satisfied that suitable policies were being applied and were appropriate.

In addition, the Committee has reviewed the Group's capital and risk frameworks to reflect the regulatory reforms incorporated in the Financial Services Authority's Prudential Sourcebook (PSB) and the approach to the Internal Capital Assessment (ICA) methodology assumptions and initial results. The Committee considered the assumptions and methodology used, the process followed and the adequacy of the resources.

Each of the Group's major business units has formally constituted audit committees which provide an oversight role for their business. All such committees include some members who are independent of the relevant business. The Group Audit Director reviews the papers and minutes from these committees and all significant matters are brought to the Committee's attention.

The Committee receives reports from the external auditor and regularly holds discussions with both the internal and external auditors in the absence of Management. In order that the Board is kept fully appraised of the Committee's work, the chairman of the Committee reports at the subsequent meeting of the Board and the Board receives a copy of the minutes of each meeting of the Committee.

External auditor
Ernst & Young LLP was appointed auditor of the Company in 2001 having previously been the auditor of Norwich Union plc. The audit signing partner changed as part of a rotation process in 2002. Ernst & Young LLP audits the whole of the Group other than Delta Lloyd, the Group's subsidiary in the Netherlands (which also has operations in Belgium and Germany) which is audited by PricewaterhouseCoopers LLP (PwC). To fulfil its Group reporting responsibilities Ernst & Young LLP reviews the work of PwC in accordance with standard auditing practices.

The Company has a formal policy aimed at safeguarding and supporting the independence of the auditor by avoiding conflicts of interests. In line with the best practice recommendations contained in the Combined Code, the Committee reviews each quarter, compliance with the policy concerning the use of the external auditor in non-audit work. The policy regulates the appointment of former audit employees into senior finance positions within the Group and sets out the approach to be taken by the Group when using the services of the auditor, distinguishing between those matters where the Company requires an independent view, such as audit and assurance work, from other advisory services. In addition to statutory audits, audit and assurance work includes reviewing statutory returns, actuarial assurance, regulatory advice which requires auditor reporting, due diligence associated with acquisitions and disposals, fraud investigations and control and audit reviews. The auditor cannot be engaged for any other purpose, although the policy recognises that there may be a small number of areas where, for pragmatic reasons, it may be in the Group's interests to use the external auditor for this work. During the year the Committee also reviewed independence issues in relation to PwC which audit Delta Lloyd.

During the year the external auditor was appointed to undertake assurance work in relation to the Group's major finance transformation programme and its preparedness for PSB requirements which came into effect at the beginning of 2005. In addition, the external auditor has audited and reviewed the Group's results on the EEV basis for the year ended 31 December 2003 and for the first half year 2004. The external auditor also continues to provide audit services on the Group's implementation of the new standards on the IFRS basis.

The total fees paid to Ernst & Young LLP in 2004 were £14.9 million of which £4.8 million related to non-audit work reflecting substantial projects referred to above. Further details are provided in note 12 on page 82.

The Committee reviews annually a formal letter provided by the external auditor confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

During the year the Committee instigated an annual review procedure to assess the independence, effectiveness and objectivity of the external auditor through an evaluation of both the audit firm and audit teams. The process was conducted by means of a questionnaire completed by members of senior management and members of the Group's finance community which sought opinions against certain criteria and the perceived importance of such. The questionnaires were collated by the Group Company Secretary. Based on this review the Committee concluded that the audit service of Ernst & Young LLP provided a good examination of the Group's business and the risks involved.

Internal audit

At the beginning of 2004 the Group's internal audit function formed part of a wider Group Business Risk department which had responsibility for the risk management process and a number of other governance issues. However during the year, in line with emerging best practice, the internal audit and risk management functions were separated at the Group level to ensure a sharper focus and to emphasise the independence of the internal audit assurance function. Accordingly the Group Audit Director is now solely responsible for internal audit and financial crime which covers fraud and money laundering investigations. Following this restructuring the Committee has approved several changes aimed at enhancing the utilisation of the internal audit resources across the Group. The Committee is planning a review of the effectiveness of internal audit in 2006.

Internal controls

The Board has the ultimate responsibility for the systems of internal control maintained by the Group and for reviewing their effectiveness. The systems are intended to provide reasonable assurance, but not an absolute guarantee, against material financial misstatement or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The Committee, acting on behalf of the Board, undertakes an annual review of the effectiveness of the internal audit function and the framework for the Group's systems of internal control. During the year the Committee has received regular reports on the status of major finance systems development projects. In the Board's view, the information received was sufficient to enable it to review the effectiveness of the Group's systems of internal controls in accordance with the Guidance on Internal Control (the Turnbull Guidance). The principal features of the control framework are as follows:

Control environment

The Group has an established governance framework. The key features of the control environment within the framework include: the terms of reference for the Board and each of its committees; a clear organisational structure, with documented delegation of authority from the Board to executive management; a Group policy framework, which sets out risk management and control standards for the Group's operations worldwide; and defined procedures for the approval of major transactions and capital allocation. The Group is also preparing for future changes to the regulatory regime impacting on governance. In addition during 2003 and 2004, the Group has adapted its risk and governance frameworks to implement the PSB – the Financial Services Authority's new risk-based framework for integrating and embedding risk and capital management. Further details on financial and capital risk management are given in the financial review on pages 39 to 41.

Risk identification, assessment and management

The Group has an established system of business risk management, which is integrated into the Group's business planning and performance monitoring processes. The Group's risk management and control framework is designed to support the identification, assessment, monitoring and control of risks that are significant to the achievement of the Group's business objectives. There is an established risk management network across the Group, with dedicated risk management teams within Head Office and within each of the businesses in the UK. The overseas businesses also have risk management functions, a number of which are combined with either compliance or internal audit. These teams use a consistent methodology, and are responsible for assessing and reporting the potential impact and probability of the most significant risks identified across the Group and the adequacy of the mitigating action programmes. These impact assessments are based on financial, reputational and operational criteria and take into account social, ethical and environmental risks as well as business risks.

Businesses report residual risk profiles, based on local materiality levels on a regular basis. A consolidated Group risk report is reviewed regularly by a Group Business Risk Committee, under the chairmanship of the Group Finance Director. Each quarter, material items in the Group risk report are reported to the Group's Executive Committee, the Audit Committee and the Board, who consider whether residual risks are within risk appetite and the adequacy of the risk mitigating actions. Local business unit boards, audit committees and management also consider local risk reports in a similar way. These regular reports are supported by escalation procedures for new or deteriorating risks that are classified at the highest impact levels.

In addition, all business unit heads and Group functional heads provide to the Group a formal certificate every six months confirming compliance with the Group's governance and risk management frameworks and the terms of their delegated authority. They are also required to specify any risks or control issues not already reported through the regular risk management processes.

Control procedures and monitoring systems

The Group has a well-developed system of planning and monitoring, which incorporates Board approval of a rolling three-year Group Plan. Performance against the Plan is subsequently monitored and reported to the Board each time it meets. This report also includes reports on risk, audit, compliance, solvency and liquidity. Performance is also reported formally through the publication of Group results, and accounting policies are applied consistently throughout the Group. Operational management report frequently to the executive directors and the Board receives regular representations from management responsible for each principal business operation.

This report was reviewed and approved by the Board on 8 March 2005.

Derek Stevens
Chairman, Audit Committee

Nomination committee report

This report provides details of the role of the Nomination Committee and the work it has undertaken during the year.

The Committee currently comprises the following directors, appointed by the Board:

Pehr Gyllenhammar (Chairman)
Guillermo de la Dehesa
Richard Harvey
Wim Dik
André Villeneuve

Wim Dik was appointed a member of the Committee in April 2004 in place of Elizabeth Vallance. The Committee met on five occasions in 2004 and the members' attendance record is set out on page 47. The Group Company Secretary acts as the secretary to the Committee.

The terms of reference of the Committee require it to deal with the constitution of the Board and to consider the succession of the directors. The Committee reviews the skills, experiences and independence of its directors and, as appropriate, identifies and assesses potential new directors. It also reviews those directors retiring by rotation in accordance with the Company's articles of association with a view to making recommendations to the Board regarding their re-election. A copy of the Committee's terms of reference is available from the Group Company Secretary and can be viewed on the Company's website.

In fulfilling its duties the Committee monitors the skill requirements of the Board and the knowledge, experience, length of service and performance of the directors. It also reviews their external interests with a view to identifying any actual or perceived/potential conflicts of interests, including the time which they are able to commit to their duties to the Company. The Committee also monitors matters relating to the independence of each non-executive director. The results of these reviews are taken into account when the Board considers succession planning and the reappointment of directors. Members of the Committee take no part in any discussions concerning their own circumstances.

In terms of the work undertaken during the year, the Committee identified a number of potential non-executive directors as part of planning for the succession of some of the current non-executive directors who have provided long service to the Board and as a consequence acquired valuable knowledge of the Company and the industry. In particular the Committee was seeking directors with strong financial backgrounds who could help with the work of the Audit Committee and the growing demands being made upon it. Following recommendations from the Committee, which were unanimously approved by the Board, Richard Goeltz and Russell Walls were appointed directors in May 2004 and subsequently joined the Audit Committee, and Lord Sharman of Redlynch was appointed to the Board in January 2005. In each case executive search consultants were used to identify suitable candidates and to assist with the preparation of the interview lists. In terms of succession planning the appointments of the new directors allowed George Paul to stand down as a member of the Audit Committee.

The appointment of four new non-executive directors over the past two years will allow for the planned retirement of George Paul and Elizabeth Vallance at the end of 2005. Derek Stevens and André Villeneuve are also long serving directors and the Committee has been reviewing the necessary skill and knowledge replacement with the intention that these directors will retire on or before 31 December 2006.

The Committee also made a recommendation to the Board that Andrew Moss, who was Director of Finance, Risk Management and Operations at Lloyd's be invited to join the Board as Group Finance Director to succeed Mike Biggs who resigned with effect from December 2003. The Committee's recommendation was approved and Andrew Moss joined the Company in May 2004.

The Company's Chairman, Pehr Gyllenhammar, will attain age 70 in 2005 and therefore during the year the Committee has been giving consideration to the appointment of a successor. George Paul, the senior independent non-executive director joined and chaired the Committee for these particular discussions.

This report was reviewed and approved by the Board on 8 March 2005.

Pehr G Gyllenhammar
Chairman, Nomination Committee

Directors' remuneration report

This report sets out the remuneration policy for the Company's directors and senior executives, outlines the various elements of their remuneration and discloses the amounts of remuneration paid to the directors in 2004. The report also contains details of the remuneration review undertaken during the year and explains the changes to the remuneration packages which are proposed from 2005. Shareholders will be invited to approve this report at the Annual General Meeting to be held on 26 April 2005.

The Remuneration Committee

The Remuneration Committee comprises the following independent non-executive directors appointed by the Board:

George Paul (Chairman)
Wim Dik
Richard Goeltz
Elizabeth Vallance
André Villeneuve

All members of the Committee served throughout the year other than Richard Goeltz who was appointed to the Committee in May 2004. The Committee met on six occasions in 2004 and the members' attendance record is set out on page 47. The Group Company Secretary acts as the secretary to the Committee.

The Group Chief Executive is normally invited to attend the meetings of the Committee, except when his own remuneration is being discussed, as is the Group Human Resources Director.

The Committee considers all aspects of the Company's policy governing the remuneration paid to the the Group's senior executive population (which comprises the executive directors and the most senior members of management, totalling approximately 40 executives) and makes recommendations to the Board on the remuneration policy, strategy and framework for this group of employees. The remuneration policy is reviewed by the Committee on a regular basis to ensure that it remains appropriate within the market and for the achievement of its objectives. Within the scope of the policy, the Committee determines the level of remuneration paid to each of the executive directors. The Committee also reviews and sets the fee payable to the Chairman as well as exercises, on behalf of the Board, discretion in relation to the operation of the Group's various share schemes and incentive plans. A copy of the Committee's terms of reference is available from the Group Company Secretary and can be viewed on the Company's website.

Mike Pemberton, the Group Human Resources Director, has provided material assistance to the Committee during the year advising on market trends, practices and appropriate levels of remuneration. Deloitte & Touche, which has provided actuarial and accounting services to the Group during the year, advised the Committee on the calculation of total shareholder return for the purposes of the long-term incentive plans. In addition, the Committee has taken into account the views of Pehr Gyllenhammar, Chairman, and Richard Harvey, Group Chief Executive, when assessing the performance of the executive directors. PricewaterhouseCoopers (PwC) advised the Committee on the implications of the international accounting standards on the accounting treatment of the share plans. PwC is the auditor of Delta Lloyd, the Group's subsidiary company in the Netherlands and also advised the Company on a wide range of non-audit accounting issues during the year.

In respect of the remuneration review detailed on page 56, the Company was supported by KPMG LLP which provided other material services to the Group during the year. New Bridge Street Consultants were appointed by the Committee to provide an independent opinion on the recommendations arising from the review. New Bridge Street Consultants have provided no other services to the Group during the year.

Remuneration policy

Executive directors

The Company's remuneration policy seeks to provide remuneration packages appropriate for each particular market in which the Company operates which will attract and retain high calibre employees and encourage and reward superior performance in a manner consistent with the interests of shareholders. The policy seeks to ensure that senior executives are rewarded fairly for their individual and collective contributions to the Company's performance and is designed to provide an appropriate balance between the delivery of the annual business plan and the long-term profitable growth of the Company.

Against this broad policy, the Committee sets the content of the senior executives' total remuneration package by reference to a variety of factors, including market practices for companies of similar size, type and standing. It also considers the current economic and prevailing operating conditions within both the Group and the financial services industry generally as well as the skills and management capabilities which the Group must secure in order to attain its strategic objectives and notes the level of remuneration required to secure these skills.

The Board's philosophy is that the senior executives' own interests should be aligned with those of the Company's shareholders. It therefore believes that, whilst paying a competitive basic salary, a substantial proportion of the targeted total remuneration package should be closely linked to the performance of the business and delivered in the form of shares.

No changes were made to the remuneration policy and packages during the year other than for those executives who were members of the Aviva Staff Pension Scheme on a non-contributory basis. A requirement to contribute was introduced from 1 April 2004 at a level of 2.5% pa of gross pensionable salaries. This will rise to 5% pa from April 2005.

Chairman and non-executive directors

It is the Company's policy to set the fees paid to its Chairman and non-executive director's at the median level for international companies of similar size and complexity. Non-executive directors receive a basic annual fee in respect of their Board and Board committee duties, with a further fee being paid to those directors (other than the Chairman and Deputy Chairman) who have the additional responsibility of chairing meetings of Board committees. Fees are reviewed regularly and are set by the Board to attract individuals with the broad range of skills and experience appropriate for a major international company. In determining the level of fees paid to the non-executive directors the Board considers a recommendation from the executive directors who take into account their duties and responsibilities, the time commitment required in preparing for and attending meetings, and the amounts paid by competitors and similar-sized companies. Other than the Chairman who receives a car allowance, the Chairman and non-executive directors receive no benefits in addition to their fees nor do they participate in any incentive or performance plans.

The basic fee payable to each non-executive director during the year was £42,000 pa with an additional £25,000 pa paid to the chairman of the Audit Committee. The fee paid to the Chairman is £300,000 pa and the fee paid to the Deputy Chairman (which includes acting as the chairman of the Remuneration Committee and as the senior independent non-executive director) is £160,000 pa. No changes were made to these fees during the year.

The Company's articles of association provide that the total aggregate remuneration paid to directors shall be determined by the Board within the limits set by shareholders. In recognition of the growing accountabilities and time commitments required of non-executive directors of major companies, the market level of fees has increased over recent years. To be able to continue to pay competitive fees and

Directors’ remuneration report continued

attract high calibre directors a proposal will be put to shareholders at the forthcoming Annual General Meeting that the limit on the aggregate remuneration which can be paid to directors be increased from £1 million pa to £1.5 million pa. Executive directors receive no remuneration for serving as directors.

Remuneration package
The remuneration package for the Group’s senior executives which applied during the year is set out below and it is proposed that a number of changes be made to the packages for 2005. These changes and the reason for proposing them are described on page 56 under the heading Remuneration Review.

During the year the remuneration package comprised the following elements:

- A basic salary;
- An annual bonus plan – to encourage executives to meet annual targets relating to business, and personal, performance;
- A deferred bonus plan – linked to the annual bonus plan to encourage executives to take all of their bonus in the form of shares and to retain them for a period of three years;
- A long-term incentive plan – to align executives’ longer term interests with those of shareholders;
- A defined benefit pension entitlement;
- Other benefits comprising a car allowance and private medical insurance.

The balance between these elements is set such that, for directors achieving “Target” performance, basic salary represents approximately 40% of the potential total remuneration package, with the annual bonus/deferred bonus plan representing 35% and the long-term incentive plan 25%. At “Stretch” performance, basic pay represents approximately 28% of the potential total remuneration package, with the annual bonus/deferred bonus plan representing 36% and the long-term incentive plan also representing about 36%. “Stretch” performance broadly represents the achievement of aggregate business results at 115% or more of the business plan targets set for the year.

Basic salaries
In determining the level of basic salaries, the Committee gathers data from a number of independent sources concerning the level of salaries paid to senior executives performing comparable functions within the 50 largest listed companies in the UK, with an additional focus on leading UK and European financial services companies. In addition to market data the Committee also takes into account the executive’s performance as well as the level of salaries, and salary increases, for employees generally. The Company’s policy is to set basic salaries for competent performance at the median level with further progression based on performance. Salaries are reviewed annually.

Cash bonuses
Senior executives participate in a discretionary annual bonus plan that provides for the payment of cash bonuses. For executive directors the bonus for “Target” performance is 35% of basic salary and for achieving “Stretch” performance a payment of up to 50% could be made. Of the potential payment, 70% is dependent upon financial targets and the remaining 30% is based upon the director’s attainment of personal objectives including measures of customer service and employee satisfaction. Once the Group’s business plan has been approved by the Board, the Committee meets to ensure that the targets set under the annual bonus plan against the various key performance indicators are consistent with the business plan, and also to determine what levels of performance would constitute “Target” and “Stretch” performance for the various key performance indicators.

The performance targets comprise numerous relevant measures, including Group and business unit operating profits, combined operating ratios, new business contribution, and the actual performance against these is aggregated to determine the bonus levels paid. The targets vary between participants depending upon their particular responsibilities and spheres of influence.

A fundamental part of the annual bonus plan is the requirement that a stated proportion of any cash bonus awarded under the plan be taken in the form of shares through the Deferred Bonus Plan. Executive directors were required to defer 50%, and could elect to defer up to 100%, of any cash bonuses to be awarded to them under the annual cash bonus plan. In respect of bonuses deferred, participants were granted an award of shares of equal value to the amount of cash bonus deferred and this was matched on a “one for one” basis with a further award of shares. The shares granted under the plan vest automatically after three years. In addition, at vesting, participants received shares to represent the notional dividends paid on the award shares during the deferral period.

If a participant leaves service during the vesting period for reasons of ill-health, retirement or redundancy, the matching shares are released in full at the end of the vesting period. In other cases, the matching shares normally lapse.

The Committee considered the suggestion of certain institutional investors that the vesting of matching awards should be subject to the attainment of performance conditions. The award of matching shares can only be made in relation to bonuses actually earned, (ie the performance conditions attaching to the annual bonus plan must have been met). The plan makes it compulsory for participants to defer 50% of their bonus into shares and encourages participants to invest the whole of their bonus into shares, thereby strengthening further the alignment of their interests with those of shareholders. The Committee believed that the imposition of additional performance conditions would be detrimental to achieving such extended shareholdings. As a result of benchmarking the Company’s remuneration package, the Committee was aware that the maximum amount which a participant could earn under the Company’s annual cash bonus plan, and hence defer, (being 50% of basic salary), was at the bottom decile of the market range. Taking the above into account, the Committee was satisfied that the absence of performance conditions was reasonable. However, the continuation of this practice was given particular consideration in the remuneration review and it is proposed to amend the Plan as described in the remuneration review below.

Long-term incentives
The Aviva Long-Term Incentive Plan is a discretionary share plan. It is the Committee’s policy to make an annual award of shares to executive directors with a value equal to 100% of their basic salary as at 31 December of the previous year.

All awards are made subject to the achievement of stretching performance conditions which contain two elements. The first element compares the Total Shareholder Return (TSR) produced by the Company over a three-year performance period with the TSR of companies in a chosen comparator group (70% of award). The second element of the performance condition measures the Return on Capital Employed (ROCE) within the Company over the performance period against a target return (30% of award). The Committee believes that this combination is an appropriate way of incentivising executives since it takes into account both the comparative returns to shareholders and the Company’s underlying performance.

The achievement of median TSR performance within the comparator group triggers the vesting of 20% of the shares, which rises to 70% if the Company’s performance is in the upper decile of the comparator group. The comparator group for the TSR part of the plan comprises 19 European financial services companies, namely – Abbey (prior to

15 November 2004), AEGON, Allianz, AXA, Barclays, CNP Assurances, Ergo, Fortis, HBOS, HSBC, ING, Legal & General, Lloyds TSB, Prudential, Royal Bank of Scotland, Royal & Sun Alliance, Skandia, Swiss Life and Zurich. The awards vest after three years, but only to the extent that the performance conditions are satisfied.

The other 30% of the award vests if the Company achieves a given return in excess of inflation on the ROCE over the performance period. Awards under this performance condition will begin to vest if the cumulative ROCE over the performance period is 24% in excess of the rate of inflation, with the full 30% vesting if the ROCE is 30%, or higher.

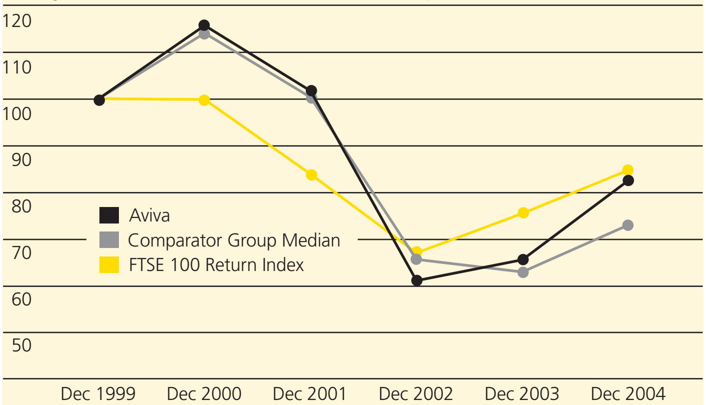
If the performance targets have not been met at all at the end of the performance period they will be retested at the end of five years, the ROCE performance condition being adjusted accordingly, (ie the cumulative ROCE would need to be at least 40% in excess of the rate of inflation over the extended performance period for any awards under that part of the plan to vest). The Committee is conscious that certain institutions are not in favour of performance conditions being retested. From a benchmarking exercise the Committee noted that the Company's performance conditions ie upper decile TSR and ROCE exceeding 30% in excess of inflation over the performance period are very demanding compared with such plans generally. The Committee believes that it is important to strike a balance between setting challenging performance conditions and retaining the motivational incentive which is the fundamental purpose of the Plan. No retesting takes place if any part of the performance condition has been met at the end of the three-year performance period. However, the practice of retesting was given particular consideration in the remuneration review and it is proposed that the Plan be amended as described in the remuneration review below.

Whether or not the performance conditions have been met is determined by the Committee. The rules of the Plan require the Committee to request an independent consultant to determine the relevant TSR positions. In respect of the ROCE calculation, the Committee requests that the Group's auditor expresses a formal opinion on the basis of the calculation used.

Performance graph

The following graph compares the TSR performance of the Company over the past five years with the TSR of the FTSE100 Return Index which has been chosen because it is a recognised broad equity market index of which the Company is a member. The graph also includes the median TSR of the companies in the comparator group which is included as this is the group with which performance is measured for the purposes of the Aviva Long-Term Incentive Plan.

Five year total shareholder return comparison



Dilution

The Company monitors the awards of shares made under the various all-employee and discretionary share plans which it operates in relation to their effect on dilution limits. The relevant percentages in respect of the rolling 5 and 10 years' tests established by the Association of British Insurers were 1.2% and 2.8% respectively based on the issued share capital at 31 December 2004.

Between March 1998 and March 2003 it was the Company's practice to buy shares in the market at the time of grant, through employee trusts in order to meet its liability for shares awarded under the incentive plans. Details of the shares held in the employee trusts are set out in note 30(d) on page 97. At 31 December 2004 there were 5,894,264 shares held in the trusts which, in the Committee's opinion, remain adequate to cover the number of shares considered likely to vest in relation to awards granted in the said period. Since March 2003 it has been the Company's practice to meet its obligations in respect of shares awarded under the all-employee share plans and incentive plans through the issue of new shares at the time the awards vest.

Major changes to accounting policies and practices including the change to international accounting standards in 2005 and the adoption of European Embedded Value principles referred to elsewhere in these Report and Accounts will impact a number of the key performance targets and performance measures used in connection with the annual bonus plan and long-term incentive plans. During the transition period, the Committee will satisfy itself that the evaluation of actual performance against the performance conditions set makes appropriate allowance for the changes to the accounting basis.

Pension arrangements

The remuneration package for senior executives in the UK includes Company contributions into the Aviva Staff Pension Scheme (the Scheme). All executive directors are members of the defined benefit section of the Scheme.

Under the Scheme, executive directors have a normal retirement age of 60 and accrue pensions at a rate of either one thirtieth (Richard Harvey, Philip Scott and Patrick Snowball) or one forty-fifth (Andrew Moss) of their final pensionable salary for each year of service since they became a senior executive, subject to a maximum pension of two-thirds of their final pensionable salary. No pension benefits are accrued on bonuses or other benefits. The Scheme provides a lump sum death-in-service benefit of four times the member's basic salary at the date of death and a spouses' pension equal to two-thirds of a member's actual or prospective pension. Post-retirement, pensions are reviewed annually and increases are guaranteed at a rate equivalent to the annual increase in the Retail Prices Index up to a maximum of 10% pa.

Prior to 1 April 2004 membership of the Scheme for the majority of members of the defined benefit section was on a non-contributory basis. However from that date, all members of the Scheme, including the executive directors, who were not already contributing were required to pay 2.5% pa of their total gross pensionable salary to the Scheme. The level of contribution will increase to 5% pa from 1 April 2005. The benefits paid from the Scheme are subject to Inland Revenue limits. There is in place an unfunded pension top-up arrangement to ensure that senior executives receive the benefits promised by the Scheme notwithstanding an Inland Revenue limit relating to their level of earnings which, in some cases, caps the amount of pension that can be paid from a tax-approved scheme. Where this limit applies the benefits which cannot be paid from the Scheme are provided from the unfunded arrangement. Richard Harvey and Andrew Moss are affected by this limit and therefore will, at retirement, receive some of their pension benefits from the unfunded arrangement.

Other benefits

In addition to the benefits described above, senior executives are entitled to the benefit of a company car allowance and private medical insurance.

Directors' remuneration report continued

The Company operates a number of Inland Revenue approved all-employee share plans in the UK. Senior executives are entitled to participate in these plans on the same basis as other eligible employees. These include the Free Share element of the Aviva All-Employee Share Ownership Plan (AESOP). Under this plan, eligible employees can receive up to a maximum of £3,000 pa in the form of shares from the profits of the Company, free of tax, subject to a retention period. The Partnership element of the AESOP allows participants to invest up to £125 per month out of their gross salary in the Company's shares.

The Aviva Savings Related Share Option Scheme allows eligible employees to acquire options over the Company's shares at a discount of up to 20% to their market value at the date of grant. In order to exercise these options, participants must have saved the consideration through either a three, five or seven year approved savings contract, subject to a maximum savings limit of £250 per month.

Service contracts

Service contracts agreed with each executive director incorporate their terms and conditions of employment.

Executive directors have rolling service contracts which can be terminated by the Company giving 12 months' notice and by the director giving six months' notice. In respect of the early termination of a service contract by the Company, other than on the grounds of dismissal for cause, the Company would, depending upon the circumstances, either seek to make a payment in respect of damages, less an amount for appropriate mitigation, or would invoke a provision in the contract allowing it to be terminated by the Company making a payment of one year's basic salary in lieu of notice. For senior executives who joined the Company after November 2003 the Company introduced service contracts which meet recommended corporate governance practice, including a specific requirement for employees to mitigate their losses and the phasing of termination payments over the notice period. Andrew Moss joined the Company after that date and therefore his service contract contains these provisions.

Under the Company's discretionary redundancy arrangements, which apply to UK based employees, an executive director may, depending on his length of service, receive an ex-gratia payment of up to one year's basic salary should he leave employment on the grounds of redundancy. In any event the maximum severance payment receivable by an executive director on termination of his contract is two times his basic salary. No special arrangements would apply should there be a change in the control of the Company.

It is the Company's practice to notify the market of the terms offered to executive directors upon their appointment.

Directors' service contracts

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Richard Harvey	1 June 2000	Rolling 1 year	1 year	None
Andrew Moss	10 May 2004	Rolling 1 year	1 year	None
Philip Scott	1 June 2000	Rolling 1 year	1 year	None
Patrick Snowball	1 June 2000	Rolling 1 year	1 year	None
Philip Twyman*	1 June 2000	Rolling 1 year	1 year	None

* Mr Twyman retired from service and from the Board on 31 March 2004 upon reaching his normal retirement date.

Non-executive appointments

The non-executive directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Such appointments are generally for three years and may be renewed by mutual consent. These appointments can be terminated at any time by either party, without the payment of compensation, upon giving one month's written notice.

The dates of the appointments/reappointments for the current directors are as follows.

	Date of last appointment	Date appointment terminates**
Pehr Gyllenhammar	31 May 2004	AGM 2006
Guillermo de la Dehesa	30 May 2003	30 May 2006
Wim Dik	7 Dec 2002	7 Dec 2005
Richard Goeltz	3 May 2004	3 May 2007
George Paul*	30 May 2003	30 May 2006
Carole Piwnica	8 May 2003	8 May 2006
Lord Sharman of Redlynch	14 January 2005	14 January 2008
Derek Stevens	31 May 2004	31 May 2005
Elizabeth Vallance*	30 May 2003	30 May 2006
André Villeneuve	31 May 2004	31 May 2005
Russell Walls	3 May 2004	3 May 2007

* It is the Board's intention that George Paul and Elizabeth Vallance will retire from the Board on or before 31 December 2005.

**The Company may terminate these appointments at any time without the payment of compensation.

Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal hours of business.

Remuneration review

Process

The current remuneration policy and packages were adopted in 2000 upon the merger of CGU and Norwich Union and the share-based incentive plans were approved by shareholders at the Company's 2001 Annual General Meeting.

During the year the Committee undertook a comprehensive review of the remuneration policy and packages described above with the purpose of ensuring that they continue to attract, motivate and retain high calibre employees by encouraging and rewarding superior performance fairly in a manner which is aligned with shareholders' interests. The Committee has been advised by Management with the support of KPMG LLP and the Committee sought its own independent review of the proposals from New Bridge Street Consultants.

The review process involved:

- Challenging the Company's remuneration philosophy, policy and practices to ensure that the remuneration framework continued to support the overall business strategy and was aligned with shareholders' interests and the Company's culture and values;
- Analysing competitive market practice and assessing the Company's position relative to corporate governance best practices;
- Seeking views on the Company's remuneration objectives from senior executives (at various levels within the Company) and non-executive directors in their respective capacities as senior business leaders managing teams, individuals who would be affected by any changes and as the stewards of the Company;
- Developing a revised remuneration package, which aligns the issues arising from the above with the interests of shareholders;

- Seeking an independent opinion on the proposals;
- Discussing the proposals with institutional investor bodies including the Association of British Insurers, the National Association of Pension Funds/Research Recommendations and Electronic Voting Limited and Pensions Investment Research Consultants Limited; and
- Consulting with the Company's 20 largest shareholders and reassessing, challenging and amending the proposals in the light of the views expressed at the various stages throughout this process.

Shareholders will have an opportunity to approve the proposals through the submission of this Remuneration Report and the resolutions concerning the adoption of new share-based incentive plans at the Company's forthcoming Annual General Meeting. If approved the new remuneration structure will become effective for the 2005 financial year.

Following the remuneration review, the Committee concluded that some aspects of the current remuneration policy were no longer in line with corporate governance good practice, most notably the lack of performance conditions relating to the matching shares awarded under the Deferred Bonus Plan and the retesting of the performance conditions under the Long-Term Incentive Plan. The review also concluded that although Aviva is the largest insurer in the UK and the fifth largest in the world the competitiveness of the total remuneration package was found to be significantly behind that of other leading financial services, and FTSE50, companies of a similar size and complexity, principally due to the modest incentive potential of the current package. The Committee concluded that any further upside potential should be linked to the achievement of stretching performance targets in order to encourage superior performance.

Proposed changes

Based on the review the Committee decided that major structural changes to its current policy and package were not necessary as they were largely operating as intended. However, it is proposed to make a number of refinements in line with investor guidelines and to realign the balance between fixed and variable pay and make a more focussed and selective use of key performance targets in order to assess performance.

Basic salary

There are no proposed changes to the Company's policy on basic salary levels nor indeed to any element of "fixed" remuneration. These will continue to be set around the median level against pay data for companies in the FTSE50. Basic salaries will generally be reviewed annually and when approving any increases the Committee will continue to take into account the performance of the individual and the Company, relevant market data and practice for comparable jobs and the pay rises proposed for the majority of employees. Salary progression will remain dependent upon personal performance, with progress above the general level of increases requiring superior performance. It is not anticipated that there will be any changes in basic salary levels of the executive directors as a result of introducing the new reward structure.

Annual and deferred bonuses

As stated above executive directors currently have a target annual bonus opportunity of 35% of their basic salary subject to a maximum of 50%. Under the current arrangement 50% of any bonus awarded must be deferred into Aviva shares and executives are encouraged to voluntarily defer all or part of the balance. Any bonus deferred is matched on a "one for one" basis (giving effective bonus levels of 70% at "Target" (on plan) and 100% at "Stretch" (outperformance). At present the deferred and matched shares vest provided the executive director is still in employment with the Company after three years.

The proposed changes bring the Plan into line with investor guidelines and enhance the linkage between performance and reward through a more selective focus on key performance targets whilst providing the opportunity for higher bonus at more stretching levels of outperformance.

The key performance targets will be more selective and focused for the measurement of "Target" performance and "Stretch". "Stretch" performance will be measured against those key performance targets which influence share price performance, and will equate to 120% (currently 115%) of "Target" level on those measures where such quantification is appropriate. The minimum level of bonus will be paid when performance reaches 90% of "Target". Key performance targets will include financial, customer and employee measures.

Given current market practice the bonus potential for directors will be 75% of salary at "Target" and 150% of salary at "Stretch" performance. As historically the majority of directors have elected to defer their bonuses, the bonus at "Target" performance effectively increases by 5%. The higher potential at "Stretch" performance will require, as stated above, a higher level of outperformance against the Group's business plan.

One-third of the bonus will be paid in cash when the bonus is awarded and two-thirds will be automatically deferred into Aviva shares, which will vest after three years, provided that the director is still in service with the Company. If voluntary resignation occurs prior to the end of the year in which the shares are granted all would be forfeited. If resignation takes effect in the following year 50% of the shares would be forfeited, with 25% being forfeited if resignation takes effect in the third year. All the shares would be forfeited if a director was dismissed for cause during the vesting period. There will be no matching shares.

In future the remuneration report will comment on performance against the key performance targets in the prior year and the resultant bonuses awarded.

Long-term incentive plan

In considering the long-term incentive plan the Committee was mindful of the need for the levels of award to be competitive and motivating, and also of the intention to require directors to build up and retain a personal shareholding in the Company.

Currently, directors are eligible to receive an award of shares under the Company's long-term incentive plan equivalent to 100% of their base salary at the preceding year end.

The Committee identified a need to position the directors' long-term incentive awards at a more competitive and motivational level, hence it proposes to increase the typical award to 175% of salary for the Group Chief Executive and to 150% of salary for the other executive directors. Vesting of the awards will continue to be measured on both a comparative basis ie TSR relative to a comparator group (50% of the award) and an absolute basis being the ROCE (50% of the award). The comparator group to be used for the TSR measure will remain the major financial institutions in Europe but with a closer match to those companies which are competitors in that they trade with similar products in the same geographic markets. As a result the new comparator group will comprise, Aegon, Allianz, AXA, Fortis, Friends Provident, Generali, HBOS, ING, Legal & General, Lloyds TSB, Prudential, Royal Bank of Scotland, Royal & Sun Alliance and Zurich, making a total of 14 companies. Vesting of the awards under the TSR measure will be subject to an underpin to ensure that the financial performance of the Company over the performance period has been sufficiently robust to warrant such vesting.

Vesting against the TSR performance measures will be on the following basis:

Position of Aviva in the comparator group	Percentage of shares in the award that will vest
Below Median	0%
Median	15%
Median to Upper Quintile	15% – 50% (straight-line)
Upper Quintile	50%

Directors' remuneration report continued

The targets for the ROCE element of the performance condition will be set in the context of the Group's three-year business plan, the trading conditions and shareholder expectations at the time of each award. ROCE targets will be fully disclosed in the Directors' remuneration report for the year. Details of the three-year ROCE targets for the 2005 award will be disclosed in the Remuneration Report 2006. At threshold performance 15% of the award will vest moving to 50% of the award at higher levels of performance. Awards granted under the long-term incentive plan which do not vest at the end of the performance period will lapse – there will be no retesting.

Further details of the new Annual Bonus Plan and Long-Term Incentive Plan are set out in the Notice for the Annual General Meeting.

Total remuneration

The effect of the proposed refinements outlined above would be that at target performance executive directors' total potential remuneration would be positioned at broadly median compared with the Companys' comparators with cognisance being given to size and complexity of the Company.

Service contracts

New contracts in line with current corporate governance best practice were introduced for all new senior executives from November 2003. The main difference between the new contracts and the subsisting contracts is that the former provide for mitigation and the phasing of payments for compensation upon leaving service. The Committee has decided to introduce the new contract to all its senior executives as part of the introduction of the revised remuneration package.

Share ownership requirements

At present there are no formal share ownership requirements relating to the executive directors. As part of the revised remuneration package the Group Chief Executive and the executive directors will be required to build a shareholding equivalent to 1.75 times annual salary and 1.5 times annual salary respectively, over a five-year period.

Executive pensions

As a consequence of the major changes to pension scheme regulations from 1 April 2006 known as "pensions simplification" including the introduction of a "lifetime allowance", the Committee is reviewing the provision of pensions for its senior executives in order to provide more flexibility around their personal circumstances. However, the overall cost to the Company of any alternative pension arrangements will not exceed the costs of providing pensions under the current arrangements.

Executive Share Option Plan

In order to maintain maximum flexibility regarding its reward structure the Company is taking the opportunity to renew its current executive share option plan. However, under its proposed remuneration arrangements as outlined above, it has no present intention to include grants of options under this plan as part of its remuneration structure. In any event no senior executive would receive an award under the Long-Term Incentive Plan and the Executive Share Option Plan in respect of the same financial year.

Adoption of new accounting standards, dilution and "expected value"

The Committee has calculated the effect that the adoption of international accounting standards will have on the Group's profit and loss charges for the executive share plans and has estimated that they will reduce the current profit and loss charge by approximately £1 million. It is not envisaged that there will be any issues with dilution as a result of introducing the proposed reward structure. The "expected value" of the proposed remuneration packages has been calculated by KPMG LLP.

Directors' remuneration in 2004

This section of the report (which has been subject to audit) sets out the remuneration paid to the directors during the year to 31 December 2004.

The remuneration payable in respect of 2004 to directors who held office for any part of the financial year, including amounts paid to them as directors of subsidiary undertakings, was as follows:

	Basic salary/fees		Bonuses		Benefits		Total	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Chairman								
Pehr Gyllenhammar	**300**	288	**–**	–	**20**	21	**320**	309
Executive directors								
Richard Harvey	**752**	718	**355**	312	**96**	67	**1,203**	1,097
Andrew Moss*	**283**	–	**200**	–	**10**	–	**493**	–
Philip Scott	**491**	459	**223**	183	**35**	43	**749**	685
Patrick Snowball	**456**	420	**218**	212	**21**	21	**695**	653
Philip Twyman**	**117**	466	**52**	192	**13**	53	**182**	711
Non-executive directors								
Anna Catalano**	**14**	27	**–**	–	**–**	–	**14**	27
Guillermo de la Dehesa	**67**	64	**–**	–	**–**	–	**67**	64
Wim Dik	**42**	40	**–**	–	**–**	–	**42**	40
Richard Goeltz*	**28**	–	**–**	–	**–**	–	**28**	–
George Paul	**160**	160	**–**	–	**–**	–	**160**	160
Carole Piwnica	**42**	27	**–**	–	**–**	–	**42**	27
Derek Stevens	**77**	70	**–**	–	**–**	–	**77**	70
Elizabeth Vallance	**42**	40	**–**	–	**–**	–	**42**	40
André Villeneuve	**42**	40	**–**	–	**–**	–	**42**	40
Russell Walls*	**28**	–	**–**	–	**–**	–	**28**	–
Total emoluments of directors	**2,941**	2,819	**1,048**	899	**195**	205	**4,184**	3,923

* From date of appointment: Richard Goeltz and Russell Walls – 3 May 2004 and Andrew Moss – 10 May 2004.

**To date of ceasing to be a director: Philip Twyman – 31 March 2004 and Anna Catalano – 27 April 2004.

Notes

1. "Bonuses" include amounts earned in respect of 2004 performance under the Annual Bonus Plan (including amounts deferred under the Aviva Deferred Bonus Plan), and where appropriate, the value of shares granted under the free share part of the Aviva All-Employee Share Ownership Plan.

   In calculating the level of bonus under the Annual Bonus Plan 70% is based on key financial targets and 30% is based on personal targets. The constitution of the financial targets varies between directors. For example, in respect of the Group Chief Executive and the Group Finance Director the financial targets are those relating to the Group, whereas for the other executive directors bonuses are based partly on the Group's performance and partly on financial targets relating to the business units for which the directors have responsibility. Key performance targets are measured in order to determine the financial bonuses for all the executive directors. The 2004 key financial targets for the Group included new business contribution, operating profit, combined operating ratio (COR), total expenses and the return on capital. Overall performance against these key performance targets in 2004 was better than the targets set. In addition to the financial targets the directors were set individual personal targets.

2. "Benefits". All the executive directors received the benefit of private medical insurance and, along with the Chairman, a car allowance. The above disclosure also includes, in respect of Richard Harvey and Philip Twyman, charges relating to the cost incurred by the Company of insuring the life assurance and spouses' benefits for these directors which, had they died during the year, could not have been paid by the pension scheme as a result of the "earnings cap" and which would therefore have been met by the Company.

3. Non-executive directors. The benefit disclosed for Pehr Gyllenhammar refers to a car allowance. The fee for George Paul reflects his duties as deputy chairman, chairman of the Remuneration Committee and acting as the senior independent non-executive director. The fee for Derek Stevens includes an additional amount for serving as the chairman of the Board's Audit Committee and of the trustee of the Aviva Staff Pension Scheme. The fee for Guillermo de la Dehesa includes an amount for serving as the non-executive chairman of the Group's operations in Spain. No non-executive director accrued retirement benefits during the year.

4. No compensation payment for loss of office was made to any director, or former director, during the year.

5. For the purposes of the disclosure required by Schedule 6 to the Companies Act 1985 the total aggregate emoluments of the directors in respect of 2004 was £4.2 million *(2003: £5.1 million).*

6. Payments to former directors. During the year cash bonuses were paid to Tony Wyand and Mike Biggs of £190,835 and £187,978 respectively under the Annual Bonus Plan in respect of their performance in 2003. Tony Wyand agreed to serve as a consultant following his retirement from service and joined the Boards of the Group's operations in Spain, Italy and France. Under this arrangement a fee of £126,000 was paid to Mr Wyand in 2004.

   During the year shares granted to certain former executive directors under the Company's incentive plans vested. Details of these awards were fully disclosed in the year of grant.

7. No executive director served on the Board of an external company in a personal capacity during the year for which he was remunerated.

Pension benefits

During the year, each of the executive directors accumulated pension benefits under the defined benefits section of the Aviva Staff Pension Scheme, the Group's pension scheme for its UK employees.

	Age at 31 December 2004	Pension accumulated 2004 £'000	Increase in pension 2004 £'000	Increase in pension 2004 (net of inflation) £'000	Transfer value of previous column at 31 December 2004 £'000	Transfer value of pension 2004 £'000	Transfer value of pension 2003 £'000	Increase of transfer value 2004 £'000
Richard Harvey	**54**	**501**	**49**	**35**	**479**	**6,900**	5,613	**1,287**
Andrew Moss	**46**	**6**	**6**	**6**	**53**	**53**	–	**53**
Philip Scott	**50**	**312**	**40**	**32**	**378**	**3,715**	2,624	**1,091**
Patrick Snowball	**54**	**191**	**33**	**28**	**396**	**2,702**	1,979	**723**
Philip Twyman	**60**	**120**	**5**	**4**	**84**	**2,322**	2,306	**16**

Disclosed for each director is the "Pension accumulated 2004", being the amount of pension to which the directors would have been entitled had they left service at 31 December 2004. The "Increase in pension" columns relate to the difference between the accumulated pensions at the end of 2003 and 2004 on both gross, and net, of inflation basis. Also disclosed is the transfer value of the accumulated pensions at 31 December 2003 and 2004. The "increase of transfer value 2004" is the difference between these values. The transfer values disclosed represent an obligation on the pension fund (where funded) or the Company (where unfunded) – they are not sums paid, or due, to the director.

No former directors received any increase in retirement benefits in excess of the amount to which they were entitled on the later of the date when the benefits first became payable or 31 March 1997.

Directors' remuneration report continued

Incentive plans

Details of the directors who held executive office for any part of the financial year, and hold or held options to subscribe for ordinary shares of the Company or hold or held awards over shares in the Company, pursuant to the Company's share-based incentive plans, are set out below.

(a) Share options

	At 1 January 2004 Number	Options granted during year Number	Options exercised during year Number	Options lapsing during year Number	At 31 December 2004 Number	Exercise price p	Exercise period
Richard Harvey							
– Savings related options							
2002	4,426	–	–	–	**4,426**	401.0	Dec 2009 – May 2010
Philip Scott							
– Savings related options							
2002	4,096	–	–	–	**4,096**	401.0	Dec 2007 – May 2008
Patrick Snowball							
– Savings related options							
2003	2,272	–	–	–	**2,272**	406.0	Dec 2006 – May 2007
Philip Twyman							
– Executive options							
1996	39,714	–	39,714	–	**–**	553.9	Aug 1999 – Sep 2004
1997	36,637	–	–	–	**36,637***	766.4	Aug 2000 – Sep 2004
1998	36,107	–	–	–	**36,107***	853.0	Dec 2001 – Mar 2005
1999	36,866	–	–	–	**36,866***	919.0	Aug 2002 – Mar 2005
2000	4,583	–	–	–	**4,583***	960.0	Sep 2003 – Mar 2005
– Savings related options							
2002	2,356	–	–	–	**2,356***	401.0	April 2004 – Sept 2004
– Bonus Plan options							
1999	3,824	–	–	–	**3,824***	966.5	July 2002 – Mar 2005
2000	4,259	–	–	–	**4,259***	875.0	Mar 2003 – Mar 2005

* At date of ceasing to be a director – 31 March 2004.

Current plans

"Savings related options" are options granted under the Inland Revenue-approved Save As You Earn (SAYE) share option scheme. Options are normally exercisable during the six months period following the end of the relevant (three, five or seven year) savings contract.

Closed plans

"Executive options" are those granted to former CGU directors under the CGNU Executive Share Option Scheme, or predecessor schemes. Options are normally exercisable between the third and tenth anniversaries of their date of grant. No options have been granted to executive directors under the executive share option scheme since 2000. Options granted after 1997 are only exercisable if certain performance conditions have been met. For any options to become exercisable under the TSR condition the Company's TSR, when compared with the TSR of a comparator group of European financial services companies (see page 54), would need to at least match median performance when 20% of the options become exercisable. At upper decile performance 70% of the options would become exercisable. Between median and upper quartile the number of options becoming exercisable is determined on a straight-line basis. For any options to vest under the ROCE condition, the Company's ROCE would have to exceed 24% above RPI over the three-year performance period when 24% of the options would become exercisable, rising to 30% if the ROCE exceeded 30% over the same period. At the end of the performance period relating to the options granted in 2000, the Company was ranked 12th out of the 20 companies in the comparator group and the ROCE was 24.3%. Accordingly none of the options became exercisable based on the TSR part of the Plan but 11% of the options became exercisable under the ROCE condition. The options which vested are exercisable at 960p per share.

"Bonus Plan options" are the options granted in 1999 and 2000 under the CGU Deferred Bonus Plan. Participants who deferred their annual cash bonus and instead received an award of shares also received a matching award over an equivalent number of options. These options, which are not subject to performance conditions, are normally exercisable between the third and tenth anniversary of their grant.

The mid-market price of an ordinary share in the Company on 31 December 2004 was 628.0 pence, and the mid-market prices during the year ranged from 484.5 pence to 631.5 pence.

Exercise of options

On 25 February 2004 Philip Twyman exercised the executive options which were granted to him in 1996, making a gain of £8,367.

(b) Share awards

Details of the performance conditions relating to these awards are set out in the notes below:

	At 1 January 2004* Number	Awards granted during year Number	Awards vesting during year Number	Awards lapsing during year Number	At 31 December 2004 Number	Market price at date awards granted p	Market price at date awards vested p	Vesting date
Richard Harvey								
Aviva Long-Term Incentive Plan								
– 2000	107,988	–	–	–	**107,988**	960.0	–	March 2005
– 2001	69,270	–	15,031	54,239	**–**	949.5	552.5	May 2004
– 2002	86,814	–	–	–	**86,814**	739.0	–	March 2005
– 2003	175,000		–	–	**175,000**	379.5	–	March 2006
– 2004	–	139,059	–	–	**139,059**	527.5	–	March 2007
Aviva Deferred Bonus Plan								
– 2001	50,530	–	50,530	–	**–**	949.5	552.5	May 2004
– 2002	72,924	–	–	–	**72,924**	739.0	–	March 2005
– 2003	127,750		–	–	**127,750**	379.5	–	March 2006
– 2004	–	118,478	–	–	**118,478**	527.5	–	March 2007
Andrew Moss**								
Aviva Share Plan	103,846	–	67,307	–	**36,539**	520.0	550.5	Dec 2005 & Dec 2006
Aviva Long-Term Incentive Plan								
– 2004	–	83,650	–	–	**83,650**	535.0	–	March 2007
Philip Scott								
Aviva Long-Term Incentive Plan								
– 2000	34,453	–	–	–	**34,453**	960.0	–	March 2005
– 2001	38,541	–	8,363	30,178	**–**	949.5	552.5	May 2004
– 2002	54,177	–	–	–	**54,177**	739.0	–	March 2005
– 2003	111,250		–	–	**111,250**	379.5	–	March 2006
– 2004	–	88,867	–	–	**88,867**	527.5	–	March 2007
Aviva Deferred Bonus Plan								
– 2001	35,458	–	35,458	–	**–**	949.5	552.5	May 2004
– 2002	44,424	–	–	–	**44,424**	739.0	–	March 2005
– 2003	80,100		–	–	**80,100**	379.5	–	March 2006
– 2004	–	68,960	–	–	**68,960**	527.5	–	March 2007
Patrick Snowball								
Aviva Long-Term Incentive Plan								
– 2000	24,682	–	–	–	**24,682**	960.0	–	March 2005
– 2001	36,458	–	7,911	28,547	**–**	949.5	552.5	May 2004
– 2002	45,691	–	–	–	**45,691**	739.0	–	March 2005
– 2003	96,250	–	–	–	**96,250**	379.5	–	March 2006
– 2004	–	84,452	–	–	**84,452**	527.5	–	March 2007
Aviva Deferred Bonus Plan								
– 2001	16,888	–	16,888	–	**–**	949.5	552.5	May 2004
– 2002	36,552	–	–	–	**36,552**	739.0	–	March 2005
– 2003	35,612		–	–	**35,612**	379.5	–	March 2006
– 2004	–	70,802	–	–	**70,802**	527.5	–	March 2007
Philip Twyman								
Aviva Long-Term Incentive Plan								
– 2001	41,666	–	–	–	**41,666****	949.5	–	May 2004
– 2002	57,441	–	–	–	**57,441****	739.0	–	March 2005
– 2003	113,750	–	–	–	**113,750****	379.5	–	March 2006
Aviva Deferred Bonus Plan								
– 2001	21,666	–	–	–	**21,666****	949.5	–	May 2004
– 2002	34,464	–	–	–	**34,464****	739.0	–	March 2005
– 2003	87,586		–	–	**87,586****	379.5	–	March 2006
– 2004	–	72,734	–	–	**72,734**†	527.5	–	March 2007

* At 1 January 2004 or date of appointment, if later.

**Andrew Moss – as at 10 May 2004, the date of his appointment; Philip Twyman – as at 31 March 2004, the date of ceasing to be a director.

† Due to the proximity of Philip Twyman's retirement age to the date of the 2004 grant he was not eligible under the rules of the Aviva Deferred Bonus Plan to participate in respect of the deferral of his bonus for 2003. An award over phantom options was granted in March 2004 specifically to facilitate a commitment made to him by the Company. As a consequence, on 26 March 2004, Philip Twyman deferred the whole of his 2003 bonus and received 36,367 shadow units which the Company matched with a further grant of 36,367 shadow units. Upon vesting in March 2007 a cash award will be paid based on the market value of 72,734 shares at that time.

Directors' remuneration report
continued

The *Aviva Long-Term Incentive Plan* was approved by shareholders at the 2001 Annual General Meeting and awards are made on an annual basis. Awards are subject to the attainment of performance conditions over a three-year performance period as described on page 54. The three-year performance condition relating to the awards granted in May 2001 fell due for testing during the year. For any awards to vest under the TSR condition the Company's TSR, when compared with the TSR of a comparator group of European financial services companies (see page 54), would need to at least match median performance when 20% of the awards become exercisable. At upper decile performance 70% of the awards would vest. Between median and upper quartile the number of awards vesting is determined on a straight-line basis. For any awards to vest under the ROCE condition, the Company's ROCE would have to exceed 24% in excess of RPI over the three-year performance period when 24% of the awards would vest, rising to 30% if the ROCE exceeded 30% over the same period. At the end of the performance period relating to the awards granted in 2001, the Company was ranked twelfth out of the 20 companies in the comparator group and the ROCE was 27.5%. Accordingly none of the awards vested based on the TSR part of the Plan but 21.7% of the awards vested under the ROCE condition. The 78.3% of the awards which did not vest lapsed.

The *Aviva Deferred Bonus Plan* was approved by shareholders at the 2001 Annual General Meeting. The awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under the Company's Annual Bonus Plan in 2004, and also the matching awards granted on a "one for one" basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

The *Aviva Share Plan* was established in May 2004 specifically to facilitate the recruitment of Andrew Moss. The awards made under the Plan compensate Andrew Moss for the value of long-term incentive awards granted to him by his previous employer and which lapsed when he resigned to join Aviva. Andrew Moss is the only participant in the Plan. On 10 May 2004, the date Andrew Moss joined the Company, 103,846 shares (with a market value of £540,000) which were in the Aviva Employee Trust were allocated to him. On 31 October 2004 67,307 of the shares vested, 23,077 will vest on 31 December 2005 and the balance of 13,462 will vest on 31 December 2006. The vesting of these shares is not subject to any performance conditions.

Directors' interests in Aviva shares

The interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in the Company is shown below. All the disclosed interests are beneficial. The table also summarises the interests in shares held through the Company's various all-employee and executive share schemes. Details of the options and long-term incentive awards are shown on pages 60 and 61 and as described above.

	Shares[1]		Deferred Bonus Plan Awards[2]		Long-Term Incentive Awards[3]		Options[4]		Aviva Share Plan[5]	
	1 January 2004	31 December 2004	1 January 2004	31 December 2004	1 January 2004	31 December 2004	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Guillermo de la Dehesa	144	**144**	–	**–**	–	**–**	–	**–**	–	**–**
Wim Dik	200	**200**	–	**–**	–	**–**	–	**–**	–	**–**
Richard Goeltz*	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**
Pehr Gyllenhammar	27,056	**28,378**	–	**–**	–	**–**	–	**–**	–	**–**
Richard Harvey	23,151	**24,036**	251,204	**319,152**	439,072	**508,861**	4,426	**4,426**	–	**–**
Andrew Moss*	–	**39,632**	–	**–**	–	**83,650**	–	**–**	103,846	**36,539**
George Paul	30,693	**30,816**	–	**–**	–	**–**	–	**–**	–	**–**
Carole Piwnica	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**
Philip Scott	73,274	**107,519**	159,982	**193,484**	238,421	**288,747**	4,096	**4,096**	–	**–**
Patrick Snowball	4,719	**5,542**	89,052	**142,966**	203,081	**251,075**	2,272	**2,272**	–	**–**
Derek Stevens	2,005	**2,005**	–	**–**	–	**–**	–	**–**	–	**–**
Elizabeth Vallance	830	**830**	–	**–**	–	**–**	–	**–**	–	**–**
André Villeneuve	640	**640**	–	**–**	–	**–**	–	**–**	–	**–**
Russell Walls*	–	**1,500**	–	**–**	–	**–**	–	**–**	–	**–**

* At appointment – Richard Goeltz and Russell Walls 3 May 2004; Andrew Moss 10 May 2004.

Notes

1. "Shares" are the directors' beneficial holdings in the ordinary shares of the Company and include shares purchased by them under the partnership element of the Company's All Employee Share Ownership Plan (AESOP) and shares granted under the free share element of the AESOP, which are currently held in trust.
2. "Deferred Bonus Plan Awards" relates to an entitlement to shares arising through the Aviva Deferred Bonus Plan. Half of the number of the shares disclosed relate to shares which have been granted as a result of the directors deferring some, or all, of their annual cash bonuses and therefore represent a director's investment in the Company. The remaining 50% are shares granted on a "one for one" matching basis. Upon vesting the participants receive additional shares representing the dividends paid on the shares during the deferral period.
3. "Long Term Incentive Awards" are awards granted under the Aviva Long-Term Incentive Plan which only vest if the performance conditions are achieved.
4. "Options" are options over shares granted under the Save As You Earn share scheme.
5. "Aviva Share Plan" relates to shares held under the Plan referred to above in which only Andrew Moss participates.

The following changes to directors' interests during the period 1 January 2005 to 8 March 2005 have been reported to the Company. They relate to shares acquired each month under the partnership element of the AESOP:

	Number of shares
Richard Harvey	40
Philip Scott	40
Patrick Snowball	40

Lord Sharman of Redlynch was appointed to the Board on 14 January 2005. At the time of his appointment, and at 8 March 2005, he had no interest in any shares of the Company.

This report was reviewed and approved by the Board on 8 March 2005.

George Paul
Chairman, Remuneration Committee

Independent auditors' report to the members of Aviva plc

Independent auditors' report to the members of Aviva plc
We have audited the Group's accounts for the year ended 31 December 2004 which comprise the Accounting policies, the Consolidated profit and loss account, Pro forma reconciliation of Group operating profit to profit on ordinary activities before tax, Consolidated statement of total recognised gains and losses, Reconciliation of movements in consolidated shareholders' funds, Consolidated Group balance sheet, Consolidated cash flow statement, Company balance sheet and the related notes 1 to 51. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report, including the accounts which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of directors' responsibilities on page 49 in relation to the accounts.

Our responsibility is to audit the accounts and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Highlights of the year, Chairman's statement, Business overview, Group Chief Executive's review, Operating review, Employees, Corporate social responsibility, Financial review, Directors' report, Corporate governance statement, Audit committee report, Nomination committee report and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom 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 accounts and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts and the part of the Directors' remuneration report to be audited are 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 information in the accounts and the part of the Directors' remuneration report to be audited.

Equalisation provision
Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 2004 and the effect of the movement in the provision during the year on the general business technical result and profit on ordinary activities before tax, are disclosed in accounting policy U and note 40 to the accounts

Opinion
In our opinion:

- The accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- The accounts and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor

London

8 March 2005

Accounting policies

A – Basis of accounts
The consolidated accounts have been prepared in accordance with the special provisions relating to insurance companies of section 255A of, and Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP") issued in November 2003. The accounting policies adopted reflect UK financial reporting standards and statements of standard accounting practice applicable at 31 December 2004, as considered appropriate for an insurance company. The accounts of the Company have been prepared in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985.

In December 2004, the UK Accounting Standards Board issued FRS27 "Life Assurance", which requires certain disclosures to be made in relation to with-profit funds, capital and guarantees and options. Preparation of accounts in accordance with the standard is mandatory for accounting periods ending on or after 23 December 2005, and the Group will make these disclosures in its 2005 financial statements, produced under International Financial Reporting Standards. In accordance with the Memorandum of Understanding signed by Aviva in relation to this standard's application to insurers' 2004 Report and Accounts, the required disclosures are made in the Financial review on pages 24 to 41.

The profit and loss account for the year reflects all income, expenditure, and investment gains and losses, except certain items which are taken directly to reserves after tax. The items taken directly to reserves include exchange gains and losses on the net investment in foreign enterprises (except for certain items dealt with in the fund for future appropriations). The general business technical result is determined on an annual basis.

B – Premiums
Long-term business premiums are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is debited to premiums.

General business premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are computed principally on either the daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

C – Claims
Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of a bonus declaration.

General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

General business outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date. Provisions for certain claims are discounted using rates having regard to the returns generated by the assets supporting the liabilities. Any estimate represents a determination within a range of possible outcomes. Further details of estimating techniques are given in note 39a.

D – Deferred acquisition costs
Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of margins in revenues from the related policies. General business deferred acquisition costs are amortised over the period in which the related premiums are earned.

E – Unexpired risks
Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions.

F – Reinsurance
The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business. As the volume of reinsurance assumed is not material to the Group, no separate disclosure of this business has been made in the relevant notes to these accounts. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the profit and loss account immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated profit and loss account and balance sheet as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the balance sheet and are included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

G – Investment income and unrealised investment gains or losses
Investment income consists of dividends, interest and rents receivable for the year, together with realised investment gains and losses. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis. Realised investment gains and losses represent the difference between the net sales proceeds and the cost of acquisition. Unrealised investment gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year.

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates a longer term return on investments supporting its non-long-term business and shareholders' funds in its long-term business. As permitted by the ABI SORP, total investment income, including realised and unrealised gains, is therefore analysed between that calculated using a longer term return and short-term fluctuations from this. Further details of this analysis and the assumptions used are given in note 6b.

Long-term business investment income and unrealised gains and losses are included in the long-term business technical account and, where applicable, a transfer is made to the non-technical account to ensure that the return remaining in the long-term technical account attributable to shareholders reflects the longer term investment return.

Non-long-term business investment income and unrealised gains and losses are taken to the non-technical account. The longer term return on the investments owned by general business operations is then transferred from the non-technical account to the general business technical account. Profits and losses arising on investment transactions with the long-term funds are included in realised investment gains.

H – Long-term business result and fund valuations
Transfers from the long-term business technical account to the non-technical account in respect of shareholders' profits are determined as a result of annual actuarial valuations, which are based on local practice, subject to transfers to or from the fund for future appropriations.

I – Pension costs and other post-retirement benefits
The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of qualified actuaries.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the profit and loss account in the year to which they relate and are included in staff costs. In some countries, the pension schemes have invested in the Group's life funds.

Some Group companies provide post-retirement healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. None of these schemes is material to the Group and contributions are charged to the profit and loss account in the year to which they relate.

In November 2000, the Accounting Standards Board issued Financial Reporting Standard (FRS) 17 "Retirement Benefits", the accounting provisions of which are not required to be adopted by the Group until 2005. However, the FRS requires certain disclosures to be made in the notes to the accounts, as shown in note 45e.

J – Tax
The shareholder tax charge in the non-technical account is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves as appropriate. In the long-term business technical account, the charge is based on the method of assessing tax for long-term funds applicable in the relevant country of operation.

The balance on the long-term business technical account is computed net of the total tax attributable to that business. In order to present the profit on long-term business operations on a pre-tax basis, this net figure is grossed up at the long-term effective rate of tax borne by shareholders in respect of the underlying business. This shareholder tax add-back is included in the tax charge on the profit on ordinary activities in the non-technical account.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and pattern of expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities.

No provision is made for tax that might arise if profits retained by overseas subsidiaries and associated undertakings were remitted to the UK, unless a binding agreement exists for the relevant undertaking to distribute those earnings in future.

K – Goodwill
Goodwill arising on the acquisition of subsidiary undertakings is carried on the balance sheet as a separate intangible asset. Goodwill arising on the acquisition of associated undertakings is included within their carrying value. All goodwill is amortised on a straight-line basis over its useful economic life, and its carrying value is reviewed regularly for indications of impairment. On subsequent disposal of the underlying investment, any goodwill not yet amortised will be taken to the profit and loss account when calculating the profit or loss on disposal.

Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill previously written off to reserves will be taken back through the profit and loss account when calculating the profit or loss on any disposal of the underlying investment.

L – Investments
Investments are stated at their current values at the end of the year, with the exception of certain non-linked long-term business debt securities and fixed income securities which are shown at amortised cost, as this basis more closely corresponds with the valuation of the relevant long-term liabilities. Current values, for this purpose, are: stock exchange mid-market values for listed securities; average trading prices for unlisted securities where a market exists; and directors' valuations for other unlisted securities, and for mortgages and loans.

All properties are valued annually by qualified external valuers or members of staff, at market value. No depreciation is provided on properties held for own use since such depreciation is immaterial. No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view of the Group's financial position or results for the financial year.

M – Derivative instruments
The Group uses derivative instruments, including forward foreign exchange contracts, interest rate swaps, futures and options for hedging purposes. Derivative instruments are accounted for as follows:

- Forward foreign exchange contracts. The interest rate differential is included in investment income, while the effect of the currency movements on these contracts is treated as an exchange difference;
- Cross-currency swaps related to the Group's borrowings. These are translated at the year end rates and included as part of borrowings;
- Interest rate swaps. The interest payable and receivable is included within investment expenses or investment income as appropriate;
- Futures contracts and purchased options. These are included at market value and shown under the category of investments to which the contracts relate. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

Accounting policies
continued

N – Consolidation of subsidiary undertakings
The results of all material subsidiary undertakings are consolidated using audited accounts prepared to 31 December. Subsidiary undertakings acquired during the year are consolidated from the date of acquisition. In the Company balance sheet, subsidiary undertakings are stated at current value which, for this purpose, is embedded value for life operations and net asset value for other entities.

O – Participating interests, associated undertakings and joint ventures
Participating interests are investments in which the Group has a long-term equity holding of over 20% and not more than 50%. Where the interests are beneficial and significant influence is exercised, such interests are classified as associated undertakings. The Group has also invested in a number of joint ventures, where its share of the underlying assets and liabilities may be greater than 50% but where the terms of the relevant agreements make it clear that control is not exercised. The appropriate proportion of the profit or loss on ordinary activities before tax of joint ventures and associated undertakings is shown separately in the non-technical account, except where these investments are held by the long-term businesses, in which case the profit is included within investment income in the long-term business technical account. The appropriate proportion of the shareholders' funds of joint ventures and associated undertakings is included in the consolidated balance sheet, with gross equity method disclosures for the former as required by FRS9 "Associates and joint ventures".

P – Additional value of in-force long-term business
The additional value of in-force long-term business arising on acquisitions is recognised in the Group's balance sheet and is amortised through the profit and loss account over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of acquired additional in-force long-term business is reviewed annually for any impairment in value and any reductions are charged to the long-term business technical account.

The full embedded value of the long-term business and further details of the methodology and assumptions are included as supplementary information on pages 128 to 146.

Q – Long-term business provision and technical provision for linked liabilities
The long-term business provision is calculated separately for each life operation, based on local regulatory requirements and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. Further details of the methodology and the principal assumptions used are given in note 38.

Within the long-term business provision, explicit allowance is made for vested bonuses, including those added following the current valuation. The allowance for future bonuses depends on the methodology and is explained in note 38. The provisions held for linked business and unitised with-profits business are the unit liabilities together with certain non-unit provisions.

R – Tangible assets
Computer equipment, motor vehicles and other tangible assets are capitalised at cost and depreciation is charged to the profit and loss account, within expenses on a straight-line basis, over their estimated useful lives of between three and five years. All tangible assets are tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are included within the cumulative depreciation amounts disclosed.

S – Subordinated debt and debenture loans
Subordinated debt and borrowings issued at a discount are included in the balance sheets at their proceeds, net of issue costs and discount on issue to the extent not yet amortised at the balance sheet date. The difference between net proceeds and redemption value is charged to loan interest in the profit and loss account over the period of the borrowings, using the effective yield method.

T – Fund for future appropriations
In certain participating long-term business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held in the fund for future appropriations. Transfers between this fund and the long-term business technical account represent changes in the unallocated amounts between balance sheet dates.

U – Equalisation provision
Provision is made in the Group accounts for the equalisation provisions established, where required, in the accounts of individual insurance companies in the UK and in a limited number of countries overseas. The provision is required by law even though no actual liability exists at the balance sheet date.

V – Exchange rates
The results of foreign enterprises are translated into sterling at average exchange rates while their assets and liabilities are translated at year end rates. The resulting exchange differences arising within long-term businesses are included within the long-term business technical account and form part of the transfer to the fund for future appropriations, while those arising within other businesses are taken directly to reserves.

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions. Foreign currency assets and liabilities held at the year end are translated at year end rates of exchange. The resulting exchange gains or losses are included in the profit and loss account.

W – Share-based compensation
The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (SAYE plan), details of which are given in the Directors' remuneration report on pages 53 to 62. Compensation costs for non-SAYE plans are based on the market price of the shares at the time of grant, less any amounts paid or payable by employees in respect of the awards. These costs are charged to the profit and loss account over the periods during which the share awards or options are earned. Shares purchased by the employee share trusts to fund these awards are shown as a deduction from shareholders' funds at their original cost.

Until June 2003, for the SAYE plan, shares were issued to a qualifying share ownership trust, with the excess of the market price subscribed at the date of transfer by the trust over the nominal value being recorded in the Company's share premium account. The difference between the market price at the date of transfer to the trust and exercise price payable by employees was charged to the Company's profit and loss account or, in the consolidated Group accounts, directly to the profit and loss account reserve. After June 2003, shares are allotted directly to the employee to satisfy the obligations arising. In accordance with Urgent Issues Task Force Abstract 17 revised 2003 "Employee Share Schemes", the Company has taken advantage of the exemptions contained therein in respect of such schemes and no charge is made to the profit and loss account for the discount to market value at which the options are granted.

X – Leases
Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

There are no material finance leases affecting the Group as either lessor or lessee.

Consolidated profit and loss account

Technical account – long-term business
For the year ended 31 December 2004

2004 €m		2004 £m	2003 £m
30,196	Gross premiums written (5a)	**20,533**	19,373
(933)	Outward reinsurance premiums (F)	**(634)**	(595)
29,263	**Written and earned premiums, net of reinsurance** (B & 5a)	**19,899**	18,778
13,801	**Investment income** (G & 6a)	**9,385**	7,502
7,521	**Unrealised gains on investments** (G & 6a)	**5,114**	7,069
	Claims paid		
(22,057)	Gross amount	**(14,999)**	(13,204)
578	Reinsurers' share	**393**	524
(21,479)		**(14,606)**	(12,680)
	Change in the provision for claims		
(274)	Gross amount	**(186)**	(46)
7	Reinsurers' share	**5**	(2)
(267)		**(181)**	(48)
(21,746)	**Claims incurred, net of reinsurance** (C)	**(14,787)**	(12,728)
	Change in long-term business provision (Q)		
(9,934)	Gross amount	**(6,755)**	(3,608)
658	Reinsurers' share	**447**	364
(9,276)		**(6,308)**	(3,244)
(12,231)	Change in technical provision for linked business, net of reinsurance (Q)	**(8,317)**	(8,866)
(21,507)	**Changes in other technical provisions, net of reinsurance**	**(14,625)**	(12,110)
(3,559)	Net operating expenses (8)	**(2,420)**	(2,107)
(452)	Investment expenses and charges (6a)	**(307)**	(299)
(100)	Other technical charges (23)	**(68)**	(74)
(891)	Tax attributable to long-term business (J & 13b)	**(606)**	(529)
(98)	Allocated investment return transferred to the non-technical account (G & 6b)	**(67)**	(129)
(1,149)	Transfers to the fund for future appropriations (T)	**(781)**	(4,672)
(6,249)	**Other income/(charges)**	**(4,249)**	(7,810)
1,083	**Balance on the long-term business technical account** (H)	**737**	701
1,083	**Balance on the long-term business technical account**	**737**	701
454	Tax credit attributable to balance on the long-term business technical account (J & 13a)	**308**	273
1,537	**Profit from long-term business operations before tax**	**1,045**	974

The table below provides a reconciliation between the analysis used in the narrative sections of this Report and the profit from long-term business operations above.

2004 €m		2004 £m	2003 £m
1,743	Long-term business operating profit before amortisation of acquired additional value of in-force long-term business and amortisation of goodwill on associated undertakings (3a)	**1,185**	1,122
(185)	Amortisation of acquired additional value of in-force long-term business (included within other technical charges and investment income)	**(126)**	(135)
(21)	Amortisation of goodwill on associated undertakings (included within investment income) (6a & 20c)	**(14)**	(13)
1,537	**Profit from long-term business operations before tax**	**1,045**	974

All profit is from continuing operations.

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Consolidated profit and loss account

Technical account – general business
For the year ended 31 December 2004

2004 €m		2004 £m	2003 £m
15,519	Gross premiums written (5a & b)	**10,553**	10,395
(1,094)	Outward reinsurance premiums (F)	**(744)**	(805)
14,425	**Net premiums written** (B)	**9,809**	9,590
	Change in the provision for unearned premiums		
(371)	Gross amount	**(252)**	(150)
87	Reinsurers' share	**59**	(177)
(284)		**(193)**	(327)
14,141	**Earned premiums, net of reinsurance**	**9,616**	9,263
1,596	**Allocated investment return transferred from the non-technical account** (G & 6b)	**1,085**	1,039
	Claims paid		
(9,012)	Gross amount	**(6,128)**	(6,537)
580	Reinsurers' share	**394**	585
(8,432)		**(5,734)**	(5,952)
	Change in the provision for claims		
(588)	Gross amount	**(400)**	(806)
(493)	Reinsurers' share	**(335)**	171
(1,081)		**(735)**	(635)
(9,513)	**Claims incurred, net of reinsurance** (C)	**(6,469)**	(6,587)
–	Changes in other technical provisions, net of reinsurance	**–**	1
(4,247)	Net operating expenses (8)	**(2,888)**	(2,744)
(4,247)	**Other charges**	**(2,888)**	(2,743)
(34)	Change in the equalisation provision (U & 40)	**(23)**	(49)
1,943	**Balance on the general business technical account**	**1,321**	923

The table below provides a reconciliation between the analysis used in the narrative sections of this Report and the balance on the general business technical account above.

	Underwriting result		Allocation of longer term investment return		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Operating profit						
General insurance (3a)	**301**	(54)	**1,025**	965	**1,326**	911
Health business (3a)	**(2)**	(13)	**60**	74	**58**	61
Profit before exceptional items	**299**	(67)	**1,085**	1,039	**1,384**	972
Financial Services Compensation Scheme levy					**(40)**	–
Change in the equalisation provision (40)					**(23)**	(49)
Balance on the general business technical account					**1,321**	923

All profit is from continuing operations.

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Consolidated profit and loss account

Non-technical account
For the year ended 31 December 2004

2004 €m		2004 £m	2003 £m
1,083	Balance on long-term business technical account	737	701
454	Tax credit attributable to balance on the long-term business technical account (J & 13a)	308	273
1,537	**Profit from long-term business operations before tax**	1,045	974
1,943	**Balance on general business technical account**	1,321	923
	Investment income (G & 6a)		
(3)	Share of result of associated undertakings, net of goodwill amortisation	(2)	–
1,329	Other	904	1,010
1,326		902	1,010
424	Unrealised gains on investments (G & 6a)	288	143
98	Allocated investment return transferred from the long-term business technical account (G & 6b)	67	129
(747)	Investment expenses and charges (6a)	(508)	(437)
(1,596)	Allocated investment return transferred to the general business technical account (G & 6b)	(1,085)	(1,039)
	Other income/(charges), including value adjustments		
73	Profit from fund management (3a)	50	16
(169)	Loss from other operations (3a)	(115)	(56)
	Other charges:		
(262)	– corporate costs (9)	(178)	(160)
(153)	– amortisation of goodwill (17)	(104)	(88)
(200)	Net loss on the disposal of subsidiary and associated undertakings (16c)	(136)	(6)
(13)	Other levies	(9)	–
(73)	Exceptional costs for termination of operations (16d)	(50)	(19)
(797)		(542)	(313)
2,188	**Profit on ordinary activities before tax**	1,488	1,390
(522)	Tax on profit on ordinary activities (J & 13a)	(355)	(367)
1,666	**Profit on ordinary activities after tax** (A)	1,133	1,023
(81)	Minority interests – equity	(55)	(53)
(31)	– non-equity	(21)	(21)
(112)		(76)	(74)
1,554	**Profit for the financial year**	1,057	949
(25)	Preference dividends	(17)	(17)
(9)	Direct Capital Instrument appropriation	(6)	–
1,520	**Profit for the financial year attributable to equity shareholders**	1,034	932
(845)	Ordinary dividends (14)	(575)	(545)
675	**Retained profit transferred to reserves** (34)	459	387
	Earnings per share attributable to equity shareholders		
84.1c	Operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax, attributable to equity shareholders (15a)	57.2p	44.0p
67.4c	Profit attributable to equity shareholders (15a)	45.8p	41.4p
66.8c	Profit attributable to equity shareholders – diluted (15b)	45.4p	41.3p

All profit is from continuing operations.

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Pro forma reconciliation of Group operating profit to profit on ordinary activities before tax

For the year ended 31 December 2004

2004 €m		2004 £m	2003 £m
	Operating profit before tax based on longer-term investment return before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items		
1,743	Modified statutory life profit (3a)*†	**1,185**	1,122
86	Health business (3a)	**58**	61
63	Fund management (3a)*	**43**	10
1,950	General insurance (3a)	**1,326**	911
(159)	Non-insurance operations (3a)*	**(108)**	(48)
(262)	Corporate costs (9)	**(178)**	(160)
(684)	Unallocated interest charges (6a)	**(465)**	(406)
2,737		**1,861**	1,490
	Amortisation of goodwill		
(21)	– long-term business associates (6a & 20c)	**(14)**	(13)
(153)	– non-long-term business subsidiary undertakings (17)	**(104)**	(88)
(3)	– non-long-term business associates (6a & 20c)	**(2)**	(2)
(177)		**(120)**	(103)
	Amortisation of acquired additional value of in-force business		
(141)	– long-term business subsidiary undertakings	**(96)**	(100)
(44)	– long-term business associates	**(30)**	(35)
(185)		**(126)**	(135)
(72)	Financial Services Compensation Scheme and other levies	**(49)**	–
2,303	**Operating profit before tax based on longer-term investment return after amortisation of goodwill and amortisation of acquired additional value of in-force long-term business** (3b)	**1,566**	1,252
	Short-term fluctuation in investment return		
98	– long-term business (6b)	**67**	129
94	– non-long-term business (6b)	**64**	83
192		**131**	212
(34)	Change in the equalisation provision (40)	**(23)**	(49)
(200)	Net loss on the disposal of subsidiary and associated undertakings (16c)	**(136)**	(6)
(73)	Exceptional costs for termination of operations (16d)	**(50)**	(19)
2,188	**Profit on ordinary activities before tax**	**1,488**	1,390

All profit is from continuing operations.

* Included within modified statutory life operating profit, fund management and non-insurance operating profit are £62 million *(2003: £29 million)*, loss of £7 million *(2003: loss of £6 million)* and £7 million *(2003: £8 million)*, respectively from the Group's share of operating profit of its associates.

† Included within modified statutory life operating profit is £34 million *(2003: £36 million)* of operating profit from joint ventures.

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2004

2004 €m		2004 £m	2003 £m
1,554	Profit for the financial year	**1,057**	949
(200)	Foreign exchange gains (V & 34)	**28**	329
1,354	**Total recognised gains and losses arising in the year**	**1,085**	1,278

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 2004

2004 €m		2004 £m	2003 £m
9,363	Shareholders' funds at 1 January	**6,554**	5,836
1,354	Total recognised gains and losses arising in the year	**1,085**	1,278
(879)	Dividends and appropriations	**(598)**	(562)
151	Shares issued in lieu of dividends (34)	**103**	–
37	Increase in share capital (30d)	**25**	2
1,456	Issue of Direct Capital Instrument (32)	**990**	–
(13)	Issue costs of Direct Capital Instrument	**(9)**	–
1	Movement in shares held by employee trusts (33)	**1**	–
248	Goodwill written back and other movements (K & 34)	**169**	–
11,718	**Shareholders' funds at 31 December**	**8,320**	6,554

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Consolidated Group balance sheet

At 31 December 2004

2004 €m	Assets	2004 £m	2003 £m
	Goodwill		
1,651	Positive goodwill (K & 17)	**1,172**	1,145
(52)	Negative goodwill (K & 17)	**(37)**	(40)
1,599		**1,135**	1,105
	Investments (L)		
13,249	Land and buildings (18)	**9,407**	9,430
	Investments in joint ventures (O & 19)		
3,063	Share of gross assets	**2,175**	1,416
(2,418)	Share of gross liabilities, including loans from Group undertakings	**(1,717)**	(1,226)
645		**458**	190
1,145	Loans to joint ventures	**813**	679
1,790		**1,271**	869
1,151	Investments in associated undertakings and other participating interests (O & 20)	**817**	1,043
205,314	Other financial investments (21a)	**145,773**	131,851
(7,056)	Less: Non-recourse funding (21a)	**(5,010)**	(3,143)
198,258		**140,763**	128,708
635	Acquired additional value of in-force long-term business (P & 23)	**451**	488
1,394	Deposits with ceding undertakings	**990**	113
216,477		**153,699**	140,651
72,034	**Assets held to cover linked liabilities** (24)	**51,144**	40,665
	Reinsurers' share of technical provisions		
552	Provision for unearned premiums (B)	**392**	339
5,737	Long-term business provision (Q)	**4,073**	3,356
3,131	Claims outstanding (C)	**2,223**	2,609
1,200	Technical provision for linked liabilities (Q & 24)	**852**	579
10,620		**7,540**	6,883
	Debtors		
5,245	Debtors arising out of direct insurance operations (25)	**3,724**	3,427
1,025	Debtors arising out of reinsurance operations	**728**	806
–	Loan to associated undertaking	**–**	2
7,746	Other debtors (26)	**5,499**	6,409
14,016		**9,951**	10,644
	Other assets		
399	Tangible assets (R & 27)	**283**	320
4,395	Cash at bank and in hand	**3,121**	2,999
4,794		**3,404**	3,319
	Prepayments and accrued income		
2,293	Accrued interest and rent	**1,628**	1,628
3,759	Deferred acquisition costs (D & 28)	**2,669**	2,842
1,549	Other prepayments and accrued income	**1,100**	943
7,601		**5,397**	5,413
327,141	**Total assets**	**232,270**	208,680

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

2004 €m	Liabilities	2004 £m	2003 £m
	Capital and reserves		
803	Ordinary share capital (30)	**570**	564
282	Preference share capital (31a)	**200**	200
1,394	Direct capital instrument (32)	**990**	–
2,479	Called up capital	**1,760**	764
1,570	Share premium account (30d)	**1,115**	1,096
–	Shares held by employee trusts (33)	**–**	(1)
3,892	Merger reserve (34)	**2,763**	2,763
3,777	Profit and loss account (A & 34)	**2,682**	1,932
	Shareholders' funds:		
10,042	Equity	**7,130**	6,354
1,676	Non-equity	**1,190**	200
11,718		**8,320**	6,554
928	Minority interests – equity	**659**	546
373	– non-equity (42i)	**265**	265
1,301		**924**	811
13,019	**Total capital and reserves**	**9,244**	7,365
3,977	Subordinated debt (S & 36)	**2,823**	2,814
16,996	**Total capital, reserves and subordinated debt**	**12,067**	10,179
	Other liabilities		
12,983	**Fund for future appropriations** (T)	**9,218**	8,443
	Technical provisions		
6,923	Provision for unearned premiums (B)	**4,915**	4,666
175,643	Long-term business provision (Q & 38)	**124,707**	115,979
19,037	Claims outstanding (C & 39)	**13,516**	12,983
546	Equalisation provision (U & 40)	**388**	364
97	Other technical provisions	**69**	68
202,246		**143,595**	134,060
73,234	**Technical provision for linked liabilities** (Q & 24)	**51,996**	41,244
1,445	**Provisions for other risks and charges** (41)	**1,026**	870
1,289	**Deposits received from reinsurers**	**915**	860
	Creditors		
2,551	Creditors arising out of direct insurance operations	**1,811**	1,707
631	Creditors arising out of reinsurance operations	**448**	523
	Long-term business borrowings		
46	Debenture loans (S & 42b)	**33**	16
396	Amounts due to credit institutions (42c)	**281**	172
	Non-long-term business borrowings		
665	Debenture loans (S & 42b)	**472**	476
73	Amounts due to credit institutions (42c)	**52**	112
1,266	Commercial paper (42d)	**899**	1,132
11,486	Other creditors including tax and social security (43)	**8,155**	7,721
24	Loans from associated undertakings	**17**	14
17,138		**12,168**	11,873
1,810	**Accruals and deferred income** (44)	**1,285**	1,151
310,145	**Total other liabilities**	**220,203**	198,501
327,141	**Total liabilities**	**232,270**	208,680

Approved by the Board on 8 March 2005.

Andrew Moss
Group Finance Director

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Consolidated cash flow statement

For the year ended 31 December 2004

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

	2004 £m	2003 £m
Operating activities		
Net cash inflow from operating activities, excluding exceptional items (47a)*	**2,352**	1,197
Exceptional items*	**(56)**	(522)
	2,296	675
Dividends from joint ventures and associates		
Dividends from associates (20b)	**12**	5
Returns on investments and servicing of finance		
Interest paid on borrowings	**(81)**	(120)
Interest paid on subordinated debt	**(167)**	(75)
Preference dividends paid	**(17)**	(17)
Dividends paid to minorities	**(44)**	(44)
Net cash outflow from servicing of finance	**(309)**	(256)
Tax		
Corporation tax received/(paid)	**63**	(179)
Capital expenditure		
Purchases of tangible fixed assets	**(118)**	(104)
Sales of tangible fixed assets	**7**	3
Net purchases of tangible fixed assets	**(111)**	(101)
Acquisitions and disposals		
Net disposals of subsidiary and associated undertakings† (47b)	**59**	600
Equity dividends		
Equity dividends paid	**(450)**	(523)
Financing activities		
Issue of share capital (47c)	**3**	2
Issue of direct capital instrument (47c)	**990**	–
Issue costs of direct capital instrument	**(9)**	–
Proceeds from issue of subordinated debt (36 & 47c)	**–**	1,567
Net drawdown/(repayment) of debt (47c)	**(312)**	(366)
Net cash inflow from financing activities	**672**	1,203
Net cash flows	**2,232**	1,424
Cash flows were invested as follows:		
Decrease in cash holdings (47d)	**(161)**	(173)
Net portfolio investment		
Purchases of investments	**24,385**	24,217
Sales of investments	**(21,917)**	(22,545)
Net purchases of investments (47f)	**2,468**	1,672
Non-trading cash outflow to long-term business operations	**(75)**	(75)
Net investment of cash flows	**2,232**	1,424

* Included within the exceptional items are payments to the Berkshire Hathaway Group for reinsurance purchased in December 2000, to secure protection against any adverse impact of the run-off of London Market claims reserves. The final instalment was paid on 2 January 2003.

**The 2003 figure includes £651 million of consideration received on 2 January 2003 in relation to the disposal of the Australia and New Zealand general insurance businesses.

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Company balance sheet

At 31 December 2004

	2004 £m	Restated 2003 £m
Fixed assets		
Shares in subsidiary undertakings (N & 16e)	**15,338**	13,633
Investment in joint venture (O and 19c)	**22**	22
	15,360	13,655
Current assets		
Amounts owed by subsidiary undertakings	**4,850**	3,734
Other assets	**170**	100
	5,020	3,834
Creditors: Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**(2,876)**	(1,949)
Loans (42e)	**(1,071)**	(1,172)
Proposed ordinary dividend (14)	**(364)**	(342)
Other creditors	**(111)**	(63)
Net current assets	**598**	308
Total assets less current liabilities	**15,958**	13,963
Creditors: Amounts falling due after more than one year		
Loans (42e)	**(198)**	(397)
Subordinated debt (S & 36)	**(2,823)**	(2,814)
Net assets	**12,937**	10,752

Represented by:

	2004 £m	Restated 2003 £m
Capital and reserves		
Ordinary share capital (30)	**570**	564
Preference share capital (31a)	**200**	200
Direct capital instrument (32)	**990**	–
Called up capital	**1,760**	764
Share premium account (30d)	**1,115**	1,096
Revaluation reserve (35)	**7,601**	7,396
Merger reserve (35)	**227**	227
Profit and loss account: (35)	**2,234**	1,269
Shareholders' funds	**12,937**	10,752
Analysed between:		
Equity	**11,747**	10,552
Non-equity	**1,190**	200
	12,937	10,752

Approved by the Board on 8 March 2005.

Andrew Moss
Group Finance Director

The accounting policies (identified alphabetically) on pages 64 to 66 and notes (identified numerically) on pages 76 to 111 are an integral part of these accounts. The auditors' report is on page 63.

Notes to the accounts

1 – Exchange rates
The euro rates employed in this report are an average rate of €1 = £0.68 *(2003: €1 = £0.69)* and a closing rate of €1 = £0.71 *(2003: €1 = £0.70)*.

2 – Presentation changes
(a) As explained in note 16(e), the Company's shares in its subsidiaries are stated at current value which for the life operations is their embedded value. This is now calculated using European Embedded Value (EEV) principles, which is a change from the Achieved Profit basis used previously. As disclosed in the supplementary information on page 128 to 146, this change of basis has resulted in a £413 million reduction in value of the life subsidiaries at 31 December 2003. The Company's balance sheet at that date, and relevant notes, have been restated for this change.

(b) The result of the Group's equity release business in the UK was previously reported within the result of our non-insurance operations but is now shown as part of the result of our life operations. The result reclassified in 2004 is £nil *(2003: loss of £16 million)*. The related assets and liabilities reclassified at 31 December 2004 are £168 million *(2003: £47 million)* and £142 million *(2003: £47 million)* respectively. Assets and liabilities of the related securitisation companies of £1,303 million *(2003: £912 million)* and £1,292 million *(2003: £906 million)*, together with their associated cash flows, have also been reclassified.

3 – Segmental information
The Group's reportable business segments are long-term business, health business, fund management and general insurance business. The main geographical segments are the UK, Europe (excluding the UK) and International.

(a) Operating profit by business
(i) Operating profit in respect of long-term business before amortisation of acquired additional value of in-force long-term business and amortisation of goodwill on associates

	Operating profit	
	2004 £m	2003 £m
UK	**585**	578
Europe (excluding UK)		
France	**182**	179
Ireland	**35**	41
Italy	**43**	30
Netherlands (including Belgium and Luxembourg)	**166**	107
Poland	**84**	103
Spain	**61**	50
Other Europe	**(5)**	(4)
International	**34**	38
	1,185	1,122

(ii) Underwriting result and operating profit in respect of health business

	Underwriting result		Operating profit	
	2004 £m	2003 £m	2004 £m	2003 £m
UK	**8**	9	**12**	13
Europe (excluding UK)				
France	**(2)**	(2)	**8**	9
Netherlands	**(8)**	(20)	**38**	39
	(2)	(13)	**58**	61

(iii) Operating profit in respect of fund management

	Operating profit	
	2004 £m	2003 £m
UK	**10**	(6)
Europe (excluding UK)		
France	**17**	13
Other Europe	**7**	3
International		
Australia	**8**	(1)
Other International	**1**	1
	43	10
Add: share of operating loss from associates	**7**	6
Total Group operating profit in respect of fund management, excluding share of associates	**50**	16

3 – Segmental information continued

(iv) Underwriting result and operating profit in respect of general insurance business excluding health business, before exceptional items

	Underwriting result 2004 £m	Underwriting result 2003 £m	Operating profit 2004 £m	Operating profit 2003 £m
UK	**158**	50	**832**	676
Europe (excluding UK)				
France	**(8)**	(9)	**32**	35
Ireland	**79**	26	**153**	91
Netherlands	**26**	(5)	**71**	35
Other Europe	**2**	(6)	**39**	32
International				
Canada	**37**	(98)	**152**	12
Other International	**7**	(12)	**47**	30
Total Group operating profit in respect of general insurance	**301**	(54)	**1,326**	911

(v) Operating profit in respect of non-insurance operations

	2004 £m	2003 £m
UK	**(102)**	(37)
Europe		
France	**(18)**	(25)
Netherlands	**19**	20
Other Europe	**(3)**	(3)
International	**(4)**	(3)
	(108)	(48)
Deduct share of operating profit from associates	**(7)**	(8)
Total Group operating profit in respect of non-insurance operations	**(115)**	(56)

(b) Operating profit before tax

	2004 £m	2003 £m
UK	**1,240**	1,133
Europe (excluding UK)	**738**	621
International	**231**	64
	2,209	1,818
Corporate costs (note 9)	**(178)**	(160)
Unallocated interest charges (note 6a)	**(465)**	(406)
Operating profit	**1,566**	1,252

(c) Net assets by business and geographical segment

	Long-term business 2004 £m	Long-term business 2003 £m	General insurance and health business 2004 £m	General insurance and health business 2003 £m	Total 2004 £m	Total 2003 £m
UK	**3,397**	2,988	**2,240**	2,448	**5,637**	5,436
Europe (excluding UK)	**3,911**	3,605	**1,396**	1,109	**5,307**	4,714
International	**584**	548	**997**	924	**1,581**	1,472
	7,892	7,141	**4,633**	4,481	**12,525**	11,622
Other business					**735**	725
Acquired additional value of in-force long-term business (note 23)					**451**	488
Corporate and other holding company assets					**755**	666
					14,466	13,501
External borrowings (note 42)					**(1,412)**	(1,709)
Internal borrowings					**(987)**	(1,613)
Subordinated debt (note 36)					**(2,823)**	(2,814)
Total					**9,244**	7,365

In 2004 the internal leverage has been revised for the presentation of internal debt. As a result the net debt position shows the upstream of internal loans from business operations to corporate and holding entities net of tangible assets held by these entities. The reduction in the net internal debt reflects, in part, the repayment by the corporate and holding entities of upstream loans and an increase in the tangible assets held by corporate entities arising from a combination of capital raising activities and dividends received from business operations.

Notes to the accounts continued

3 – Segmental information continued
(d) Net assets by principal currency

	2004 £m	2003 £m
Sterling	**3,352**	2,473
Euro	**4,540**	3,535
Canadian dollar	**649**	534
United States dollar	**(93)**	231
Other	**796**	592
Total	**9,244**	7,365

Net assets are stated after taking account of the effect of currency swaps and forward foreign exchange contracts.

4 – Long-term savings new business premiums
An analysis of new life and savings new business premiums is provided below.

	New single premiums		New regular premiums		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Life and pensions:						
UK – Group companies	**6,297**	5,685	**499**	511	**6,796**	6,196
– associates*	**205**	152	**17**	23	**222**	175
	6,502	5,837	**516**	534	**7,018**	6,371
Europe (excluding UK)						
France	**2,454**	1,950	**62**	46	**2,516**	1,996
Ireland	**203**	188	**66**	62	**269**	250
Italy	**1,529**	1,399	**45**	54	**1,574**	1,453
Netherlands (including Belgium and Luxembourg)	**1,131**	850	**148**	139	**1,279**	989
Poland – life	**40**	24	**15**	17	**55**	41
– pensions	**20**	8	**16**	15	**36**	23
Spain	**1,566**	1,353	**91**	111	**1,657**	1,464
Other Europe	**336**	280	**90**	73	**426**	353
International**	**660**	740	**105**	113	**765**	853
Total life and pensions (including share of associates)	**14,441**	12,629	**1,154**	1,164	**15,595**	13,793
Investment sales:						
UK – Group companies	**787**	574	**2**	3	**789**	577
– associates*	**53**	90	**17**	13	**70**	103
	840	664	**19**	16	**859**	680
Europe (excluding UK)						
Netherlands	**196**	204	**–**	–	**196**	204
Poland	**75**	109	**2**	1	**77**	110
Other Europe	**254**	49	**–**	–	**254**	49
International	**243**	98	**–**	–	**243**	98
Total investment sales	**1,608**	1,124	**21**	17	**1,629**	1,141
Total long-term savings (including share of associates)	**16,049**	13,753	**1,175**	1,181	**17,224**	14,934

* The figures for associates comprise the Group's 49.99% share of our associates RBS Life Investments Limited and RBS Collective Investments Limited.

** The figures for International include the Group's 26% share of our associate company in India (Aviva Life Insurance Pvt. Limited) and our 50% share of the joint venture in China (Aviva-COFCO Life Insurance Company Limited).

Single premiums are those relating to products issued by the Group, which provide for the payment of one premium only. Regular premiums are those where there is a contractual obligation to pay on an ongoing basis.

In addition to the amounts included above, Navigator, our Australian funds administration business, recorded sales of £661 million in 2004 *(2003: £625 million)* including sales through Navigator Asia in Singapore.

5 – Premiums written and sales of investment products
(a) *(i) Total premiums written and investment sales*

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
Long-term business premiums (note 5a(ii))	**20,861**	19,648	**20,205**	19,035
Sales of investment products (note 4)	**1,629**	1,141	**1,629**	1,141
Health business premiums (note 5a(iii))	**995**	1,069	**994**	1,066
General insurance business premiums (note 5a(iv))	**9,558**	9,326	**8,815**	8,524
	10,553	10,395	**9,809**	9,590
Total premiums written and investment sales	**33,043**	31,184	**31,643**	29,766

(ii) Long-term business premium income by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
UK*	**9,289**	9,346	**8,827**	8,942
Europe (excluding UK)				
France	**2,914**	2,331	**2,892**	2,300
Ireland	**480**	464	**454**	442
Italy	**1,826**	1,681	**1,806**	1,662
Netherlands (including Belgium and Luxembourg)	**2,019**	1,758	**1,990**	1,722
Poland	**764**	705	**763**	703
Spain	**1,814**	1,658	**1,795**	1,641
Other Europe	**775**	674	**724**	616
International	**980**	1,031	**954**	1,007
Total long-term business premiums, including share of associates	**20,861**	19,648	**20,205**	19,035
Less: share of premiums from associates				
UK	**(319)**	(272)	**(297)**	(254)
International	**(9)**	(3)	**(9)**	(3)
	(328)	(275)	**(306)**	(257)
Total Group long-term business premiums, excluding share of associates	**20,533**	19,373	**19,899**	18,778

* Included within premium income (after reinsurance) and investment sales of £8,827 million *(2003: £8,942 million)* are transfers of institutional business into Morley Pooled Pensions of £334 million *(2003: £1,247 million)* which, since they are institutional in nature, are excluded from the new business sales figures in note 4.

(iii) Health business premium income by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
UK	**281**	270	**280**	270
Europe (excluding UK)				
France	**147**	134	**147**	134
Netherlands	**567**	665	**567**	662
Total health business premiums	**995**	1,069	**994**	1,066

(iv) General insurance business premium income (excluding health business premiums) by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
UK	**5,900**	5,721	**5,434**	5,135
Europe (excluding UK)				
France	**564**	558	**524**	515
Ireland	**568**	650	**545**	611
Netherlands	**771**	605	**719**	563
Other Europe	**287**	284	**230**	226
International				
Canada	**1,284**	1,307	**1,202**	1,208
Other International	**184**	201	**161**	266
Total general insurance business premiums (excluding health business)	**9,558**	9,326	**8,815**	8,524

(v) Premium income by destination does not differ materially from premium income by geographical origin, as most risks are located in the countries where the policies were written.

Notes to the accounts
continued

5 – Premiums written and sales of investment products continued

(b) The analysis of general insurance business premiums written before reinsurance is:

	2004 £m	2003 £m
Property	**3,249**	3,142
Motor	**3,892**	3,943
Liability	**820**	771
Creditor	**908**	811
Other	**689**	659
General insurance business premiums (note 5a(iv))	**9,558**	9,326
Health business (note 5a(iii))	**995**	1,069
Total general insurance business and health business premiums written before reinsurance	**10,553**	10,395

6 – Analysis of investment return

(a) The total investment return before tax comprises:

	Long-term business		Non-long-term business	
	2004 £m	2003 £m	2004 £m	2003 £m
Share of result of joint ventures	**34**	36	**–**	–
Share of result of associated undertakings	**62**	29	**–**	2
Amortisation of goodwill on associated undertakings (note 20c)	**(14)**	(13)	**(2)**	(2)
Amortisation of acquired additional value of in-force long-term business (note 20b)	**(21)**	(24)	**–**	–
	27	(8)	**(2)**	–
Income from land and buildings	**579**	656	**28**	35
Income from other investments	**7,391**	6,953	**940**	931
Realised investment gains/(losses)	**1,354**	(135)	**(64)**	44
	9,324	7,474	**904**	1,010
Investment income	**9,385**	7,502	**902**	1,010
Expenses and charges, including allocated interest charges	**(307)**	(299)	**(43)**	(31)
Unallocated interest charges:				
External – subordinated debt	**–**	–	**(168)**	(101)
– other borrowings	**–**	–	**(78)**	(109)
Intra-group	**–**	–	**(219)**	(196)
	–	–	**(465)**	(406)
	(307)	(299)	**(508)**	(437)
Investment return before unrealised gains	**9,078**	7,203	**394**	573
Unrealised investment gains	**5,114**	7,069	**288**	143
Total investment return before tax	**14,192**	14,272	**682**	716

Investment income of the long-term and non-long-term business includes interest receivable on lending funds to other Group companies. Interest rates on such transactions are on an arm's length basis. The interest payable by Group companies is included within unallocated interest charges above. These amounts are therefore eliminated from total investment return before tax and hence Group operating profit and Group profit before tax.

(b) Longer term investment return

(i) The longer term investment return, net of expenses, allocated to the general business technical account and transferred from the long-term business technical account was £1,085 million *(2003: £1,039 million)* and £67 million *(2003: £129 million)*, respectively.

(ii) The longer term investment return and short-term fluctuation are as follows:

	Shareholders' interest in long-term business		Non-long-term business	
	2004 £m	2003 £m	2004 £m	2003 £m
Total investment return before tax	**108**	214	**682**	716
Less: share of result of associated undertakings, net of goodwill amortisation	**–**	–	**2**	–
Add: unallocated interest charges	**–**	–	**465**	406
	108	214	**1,149**	1,122
Longer term investment return	**41**	85	**1,085**	1,039
Short-term fluctuation in investment return	**67**	129	**64**	83
	108	214	**1,149**	1,122

6 – Analysis of investment return continued

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

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

	Longer term rates of return Equities		Longer term rates of return Properties	
	2004 %	2003 %	2004 %	2003 %
UK	**8.1%**	8.1%	**6.6%**	6.6%
France	**7.5%**	7.5%	**6.5%**	6.5%
Ireland	**8.7%**	8.7%	**6.7%**	6.7%
Netherlands	**8.4%**	8.4%	**6.5%**	6.5%
Canada	**9.3%**	9.3%	**7.3%**	7.3%

(c) The actual return on investments, before deducting investment management expenses and charges, is compared below with the aggregate longer term return over a five year period.

	2000-2004 £m	1999-2003 £m
Actual return attributable to shareholders:		
Long-term business*	**572**	625
Non-long-term business	**4,795**	5,431
	5,367	6,056
Longer-term return credited to operating results:		
Long-term business*	**472**	562
Non-long-term business	**6,526**	7,005
	6,998	7,567
Shortfall of actual returns over longer term returns	**(1,631)**	(1,511)

* Figures represent non-with-profits business only, where a longer term rate of return is used.

(d) The table below shows the sensitivity of Group operating profit before tax to changes in the longer term rates of return:

			By	
Movement in investment return for	By	Change in	2004 £m	2003 £m
Equities	1% higher/lower	Group operating profit before tax	**32**	33
Properties	1% higher/lower	Group operating profit before tax	**12**	11

7 – Long-term business bonuses

The following amounts have been included in the long-term business technical account in respect of policyholder bonuses:

	2004 £m	2003 £m
Bonuses allocated in anticipation of a bonus declaration, included in claims paid	**228**	332
Reversionary and similar policyholder bonuses, included in the movement in the long-term business provision	**2,162**	2,372
	2,390	2,704

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a separate liability, referred to as the fund for future appropriations.

8 – Net operating expenses

Net operating expenses in the technical accounts comprise:

	Long-term business		General business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Acquisition costs	**1,569**	1,453	**2,509**	2,404	**4,078**	3,857
Changes in deferred acquisition costs	**234**	(79)	**(34)**	(70)	**200**	(149)
Administrative expenses	**688**	768	**537**	509	**1,225**	1,277
	2,491	2,142	**3,012**	2,843	**5,503**	4,985
Reinsurance commissions receivable	**(71)**	(35)	**(124)**	(99)	**(195)**	(134)
	2,420	2,107	**2,888**	2,744	**5,308**	4,851

Notes to the accounts
continued

9 – Corporate costs

	2004 £m	2003 £m
Global finance transformation programme	**85**	60
Central costs and sharesave schemes	**93**	100
	178	160

10 – Employee information

The average number of persons employed by the Group during the year was:

	2004 Number	2003 Number
UK	**32,588**	37,185
Europe (excluding UK)	**17,429**	17,801
International	**5,855**	5,754
	55,872	60,740

The analysis of total staff costs was:

	2004 £m	2003 £m
Wages and salaries	**1,402**	1,447
Social security costs	**208**	213
Pension costs (note 45d)	**117**	116
	1,727	1,776

11 – Directors

Information concerning individual directors' emoluments, interests and transactions is given on pages 53 to 62.

12 – Auditors' remuneration

The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to its principal auditor, Ernst & Young LLP, in respect of the audit of these accounts is shown below, together with fees payable in respect of other work.

	2004 £m	2003 £m
Audit services		
Statutory audit	**7.0**	6.4
Audit-related regulatory and supplementary reporting	**3.1**	3.3
	10.1	9.7
Further assurance services	**3.3**	2.7
Other services	**1.5**	0.9
	14.9	13.3

In addition to the above amounts payable to the principal auditors, fees for audit services of £2.0 million *(2003: £2.2 million)* were payable to other firms. The total fees payable for audit services were therefore £12.1 million *(2003: £11.9 million)*.

Further assurance services included advice on accounting and regulatory matters, restatement of supplementary reporting opening balance sheet, reporting on internal controls and corporate governance matters, and due diligence work.

The auditors' remuneration in respect of the parent company was £13,000 *(2003: £12,000)*.

13 – Tax

(a) Tax on profit on ordinary activities

Tax credited/(charged) in the non-technical account comprises:

	2004 £m	2003 £m
Current tax		
UK corporation tax	**11**	(78)
Overseas tax	**(110)**	(20)
Prior year adjustments		
UK	**124**	17
Overseas	**2**	3
	126	20
Tax attributable to balance on long-term business technical account	**(308)**	(273)
Total current tax charged (note 13c)	**(281)**	(351)
Deferred tax		
Origination and reversal of timing differences	**(27)**	(19)
Changes in tax rates or law	**2**	(11)
(Decrease)/increase in discount	**(49)**	14
Total deferred tax charged (note 13e(ii))	**(74)**	(16)
Total tax charged in the non-technical account	**(355)**	(367)

The total tax credited/(charged) in the non-technical account relates to the following:		
Parent company and subsidiary undertakings	**(353)**	(371)
Associated undertakings	**(2)**	4
Total tax charged in the non-technical account	**(355)**	(367)

(b) Long-term business

Tax credited/(charged) in the long-term business technical account comprises:

	2004 £m	2003 £m
Current tax		
UK corporation tax	**(243)**	(207)
Overseas tax	**(133)**	(105)
Prior year adjustments		
UK	**31**	(52)
Overseas	**(65)**	6
	(34)	(46)
Total current tax charged	**(410)**	(358)
Deferred tax		
Origination and reversal of timing differences	**(373)**	(129)
Increase/(decrease) in discount	**174**	(35)
Prior year adjustments	**3**	(7)
Total deferred tax charged (note 13e(ii))	**(196)**	(171)
Total tax charged in the long-term business technical account	**(606)**	(529)

The total tax charged in the long-term business technical account relates to the following:		
Parent company and subsidiary undertakings	**(587)**	(520)
Associated undertakings	**(19)**	(9)
Total tax charged in the long-term business technical account	**(606)**	(529)

Notes to the accounts continued

13 – Tax continued

(c) Factors affecting current tax charge for the year

The tax assessed in the non-technical account is lower *(2003: lower)* than the standard UK corporation tax rate, because of the following factors:

	Non-long-term business 2004 £m	Non-long-term business 2003 £m
Profit on ordinary activities before tax	**1,488**	1,390
Current tax charge at standard UK corporation tax rate of 30% *(2003: 30%)*	**(446)**	(417)
Adjustment to tax charge in respect of prior years	**87**	20
Non-assessable dividends	**(48)**	5
Non-taxable net loss on the sale of subsidiaries and associates	**(73)**	(10)
Non-taxable amortisation of goodwill	**(22)**	(5)
Other disallowable expenses	**(16)**	(33)
Utilisation/(non-utilisation) of current year tax losses	**6**	(10)
Different local basis of tax on overseas profits	**87**	53
Deferred tax charge arising from movement in unrealised gains and losses	**18**	20
Other deferred tax movements	**38**	10
Deferred tax assets not recognised	**134**	38
Other items	**(46)**	(22)
Current tax charge for the year (note 13a)	**(281)**	(351)

(d) Factors that may affect future tax charges

The deferred tax assets, which have not been recognised due to the uncertainty of their recoverability in the foreseeable future, comprise:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Provisions and other timing differences	**11**	10	**88**	79	**99**	89
Losses	**34**	50	**126**	267	**160**	317
	45	60	**214**	346	**259**	406

The deferred tax assets above are principally in respect of corporate entities and would be recoverable in the event that these entities generate taxable profits in the future.

In addition, the Group has capital losses which may be available to offset future capital gains.

(e) Balance sheet

(i) The discounted net (provision)/asset for deferred tax, comprises:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Unrealised gains on investments	**(783)**	(443)	**(152)**	(199)	**(935)**	(642)
Deferred acquisition costs	**(349)**	(217)	**–**	1	**(349)**	(216)
Provisions and other timing differences	**253**	262	**(70)**	(52)	**183**	210
Losses	**96**	5	**105**	173	**201**	178
Undiscounted net provision for deferred tax	**(783)**	(393)	**(117)**	(77)	**(900)**	(470)
Discount	**234**	59	**43**	92	**277**	151
Discounted net (provision)/asset for deferred tax	**(549)**	(334)	**(74)**	15	**(623)**	(319)

(ii) Movements in the deferred tax balances are analysed as follows:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Net (provision)/asset at 1 January	**(334)**	(382)	**15**	139	**(319)**	(243)
Amounts charged to the profit and loss account (note 13a and 13b)	**(196)**	(171)	**(74)**	(16)	**(270)**	(187)
Other items	**(19)**	219	**(15)**	(108)	**(34)**	111
Net (provision)/asset at 31 December	**(549)**	(334)	**(74)**	15	**(623)**	(319)

13 – Tax continued

(iii) The net (provision)/asset for deferred tax is disclosed in the accounts as follows:

	Long-term business 2004 £m	Long-term business 2003 £m	Non-long-term business 2004 £m	Non-long-term business 2003 £m	Total 2004 £m	Total 2003 £m
Amount included in provisions for other risks and charges (note 41)	**(552)**	(438)	**(134)**	(96)	**(686)**	(534)
Amount included in other debtors (note 26)	**3**	104	**60**	111	**63**	215
Net (provision)/asset at 31 December	**(549)**	(334)	**(74)**	15	**(623)**	(319)

(iv) Deferred tax assets arise in certain overseas subsidiaries in respect of tax timing differences. The subsidiaries are expected to generate sufficient future taxable profits to use the assets created.

14 – Ordinary dividends

Ordinary dividends in the profit and loss account comprise:

	2004 £m	2003 £m
Interim – 9.36 pence *(2003: 9.0 pence)* paid on 17 November 2004	**211**	203
Final – 16.00 pence *(2003: 15.15 pence)* payable on 17 May 2005	**364**	342
	575	545

Dividends payable have been calculated on the number of shares in issue at 31 December or 30 June, as appropriate, reduced by the number of shares held in employee trusts where the trustees have waived their right to dividends.

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 8 March 2005.

15 – Earnings per share

(a) *(i) Basic earnings per share*

	2004 Before tax £m	2004 Net of tax, minorities and preference dividends £m	2004 Per share p	2003 Before tax £m	2003 Net of tax, minorities and preference dividends £m	2003 Per share p
Operating profit*	**1,861**	**1,291**	**57.2**	1,490	991	44.0
Adjusted for the following items:						
– Amortisation of goodwill (note 17 & 20b)	**(120)**	**(120)**	**(5.3)**	(103)	(103)	(4.6)
– Amortisation of acquired additional value of in-force long-term business	**(126)**	**(89)**	**(3.9)**	(135)	(98)	(4.4)
– Financial services compensation scheme and other levies	**(49)**	**(29)**	**(1.3)**	–	–	–
– Exceptional costs for termination of operations (note 16d)	**(50)**	**(40)**	**(1.8)**	(19)	(16)	(0.7)
– Short-term fluctuation in investment return	**131**	**173**	**7.6**	212	198	8.9
– Change in the equalisation provision (note 40)	**(23)**	**(16)**	**(0.7)**	(49)	(34)	(1.5)
– Net loss on the disposal of subsidiary and associated undertakings (note 16c)	**(136)**	**(136)**	**(6.0)**	(6)	(6)	(0.3)
Profit attributable to equity shareholders	**1,488**	**1,034**	**45.8**	1,390	932	41.4

* All operating profit is from continuing operations.

(ii) The profit attributable to ordinary shareholders in the table above is calculated as follows:

	2004 Operating profit £m	2004 Adjustments £m	2004 Total £m	2003 Operating profit £m	2003 Adjustments £m	2003 Total £m
Profit before tax	**1,861**	**(373)**	**1,488**	1,490	(100)	1,390
Tax	**(456)**	**101**	**(355)**	(403)	36	(367)
Minority interests	**(91)**	**15**	**(76)**	(79)	5	(74)
Preference dividends	**(17)**	**–**	**(17)**	(17)	–	(17)
Direct Capital Instrument appropriation	**(6)**	**–**	**(6)**	–	–	–
Profit attributable to equity shareholders	**1,291**	**(257)**	**1,034**	991	(59)	932

Earnings per share has been calculated based on the operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax attributable to equity shareholders, as well as on the profit attributable to equity shareholders. The directors believe the former two earnings per share figures provide a better indication of operating performance.

The calculation of basic earnings per share uses a weighted average of 2,256 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 31 December 2004 was 2,282 million *(2003: 2,257 million)*.

Notes to the accounts continued

15 – Earnings per share continued

(b) Diluted earnings per share

	2004			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	**1,034**	**2,256**	**45.8**	932	2,251	41.4
Dilutive effect of share awards and options	**–**	**22**	**(0.4)**	–	8	(0.1)
Diluted earnings per share	**1,034**	**2,278**	**45.4**	932	2,259	41.3

16 – Subsidiary undertakings

(a) Acquisitions

During the year ended 31 December 2004, the Group acquired the following companies:

	Country of incorporation	Percentage acquired	Month of acquisition
HPI Group Holdings Limited	Great Britain	100%	August
Antarius	France	50%	October

On 16 August 2004, the Group's UK general insurance subsidiary, Norwich Union Insurance (NUI), acquired the entire share capital of HPI Holdings (HPI). Total cash consideration including purchase costs was £122 million, comprising £118 million cash, £2 million loan notes and £2 million of acquisition costs. The net assets acquired were £8 million, giving rise to goodwill of £114 million.

On 1 October 2004, as part of its bancassurance partnership with Crédit du Nord, the Group acquired 50% and one share of the issued share capital of Antarius, the life insurance company for Crédit du Nord clients, for a cash consideration of £62 million. The Group's share of Antarius embedded value and net assets acquired was £51 million, giving rise to a provisional goodwill of £11 million. The acquisition is still subject to the completion of the accounts process during the next 12 months, upon which goodwill estimates will be finalised.

(b) Goodwill on acquisitions

The identifiable assets and liabilities of these acquisitions at the relevant date of acquisition were as set out below:

(i) Acquisition of HPI Group Holdings Limited

	Book and fair value £m
Assets	
Total investments	**4**
Other assets	**8**
Total assets	**12**
Liabilities	
Other creditors and provisions	**4**
Total liabilities	**4**
Total shareholders' funds acquired	**8**
Goodwill arising on acquisition	**114**
Total consideration	**122**
The total consideration comprised:	
Cash (including contingent cash amounts and costs of acquisition)	**120**
Loan notes	**2**
	122

The acquisition of HPI Group Holdings Limited has given the Group access to customer lists, information databases and the HPI brand. As UK GAAP constrains our ability to recognise these items as separate intangible assets, they are included within the goodwill figure above.

16 – Subsidiary undertakings continued

(ii) Acquisition of Antarius

	Book value £m	Fair value adjustments: Accounting policy alignments £m	Fair value adjustments: Other significant adjustments £m	Fair value £m
Assets				
Total investments	**685**	**–**	**36**	**721**
Additional value of in-force long-term business	**–**	**–**	**18**	**18**
Other assets	**2,070**	**–**	**–**	**2,070**
Total assets	**2,755**	**–**	**54**	**2,809**
Technical provisions	**2,636**	**4**	**–**	**2,640**
Other creditors and provisions	**51**	**–**	**17**	**68**
Total liabilities	**2,687**	**4**	**17**	**2,708**
Total shareholders' funds	**68**	**(4)**	**37**	**101**
Less: Minority interests				**(50)**
Shareholders' funds acquired				**51**
Goodwill arising on acquisition				**11**
Total consideration				**62**
The total consideration comprised:				
Cash (including contingent cash amounts and costs of acquisition)				**62**
				62

(iii) Total goodwill arising on the acquisitions of HPI Group Holdings Limited and Antarius

	Fair value £m
Total shareholders' funds	**109**
Less: Minority interests	**(50)**
Shareholders' funds acquired	**59**
Goodwill arising on acquisition	**125**
Total consideration	**184**
The total consideration comprised:	
Cash (including contingent cash amounts)	**182**
Loan notes	**2**
	184

In addition to the goodwill arising on the above acquisitions, the Group also made a number of smaller acquisitions giving rise to an additional goodwill amount of £19 million. Total goodwill arising in the year was £144 million (note 17).

(c) Disposals

The net loss on the disposal of subsidiary and associated undertakings comprises:

	2004 £m	2003 £m
Other business		
UK (see (ii) below)	**(141)**	–
France (note 20b(i))	**5**	–
Other small operations	**–**	(6)
	(136)	(6)

Non adjusting post balance sheet event: Sale of general insurance businesses in Asia

(i) On 7 September 2004, the Group announced the disposal of its Asian general insurance businesses to Mitsui Sumitomo Insurance (MSI) for a total of US$450 million in cash. The sale was subject to obtaining regulatory clearance and approval from other shareholders in the Asian businesses.

Under the terms of the agreement, MSI will acquire all of Aviva's general insurance businesses in Asia. These comprise the general insurance business of Aviva Limited and the general insurance assets of Aviva Asia Pte Limited in Singapore; Aviva Insurance Berhad in Malaysia (including its branch in Brunei); Aviva Insurance (Thai) Company Limited in Thailand; PT Aviva Insurance in Indonesia; Dah Sing General Insurance Company Limited in Hong Kong; and Aviva's branch operations in Hong Kong, the Philippines, Marianas, Macau and Taiwan. The transaction will be achieved through share purchase of Aviva's interests in joint venture operations, business purchase and asset purchase in Singapore, and transfer of Aviva's general insurance branch operations in Hong Kong, the Philippines, Marianas, Macau and Taiwan.

Notes to the accounts
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16 – Subsidiary undertakings continued
The transaction was expected to complete in two phases. Phase I completed on 28 February 2005 and included all businesses above except for Malaysia, Indonesia, Macau, Marianas, Taiwan, Dah Sing and the Philippines, which will be included as part of the completion of Phase II, expected in the second half of 2005.

Subject to the receipt of regulatory approval, the total proceeds for the sale of these businesses were fixed by reference to the net assets of the businesses as at 31 December 2003 and are not adjusted to reflect the results in the period from 1 January 2004 to completion. The Group does not bear any continuing operating risk from 31 December 2003.

Financial Reporting Standard 2 "Accounting for subsidiary undertakings" requires the results of the Asian general insurance business to be consolidated with those of the Group's ongoing operations until the completion of the transaction. Although the Group has retained no economic interest in the operations of this business beyond 31 December 2003, the post tax operating profits are incorporated in the Group's consolidated profit and loss account from 1 January 2004 to the date of completion. This will be offset by a corresponding change to the profit on sale calculated at 31 December 2003.

Consequently, had the transaction been completed on 31 December 2004, the post tax profit on sale would have been £129 million and is summarised below:

	£m	US$m
Net assets at 31 December 2003	**60**	**108**
Post tax operating profit to 31 December 2004	**13**	**24**
Net assets at 31 December 2004	**73**	**132**
Proceeds	**250**	**450**
Less: net assets	**(73)**	**(132)**
Less: transactions costs	**(8)**	**(14)**
Pre tax profit on sale	**169**	**304**
Tax attributable to profit on sale	**(40)**	**(72)**
Post tax profit on sale	**129**	**232**

The Group has hedged its exposure to the sale proceeds of US$450 million through the purchase of foreign currency forward contracts.

The operating profit before tax, amortisation of goodwill and exceptional items for the Asian general insurance businesses was £20 million, comprising £15 million underwriting profits and £5 million of long-term investment return.

(ii) In July 2004, the Group completed the disposal of its Your Move estate agency and e.surveying business. Total consideration was £42 million and the net assets disposed of £12 million. The loss on disposal was £141 million after deducting the associated cost of disposal and after writing back goodwill of £167 million, previously written off to reserves, as required by FRS10 "Goodwill and intangible assets". The same goodwill amount is also credited directly to the profit and loss account reserve and therefore has a neutral effect on shareholders' funds.

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

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

(e) The Company's subsidiary undertakings
Movements in the Company's shares in subsidiary undertakings are set out below:

	2004 £m	Restated 2003 £m
Current value:		
At 1 January	**13,633**	10,250
Additions	**1,500**	1,472
Movement in current value (note 35)	**205**	1,911
At 31 December	**15,338**	13,633

Shares in subsidiary undertakings are stated at current value, which for this purpose is European Embedded Value for life operations or net asset value for other entities, computed in accordance with the Company's accounting policies. The resulting gain over book value of £7,601 million *(2003: restated £7,396 million)* has been credited to the Company's revaluation reserve (see note 35). The directors are satisfied that the aggregate value of all such investments is not less than the aggregate amount at which they are stated in the balance sheet.

16 – Subsidiary undertakings continued
(f) Principal subsidiary undertakings
Principal subsidiary undertakings at 31 December 2004 are listed on page 147.

One of the Group's subsidiaries, Delta Lloyd NV, is subject to the provisions of Dutch corporate law and particularly the Dutch "structure company" regime. Under this regime, Delta Lloyd has appointed a Supervisory Board which has a duty to have regard to the interests of a wide variety of stakeholders. The Supervisory Board includes two Aviva Group representatives and is responsible for advising and supervising Delta Lloyd's Executive Board. The shareholder is one of the most important stakeholders to whom the Supervisory Board has a duty. The relationship between the Supervisory Board and its shareholder reflects this and this strengthens the position of Delta Lloyd Group as a major part of the Aviva Group.

17 – Goodwill
The carrying value of goodwill on subsidiary undertakings relates to investments held by the non-long-term business operations and comprises the following:

	Positive goodwill £m	Negative goodwill £m	Total 2004 £m	Total 2003 £m
Cost:				
At 1 January	**1,553**	**(53)**	**1,500**	1,342
Additions (note 16b)	**144**	**–**	**144**	140
Disposals	**(13)**	**–**	**(13)**	(9)
Foreign exchange rate movements	**3**	**–**	**3**	27
At 31 December	**1,687**	**(53)**	**1,634**	1,500
Amortisation:				
At 1 January	**408**	**(13)**	**395**	302
Charge in the year	**107**	**(3)**	**104**	88
Disposals	**(2)**	**–**	**(2)**	(9)
Foreign exchange rate movements	**2**	**–**	**2**	14
At 31 December	**515**	**(16)**	**499**	395
Carrying value at 31 December	**1,172**	**(37)**	**1,135**	1,105

Positive and negative goodwill is being amortised on a straight-line basis over its useful economic life. Useful economic lives have been determined in respect of each acquisition to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets. No useful economic lives are in excess of 20 years. As explained in accounting policy K on page 65, goodwill arising in 1997 and prior years was eliminated directly against reserves.

18 – Land and buildings
(a) The carrying value of land and buildings comprises:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Freeholds	**7,397**	7,118	**617**	597	**8,014**	7,715
Long leaseholds – over 50 years	**1,357**	1,659	**19**	20	**1,376**	1,679
Short leaseholds – under 50 years	**16**	16	**1**	20	**17**	36
	8,770	8,793	**637**	637	**9,407**	9,430

The cost of land and buildings at 31 December 2004 was £6,258 million *(2003: £7,452 million)*. The carrying value of land and buildings occupied by the Group for its own activities was £282 million *(2003: £405 million)*.

The valuation of properties has been undertaken by qualified external valuers or by local qualified staff of the Group in overseas operations. All properties are valued at open market value.

(b) In 2003, the Group commenced a review of its property requirements in the UK. This review was completed in 2004, resulting in the following:

(i) In June 2004, the Group's UK businesses entered into an agreement to dispose of certain core freehold and leasehold properties occupied for their own activities, and lease them back for periods up to 25 years. The majority of these properties were previously in life funds, owned by the policyholders, which then leased them to the operating shareholder companies. This new arrangement has not led to a material increase in the lease rentals payable. The rental expense to the shareholder companies on these properties in 2004 was £13 million *(2003: £14 million)*.

(ii) The review concluded that a number of properties were considered to be surplus to the Group's ongoing requirements and, as a result, would be disposed of. A provision of £80 million is held for the cost of future rents, service charges and maintenance, less any expected rental income, during the period until expected disposal of the relevant properties.

(c) The Group had no other material operating lease commitments.

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19 – Investments in joint ventures

(a) As part of their investment strategy, the UK long-term business policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the UK long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a group subsidiary.

Most of the PLPs have raised external debt, secured on their respective property portfolios. The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any company in the Aviva Group.

Accounting for the PUTs and PLPs as subsidiary undertakings, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement. Where the Group exerts control over a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by a contractual agreement such that no one party exerts control, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been accounted for as joint ventures, and are covered in this note. Here, the Group's share of the respective PLPs' gross assets and gross liabilities are shown on the face of the consolidated balance sheet, in accordance with the requirements of FRS9 "Associates and joint ventures". Where the Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are included in other financial investments at their market value.

(b) Movements in the Group's investments in joint ventures comprise:

	2004 £m	2003 £m
Share of result for the year after tax	**34**	36
Unrealised investment gains after tax	**218**	52
Dividends received	**(33)**	(33)
Additions	**244**	33
Effect of changes in ownership	**28**	–
Reclassification to subsidiaries	**(89)**	–
Movements in investments in joint ventures	**402**	88
Balance at 1 January	**869**	781
Balance at 31 December	**1,271**	869

(c) The principal joint ventures included above are as follows:

(i) Property management undertakings

Company	GP proportion held	PLP proportion held
Ashtenne Industrial Partnership	66.7%	40.2%
The Global Switch Limited Partnership	25.0%	25.0%
The Junction Limited Partnership	50.0%	48.8%
The Mall Limited Partnership	50.0%	40.9%
Paddington Central 1 Limited Partnership	50.0%	50.0%
Quercus Property Partnership Limited	50.0%	74.2%

All the above undertakings perform property ownership and management activities, and are incorporated and operate in Great Britain. The Global Switch Limited Partnership has subsidiaries in several European countries which carry out property ownership and management activities locally.
All these investments are held by subsidiary undertakings.

(ii) Other
The Group also has a 50% holding in AVIVA-COFCO Life Insurance Company Limited, a life assurance company incorporated and operating in China. These shares are held by the Company, with a cost of £22 million *(2003: £22 million)* and share of net assets of £14 million *(2003: £18 million)*.

20 – Investments in associated undertakings and other participating interests

(a) Investments in participating interests included in the consolidated balance sheet comprise:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Investments in associated undertakings (note 20b)	**639**	725	**138**	249	**777**	974
Other participating interests	**–**	39	**40**	30	**40**	69
	639	764	**178**	279	**817**	1,043

The cost of the above investments was £652 million and £37 million respectively *(2003: £950 million and £72 million respectively)*. None of the other participating interests is listed on a recognised investment exchange.

20 – Investments in associated undertakings and other participating interests continued

(b) Associated undertakings

(i) Movements in the Group's investments in associated undertakings comprise:

	Long-term business £m	Non-long-term business £m	Total 2004 £m
Share of result for the year after tax	**43**	**1**	**44**
Foreign exchange rate movements	**(5)**	**(6)**	**(11)**
Unrealised investment gains after tax	**8**	**11**	**19**
Dividends received	**(7)**	**(12)**	**(19)**
Net assets acquired	**36**	**47**	**83**
Amortisation of goodwill (note 6a)	**(14)**	**(2)**	**(16)**
Amortisation of acquired additional value of in-force long-term business (note 6a)	**(21)**	**–**	**(21)**
Disposals	**(126)**	**(150)**	**(276)**
Movements in investments in associated undertakings	**(86)**	**(111)**	**(197)**
Balance at 1 January			
Goodwill (note 20c)	**218**	**35**	**253**
Share of net assets	**507**	**214**	**721**
	725	**249**	**974**
Balance at 31 December			
Goodwill (note 20c)	**204**	**33**	**237**
Share of net assets	**435**	**105**	**540**
	639	**138**	**777**

The amortisation charges for the year in respect of both goodwill and acquired additional value of in-force long-term business (AVIF) appear under the heading "Investment income" in the long-term business technical account on page 67. The amortisation charge for AVIF is grossed up for attributable tax in the reconciliations on pages 67 and 70.

In June 2004, our French operations, Aviva France, sold its 31.4% holding in Société Foncière Lyonnaise (SFL) a French listed property company for €427 million (£285 million), and after sale expenses, recorded a gain of £5 million. These shares were owned by both our French life and non-life operations. Cumulative investment gains in the life company of £22 million have been transferred to a French GAAP statutory provision forming part of the fund for future appropriations under UK GAAP, and will be attributed to policyholders and shareholders as bonuses are declared to policyholders within the next eight years.

(ii) The principal associated undertakings included above are:

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
Aviva Life Insurance Company India Pvt. Limited	Insurance	Ordinary Rs1 shares	26.0%	India
ProCapital S.A.	Online brokerage	Ordinary €1 shares	43.5%	France
RBSG Collective Investments Limited	Investment	Ordinary £1 shares	49.99%	Great Britain
RBS Life Investments Limited	Insurance	Ordinary £1 shares	49.99%	Great Britain
The British Aviation Insurance Company Limited	Insurance	Ordinary £1 shares	38.1%	Great Britain

All investments in associated undertakings are held by subsidiary undertakings and are included in the accounts using year ended 31 December 2004 figures. None of the associated undertakings are listed.

(c) The carrying value of goodwill on associated undertakings comprises the following:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Cost:						
At 1 January	**257**	257	**37**	–	**294**	257
Additions	**–**	–	**–**	37	**–**	37
At 31 December	**257**	257	**37**	37	**294**	294
Amortisation:						
At 1 January	**39**	26	**2**	–	**41**	26
Charge in the year (note 6a)	**14**	13	**2**	2	**16**	15
At 31 December	**53**	39	**4**	2	**57**	41
Carrying value at 31 December	**204**	218	**33**	35	**237**	253

Goodwill is being amortised on a straight-line basis over its useful economic life of 20 years, which has been determined to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets.

(d) In France, the Group has invested in a number of specialised investment companies. These invest mainly in equities, bonds and properties, and distribute most of their income. The Group's interests in these companies are included in these accounts within other financial investments or land and buildings as appropriate.

Notes to the accounts
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21 – Other financial investments

(a) The tables below show the carrying value and cost of these financial investments as at the dates indicated. All investments are held at current value unless otherwise indicated.

	Carrying value			Cost		
	Long-term business £m	Non-long-term business £m	Total 2004 £m	Long-term business £m	Non-long-term business £m	Total 2004 £m
Shares and other variable yield securities and units in unit trusts	**30,080**	**3,149**	**33,229**	**25,608**	**2,855**	**28,463**
Debt securities and other fixed income securities:						
At current value	**38,547**	**10,750**	**49,297**	**36,952**	**10,659**	**47,611**
At amortised cost	**38,626**	**–**	**38,626**	**37,884**	**–**	**37,884**
Participation in investment pools	**57**	**–**	**57**	**57**	**–**	**57**
Loans secured by mortgages:						
Own mortgages	**10,243**	**1,349**	**11,592**	**9,640**	**1,345**	**10,985**
Securitised mortgages (note 22)	**3,584**	**1,437**	**5,021**	**3,584**	**1,437**	**5,021**
Less: Non-recourse funding (note 22)	**(3,573)**	**(1,437)**	**(5,010)**	**(3,573)**	**(1,437)**	**(5,010)**
	11	**–**	**11**	**11**	**–**	**11**
Other loans:						
Loans secured on policies	**1,041**	**–**	**1,041**	**1,041**	**–**	**1,041**
Other loans	**289**	**38**	**327**	**288**	**37**	**325**
Deposits with credit institutions	**3,660**	**1,842**	**5,502**	**3,660**	**1,842**	**5,502**
Other investments	**1,052**	**29**	**1,081**	**1,024**	**28**	**1,052**
Total other financial investments	**123,606**	**17,157**	**140,763**	**116,165**	**16,766**	**132,931**

	Carrying value			Cost		
	Long-term business £m	Non-long-term business £m	Total 2003 £m	Long-term business £m	Non-long-term business £m	Total 2003 £m
Shares and other variable yield securities and units in unit trusts	27,346	2,967	30,313	24,816	2,839	27,655
Debt securities and other fixed income securities:						
At current value	36,950	10,098	47,048	35,668	10,071	45,739
At amortised cost	34,709	–	34,709	33,806	–	33,806
Participation in investment pools	7	–	7	7	–	7
Loans secured by mortgages:						
Own mortgages	9,998	883	10,881	9,571	899	10,470
Securitised mortgages (note 22)	3,149	–	3,149	3,149	–	3,149
Less: Non-recourse funding (note 22)	(3,143)	–	(3,143)	(3,143)	–	(3,143)
	6	–	6	6	–	6
Other loans:						
Loans secured on policies	1,065	–	1,065	1,065	–	1,065
Other loans	285	46	331	284	43	327
Deposits with credit institutions	2,436	394	2,830	2,436	394	2,830
Other investments	1,484	34	1,518	1,374	34	1,408
Total other financial investments	114,286	14,422	128,708	109,033	14,280	123,313

(b) Listed investments included in the carrying value above are:

	2004 £m	2003 £m
Shares and other variable yield securities and units in unit trusts	**26,782**	25,623
Debt securities and other fixed income securities	**80,490**	76,318

(c) The long-term debt securities and other fixed income securities, which are shown at amortised cost, are analysed below:

	2004 £m	2003 £m
Cost	**37,884**	33,806
Cumulative amortisation	**742**	903
Amortised cost	**38,626**	34,709
Market value	**41,159**	36,486

The redemption value of investments held at the year end was £1,473 million more *(2003: £997 million more)* than the amortised cost.

21 – Other financial investments continued

(d) In addition to the investments in participating interests detailed in note 20a, the Group holds investments exceeding 20% of a class of the equity capital in a number of other companies in the UK and elsewhere. These investments do not represent a material part of the assets or investment income of the Group. These include the Group's shareholding in Delta Lloyd Investment Fund NV where 20.13% *(2003: 13.0%)* is held directly and a further 11.74% *(2003: 20.8%)* is held in segregated policyholder funds. As this company invests mainly in equities and all dividends received are passed on to the shareholders, the Group's interest has been shown in other financial investments in these accounts.

(e) Included within other financial investments are shareholdings held on a long-term basis as follows:

	Market value of shareholding								
	Long-term business		Non-long-term business		Total		Proportion held		
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m	2004	2003	Country of incorporation
Société Générale	**242**	231	**2**	2	**244**	233	**1.1%**	1.1%	France
Münchener Rückversicherungs-Gesellschaft	**205**	232	**179**	171	**384**	403	**2.5%**	2.6%	Germany
The Royal Bank of Scotland Group	**977**	808	**49**	46	**1,026**	854	**1.8%**	1.8%	Scotland
UniCredito Italiano	**283**	279	**255**	257	**538**	536	**2.8%**	2.8%	Italy
	1,707	1,550	**485**	476	**2,192**	2,026			

All of the above are banking companies, except Münchener Rückversicherungs-Gesellschaft which is a reinsurance company.

(f) At 31 December 2004, the Group held equity index futures, forwards and options to buy a notional total of £915 million *(2003: £2,528 million)* and to sell a notional total of £2,587 million *(2003: £2,397 million)* for long-term business operations. These contracts have a net negative fair value of £32 million *(2003: £337 million*). No adjustment has been made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

In 1998 and 2003, the Group purchased several swap options from European banks, to cover its possible future exposure to interest rates related to guaranteed annuities sold by subsidiaries in the UK. At 31 December 2004, the exposure hedged by these options was £2,985 million *(2003: £3,147 million)* and the contracts had a fair market value of £177 million (*2003: £190 million)*. These options have varying expiry dates up to 2028.

(g) The Group has entered into stocklending arrangements in the UK and overseas during the year in accordance with established market conventions. In the United Kingdom, investments are lent to locally-domiciled counterparties and governed by agreements written under English law. Other investments are specifically deposited under local laws in various countries overseas as security to holders of policies issued there.

Included within other financial investments are £158 million *(2003: £164 million)* of debt securities and other fixed income securities which have been sold under stock repurchase arrangements. The obligations arising under these arrangements are included in other creditors (see note 43).

22 – Securitised mortgages and related assets

Other financial investments include loans secured by mortgages, subject to non-recourse finance arrangements, in a UK long-term business subsidiary and in two Dutch subsidiaries. Details of the relevant transactions are as follows:

(a) In a UK long-term business subsidiary, Norwich Union Equity Release Limited (NUER), the beneficial interest in four portfolios of equity release mortgages has been transferred to four special purpose securitisation companies, Equity Release Funding (No. 1) plc (ERF1), Equity Release Funding (No. 2) plc (ERF2), Equity Release Funding (No.3) plc (ERF3), and ERF Trustee (No.4) Limited (ERF4T) held on trust for the benefit of Equity Release Funding (No.4) plc (ERF4) (together "the ERF companies"), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the noteholders, loan providers and other third parties in the priority of payments. No gain or loss was recognised on the transfers to ERF1 and ERF3, and gains of £5 million and £9 million were recognised on the transfers to ERF2 and ERF4T respectively. The purchases of the mortgages were funded by the issue of fixed rate, floating rate and index linked notes by the ERF companies.

The ultimate effective holding company of ERF1, ERF2 and ERF3 is Equity Release Holdings Limited, whose shares are held on trust. The ultimate effective holding company of ERF4T and ERF4 is Equity Release Holdings (Jersey) Limited, whose shares are also held on trust. NUER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies. NUER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where NUER is in breach of warranty or loans are substituted in order to effect a further advance.

NUER has indemnified ERF1 and ERF2 for any losses they may suffer should their customers set off any shortfall in their annuities purchased from another Aviva Group company against amounts they owe to these companies, and any shortfall due to negative equity not insured elsewhere. NUER's liability under these indemnities, estimated as £11 million *(2003: £6 million)*, is included in other creditors in the consolidated balance sheet, whilst the linked liabilities figure has been reduced by the same amount to show the Group's net interest in these securitisations.

NUER has purchased £13 million of subordinated fixed rate notes in ERF1, which are repayable in 2031, and has granted a £14 million floating rate subordinated loan to ERF3. These are included in debt securities and other fixed income securities within other financial investments in the consolidated balance sheet.

NUER receives fees from the ERF companies in respect of loan administration and cash handling. Income of £5 million *(2003: £3 million)* has been included in investment income, relating to the securitisation of the mortgage portfolios.

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continued

22 – Securitised mortgages and allocated assets continued

(b) In two Dutch subsidiaries, Delta Lloyd Levensverzekering NV (DLL), and Amstelhuys NV (AMS) the principal benefits of six portfolios of mortgage loans have been transferred to six special purpose securitisation companies, Arena 2000-1 BV, Arena 2001-1 BV, Arena 2002-1 BV, Arena 2003-1 BV, Arena 2004-1 BV, Arena 2004-ll BV and DARTS Finance BV (the securitisation companies), which were funded primarily through the issue of fixed rate notes. No gains or losses were recognised on these transfers.

All the shares in the securitisation companies are held by independent trustees, respectively Stichting Security Trustee Arena 2000-1, Stichting Security Trustee Arena 2001-1, Stichting Security Trustee Arena 2002-1, Stichting Security Trustee Arena 2003-1, Stichting Security Trustee Arena 2004-1, Stichting Security Trustee Arena 2004-ll and Stichting Trustee DARTS Finance 1. DLL and AMS do not own, directly or indirectly, any of the share capital of the securitisation companies or their parent companies. DLL and AMS have no right, nor any obligation, to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where they are in breach of warranty.

At 31 December 2004, DLL and AMS held £48 million *(2003: £23 million)* of fixed rate notes in the securitisation companies, which are repayable at various dates between 2037 and 2062. These are included in debt securities and other fixed income securities within other financial investments in the consolidated balance sheet at their market value of £49 million (*2003: £24 million)*.

DLL and AMS received interest of £1 million in 2004 *(2003: £2 million)* on the loan notes they hold in the securitisation companies. They also receive fees from the securitisation companies for the administration of the loans and payments under the terms of interest rate swaps written between DLL, AMS and these companies to hedge their respective exposures to movements in interest rates arising from these transactions. In each case, the effect of the swaps is that the securitisation companies convert all or part of the interest flows receivable from customers in respect of the securitised mortgage loans into fixed interest flows which are designed substantially to match the interest payable to the noteholders. Included in investment income is £29 million *(2003: £25 million)* relating to these swaps.

(c) In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the noteholders and do not intend to provide such support. Additionally, the notes were issued on the basis that noteholders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that noteholders have no recourse whatsoever to other companies in the Aviva Group.

Total mortgage assets and non-recourse funding in the above quasi-subsidiaries at 31 December 2004 were £5,021 million *(2003: £3,149 million)* and £5,010 million *(2003: £3,143 million)* respectively. As permitted by FRS5 "Reporting the substance of transactions", these balances are accounted for in the consolidated Group balance sheet using a linked presentation. Interest receivable and payable on the above items in 2004 totalled £150 million *(2003: £195 million)* and £111 million *(2003: £166 million)* respectively. Apart from the administration fees payable to other Group undertakings, described above, there are no other material profit and loss items in these companies.

The majority of the securitisations relate to long-term business. Cash inflows from non-recourse funding on non-long-term business were £1,437 million in 2004 *(2003: £nil*).

23 – Acquired additional value of in-force long-term business

Movements in the acquired additional value of in-force long-term business comprise:

	2004 £m	2003 £m
Balance at 1 January	**488**	505
Foreign exchange rate movements	**1**	21
Additional in-force long-term business acquired in subsidiaries	**30**	36
Amortisation charge for the year	**(68)**	(74)
Movements arising in the year	**(37)**	(17)
Balance at 31 December	**451**	488

The additional inforce long-term business acquired at £30 million include £18 million for Antarius and the remainder is in respect of smaller acquisitions.

The amortisation charge for the year appears under the heading "Other technical charges" in the long-term business technical account on page 67. This is grossed up for attributable tax in the reconciliations on pages 67 and 70.

24 – Assets held to cover linked liabilities

(a) A reconciliation of assets to linked liabilities is as follows:

	2004 £m	2003 £m
Assets held to cover linked liabilities	**51,144**	40,665
Reinsurers' share of technical provision	**852**	579
Technical provision for linked liabilities	**51,996**	41,244

(b) The cost of assets held to cover linked liabilities is £49,285 million *(2003: £37,150 million)*.

25 – Debtors arising out of direct insurance operations

	2004 £m	2003 £m
Amounts owed by policyholders	**2,035**	1,990
Amounts owed by intermediaries	**1,689**	1,437
Debtors arising out of direct insurance operations	**3,724**	3,427

26 – Other debtors

	2004 £m	2003 £m
Banking assets (note 29a)	**3,565**	4,106
Deferred tax asset (note 13e(iii))	**63**	215
Other	**1,871**	2,088
Other debtors	**5,499**	6,409

27 – Tangible assets

	Motor vehicles £m	Computer equipment £m	Other £m	Total £m
Cost:				
At 1 January	**30**	**446**	**399**	**875**
Additions	**15**	**78**	**47**	**140**
Disposals	**(23)**	**(27)**	**(42)**	**(92)**
Foreign exchange rate movements	**1**	**1**	**(1)**	**1**
At 31 December 2004	**23**	**498**	**403**	**924**
Depreciation:				
At 1 January	**14**	**323**	**218**	**555**
Charge for the year	**9**	**66**	**70**	**145**
On disposals	**(10)**	**(17)**	**(35)**	**(62)**
Foreign exchange rate movements	**–**	**2**	**1**	**3**
At 31 December 2004	**13**	**374**	**254**	**641**
Net book value at 31 December 2004	**10**	**124**	**149**	**283**
Net book value at 31 December 2003	**16**	**123**	**181**	**320**

The Group has no material finance leases, or leases to third parties under operating leases, for property and equipment, other than as detailed in note 18.

28 – Deferred acquisition costs

The asset in the consolidated balance sheet comprises:

	2004 £m	2003 £m
Costs in respect of long-term business	**1,628**	1,862
Costs in respect of general business	**1,041**	980
	2,669	2,842

29 – Banking activities

(a) Banking assets (see note 26), excluding intra-group balances, comprise:

	2004 £m	2003 £m
Investments	**1,198**	1,141
Loans and advances to banks	**125**	136
Loans and advances to customers	**2,028**	2,563
	3,351	3,840
Short-term deposits and cash	**–**	42
Other assets	**214**	224
	3,565	4,106

(b) Banking liabilities (see note 43), excluding intra-group balances, comprise:

	2004 £m	2003 £m
Deposits by banks	**272**	130
Bank customer accounts	**2,600**	2,790
Other liabilities	**298**	965
	3,170	3,885

Notes to the accounts
continued

30 – Ordinary share capital

(a) The authorised share capital of the Company at 31 December 2004 was:

	2004 £m	2003 £m
3,000,000,000 *(2003: 3,000,000,000)* ordinary shares of 25 pence each	**750**	750

The allotted, called up and fully paid share capital of the Company at 31 December 2004 was:

	2004 £m	2003 £m
2,282,385,200 *(2003: 2,257,282,501)* ordinary shares of 25 pence each	**570**	564

(b) At 31 December 2004, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	580.27	40,986	2004	664.00	1,213,296	2004, 2006 or 2008
	797.60	121,766	2005	401.00	11,295,317	2005, 2007 or 2009
	750.00	316,839	2004 or 2006	406.00	3,891,492	2006, 2008 or 2010
	895.20	343,708	2005 or 2007	428.00	2,373,487	2007, 2009 or 2011

Norwich Union Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable
	752.00	13,619	2004

Hibernian Savings Related Share Option Scheme (in euros)	Option price c	Number of shares	Normally exercisable	Option price c	Number of shares	Normally exercisable
	1,150.12	79,883	2004	662.85	271,673	2005 or 2007
	1,653.37	113,272	2005	586.00	380,722	2006 or 2008
	1,087.56	37,449	2004 or 2006	630.12	154,833	2007 or 2009

General Accident Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable
	555.55	1,682	2004

Aviva Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	542.17	2,083*	1998 to 2005	853.00	387,922	2001 to 2008
	614.83	99,537*	1998 to 2005	965.00	7,425	2002 to 2009
	581.17	19,082*	1999 to 2006	870.83	75,417	2002 to 2009
	601.17	5,651*	1999 to 2006	919.00	699,250	2002 to 2009
	689.17	13,690*	1999 to 2006	822.00	54,611	2003 to 2010
	677.50	18,015	2000 to 2007	972.33	18,240	2003 to 2010
	680.00	26,176	2000 to 2007	960.00	89,598	2003 to 2010
	725.50	2,345	2000 to 2007	1,035.00	1,017,504	2004 to 2011
	763.50	3,929	2000 to 2007	499.00	14,272	2005 to 2012
	773.50	5,817	2000 to 2007	516.00	3,795,086	2005 to 2012
	857.00	19,987	2000 to 2007	512.00	4,320,261	2006 to 2013
	1,073.31	13,207	2001 to 2008	526.00	4,263,520	2007 to 2014
	1,119.00	56,065	2001 to 2008			

General Accident Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	506.08	51,147	1998 to 2005	766.42	124,676	2000 to 2007
	553.93	141,925	1999 to 2006			

Aviva Executive Share Option Scheme (Delta Lloyd)	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	822.00	426,679	2000 to 2005	739.00	781,195	2002 to 2007
	950.00	121,161	2001 to 2006	380.00	2,211,613	2003 to 2008

30 – Ordinary share capital continued

CGU plc Deferred Bonus Plan	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	899.50	33,174	2002 to 2009	875.00	42,796	2003 to 2010
	966.50	5,810	2002 to 2009			

Other than those grants marked with an asterisk, the exercise of options outstanding under the Aviva Executive Share Option Scheme and Aviva Executive Share Option Scheme (Delta Lloyd) are subject to the attainment of performance conditions. Options which are not exercised lapse.

(c) From March 1998 to March 2003, it was the Company's practice to satisfy awards and options granted under the executive incentive plans through shares purchased in the market and held by employee share trusts which were established for this purpose and funded by the Company. From March 2003, no shares have been purchased by the trusts, it being the Company's current practice to satisfy awards granted after that date by the issue of new shares at the time of vesting. At 31 December 2004, 5,894,264 shares were held by the employee share trusts with an aggregate nominal value of £1.5 million and a market value of £37 million. The trustees of the employee share trusts have waived their rights to dividends on the shares held in these trusts. Further details are given in note 33 below.

At 31 December 2004, awards granted under the Company's executive incentive schemes were outstanding as follows:

Aviva Long Term Incentive Plan	Number of shares	Vesting period	Number of shares	Vesting period
	363,133	2000 to 2005	2,763,607	2004 to 2006
	1,587,681	2002 to 2004	83,650	2004 to 2006
	3,557,236	2003 to 2005		

Aviva Deferred Bonus Plan	Number of shares	Vesting date	Number of shares	Vesting date
	2,415,752	22 March 2005	3,564,206	26 March 2007
	3,301,510	28 March 2006		

Aviva Restricted Share Awards	Number of shares	Vesting date	Number of shares	Vesting date
	23,077	31 December 2005	13,462	31 December 2006

The vesting of awards under the Aviva Long Term Incentive Plan is subject to the attainment of performance conditions, as described on page 54 and 55. Share awards which do not vest lapse.

(d) During 2004, a total of 25,102,699 ordinary shares of 25 pence each were allocated and issued by the Company as follows:

	Number of shares	Share capital £m	Share premium £m
At 1 January	**2,257,282,501**	**564**	**1,096**
Shares issued under the Group's all-employee share schemes and executive incentive plans	**4,986,752**	**1**	**24**
Shares issued in lieu of dividends – Interim 2004	**20,115,947**	**5**	**(5)**
At 31 December 2004	**2,282,385,200**	**570**	**1,115**

A total of 20,115,947 shares of 25 pence each with an aggregate nominal value of £5 million were issued on 17 November 2004 under the Aviva Scrip Dividend Scheme in lieu of interim dividend. This issue of shares in lieu of cash dividends is considered as a bonus issue under the terms of the Companies Act 1985 and the nominal value of the shares is charged to the share premium account.

(e) Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

31 – Preference share capital

(a) The preference share capital of the Company at 31 December 2004 was:

	2004 £m	2003 £m
Authorised		
200,000,000 cumulative irredeemable preference shares of £1 each	**200**	200
	200	200
Issued and paid up		
100,000,000 8⅜% cumulative irredeemable preference shares of £1 each	**100**	100
100,000,000 8¾% cumulative irredeemable preference shares of £1 each	**100**	100
	200	200

The fair value of these shares at 31 December 2004 was £276 million *(2003: £224 million)*.

(b) The preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are being altered. On a winding up, they carry a preferential right to return of capital ahead of the ordinary shares.

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32 – Direct capital instrument

Notional amount	Issue date	2004 £m	2003 £m
5.9021% £500 million direct capital instrument	25 November 2004	**500**	–
4.7291% €700 million direct capital instrument	25 November 2004	**490**	–
		990	–

The euro and sterling direct capital Instruments (the DCIs) were issued on 25 November 2004, the issue costs of £9 million have been charged to reserves. The DCIs have no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the DCIs at their principal amount on 28 November 2014 and 27 July 2020 for the Euro and Sterling DCIs respectively, or on any respective coupon payment date thereafter. In addition, under certain circumstances defined in the terms and conditions of the issue, the Company, at its sole option:

(i) redeem all (but not part) of the DCIs at their principal amounts at any time prior to 28 November 2014 and 27 July 2020 for the euro and sterling DCIs respectively;

(ii) substitute at any time all (but not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities;

(iii) substitute all (but not some only) of the DCIs for fully paid non-cumulative preference shares in the Company. These preference shares could only be redeemed on the 28 November 2014 in the case of euro DCIs and on 27 July 2020 in the case of the sterling DCIs, or in the each case on any dividend payment date thereafter. The Company has the right to choose whether or not to pay any dividend on the new shares, and any such dividend payment will be non-cumulative.

The Company has the option to defer coupon payments on the DCIs on any relevant payment date. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

(i) Redemption; or

(ii) Substitution by, or variation so they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or

(iii) Substitution by preference shares.

No interest will accrue on any deferred coupon. Deferred coupons will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral, the Company will not declare or pay any dividend on its ordinary or preference share capital.

33 – Shares held in employee trusts
Movements in the cost of shares held in employee trusts comprise:

	2004		2003	
	Number	£m	Number	£m
Cost debited to shareholders' funds				
At 1 January	**7,598,384**	**41**	2,008,459	19
Additions	**–**	**–**	5,736,206	23
Distributed in year	**(1,704,120)**	**(16)**	(146,281)	(1)
At 31 December	**5,894,264**	**25**	7,598,384	41
Credit to shareholders' funds in respect of the above				
At 1 January		**40**		18
Movement for the year		**(15)**		22
Balance at 31 December		**25**		40
Net deduction from shareholders' funds		**–**		1

These shares are owned by employee share trusts in the Company and a subsidiary undertaking to satisfy awards under the Group's Long Term Incentive Plan, Executive Share Option Plans and Deferred Bonus Plans. The shares are purchased in the market and recorded at cost. Further details of the shares held can be found in note 30c. Further details of the features of the plans can be found in the Directors' remuneration report on pages 53 to 62.

34 – Group reserves

	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2004	**2,763**	**1,932**	**4,695**
Transfer from non-technical account	**–**	**459**	**459**
Foreign exchange rate movements	**–**	**28**	**28**
Shares issued in lieu of dividends (see below)	**–**	**103**	**103**
Issue costs on direct capital instrument	**–**	**(9)**	**(9)**
Other movements	**–**	**169**	**169**
At 31 December 2004	**2,763**	**2,682**	**5,445**

34 – Group reserves continued
The shares issued in lieu of dividends, an amount of £103 million, is in respect of the transfer to retained profits from the ordinary dividend account, arising from the treatment of shares issued in lieu of the 2004 interim dividend as explained in note 30d.

As explained in accounting policy K on page 65, goodwill arising on acquisitions since 1 January 1998 is carried on the balance sheet and amortised over its useful economic life. The cumulative amounts of positive and negative goodwill charged or credited to the consolidated profit and loss account, attributable to subsidiary undertakings acquired from 1 January 1968 to 31 December 1997 and not subsequently sold, are £787 million and £15 million respectively. Similar information relating to subsidiary undertakings acquired before 1968 is not readily available.

The cumulative amount in the profit and loss account reserve relating to net unrealised gains is £511 million *(2003: £161 million)*.

35 – Company reserves

	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2004 as previously reported	2,074	227	7,004	9,305
Prior year adjustments				
– transfer between reserves (see below)	5,735	–	(5,735)	–
– change in valuation basis for subsidiaries (note 2a)	(413)	–	–	(413)
As restated	**7,396**	**227**	**1,269**	**8,892**
Profit for the year attributable to equity shareholders, including dividends received or receivable from subsidiary undertakings	**–**	**–**	**1,469**	**1,469**
Dividends	**–**	**–**	**(598)**	**(598)**
Retained profit for the year	**–**	**–**	**871**	**871**
Shares issued in lieu of dividends (note 34)	**–**	**–**	**103**	**103**
Issue costs on Direct Capital Instrument (note 32)	**–**	**–**	**(9)**	**(9)**
Unrealised gain (note 16e)	**205**	**–**	**–**	**205**
Movements in the year	**205**	**–**	**965**	**1,170**
At 31 December 2004	**7,601**	**227**	**2,234**	**10,062**

As part of the Group restructuring in 2000, following the merger between CGU and NU, the Company sold certain subsidiaries to other companies within the Group, generating a profit of £5,735 million over their cost to the Company. This profit has been disclosed as being non-distributable in the Company's accounts since then. After consideration of ICAEW guidance note 7/03 on the determination of realised profits and losses, the directors believe that this amount should more properly have remained within the Company's revaluation reserve and have authorised the above reserve transfer.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these accounts.

36 – Subordinated debt

	Group and Company	
	2004 £m	2003 £m
6.125% £700 million subordinated notes 2036	**679**	679
5.750% €800 million subordinated notes 2021	**557**	553
5.250% €650 million subordinated notes 2023	**453**	450
5.700% €500 million undated subordinated notes	**349**	347
6.125% £800 million undated subordinated notes	**785**	785
	2,823	2,814

A description of each of the above subordinated notes is set out in the table below:

Notional amount	Issue date	Redemption date	Callable at par at option of the Company from	In the event the Company does not call the notes, the coupon will reset at each applicable reset date to
£700 million	14 Nov 2001	14 Nov 2036	16 Nov 2026	5 year Benchmark Gilt + 2.85%
€800 million	14 Nov 2001	14 Nov 2021	14 Nov 2011	3 month Euribor + 2.12%
€650 million	29 Sep 2003	2 Oct 2023	2 Oct 2013	3 month Euribor + 2.08%
€500 million	29 Sep 2003	Undated	29 Sep 2015	3 month Euribor + 2.35%
£800 million	29 Sep 2003	Undated	29 Sep 2022	5 year Benchmark Gilt + 2.40%

The subordinated notes rank below the senior obligations of the Company and ahead of the preference shares and ordinary share capital issued by the Company. The dated subordinated notes rank ahead of the undated subordinated notes. The fair value of these notes at 31 December 2004 was £3,107 million *(2003: £3,003 million)*.

Notes to the accounts
continued

37 – Long-term business

(a) The Group underwrites long-term business in a number of countries as follows:

(i) In the UK mainly in

– "with-profit" funds of CGNU Life Assurance, Commercial Union Life Assurance, Norwich Union Life & Pensions and the Provident Mutual fund, where the with-profits policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance;

– "non-profit" funds of Norwich Union Annuity, Norwich Union Life & Pensions and Norwich Union Linked Life Assurance, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by Norwich Union Life & Pensions and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.

(ii) In France, where the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.

(iii) In the Netherlands, where the balance of profits, after providing appropriate returns for policyholders, accrues for the benefit of the shareholders. The bases for determining returns for policyholders are complex, but are consistent with methods and criteria followed generally in the Netherlands. In addition, a substantial number of policies provide benefits which are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees.

(iv) In other overseas operations, using methods similar to those described above.

(b) The directors have been advised by the Group's reporting actuary that the assets of each of the long-term operations were at least sufficient to meet their respective liabilities at 31 December 2004.

38 – Long-term business provision

(a) Methodology

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency. Explicit provision is made for vested bonuses (including those vesting following the most recent fund valuation), but no such provision is made for future regular or terminal bonuses. However, this method makes implicit allowance for future regular or terminal bonuses already earned, by margins in the valuation discount rate used.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience. Explicit provision is made for vested bonuses and explicit allowance may also be made for future regular bonuses, but not terminal bonuses.

(b) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, mainly using the net premium method, modified where necessary to reflect the requirements of the Companies Act.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates.

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in the long-term business provision, as detailed in note 7.

The principal assumptions in the UK, France and the Netherlands are:

(i) UK

The gross premium method is used for all contracts apart from conventional whole life and endowment assurances in the Norwich Union Life & Pensions and Norwich Union Linked Life Assurance life and annuity funds, where a net premium method is used. All contracts are assumed to continue for the contractual term and, for consistency with the discount rates, no future regular bonuses are assumed to be added to with-profit business.

For unitised with-profit business, the provisions are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units. This result is then compared with a prospective valuation and the higher result is taken. The prospective valuation projects future benefits assuming that future premiums cease and future bonuses are zero, except for policies with a guaranteed minimum bonus rate where this guaranteed rate is allowed for. Allowance for persistency is based on actual experience and takes into account the likelihood of a significantly greater lapse experience on those occasions on which the life company guarantees not to apply a Market Value Reduction charge.

For unit-linked business, the provisions are valued initially by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cashflows on the assumption that future premiums cease. Where appropriate, allowance for persistency is based on actual experience.

38 – Long-term business provision continued

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. An allowance for investment expenses and a further margin for risk are then deducted for all asset classes.

The changes in the valuation discount rates since 2003 reflect the changes in the yields on the supporting assets.

	Valuation discount rates	
	2004	2003
Assurances		
Life conventional with-profit	**3.4% to 3.5%**	3.3% to 3.8%
Life conventional non-profit	**3.2% to 4.0%**	3.3% to 4.0%
Life unitised with-profit	**3.7%**	3.7% to 4.0%
Pensions conventional with-profit	**4.3%**	4.2% to 4.8%
Pensions conventional non-profit	**4.0% to 4.5%**	4.2% to 5.8%
Pensions unitised with-profit	**4.3%**	4.3% to 4.8%
Deferred annuities		
With-profit – in deferment	**4.3% to 4.5%**	4.2% to 4.8%
Non-profit – in deferment	**4.0% to 5.5%**	4.2% to 5.8%
With-profit – in payment	**4.3%**	4.2% to 4.7%
Non-profit – in payment	**4.0%**	4.2% to 4.7%
Annuities in payment		
Conventional annuity	**4.7% to 5.3%**	5.0% to 5.5%
With-profit annuity	**2.0%**	1.5%

Mortality assumptions are set with regard to recent company experience and general industry trends. Since 2003, there have been some changes to the adjustments to the base tables for annuities in payment in order to reflect more closely the actual experience of this business.

	Mortality tables used
	2004 and 2003
Assurances	
With-profit	AM92/AF92 or A67/70 adjusted
Non-profit	AM80/AF80 or AM92/AF92 or TM92/TF92 adjusted for smoker status
Pure endowments and deferred annuities before vesting	Nil or AM80/AF80 or AM92/AF92 adjusted
General annuity business after vesting	IM80/IF80 or IM92/IF92 adjusted plus allowance for future mortality improvement*
Pensions business after vesting	PMA80/PFA80 or PMA92/PFA92 adjusted plus allowance for future mortality improvement*
Annuities in payment	
General annuity business	IMA80/IFA80 adjusted plus allowance for future mortality improvement*
Pensions business	PMA80/PFA80 adjusted plus allowance for future mortality improvement*

* Allowance for future mortality improvements reflect the "medium cohort" projection from the CMIB working paper published in December 2002, adjusted for females and for a higher rate of improvement at very old ages.

(ii) France

The majority of provisions arise from a single premium savings product and are based on the accumulated fund value, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. The net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables. There have been no changes in the assumptions since 2003.

	Valuation discount rate	Mortality tables used
	2004 and 2003	2004 and 2003
Life assurances	2.5% to 4.5%	PM60-64, TD73-77, TD 88/90
Annuities	2.5% to 4.5%	TPRV (prospective table)

(iii) Netherlands

Provisions are generally calculated using the net premium valuation method, in accordance with local regulation, where the valuation assumptions generally depend on the date of issue of the contract, with additional provisions where experience indicates this is required. There have been no changes in the assumptions since 2003.

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38 – Long-term business provision continued

	Valuation discount rate	Mortality tables used
	2004 and 2003	2004 and 2003
Life assurances	3.0% or 4.0%	GBM 61-65, 76-80, 80-85 GBM/V 85-90, 90-95
Annuities in deferment and in payment	3.0% or 4.0%	GBM/V 76-80, 80-85, 85-90, 90-95, Coll 1993 and DIL 98, plus further allowance for future mortality improvement

(iv) In all countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

39 – Provisions for outstanding claims

(a) The ultimate cost of general business outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average costs per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead the assumptions used are those implicit in the historic claims development data on which the projections are based.

Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available. Large claims are usually separately assessed, either by being measured at case estimate face value or separately projected in order to reflect their future development. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

(b) Claims on certain classes of business are discounted as follows:

		Rate		Mean term of liabilities	
	Class	2004	2003	2004	2003
Netherlands	Permanent health and injury	**3.27%**	3.25%	**10 years**	11 years

Net of reinsurers' share, the outstanding claims provisions before discounting were £11,359 million *(2003: £10,430 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries.

40 – Equalisation provision

An equalisation provision has been established in the Group accounts as explained in accounting policy U on page 66. This had the effect of reducing Group and Company shareholders' funds by £388 million at the year end *(2003: £364 million)*. The change in the equalisation provision during the year comprised a reduction of £23 million *(2003: £49 million)* in the balance on the general business technical account and the profit on ordinary activities before tax.

41 – Provisions for other risks and charges

Movements in provisions for other risks and charges were:

	Pensions and similar obligations £m	Deferred tax (note 13e(iii)) £m	Other £m	Total £m
At 1 January 2004	**78**	**534**	**258**	**870**
Foreign exchange rate movements on opening provisions	**–**	**6**	**2**	**8**
Movement during the year:				
Additional provisions made in the year			**151**	
Amounts utilised			**(121)**	
Amounts released unutilised			**(13)**	
Total movement	**(15)**	**146**	**17**	**148**
At 31 December 2004	**63**	**686**	**277**	**1,026**

"Other" provisions comprise many small provisions throughout the Group for obligations such as the costs of compensation, litigation, staff entitlements and reorganisation.

42 – Borrowings

(a) The analysis by business segment is:

	Debenture loans 2004 £m	Debenture loans 2003 £m	Amounts owed to credit institutions 2004 £m	Amounts owed to credit institutions 2003 £m	Commercial paper 2004 £m	Commercial paper 2003 £m	Total 2004 £m	Total 2003 £m
Long-term business	**33**	16	**281**	172	**–**	–	**314**	188
General business	**–**	–	**11**	11	**–**	–	**11**	11
Other	**472**	476	**41**	101	**899**	1,132	**1,412**	1,709
Non-long-term business	**472**	476	**52**	112	**899**	1,132	**1,423**	1,720
	505	492	**333**	284	**899**	1,132	**1,737**	1,908

"Other" comprises borrowings by holding companies within the Group that are not allocated to operating companies. The amounts shown above are net of related derivative contracts.

(b) Debenture loans

	Long-term business 2004 £m	Long-term business 2003 £m	Other 2004 £m	Other 2003 £m
9.5% guaranteed bonds 2016	**–**	–	**171**	170
8.625% guaranteed bonds 2005	**–**	–	**168**	168
2.5% perpetual subordinated loan notes	**–**	–	**122**	121
Other loans	**33**	16	**11**	17
	33	16	**472**	476
Repayable as follows:				
One year or less	**–**	–	**172**	1
Between one and two years	**–**	–	**–**	172
Between two and five years	**–**	–	**–**	–
After five years	**33**	16	**300**	303
	33	16	**472**	476
The interest charge for the year on the above loans was:	**1**	–	**39**	42

The 9.5% and the 8.625% guaranteed bonds were issued at a discount of £1.1 million and £0.2 million respectively. These amounts, together with the issue expenses, are being amortised over the full term of the bonds. Although these bonds were issued in sterling, the loans have effectively been converted into euro liabilities through the use of financial instruments in a subsidiary undertaking.

The 2.5% perpetual subordinated loan notes were issued by a Dutch subsidiary undertaking to finance the acquisition of NUTS OHRA Beheer BV in 1999. They are convertible into ordinary shares in Delta Lloyd NV, should there be a public offering of those shares. These loan notes have a face value of €489.9 million but, because they are considered to be perpetual, their carrying value is €172.4 million, calculated in 1999 and based on the future cash flows in perpetuity discounted back at a market rate of interest. The rate of interest paid on the notes is being gradually increased to a maximum of 2.76% in 2009.

Other loans comprise borrowings in Canada, France, the Netherlands and Spain, none of which is considered material for further disclosure.

(c) Amounts due to credit institutions

	Long-term business 2004 £m	Long-term business 2003 £m	Non long-term business 2004 £m	Non long-term business 2003 £m	Other 2004 £m	Other 2003 £m
Bank loans	**281**	172	**11**	11	**41**	101
Repayable as follows:						
One year or less	**134**	50	**11**	11	**–**	77
Between one and two years	**4**	6	**–**	–	**–**	2
Between two and five years	**91**	–	**–**	–	**–**	5
After five years	**52**	116	**–**	–	**41**	17
	281	172	**11**	11	**41**	101
The interest charge for the year on the above was:	**11**	4	**1**	1	**1**	5

As explained in note 19a, the UK long-term business policyholder funds have invested in a number of property limited partnerships (PLPs). The PLPs have raised external debt, secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any companies in the Aviva Group. The figures in the long-term business columns above include £57 million *(2003: £126 million)* relating to those PLPs which have been consolidated as subsidiaries.

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42 – Borrowings continued
(d) Commercial paper

	Other 2004 £m	Other 2003 £m
Average rate 5% *(2003: 4%)*	**899**	1,132
The interest charge for the year on the above borrowings was:	**34**	47

All commercial paper is repayable within one year and is issued in a number of different currencies, primarily sterling, euros and US dollars. Part of this has effectively been converted into a sterling liability through the use of financial instruments in the Company and a subsidiary undertaking.

(e) The Company's loans comprise:

	2004 £m	2003 £m
9.5% guaranteed bonds 2016	**198**	198
8.625% guaranteed bonds 2005	**200**	199
Bank loans	**–**	75
Commercial paper	**871**	1,097
	1,269	1,569
Repayable as follows:		
One year or less	**1,071**	1,172
Between one and two years	**–**	199
Between two and five years	**–**	–
After five years	**198**	198
	198	397
	1,269	1,569

(f) After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the non-long-term business borrowings of the Group was:

	Floating rate borrowings 2004 £m	Floating rate borrowings 2003 £m	Fixed rate borrowings 2004 £m	Fixed rate borrowings 2003 £m	Total 2004 £m	Total 2003 £m
Sterling	**176**	350	**339**	338	**515**	688
Euro	**479**	543	**139**	143	**618**	686
United States dollar	**285**	334	**–**	–	**285**	334
Canadian dollar	**–**	3	**4**	5	**4**	8
Other	**1**	3	**–**	1	**1**	4
Total non-long-term business borrowings	**941**	1,233	**482**	487	**1,423**	1,720

The floating rate borrowings comprise commercial paper and bank borrowings bearing interest based on local inter-bank offer rates, which are fixed in advance for the period of the borrowings. Excluding the subordinated perpetual loan notes, the fixed rate borrowings have a weighted average interest rate of 7.92% *(2003: 7.93%)* for a weighted average term of six years *(2003: seven years)*.

(g) The Group has the following undrawn committed central borrowing facilities available to it, of which £1,000 million *(2003: £1,100 million)* is used to support the commercial paper programme:

	2004 £m	2003 £m
Expiring within one year	**650**	1,605
Expiring beyond one year	**1,600**	1,357
	2,250	2,962

(h) The difference between the carrying value and the fair value of the non-long-term business fixed rate borrowings and the related swaps is as follows:

	Carrying value 2004 £m	Fair value 2004 £m	Carrying value 2003 £m	Fair value 2003 £m
Non-long-term business fixed rate borrowings	**541**	**622**	549	614
Currency swaps	**(58)**	**(76)**	(59)	(91)
	483	**546**	490	523

(i) Non-equity minority interests principally relate to the General Accident preference shares, which are included at their par value of £250 million together with an £8 million accrual for dividends. These are listed on the London Stock Exchange and their fair value at 31 December 2004 was £329 million *(2003: £292 million)*, based on their quoted market price.

43 – Other creditors including tax and social security

	2004 £m	2003 £m
Banking liabilities (note 29b)	**3,170**	3,885
Proposed final ordinary dividend (note 14)	**364**	342
UK and overseas tax	**931**	742
Bank overdrafts	**651**	214
Other	**3,039**	2,538
Other creditors including tax and social security	**8,155**	7,721

Bank overdrafts arise substantially from unpresented cheques and amount to £133 million *(2003: £77 million)* in long-term business operations and £518 million *(2003: £137 million)* in general business and other operations. The "other" totals include the obligation to repay £158 million *(2003: £164 million)* received under stock repurchase arrangements entered into in the UK and the Netherlands.

44 – Accruals and deferred income

	2004 £m	2003 £m
Deferred reinsurance commissions	**74**	48
Other accruals and deferred income	**1,211**	1,103
Accruals and deferred income	**1,285**	1,151

45 – Pension and other post-retirement benefit costs

(a) The Group operates a large number of pension schemes around the world, whose members receive benefits on either a defined benefit basis or a defined contribution basis. The only material defined benefit schemes are in the UK, the Netherlands, Canada and Ireland and, of these, the UK scheme is by far the largest. The assets of the main UK, Irish and Canadian schemes are held in separate trustee-administered funds and, in the Netherlands, the main scheme is held in a separate foundation which invests in the life funds of the Group. An actuarial report has been submitted for each of the defined benefit schemes within the last three years, using appropriate methods for the respective countries on local funding bases. The substantial falls in stock markets worldwide from 2000 to 2002 have affected the funding position of the schemes. In the UK scheme, the employing companies have agreed to pay additional contributions.

(b) The Group has continued to account for pensions in accordance with SSAP24 and the disclosures given in section (c) below are those required by that accounting standard. FRS17 "Retirement Benefits" was issued in November 2000 and differs from SSAP24 in a number of ways. These are principally in the choice of assumptions, and that the difference between the market value of assets and liabilities is immediately recognised in the balance sheet under FRS17, whereas changes in assets and liabilities are recognised on a smoothed basis under SSAP24.

The accounting provisions of FRS17 were not expected to be mandatory for the Group until the year ending 31 December 2003 but, in the transitional period, certain disclosures were required in the notes to the accounts. In November 2002, the Accounting Standards Board issued an amendment to FRS17 which extended the transitional period through to, in the Group's case, the year ending 31 December 2005. The transitional disclosures, to the extent not given in section (c), are set out in section (e) below.

(c) In the UK, the Group operates one main pension scheme, the Aviva Staff Pension Scheme. New entrants join the defined contribution section of the scheme, as the defined benefit section is generally closed to most new employees.

The scheme was valued as at an effective date of 1 April 2002, on a market value basis using the Projected Unit Method. The main financial assumptions used were a pension increase rate of 2.5%, a salary increase rate of 4.25% and an interest rate of 6.4%. The scheme had an asset value of £4,639 million, projected accrued liabilities of £4,010 million and a funding level of 116%. The employer cost of future service benefits in respect of defined benefit members for 2004 was 19.7% of pensionable salaries which, after allowing for interest on the prepayment held in the balance sheet and the additional surplus since, led to a net pension cost for the year to 31 December 2004 of 7.2% of pensionable salaries. The pension cost was then increased to allow for the amounts credited to members' accounts under the defined contribution section of the scheme.

The employing companies' contributions to the defined benefit section of the scheme throughout 2004 were 25% of employees' pensionable salaries, together with the cost of redundancies during the year and an additional payment of £50 million. The contribution rates for members of the defined contribution section were 8% of pensionable salaries, together with further contributions of up to 4% where members contribute, and the cost of the death-in-service benefits. The employers' contribution rate for 2005 for members of the defined benefit section has been agreed as 29% of pensionable salaries together with an additional payment of £51.5 million, while the contribution rates for members of the defined contribution section are the same as for 2004. As the defined benefit section of the scheme is generally closed to new entrants and the contribution rate is determined using the project unit method, it is expected that the percentage cost of providing future service benefits under this section will gradually increase as the membership ages.

In the Netherlands, Canada and Ireland, regular actuarial valuations of the main schemes are made in accordance with local funding and/or accounting standards. Total pension costs for the schemes in these countries have been taken as equal to the locally determined accounting costs or contributions paid to the plans as, at a Group level, these are not considered to be materially different from charges calculated under a detailed application of SSAP24.

The Group also operates a variety of smaller pension arrangements in these and other countries, where costs have also been based on those calculated locally.

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45 – Pension and other post-retirement benefit costs continued

(d) The pension costs of the Group's defined benefit and defined contribution schemes were:

	2004 £m	2003 £m
UK defined benefit schemes	**30**	39
UK defined contribution schemes	**31**	34
Overseas defined benefit schemes	**40**	33
Overseas defined contribution schemes	**16**	10
	117	116

There were no significant contributions outstanding or prepaid as at either 31 December 2004 or 2003.

(e) FRS17 defined benefit plan disclosures

(i) Disclosures under FRS17 for the material schemes in the UK, the Netherlands, Canada and Ireland are shown below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions. The figures for the Dutch and Canadian schemes include arrangements to meet other post-retirement obligations to staff in those countries. The valuation used for these disclosures has been based on the most recent actuarial valuations, updated to take account of the requirements of FRS17 in order to assess the liabilities of the major schemes at 31 December 2004. The updating was made by actuaries in each country, with overall co-ordination by external consultants, Watson Wyatt. Other than the actuary of the Aviva Staff Pension Scheme and the Dutch arrangements, the actuaries making the calculation were independent of the Group. Scheme assets are stated at their market values at 31 December 2004.

	UK		Netherlands		Canada		Ireland	
	2004	2003	2004	2003	2004	2003	2004	2003
Date of most recent actuarial valuation	**1.4.04**	1.4.03	**31.12.03**	31.12.02	**31.12.03**	31.12.02	**1.1.04**	Various
The main financial assumptions used to calculate scheme liabilities under FRS17 are:								
Inflation rate	**2.7%**	2.6%	**1.5%**	2.5%	**2.5%**	2.5%	**2.5%**	2.5%
General salary increases	**4.5%**	4.4%	**1.5%***	3.5%	**3.75%**	3.0%	**4.25%**	4.25%
Pension increases	**2.7%**	2.6%	**1.5%**	2.5%	**1.25%**	1.25%	**2.25%**	2.25%
Deferred pension increases	**2.7%**	2.6%	**1.5%**	2.5%	**0%**	0%	**2.25%**	2.25%
Discount rate	**5.4%**	5.6%	**4.5%**	5.25%	**5.5%**	5.5%	**4.65%**	5.3%

* Age-related scale increases plus 1.5%

(ii) The expected rates of return on the schemes' assets are:

	UK		Netherlands		Canada		Ireland	
	2005 %	2004 %	2005 %	2004 %	2005 %	2004 %	2005 %	2004 %
Equities	**8.2%**	8.1%	**7.25%**	8.25%	**8.25%**	8.25%	**8.25%**	8.25%
Bonds	**4.8%**	5.0%	**4.0%**	4.7%	**5.0%**	5.25%	**4.0%**	4.7%
Property	**6.0%**	6.3%	**5.5%**	n/a	**n/a**	n/a	**5.5%**	6.2%
Other	**4.5%**	3.75%	**4.0%**	4.7%	**n/a**	n/a	**n/a**	n/a

The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisors and take into account both current market expectations of future returns, where available, and historical returns. These rates have been developed specifically for reporting under FRS17 and therefore differ from the rates used in the European embedded value (EEV) and Longer Term Investment Return (LTIR) calculations elsewhere in this report.

(iii) The pension expense for these schemes on an FRS17 basis comprises:

	Total	
	2004 £m	2003 £m
Current service cost	**148**	149
Past service cost	**1**	1
Loss on curtailments	**8**	7
Charge to net operating expenses	**157**	157
Expected return on scheme assets	**(391)**	(348)
Interest charge on scheme liabilities	**362**	322
Credit to investment income	**(29)**	(26)
Total charge that would be made to profit on ordinary activities before tax in respect of these schemes under FRS17	**128**	131
Expected return on scheme assets less actual return	**(220)**	(479)
Experience (gains)/losses arising on scheme liabilities	**(12)**	106
Changes in assumptions underlying the present value of the scheme liabilities	**362**	587
Loss on acquisitions and scheme transfers	**–**	5
Actuarial loss that would be recognised in the statement of total recognised gains and losses under FRS17	**130**	219

45 – Pension and other post-retirement benefit costs continued

(iv) The following disclosures of experience gains and losses will be built up over time to give a five year history:

	2004		2003		2002	
	£m	%	£m	%	£m	%
Difference between the expected and actual return on scheme assets						
Amount	**(220)**		(479)		1,139	
Percentage of the scheme assets at the end of the year		**3.5%**		8.4%		23.4%
Experience (gains)/losses on scheme liabilities						
Amount	**(12)**		106		(131)	
Percentage of the present value of scheme liabilities		**0.2%**		1.6%		2.4%
Total amount that would be recognised in the statement of total recognised gains and losses under FRS17						
Amount of loss	**130**		219		1,032	
Percentage of the present value of scheme liabilities		**1.8%**		3.3%		18.7%

(v) The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2004 were:

	UK		Netherlands		Canada		Ireland		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Equities	**3,163**	3,107	**179**	192	**100**	84	**200**	222	**3,642**	3,605
Bonds	**1,207**	1,001	**403**	369	**68**	79	**133**	86	**1,811**	1,535
Property	**382**	314	**31**	–	**–**	–	**25**	26	**438**	340
Other	**254**	129	**142**	88	**–**	–	**14**	(1)	**410**	216
Total market value of assets	**5,006**	4,551	**755**	649	**168**	163	**372**	333	**6,301**	5,696
Present value of scheme liabilities	**(5,734)**	(5,264)	**(838)**	(749)	**(202)**	(180)	**(405)**	(341)	**(7,179)**	(6,534)
Deficit in the schemes	**(728)**	(713)	**(83)**	(100)	**(34)**	(17)	**(33)**	(8)	**(878)**	(838)
Related deferred tax asset	**218**	214	**25**	34	**12**	6	**4**	1	**259**	255
Net pension liability	**(510)**	(499)	**(58)**	(66)	**(22)**	(11)	**(29)**	(7)	**(619)**	(583)

The net pension liability in the UK defined benefit scheme of £510 million assumes a related deferred tax asset of £218 million, notwithstanding that the Group has unrecognised UK deferred tax assets. This is because the nature of the losses and other short-term timing differences which comprise the unrecognised assets are more restricted in their availability for relief against future taxable profits than are the future pension scheme contributions.

(vi) Movements in the pension schemes' deficits on a FRS17 basis comprise:

	Total	
	2004 £m	2003 £m
Deficits in the schemes at 1 January	**(838)**	(654)
Contributions paid into the schemes	**220**	172
Charge to net operating expenses	**(157)**	(157)
Credit to investment income	**29**	26
Actuarial losses	**(130)**	(219)
Exchange rate movements on foreign plans	**(2)**	(6)
Deficits in the schemes at 31 December	**(878)**	(838)

The change in the net pension deficit calculated under FRS17 is mainly attributable to changes in assumptions underlying the present value of the schemes' liabilities, partially offset by an increase in the market value of their assets. In the UK, the value of the liabilities has increased due to lower corporate bond yields, which are used to set the valuation discount rate, and a higher assumed inflation rate. The increase in asset values is primarily due to an improvement in equity and bond values since the previous year end.

(vii) The effect on the Group's net assets and retained profits at 31 December 2004 of substituting the FRS17 figures for the corresponding SSAP24 balance sheet entries would be as follows:

	Net assets		Profit and loss account reserve	
	2004 £m	2003 £m	2004 £m	2003 £m
Totals included in the Group accounts	**9,244**	7,365	**2,682**	1,932
Less: pension asset on SSAP24 basis	**(279)**	(251)	**(279)**	(251)
Totals excluding pension net asset	**8,965**	7,114	**2,403**	1,681
Less: pension liability on FRS17 basis	**(619)**	(583)	**(619)**	(583)
Totals including pension liability on FRS17 basis	**8,346**	6,531	**1,784**	1,098

The pension net asset shown above is after deducting £56 million held within technical reserves in respect of future funding.

Notes to the accounts continued

46 – Assets under management

The total Group assets under management are:

	2004 £m	2003 £m
Total assets included in the balance sheet	**232,270**	208,680
Additional value of internally-generated in-force long-term business	**4,875**	4,340
Third party funds under management		
Securitised mortgages (gross of non-recourse funding)	**5,010**	3,143
Unit trusts, Oeics, Peps and Isas	**5,450**	4,460
Segregated funds	**24,899**	19,355
Total assets under management	**272,504**	239,978

47 – Cash flow statement

The cash flow statement reflects long-term business activities only to the extent that cash is transferred between long-term and non-long-term operations. In the following analyses, long-term business assets and liabilities shown in the consolidated balance sheet have therefore been excluded. The 2003 comparatives reflect the reclassification of the equity release business in the UK as described in note 2b.

(a) The reconciliation of profit on ordinary activities to net cash inflow from operating activities is:

	2004 £m	2003 £m
Profit on ordinary activities before tax, excluding the results of joint ventures and associated undertakings	**1,475**	1,385
Add back: Exceptional costs for termination of operations	**50**	19
Financial Services Compensation Scheme and other levies	**49**	–
Profit on ordinary activities before tax, excluding exceptional items	**1,574**	1,404
Adjustments for financing expense and items not involving movements of cash:		
Depreciation of tangible fixed assets	**126**	75
Amortisation of goodwill	**120**	103
Amortisation of acquired additional value of in-force long-term business	**126**	135
Increase in general business underwriting liabilities and provisions	**951**	1,010
Realised and unrealised gains and losses	**(211)**	(166)
Net loss on the disposal of subsidiary undertakings	**136**	6
Decrease in deferred acquisition costs	**(34)**	(71)
Movement in banking assets and liabilities	**(120)**	143
Movement in other liabilities/assets	**140**	(669)
Profits not yet transferred from long-term business funds	**(730)**	(1,014)
Loan interest expense	**274**	241
	778	(207)
Net cash inflow from operating activities, excluding exceptional items	**2,352**	1,197

(b) Analysis of cash flows in respect of the acquisition and disposal of subsidiary and associated undertakings is:

	2004 £m	2003 £m
Cash consideration for subsidiary and associated undertakings acquired	**(122)**	(218)
Cash proceeds from disposal of subsidiary and associated undertakings	**201**	698
Net cash balances (divested)/acquired with subsidiary undertakings	**(20)**	120
	59	600

47 – Cash flow statement continued

(c) Changes in financing during the year were:

	Capital		Borrowings	
	2004 £m	2003 £m	2004 £m	2003 £m
Issue of ordinary share capital (note 30d)	**3**	2	**–**	–
Issue of Direct Capital Instrument (note 32)	**990**	–	**–**	–
New borrowings drawn down, net of expenses	**–**	–	**452**	2,903
Repayment of borrowings	**–**	–	**(764)**	(1,702)
Net cash inflow	**993**	2	**(312)**	1,201
Shares issued for non-cash consideration	**22**	–	**–**	–
Foreign exchange rate movements	**–**	–	**21**	64
Borrowings acquired/loans repaid for non-cash consideration	**–**	–	**–**	35
Amortisation of discounts and other non-cash items	**–**	–	**3**	2
Changes in financing	**1,015**	2	**(288)**	1,302
Balance at 1 January				
Capital	**3,856**	3,854		
External borrowings			**4,534**	3,232
	3,856	3,854	**4,534**	3,232
Balance at 31 December				
Capital	**4,871**	3,856		
External borrowings (note 42 and note 36)			**4,246**	4,534
	4,871	3,856	**4,246**	4,534
Capital is represented by:				
Ordinary share capital (note 30)	**570**	564		
Preference share capital (note 31a)	**200**	200		
Direct Capital Instrument (note 32)	**990**	–		
Share premium account (note 30d)	**1,115**	1,096		
Merger reserve in respect of share capital	**1,996**	1,996		
	4,871	3,856		

(d) Changes in cash holdings during the year were:

	2004 £m	2003 £m
Increase/(decrease) in cash holdings	**(161)**	(173)
Foreign exchange rate movements	**4**	29
Changes in cash	**(157)**	(144)
Balance at 1 January	**1,138**	1,282
Balance at 31 December	**981**	1,138

(e) Non-long-term business cash included in the consolidated balance sheet comprised:

	2004 £m	2003 £m	Changes in year £m
Cash at bank and in hand:			
General business and other activities	**1,499**	1,233	266
Banking	**–**	42	(42)
Bank overdrafts:	**1,499**	1,275	224
General business and other activities (note 43)	**(518)**	(137)	(381)
Net non-long-term business cash included in the consolidated balance sheet	**981**	1,138	(157)

Notes to the accounts
continued

47 – Cash flow statement continued

(f) Movements in opening and closing non-long-term portfolio investments were:

	2004 £m	2003 £m
Net purchases of investments	**3,905**	1,672
Changes in non recourse funding	**(1,437)**	–
	2,468	1,672
Net investments acquired with subsidiary undertakings	**–**	289
Changes in market values and foreign exchange rate movements	**322**	915
Net movement in opening and closing non-long-term portfolio investments	**2,790**	2,876
Balance at 1 January		
Total non-long-term portfolio investments	**16,271**	13,395
	19,061	16,271
Balance at 31 December		
Total non-long-term portfolio investments	**20,498**	16,271
Non-recourse funding	**(1,437)**	–
	19,061	16,271

(g) Non-long-term portfolio investments included in the consolidated balance sheet comprised:

	2004 £m	2003 £m	Changes in year £m
Land and buildings (note 18)	**637**	637	–
Other participating interests (note 20a)	**40**	30	10
Other financial investments (note 21a)	**17,157**	14,422	2,735
Deposits with ceding undertakings	**29**	41	(12)
Banking investments (note 29a)	**1,198**	1,141	57
	19,061	16,271	2,790

48 – Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 38 gives details of the assumptions used in determining the long-term business provision which are designed to allow for prudence and the appropriate emergence of surpluses to pay future bonuses. Note 39 gives details of the estimation techniques used in determining the general business outstanding claims provision. Both are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed for long-term business, or assumptions over general business claims inflation may alter in the future, there is uncertainty in respect of this liability.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including the UK, United States, Australia and Canada. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, the Group's exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Group.

(c) Guarantees on long-term savings products

As a normal part of their operating activities, various Group companies have given guarantees, including interest rate guarantees, in respect of certain long-term insurance and fund management products. In the UK, in common with other pension and life policy providers, the Group wrote individual and group pension policies in the 1970s and 1980s with a guaranteed annuity rate option (GAO). Since 1993, such policies have become more valuable to policyholders, and more costly for insurers, as current annuity rates have fallen in line with interest rates. Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable Life case in 2000 which effectively required full reserving by all companies. Prior to the ruling, consistent with the Group's ordinary reserving practice in respect of such obligations, full reserves for GAOs had already been established. No adjustment was made, or was necessary, to the Group's reserving practice as a result of the ruling. The directors continue to believe that the existing provisions are sufficient.

(d) Pensions mis-selling

The pensions review of past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Financial Services Authority (FSA), has largely been completed. A provision of some £50 million *(2003: £65 million)* remains to meet the outstanding costs of the few remaining cases, the anticipated cost of any guarantees provided, and potential levies payable to the Financial Services Compensation Scheme (FSCS). It continues to be the directors' view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

48 – Contingent liabilities and other risk factors continued

(e) Endowment reviews

In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages. A key conclusion was that, on average, holders of mortgage endowments had enjoyed returns such that they had fared at least as well as they would have done without an endowment. Nevertheless, following the FSA review, all of the Group's UK mortgage endowment policyholders received policy-specific letters advising them whether their investment was on track to cover their mortgage.

In May 2002, in accordance with FSA requirements, the Group commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The Group will continue to send these updates annually to all mortgage endowment holders, in accordance with FSA requirements. The Group has made provisions totalling £130 million *(2003: £80 million)* to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the directors' view that there will be no material effect either on the Group's liability to meet the expectations of policyholders or on shareholders.

In August 2004, the Group confirmed its intention to introduce time barring on mortgage endowment complaints, under FSA rules, by the end of 2005. The Group is writing to its one million endowment policyholders as part of its ongoing review, introducing a time bar on mortgage endowment complaints in the future. Customers will be given at least 12 months' individual notice before a time bar becomes applicable – double the six months' notice required by the FSA.

(f) Split capital investment trusts

The Group's fund management subsidiary, Morley Fund Management Limited (MFML), acts as investment advisor for a number of split capital investment trusts. In May 2002, the FSA launched extensive and industry-wide investigations into allegations of collusion by fund managers, mis-selling by intermediaries, and the production and distribution of misleading marketing material. These investigations have now concluded.

MFML is party to an agreement reached between the FSA and a number of firms which were subject to the investigations (the Firms). The FSA and the Firms have agreed a package of £194 million for investors. The Firms have agreed to contribute, without admissions, to a fund which will be available for distribution to eligible individuals who invested in zero dividend preference shares (Zeros) and in a number of specified unit trusts and other financial products that invested in Zeros. MFML has contributed to the fund, and the directors consider that no further material contingent liability exists from these investigations.

(g) Other

The Company and several of its subsidiaries have guaranteed the overdrafts and borrowings of certain subsidiary and associated undertakings. In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

In addition, in line with standard business practice, various Group companies have given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiary and associated undertakings to parties outside the Aviva Group. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

49 – Capital commitments

In carrying on the business of investment, the Group has entered into future commitments, including property development, after 31 December 2004. These amounts are not reflected in the consolidated Group balance sheet on pages 72 and 73. The Group has in hand a number of property developments which, under contracts already signed, will require expenditure of £197 million *(2003: £181 million)* for long-term business operations.

50 – Related party transactions

There are no related party transactions requiring disclosure in accordance with FRS8 "Related Party Disclosures".

51 – Post balance sheet events

After the balance sheet date, the Board of Aviva plc announced the terms of a recommended cash and share offer, to be made by Goldman Sachs and JPMorgan Cazenove on behalf of Aviva plc, for the entire issued and to be issued share capital of RAC plc, subject to regulatory approvals.

Five year review

	2004* £m	Restated 2003(c)* £m	Restated 2002(c)** £m	Restated 2001(c)** £m	Restated 2000(c)(d)** £m
Premium income after reinsurance and investment sales					
Life assurance, investment sales, including share of associates	**21,834**	20,176	19,200	19,065	17,349
General insurance	**8,815**	8,524	7,805	7,850	8,356
Health	**994**	1,066	928	841	687
Total continuing operations	**31,643**	29,766	27,933	27,756	26,392
Consolidated profit and loss account					
Life assurance (European embedded value basis/achieved profit basis)	**1,611**	1,496	1,518	1,662	1,530
Health	**58**	61	61	70	68
Fund management and non-insurance operations	**(8)**	4	(88)	(60)	(57)
General insurance	**1,326**	911	881	876	330
Corporate costs and unallocated interest charges	**(643)**	(566)	(652)	(613)	(546)
Operating profit including EEV profit/life achieved profit – continuing operations	**2,344**	1,906	1,720	1,935	1,325
Deduct EEV profit/life achieved profit	**(1,611)**	(1,496)	(1,518)	(1,662)	(1,566)
Adjustment in respect of life service companies (d)	**(57)**	(58)	–	–	–
Add modified statutory life profit	**1,185**	1,138	1,016	1,191	1,187
Operating profit on continuing operations before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	**1,861**	1,490	1,218	1,464	946
Discontinued operations	**–**	–	78	48	(472)
Amortisation of goodwill and acquired additional value of in-force long-term business	**(246)**	(238)	(274)	(151)	(121)
Financial Services Compensation Scheme levy and other levies	**(49)**	–	–	(31)	–
Integration costs	**–**	–	–	(59)	(425)
Operating profit/(loss) before tax	**1,566**	1,252	1,022	1,271	(72)
Short-term fluctuation in investment return	**131**	212	(1,243)	(988)	258
Change in the equalisation provision	**(23)**	(49)	(57)	(56)	(27)
Net profit/(loss) on the disposal of subsidiary and associated undertakings	**(136)**	(6)	(4)	287	(1,058)
Exceptional costs for termination of operations	**(50)**	(19)	–	–	–
Loss on withdrawal from London Market operations	**–**	–	–	–	(448)
Merger transaction costs	**–**	–	–	–	(59)
Profit/(loss) on ordinary activities before tax	**1,488**	1,390	(282)	514	(1,406)
Tax	**(355)**	(367)	(206)	(198)	(255)
Minority interests	**(76)**	(74)	(46)	(57)	(52)
Dividends	**(598)**	(562)	(536)	(874)	(872)
Retained profit/(loss) transferred to/(from) reserves	**459**	387	(1,070)	(615)	(2,585)
Consolidated shareholders' funds					
Equity shareholders' funds	**7,130**	6,354	5,636	6,274	7,078
Non-equity shareholders' funds	**1,190**	200	200	200	200
Shareholder funds per statutory accounts	**8,320**	6,554	5,836	6,474	7,278
Additional value of internally-generated in-force long-term business	**4,617**	4,198	3,468	5,268	5,999
Shareholders' funds on an EEV basis	**12,937**	10,752	9,304	11,742	13,277

	2004* £m	Restated 2003(c)* £m	Restated 2002(c)** £m	Restated 2001(c)** £m	Restated 2000(c)(d)** £m
Pence per ordinary share					
Net asset value per statutory accounts (a)	**329p**	298p	264p	290p	324p
Net asset value (on a European embedded value basis/achieved profit basis) (a)	**532p**	484p	417p	524p	591p
Market price (London) (a)	**628p**	490p	443p	845p	1082p
Earnings per share attributable to equity shareholders (b):					
MSSB operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax, attributable to equity shareholders in respect of continuing operations	**57.2p**	44.0p	34.8p	40.8p	24.6p
Ordinary dividend	**25.36p**	24.15p	23.0p	38.0p	38.0p

* On a European embedded value (EEV) basis.

**On an achieved profits basis.

Notes

(a) The net asset value and market price (London) are as at 31 December. The net asset value is calculated based on equity shareholders' funds, adding back the equalisation provision.

(b) Basic earnings per ordinary share are shown only. No figures have been provided for diluted earnings per share.

(c) The profit and loss account and balance sheet figures have been restated to reflect the following changes in accounting policy and presentational changes.

(i) The 2000 and 2001 profit and loss account figures were restated in 2002 for the reclassification of the results of various service companies from life assurance to non-insurance operations.

(ii) The 2001 profit and loss account figures and the balance sheet figures for 2000 and 2001 were restated in 2002 for the effects of implementing FRS19 "Deferred Tax".

(iii) The 2000 and 2001 results of the Australia and New Zealand general insurance have been reclassified from continuing operations to discontinued operations following the disposal of the business in 2002.

(iv) Equity shareholders' funds for 2000, 2001 and 2002 have been restated for the changes in accounting policies in respect of the internally-generated additional value of in-force long-term business no longer recognised and the treatment of shares held by employee trusts as a deduction from shareholders' funds.

(v) The wealth management result has been included within fund management and non-insurance operations in all years.

(vi) The 2003 profit and loss account figures and the balance sheet figures for 2003 and 2002 have been restated to reflect the adoption of European embedded value (EEV) Principles, in place of the achieved profits basis of reporting.

(d) The proportion of the results of the Group's UK and French asset management operation, the results of Norwich Union Equity Release and the proportion of the results of Norwich Union Life Services operations that arise from the provision of fund management and other services to the life business have been included within life assurance operating profit on an EEV basis but are included within fund management and non-insurance on a MSSB basis.

Introduction of International Financial Reporting Standards (IFRS)

Introduction

From 2005 all European Union listed groups will be required to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union. Aviva will therefore prepare consolidated accounts in 2005 in accordance with IFRS rather than with UK GAAP. The listing rules in the UK require that the 2005 interim results must also be presented on an IFRS basis. Aviva intends to publish its first IFRS results in August 2005. This will include income statement, balance sheet and cash flow statement comparatives for half year and full year 2004.

In January 2004 The Committee of European Securities Regulators issued guidance regarding the transition to IFRS which encourages companies to provide markets with appropriate and useful information during the transition phase from local accounting standards to IFRS. Aviva believes that it is important to remove some of the uncertainty regarding IFRS and in line with the recommendations in the guidance has chosen to publish early its consolidated summarised balance sheet prepared in accordance with IFRS at the date of transition, namely 1 January 2004, together with a reconciliation of shareholders' equity at this date. The Group's preparations for reporting under IFRS are well advanced, however Aviva is not yet required to publish full restated 2004 comparatives. This information will be provided as part of the 2005 interim reporting.

Basis of preparation

The Group's preliminary consolidated balance sheet at 1 January 2004 ("the restated IFRS preliminary opening balance sheet") has been prepared in accordance with IFRS issued by the IASB and endorsed by the European Commission effective for 2005 year ends. In addition the Group plans to adopt early the recently issued Amendment to IAS19 Employee Benefits (2004). It is assumed that the amendment will be endorsed by the European Commission so as to be available for adoption in 2005. The IFRS themselves are subject to possible amendment by interpretative guidance from the IASB or other external bodies and are therefore subject to change prior to publication of the Group's first IFRS results in August 2005.

In October 2004 the European Commission voted to partially adopt International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (IAS39). In summary this "carve-out version" of IAS39 removes the use of the fair value option for financial liabilities and relaxes the rules for hedge accounting. It is Aviva's intention to comply as far as possible with the full version of IAS39 issued by the IASB. Recent guidance issued by the UK's Accounting Standards Board, clarifies that UK companies are able to apply the hedge accounting provisions within IAS39 in full, and fair value those liabilities that were permitted to be held at current value under UK Company Law. This would include liabilities arising from unit linked contracts. Aviva has applied the guidance in this case.

The restated IFRS preliminary opening balance sheet does not reflect any changes in respect of any amendments to IAS39 on the fair value option currently being discussed by the IASB. Proposals to restrict the fair value option are being considered by the IASB and are the subject of continuing debate between the IASB, industry and regulators, in which Aviva is actively participating. It is too early to anticipate the outcome of these discussions and therefore its eventual impact on the Group.

Within the restated IFRS preliminary opening balance sheet, those assets held to cover the Group's linked liabilities are no longer disclosed in a single line but have been reported in the various asset classifications. The method of presentation of these assets is currently being debated by the industry and so is subject to change, but in any event we will provide in our full financial statements additional disclosure so that the amounts included in individual asset lines can be separately identified.

The industry is still debating the consolidation of mutual funds, such as OEICs and OPCVMs. Aviva has chosen to consolidate these vehicles but will continue to monitor industry developments.

Financial Reporting Standard 27, *Life Assurance* (FRS27) was issued by the UK's Accounting Standards Board (ASB) on 13 December 2004, in the wake of the Penrose enquiry and is mandatory for reporting periods starting on or after 23 December 2005. Aviva along with other major insurance companies and the Association of British Insurers (ABI) has signed a Memorandum of Understanding (MoU) with the ASB relating to FRS27. Under this MoU, Aviva has agreed to provide voluntarily early disclosure of the requirements for 2004 and then to fully adopt the standard from 2005, including within the Group's IFRS financial statements.

Within FRS27 the ASB acknowledged the difficulty of applying the requirements retrospectively and indeed it is the Group's view that it would be impractical to do so. Hence in accordance with IAS8 only the balance sheet at 31 December 2004 will be restated for the impact of FRS27. No adjustments are therefore required, nor have any been made, to the restated preliminary IFRS opening balance sheet below.

A summary of the IFRS accounting policies adopted by the Group in preparing the restated preliminary IFRS opening balance sheet have been included on pages 121 to 126.

The restated preliminary IFRS opening balance sheet has been audited by Ernst & Young. A copy of their opinion can be found on page 127.

Transitional arrangements upon first time adoption of IFRS

In general, a company is required to determine its IFRS accounting polices and apply these retrospectively to determine its opening balance sheet under IFRS. However, International Financial Reporting Standard 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS1) allows a number of exemptions to this general principle upon adoption of IFRS. The Group has taken advantage of the following transitional arrangements:

Business combinations

The Group has elected not to apply retrospectively the provisions of International Financial Reporting Standard 3, *Business Combinations*, to business combinations that occurred prior to 1 January 2004. At the date of transition no adjustment was made between UK GAAP and IFRS shareholders' funds for any historical business combination.

Cumulative translation differences

The Group has elected that the cumulative translation differences of foreign operations were deemed to be zero at the transition date to IFRS.

Equity compensation plans

The Group has elected not to apply the provisions of International Financial Reporting Standard 2, *Share-based Payment*, to options and awards granted on or before 7 November 2002 which had not vested by 1 January 2005.

Employee benefits

All cumulative actuarial gains and losses on the Group's defined benefit pension schemes have been recognised in equity at the transition date.

Comparatives

The Group has not taken advantage of the exemption within IFRS1 that allows comparative information presented in the first year of adoption of IFRS not to comply with International Accounting Standard 32, *Financial Instruments: Disclosure and Presentation* (IAS32), International Accounting Standard 39, *Financial Instruments: Recognition and measurement* (IAS39) and International Financial Reporting Standard 4, *Insurance Contracts* (IFRS4).

Estimates

Where estimates had previously been made under UK GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (ie, judgements affecting the Group's opening balance sheet have not been revisited for the benefit of hindsight).

Introduction of International Financial Reporting Standards (IFRS) continued

Summarised preliminary consolidated balance sheet at date of transition to IFRS – 1 January 2004

	UK GAAP (MSSB) as published £m	Adjustments £m	IFRS £m
Assets			
Intangible assets			
Goodwill	1,105	40	**1,145**
Acquired value of in-force business and other intangible assets	488	–	**488**
	1,593	40	**1,633**
Property and equipment	320	563	**883**
Investment property	9,106	618	**9,724**
Investments in joint ventures and associates	1,912	69	**1,981**
Financial investments and loans	129,032	40,480	**169,512**
Assets held to cover linked liabilities	40,665	(40,665)	**–**
Reinsurance assets	6,883	328	**7,211**
Tax assets	215	633	**848**
Other assets	15,955	(3,580)	**12,375**
Cash and cash equivalents	2,999	6,524	**9,523**
Total assets	208,680	5,010	**213,690**
Equity			
Share capital	764	–	**764**
Capital reserves	3,859	–	**3,859**
Shares held by employee trusts	(1)	–	**(1)**
Revaluation and other reserves	–	568	**568**
Retained earnings	1,932	(818)	**1,114**
Equity attributable to shareholders of Aviva plc	6,554	(250)	**6,304**
Minority interests	811	(7)	**804**
Total equity	7,365	(257)	**7,108**
Liabilities			
Insurance liabilities	175,304	(61,401)	**113,903**
Liability for investment contracts	–	57,445	**57,445**
Unallocated divisible surplus	8,443	1,730	**10,173**
Pension obligations and other provisions			
Provisions including pension obligations as measured under IAS 19	336	1,469	**1,805**
Non-transferable investment in life fund	–	(598)	**(598)**
	336	871	**1,207**
Tax liabilities	1,276	631	**1,907**
Borrowings (inc. subordinated debt)	4,722	3,555	**8,277**
Other liabilities	11,234	830	**12,064**
Net asset value attributable to unitholders	–	1,606	**1,606**
Total liabilities	201,315	5,267	**206,582**
Total equity and liabilities	208,680	5,010	**213,690**

Approved by the Board on 8 March 2005.

Andrew Moss
Group Finance Director

Analysis of adjustments to the balance sheet at 1 January 2004 as a result of the transition to IFRS

	Investment valuation (Note 1) £m	Insurance changes (Note 2) £m	Employee benefits (Note 3) £m	Goodwill (Note 4) £m	Dividend recognition (Note 5) £m	Deferred taxation (Note 6) £m	Borrowings /Cash (Note 7) £m	Other items (Note 8) £m	Total adjustments £m
Assets									
Intangible assets:									
Goodwill				40					**40**
Acquired value of in-force business and other intangible assets									**–**
Property and equipment								563	**563**
Investment property								618	**618**
Investments in joint ventures and associates	7							62	**69**
Financial investments and loans	1,854						6	38,620	**40,480**
Assets held to cover linked liabilities								(40,665)	**(40,665)**
Reinsurance assets		(134)						462	**328**
Tax assets						617		16	**633**
Other assets		(6)	(427)				67	(3,214)	**(3,580)**
Cash and cash equivalents							3,547	2,977	**6,524**
Total assets	1,861	(140)	(427)	40	–	617	3,620	(561)	**5,010**
Equity									
Share capital									**–**
Capital reserves									**–**
Shares held by employee trusts									**–**
Revaluation and other reserves	568								**568**
Retained earnings	(377)	289	(834)	40	344	(351)	–	71	**(818)**
Equity attributable to shareholders of Aviva plc	191	289	(834)	40	344	(351)	–	71	**(250)**
Minority interests								(7)	**(7)**
Total equity	191	289	(834)	40	344	(351)	–	64	**(257)**
Liabilities									
Insurance liabilities	161	(530)				58		(61,090)	**(61,401)**
Liability for investment contracts								57,445	**57,445**
Unallocated divisible surplus	1,509	1				(48)		268	**1,730**
Pension obligations and other provisions			760					111	**871**
Tax liabilities			(353)			958		26	**631**
Borrowings (inc. subordinated debt)							3,394	161	**3,555**
Other liabilities		100			(344)		226	848	**830**
Net asset value attributable to unitholders								1,606	**1,606**
Total liabilities	1,670	(429)	407	–	(344)	968	3,620	(625)	**5,267**
Total equity and liabilities	1,861	(140)	(427)	40	–	617	3,620	(561)	**5,010**

Introduction of International Financial Reporting Standards (IFRS) continued

Notes to the analysis of adjustments to the balance sheet at 1 January 2004 as a result of the transition to IFRS
The UK GAAP balance sheet has been presented in a format consistent with IFRS. The only significant change in heading is that the Fund for Future Appropriations is now called Unallocated Divisible Surplus. The basis for the material adjustments between UK GAAP and IFRS are as follows:

Note 1: Investment valuation
The adjustments in respect of investment valuation arise from the following:

	£m
Increase in valuation of debt securities	**1,718**
Change in valuation of certain mortgages	**113**
Other sundry adjustments	**23**
	1,854

The principle changes are discussed further below.

(a) Debt securities
Under UK GAAP, equity securities and unit trusts are carried at current value. Debt and other fixed income securities are carried at current value, with the exception of many non-linked long-term business debt securities and fixed income securities, which are carried at amortised cost.

As a result of applying IAS39, the Group now carries all investments in debt and equity securities at fair value. The change in valuation of debt securities from amortised cost to fair value increases the valuation of investments by £1,718 million at 1 January 2004. This change in the valuation of debt securities is largely offset by corresponding movements in the unallocated divisible surplus and to a small extent technical liabilities. The net impact on shareholders' funds at 1 January 2004 is to increase them by £191 million.

(b) Commercial mortgages backing certain annuity business
Under IFRS, the Group has chosen to move certain of its commercial mortgage portfolio to an active fair valuation basis in accordance with IAS39, which has increased the value of investments by £113 million. The annuity liabilities which are backed by these assets have been correspondingly revalued, with the result that there is an insignificant impact on shareholders' funds at 1 January 2004.

Revaluation reserve
Under IFRS, changes in the fair value of securities classified as "at fair value through profit or loss" are recognised in the income statement. Changes in the fair value of securities classified as available-for-sale (AFS), except for impairment losses and relevant foreign exchange gains and losses, are recorded as a component of shareholders' equity, net of related deferred taxes. When securities classified as AFS are sold or impaired the accumulated fair value adjustments are transferred out of this reserve to the income statement. Accounting policy Q - Financial investments on page 124 explains further how the Group has classified its investments.

Furthermore, further owner-occupied properties are carried at their revalued amounts and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings.

Under UK GAAP, fair value movements on all investments, including those classified as AFS securities under IFRS and owner-occupied properties, are recorded in the consolidated profit and loss account.

The above requirements have resulted in a transfer from retained earnings of £568 million into separate revaluation reserves at 1 January 2004.

Note 2: Insurance change
The impact on shareholders' funds of insurance changes is as follows:

	£m
Change in value of non-participating investment contracts	**(55)**
Derecognition of claims equalisation provision	**364**
Change in valuation of reinsurance treaties	**(48)**
Other sundry items	**28**
	289

The principal changes to the Group's insurance accounting upon transition to IFRS are discussed further below.

(a) Product classification
International Financial Reporting Standard 4, *Insurance Contracts (IFRS4)* requires all products issued to be classified for accounting purposes into either insurance or investment contracts, depending on whether significant insurance risk exists. In the case of a life contract, insurance risk exists if the amount payable on death differs from the amount payable if the policyholder survives. The Group has deemed insurance risk to be significant if the difference exceeds 5% of the policy value, though the classification would be similar if a 10% test had been used.

Following a detailed review, 61% of life policy reserves on an MSSB basis at 31 December 2003 have been classified as insurance and 24% have been classified as participating investment contracts (being those investment contracts containing a discretionary participating feature as defined within IFRS4) and both classes will continue to be accounted for under the Group's existing (UK GAAP) accounting policies. The remaining 15% have been classified as non-participating investment contracts and therefore are required to be accounted for under IAS39 and International Accounting Standard 18, *Revenue* (IAS18). Virtually all our general insurance products are classified as insurance.

This product classification change results in technical provisions being allocated between insurance and investment contracts. As described in note 8, the "other" column includes £57,445 million of liabilities being classified as investment contracts.

(b) Non-participating investment contracts
As noted above, the liability for contracts classified as non-participating investment contracts is valued in accordance with IAS39. This generally requires all financial liabilities to be valued at amortised cost unless previous company regulations permitted a fair valuation of liabilities to be used, such as in the case of unit-linked liabilities. The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and have been valued at fair value. For unit-linked contracts the fair value liability is deemed to equal the current unit fund value, plus positive non-unit reserves if required on a fair value basis. This replaces the reserve held under UK GAAP which equals the unit fund value plus any positive or negative non-unit reserves determined on the local valuation basis, which differs from that required on a fair value basis.

In addition to the change in liability valuation, the accounting for deferred acquisition costs has been revised in accordance with IAS18. This restricts the types of acquisition costs that can be deferred leading to a reduction in deferred acquisition costs as compared to UK GAAP.

The net impact on shareholders' funds of the above changes is a reduction of £55 million.

In addition to the above, IFRS now requires that any front end fees received on non-participating investment contracts are included within an explicit deferred income reserve within creditors. Under UK GAAP, any deferred acquisition cost asset created would have been net of these fees. This has led to an increase in "Other assets" and "Other liabilities" of £100 million.

(c) Equalisation provision
An equalisation provision is recorded in the accounts of individual general insurance companies in the UK and in a limited number of other countries, to eliminate, or reduce, the volatility in incurred claims arising from exceptional levels of claims in certain classes of business. The provision is required by law even though no actual liability exists at the balance sheet date and is included in the UK GAAP consolidated balance sheet. The annual change in the equalisation provision is recorded in the UK GAAP profit and loss account. Under IFRS, no equalisation provision is recorded, as no actual liability exists at the balance sheet date. There is an increase of £364 million in shareholders' funds as a result of the removal of the equalisation provision.

(d) Reinsurance treaties
Following a full review of all our reinsurance contracts, a small number of the Group's long-term reinsurance treaties have been revalued under IFRS, leading to a reduction in the value of reassurance assets of £134 million. The majority of these changes relate to participating contracts and so these value changes affect principally the unallocated divisible surplus rather than shareholders' funds.

Note 3: Employee benefits
(a) Pensions
Under the Group's UK GAAP pension policy, as set out in Statement of Standard Accounting Practice, *Accounting for Pension Costs* (SSAP24), the cost of providing pension benefits is expensed using actuarial valuation methods which gives a substantially even charge over the expected service lives of employees and results in either a prepayment or an accrual to the extent that this charge does not equate to the cash contributions made into the schemes. Under International Accounting Standard 19, *Employee Benefits* (IAS19), the projected benefit obligation is matched against the fair value of the underlying assets and other unrecognised actuarial gains and losses in determining the pension expense for the year. Any pension asset or obligation must be recorded in the balance sheet. Aviva does not currently intend to apply the "corridor approach" to valuing pension deficits in the future.

This change in accounting has resulted in the removal of the Group's SSAP24 balances, a net debtor of £251 million, after allowing for deferred tax, at 1 January 2004 and the recognition of a deficit of £583 million, net of deferred tax, valued in accordance with IAS19. This gives an overall impact on shareholders' funds of £834 million at 1 January 2004.

In some countries, the pension schemes have invested in the Group's life funds. IAS19 requires us to consider the liquidity of the schemes' assets and, if these are non-transferable, the relevant scheme surplus or deficit must be stated before taking account of such assets. Because of the medium-term nature of the contract, the Dutch scheme's investment in the Delta Lloyd life fund is considered non-transferable and, under the terms of IAS19, the reported deficit in this scheme increased by £598 million at 1 January 2004 compared to the equivalent deficit under FRS17. The corresponding liability to the scheme has been retained within insurance liabilities and the scheme asset has been offset against the gross deficit for presentation purposes. This has had no effect on shareholders' funds.

There are a number of adjustments impacting the Group's "pension obligations and other provisions" line. However the most significant adjustment relates to the recognition of the gross pension deficit as illustrated in the table below:

	£m	£m
"Pension obligations and other provisions" as stated under UK GAAP		336
Less: SSAP24 pension obligation		(78)
Add: Pension deficit measured in accordance with IAS19	1,436	
Less: Non-transferable investment in life funds included in insurance liabilities		(598)
Pension deficit disclosed under FRS17	838	
Adjustments to other provisions arising under IFRS (included in note 8)		111
		1,207

All amounts above are stated gross of deferred tax.

(b) Equity Compensation plans
Under UK GAAP, the costs of awards to employees under equity compensation plans, other than the Save As You Earn plans, are recognised immediately if they are not conditional on performance criteria. If the award is conditional upon future performance criteria, the cost is recognised over the period to which the employee's service relates. The minimum cost for the award is the difference between the fair value of the shares at the date of grant less any contribution required from employee or exercise price. The cost is based on a reasonable expectation of the extent that the performance criteria will be met. Any subsequent changes in that expectation are reflected in the income statement as necessary.

Introduction of International Financial Reporting Standards (IFRS) continued

Under IFRS2, *Share-based Payment*, compensation costs for stock-based compensation plans that were granted after 7 November 2002, but had not yet vested at 1 January 2005, are determined based on the fair value of the share-based compensation at grant date, which is recognised in the income statement over the period of the expected life of the share-based instrument.

This change in accounting has not resulted in any material change to the balance sheet at 1 January 2004.

Note 4: Goodwill
Under International Accounting Standards 36, *Impairment of Assets* (IAS36), goodwill is no longer amortised but is tested for impairment, at least annually. Any goodwill previously amortised or, for goodwill arising before 1 January 1998, eliminated against shareholders' funds has not been reinstated. Negative goodwill previously recognised under UK GAAP, has been recognised directly in retained earnings at 1 January 2004, increasing shareholders' funds by £40 million.

Note 5: Dividend recognition
Under UK GAAP, dividends are accrued in the period to which they relate regardless of when they are declared and approved. Under International Accounting Standard 10, *Events after the Balance Sheet Date* (IAS10), shareholders' dividends are accrued only when declared and appropriately approved. This has increased shareholders' funds by £344 million.

Note 6: Deferred taxes
Under UK GAAP, provision is made for deferred tax assets and liabilities, using the liability method, arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. No provision is made for tax that might arise on undistributed earnings of subsidiaries unless a binding agreement for distribution exists. Deferred tax is recognised as a liability or asset if the transactions or events that give the entity an obligation to pay more tax in future or a right to pay less tax in future have occurred by the balance sheet date. The Group policy is to discount its deferred tax balances.

Under International Accounting Standard 12, *Income Taxes* (IAS12) deferred taxes are provided under the liability method for all relevant temporary differences, being the difference between the carrying amount of an asset or liability in the balance sheet and its value for tax purposes. IAS12 does not require all temporary differences to be provided for, in particular the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that future taxable profit will be utilised against the unused tax losses and credits. Discounting is prohibited under IAS12.

The changes to deferred tax arise from the removal of discounting, changes to the valuation of the Group's assets and liabilities under IFRS and presentational changes to disclosure of tax assets and liabilities. The main net increases in deferred tax at 1 January 2004 that reduce shareholders' funds are:

	£m
Reversal of discounting (the total discounting applied to UK GAAP deferred tax liabilities was £151 million, of which £110 million relates to non-life and shareholders' interests)	110
Deferred tax impact of the removal of the equalisation provision	108
Deferred tax impact of other changes to technical provisions, valuation of investments and other sundry adjustments	133
Net decrease to shareholders' funds	351

Note 7: Borrowings and cash
IFRS requires a number of presentational changes to borrowings and cash. The most significant change is that the linked presentation can no longer be adopted for the Group's borrowing securitised on certain of its mortgage portfolios. This increases borrowings and investments by £3,143 million. In addition, £3,307 million of the Group's investments meet the definition of cash equivalents and so have been reclassified to "cash and cash equivalents".

Note 8: Other items
The other changes that arise as a result of the transition to IFRS are principally reclassifications and presentational changes. The total effect of the other changes to shareholders' funds is £71 million, which mainly represents the pre-tax impact of consolidating certain entities, such as real estate companies in France, for the first time.

The other significant reclassification and presentational changes which have no impact on shareholders' funds are:

- Assets held to cover linked liabilities of £40,665 million are no longer disclosed in a single line but have been reported in the various asset classifications. Of this amount assets of £3,343 million have been netted off technical liabilities, reducing the gross assets and investment contract liabilities of the Group. There is no impact on profit or shareholders' funds as a result of this change;
- Technical provisions are disclosed as either insurance contracts or investment contracts, reflecting the product classification included in note 2(a). The Group held investment contracts of £57,445 million at 1 January 2004;
- The assets and liabilities of the banking business are no longer disclosed entirely in "other debtors" and "other creditors" but have been reported in the appropriate balance sheet classifications;
- Owner occupied properties have been reclassified from "investment property" to property and equipment. We continue to hold these properties at fair value.
- Though the industry is still debating the treatment of mutual funds, we have chosen to consolidate those vehicles that meet the definition of a subsidiary. This has resulted in an increase in gross assets of £1,606 million, representing the part of the funds owned by third parties. This third party interest is recorded in the line "net assets attributable to unitholders" within liabilities. The consolidation of mutual funds has no impact on shareholders' funds or profit after tax.

Accounting policies
The principal accounting policies adopted in the preparation of the restated preliminary IFRS opening balance sheet are set out below. Full accounting policies for the income statement have not been included and will be published with our interim announcement in August 2005.

A – Basis of presentation
The restated preliminary IFRS opening balance sheet has been prepared in accordance with International Financial Reporting Standards (IFRS) expected to be applicable at 31 December 2005. The Standards themselves are subject to possible amendment by interpretative guidance from the IASB or other external bodies and are therefore subject to change prior to publication of the Group's first IFRS results in August 2005.

The IASB issued an amendment to IAS19, *Employee Benefits*, in December 2004. Its requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Group intends to adopt them early. This has no impact on the opening balance sheet presented.

In accordance with the standard for Phase I of insurance contracts (IFRS4), the Group has applied existing accounting practices for insurance and participating investment contracts, modified, as appropriate, to comply with the IFRS framework and applicable standards.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates ("the functional currency"). The restated IFRS opening balance sheet is stated in sterling, which is the Company's functional and presentation currency.

B – Use of estimates
The preparation of financial statements requires the Group to make estimates and assumptions that affect items reported in the restated IFRS opening balance sheet. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

C – Consolidation principles
Subsidiaries
Subsidiaries are those entities (including Special Purpose Entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are excluded from consolidation from the date of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

From 1 January 2004, the date of first time adoption of IFRS, the Group is required to use the purchase method of accounting to account for the acquisition of subsidiaries. Prior to 1 January 2004, certain significant business combinations were accounted for using the "pooling of interests method" (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations have given rise to a merger reserve in the consolidated balance sheet. These transactions have not been restated as permitted by the IFRS1 transitional arrangements.

Associates and joint ventures
Associates are entities over which the Group has significant influence but which it does not control. Generally, it is presumed that the Group has significant influence where it has between 20% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement. In a number of these, the Group's share of the underlying assets and liabilities may be greater than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly-controlled entities are referred to as joint ventures in these IFRS disclosures.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated balance sheet. Equity accounting is discontinued when the Group no longer has significant influence over the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the entity, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

D – Foreign currency translation
Balance sheets of foreign entities are translated into the Group's presentation currency at the year end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate reserve within equity. At 1 January 2004 this reserve had been deemed to be zero in accordance with IFRS1. The euro exchange rate employed in the translation of the restated IFRS preliminary opening balance sheet is €1 = £0.70.

E – Product classification
Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts. Some insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in policy A above, insurance contracts and participating investment contracts continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS.

Introduction of International Financial Reporting Standards (IFRS) continued

F – Premiums earned
Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken at the date when payments are due.

General insurance and health premiums written reflect business incepted during the year. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are computed principally on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

G – Other investment contract fee revenue
Investment contract policyholders are charged fees for mortality, policy administration, investment management, surrenders or other contract services. These fees are recognised as revenue in the period in which they are assessed unless they relate to services to be provided in future periods. Amounts are considered to be assessed when the policyholder's balance has been adjusted for those fees. If the fees are for services to be provided in future periods, then they are deferred and recognised as the service is provided.

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the term of the policy. Where the investment contract is measured at fair value, the front end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

H – Other fee and commission income
Other fee and commission income consists primarily of investment fund management fees, distribution fees from mutual funds, commission revenue from the sale of mutual fund shares, and transfer agent fees for shareholder record keeping. Revenue from investment management fees, distribution fees and transfer agent fees is recognised when earned. Reinsurance commissions receivable and other commission income are recognised on the trade date.

I – Net investment income
Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis.

J – Insurance and participating investment contract liabilities
Long-term business provisions
Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in November 2003. As stated in the basis of preparation on page 114, no changes are required to the accounting policies adopted for the restated preliminary IFRS opening balance sheet for FRS27.

The long-term business provisions are calculated separately for each life operation, based on local regulatory requirements and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. Within the long-term business provisions, explicit allowance is made for vested bonuses, including those added following the current valuation, but allowances are not generally made for future reversionary or terminal bonuses.

The liability in respect of guaranteed benefits for participating insurance contracts is calculated in accordance with local actuarial principles, using a deterministic approach and a prudent set of valuation assumptions.

Unallocated divisible surplus
In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

General insurance and health provisions
(i) Outstanding claims provisions
General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date. Provisions for certain claims are discounted, using rates having regard to the returns generated by the assets supporting the liabilities. Any estimate represents a determination within a range of possible outcomes.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

(ii) Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

(iii) Liability adequacy
At each reporting date, the Group carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs and additional value in force) is insufficient in light of the estimated future cash flows, the Group recognises the deficiency in the income statement by setting up a provision in the consolidated balance sheet.

Other assessments and levies
The Group is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "Pension obligations and other provisions" within the balance sheet.

K – Non-participating investment contract liabilities
Liabilities for non-participating investment contracts are measured at amortised cost unless previous company regulations permitted a fair valuation of liabilities to be used, such as in the case of unit-linked liabilities. The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value.

The fair value liability is in principle established through the use of prospective discounted cash flow techniques. For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required on a fair value basis.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

L – Reinsurance
The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the restated IFRS opening balance sheet.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the balance sheet and are included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in profit and loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

M – Intangible assets
Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at book value (original cost less amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill arising on the Group's investments in associates and joint ventures since that date is included within the carrying value of these investments.

Under UK GAAP, goodwill previously written off to shareholders' funds is taken back through the profit and loss account when calculating the profit and loss account in the event of any subsequent disposal of the underlying investment. There is no requirement for this adjustment under IFRS.

Acquired value of in-force business (AVIF)
The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an intangible asset. If this arises through the acquisition of an investment in an associate, the AVIF is held within the carrying amount of that associate. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement.

Other intangible assets
Other intangible assets consist primarily of access to distribution networks. These are amortised over their useful lives using the straight-line method.

Introduction of International Financial Reporting Standards (IFRS) continued

N – Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. All other items classed as property and equipment in the balance sheet are carried at historical cost less accumulated depreciation.

Investment properties under construction are included in property and equipment until completion, and are stated at cost less provision for any impairment in their values.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

All borrowing costs are expensed as they are incurred. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group, and that the renovation replaces an identifiable part of the asset.

O – Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations. Changes in fair values are recorded in the income statement within net investment income.

P – Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Q – Financial investments

The Group classifies its investments as either financial assets at fair value through profit or loss (FV), available for sale financial assets (AFS), or loans and receivables. The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. In general, the FV category is used, but the AFS category is used where the relevant life liability (including shareholders' funds) is passively managed and carried at amortised cost.

The FV category has two sub-categories – those that meet the definition as being held for trading and those the Group chooses to designate as at fair value through profit or loss (referred to in this accounting policy as "other than trading"). Fixed maturities, purchased loans and equity securities, which the Group buys with the intention to resell in the near term (typically between three and six months), are classified as trading. All other securities in the FV category are classified as other than trading.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values less transaction costs. Debt securities are initially recorded at their fair value which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate reserve within equity.

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

R – Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase, representing their fair value at that date.

Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

(i) a hedge of the fair value of a recognised asset or liability (fair value hedge);

(ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or

(iii) a hedge of a net investment in a foreign operation (net investment hedge).

The Group does not currently have any material fair value or cash flow hedges.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment, both on inception and on an ongoing basis, of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item.

Changes in the fair value of derivatives that are designated and qualify as net investment hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment. Upon transition to IFRS this reserve is deemed to be zero.

S – Loans
Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

Certain mortgages which back long-term business have been classified at fair value through profit or loss in order to match the movement in those liabilities. Those loans are revalued to fair value at each period end, with movements in valuation being taken to the income statement.

To the extent that a loan is uncollectable, it is written off as impaired. Subsequent recoveries are credited to the income statement.

T – Deferred acquisition costs
The costs directly attributable to the acquisition of new business for insurance and participating investment contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. For non-participating investment and investment fund management contracts, incremental acquisition costs that are directly attributable to securing an investment management service are also deferred. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General business deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

U – Cash and cash equivalents
Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days' maturity from the date of acquisition.

V – Leases
Leases where a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

There are no material finance leases affecting the Group as either lessor or lessee.

W – Provisions and contingent liabilities
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

X – Employee benefits
Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Pension obligations
The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of qualified actuaries.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds. The resulting pension scheme surplus or deficit appears as an asset or obligation in the consolidated balance sheet. The Group intends to early adopt the December 2004 amendment to IAS19, *Employee Benefits,* with the result that all actuarial gains and losses will be recognised immediately in equity through the Statement of recognised income and expense.

Introduction of International Financial Reporting Standards (IFRS) continued

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. In some countries, the pension schemes have invested in the Group's life funds, details of which are given on page 119.

Other post-retirement obligations
Some Group companies provide post-retirement healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. None of these schemes is material to the Group. The costs of the Dutch and Canadian schemes are included within pension obligations and other provisions. For such schemes in other countries, provisions are calculated in line with local regulations, with movements being charged to the income statement within staff costs.

Equity compensation plans
The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (the "SAYE plan").

The Group accounts for share equity compensation plans, using the fair value based method of accounting (the "fair value method"). Under the fair value method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected service period of the related employees and credited to the equity compensation reserve, part of shareholders' funds.

Shares purchased by employee share trusts to fund these awards are shown as a deduction from shareholders' funds at their original cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited to this account, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

Y – Income taxes
Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither the accounting profit nor taxable profit or loss at the time of the transaction.

Deferred tax related to fair value re-measurement of available-for-sale investments, owner-occupied property and other amounts taken directly to equity is credited or charged to equity and is recognised in the balance sheet as a deferred tax asset or liability.

Z – Borrowings
Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

AA – Share capital and treasury shares
Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Equity instruments
A financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Treasury shares
Where the Company or its subsidiaries purchase the Company's share capital or obtains rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity.

AB – Fiduciary activities
Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from the IFRS financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

Independent auditors' report to Aviva plc on the preliminary IFRS consolidated financial statements at 1 January 2004

To the Board of Directors of Aviva Plc

We have audited the accompanying preliminary International Financial Reporting Standards IFRS consolidated financial statements of Aviva plc at 1 January 2004 which comprise the preliminary opening IFRS consolidated balance sheet as at 1 January 2004, the analysis of adjustments to the consolidated balance sheet at 1 January 2004 as a result of the transition to IFRS and related accounting policies notes set out on pages 114 to 126.

This report is made solely to Aviva plc "the Company" in accordance with our engagement letter dated 23 November 2004. Our audit work has been undertaken so that we might state to the Company 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 or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

These preliminary IFRS consolidated financial statements are the responsibility of the Company's directors and have been prepared as part of the Group's conversion to IFRS. They have been prepared in accordance with the basis of preparation and transitional arrangements upon first time adoption of IFRS on pages 114 and 115. These describe how IFRS have been applied under IFRS1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2005.

Basis of audit opinion

We conducted our audit in accordance with UK Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as outlined in the basis of preparation on page 114, the preliminary opening IFRS consolidated financial statements may require adjustment before constituting the final IFRS consolidated financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRSs.

Opinion

In our opinion, the preliminary IFRS consolidated financial statements as at 1 January 2004 have been prepared, in all material respects, in accordance with the basis set out in the accounting policies note, which describes how IFRS have been applied under IFRS1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2005.

Ernst & Young LLP
Registered Auditor

London

8 March 2005

Alternative method of reporting long-term business

Summarised consolidated profit and loss account – EEV basis
For the year ended 31 December 2004

2004 €m		2004 £m	Restated* 2003 £m
	Operating profit		
2,369	Life EEV operating return	**1,611**	1,496
86	Health	**58**	61
34	Fund management[1]	**23**	(4)
1,950	General insurance	**1,326**	911
(46)	Non-insurance operations[2]	**(31)**	8
(262)	Corporate costs	**(178)**	(160)
(684)	Unallocated interest charges	**(465)**	(406)
3,447	**Operating profit – before tax, amortisation of goodwill and exceptional items****	**2,344**	1,906
(177)	Amortisation of goodwill	**(120)**	(103)
(72)	Financial Services Compensation Scheme and other levies	**(49)**	–
3,198	Operating profit before tax	**2,175**	1,803
831	Variation from longer-term investment return	**565**	779
(468)	Effect of economic assumption changes	**(318)**	(55)
(34)	Change in the equalisation provision	**(23)**	(49)
(200)	Loss on the disposal of subsidiary and associated undertakings	**(136)**	(6)
(73)	Exceptional costs for termination of operations	**(50)**	(19)
3,254	**Profit on ordinary activities before tax**	**2,213**	2,453
(957)	Tax on operating profit – before amortisation of goodwill and exceptional items	**(651)**	(563)
6	Tax credit/(charge) on (loss)/profit on other ordinary activities	**4**	(176)
2,303	**Profit on ordinary activities after tax**	**1,566**	1,714
(244)	Minority interests	**(166)**	(121)
2,059	**Profit for the financial year**	**1,400**	1,593
(25)	Preference dividends	**(17)**	(17)
(9)	Direct capital instrument appropriation	**(6)**	–
2,025	**Profit for the financial year attributable to equity shareholders**	**1,377**	1,576
(845)	Ordinary dividends	**(575)**	(545)
1,180	**Retained profit for the financial year**	**802**	1,031

* Restated for the effect of implementing European Embedded Value principles.

**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 (NUER). Also excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. These results are included within the life EEV operating return. Other subsidiaries providing services to our life businesses do not significantly impact the Group results.

Earnings per share – EEV basis
For the year ended 31 December 2004

2004 €m		2004	Restated* 2003
98.8c	Operating profit on an EEV basis before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders**	**67.2p**	53.0p
89.7c	Profit attributable to equity shareholders	**61.0p**	70.0p
88.8c	Profit attributable to equity shareholders – diluted	**60.4p**	69.8p

* Restated for the effect of implementing European Embedded Value principles.

**All operating profit is from continuing operations.

Consolidated statement of total recognised gains and losses – EEV basis
For the year ended 31 December 2004

2004 €m		2004 £m	Restated* 2003 £m
2,059	Profit for the financial year**	**1,400**	1,593
(199)	Foreign exchange gains	**104**	415
1,860	**Total recognised gains arising in the year**	**1,504**	2,008

* Restated for the effect of implementing European Embedded Value principles.

**Stated before the effect of foreign exchange movements, which are reported within the foreign exchange line.

Reconciliation of movements in consolidated shareholders' funds – EEV basis
For the year ended 31 December 2004

2004 €m		2004 £m	Restated* 2003 £m
	Shareholders' funds at the beginning of the year, as originally reported on an achieved profits basis		9,668
	Prior year adjustment		(364)
15,360	**Shareholders' funds at the beginning of the year, as restated**	**10,752**	9,304
1,860	Total recognised gains arising in the year	**1,504**	2,008
(879)	Dividends and appropriations	**(598)**	(562)
1	Movement in shares held by employee trusts	**1**	–
37	Increase in share capital	**25**	2
1,456	Issue of direct capital instrument	**990**	–
(13)	Issue costs of direct capital instrument	**(9)**	–
151	Shares issued in lieu of dividend	**103**	–
248	Other movements	**169**	–
18,221	**Shareholders' funds at the end of the year on an EEV basis**	**12,937**	10,752

* Restated for the effect of implementing European Embedded Value principles.

Alternative method of reporting long-term business continued

Summarised consolidated balance sheet – EEV basis
As at 31 December 2004

	2004 £m	Restated* 2003 £m
Assets		
Goodwill	**1,135**	1,105
Investments		
Land and buildings	**637**	637
Investments in associated undertakings and participating interests	**178**	279
Variable yield securities	**3,149**	2,967
Fixed interest securities	**10,750**	10,098
Mortgages and loans, net of non-recourse funding	**1,387**	929
Deposits	**1,871**	435
Other investments	**29**	34
	18,001	15,379
Reinsurers' share of technical provisions	**2,589**	2,926
Reinsurers' share of provision for linked liabilities	**852**	579
Assets of the long-term business	**148,209**	136,709
Assets held to cover linked liabilities	**51,144**	40,665
Other assets	**9,889**	10,829
Acquired value of in-force long-term business	**451**	488
Additional value of in-force long-term business	**4,875**	4,340
Total assets	**237,145**	213,020
Capital, reserves and subordinated debt		
Shareholders' funds		
Equity	**7,130**	6,354
Non-equity	**1,190**	200
Minority interest	**1,182**	953
Additional retained profit on an EEV basis	**4,617**	4,198
Subordinated debt	**2,823**	2,814
Total capital, reserves and subordinated debt	**16,942**	14,519
Liabilities		
Liabilities of the long-term business	**131,099**	121,125
Fund for future appropriations	**9,218**	8,443
Technical provision for linked liabilities	**51,996**	41,244
General insurance liabilities	**18,155**	17,515
Borrowings	**1,423**	1,720
Other creditors and provisions	**8,312**	8,454
Total liabilities, capital, reserves and subordinated debt	**237,145**	213,020

* Restated for the effect of implementing European Embedded Value principles.

Segmentation of summarised consolidated balance sheet – EEV basis
As at 31 December 2004

	Life and related businesses 2004 £m	General business and other 2004 £m	Group 2004 £m	Restated* Life and related businesses 2003 £m	Restated* General business and other 2003 £m	Restated* Group 2003 £m
Total assets before acquired additional value of in-force long-term business	**200,205**	**31,614**	**231,819**	177,953	30,239	208,192
Acquired additional value of in-force long-term business	**451**	**–**	**451**	488	–	488
Total assets included in the modified statutory balance sheet	**200,656**	**31,614**	**232,270**	178,441	30,239	208,680
Liabilities of the long-term business	**(192,313)**	**–**	**(192,313)**	(170,812)	–	(170,812)
Liabilities of the general insurance business	**–**	**(27,890)**	**(27,890)**	–	(27,689)	(27,689)
Net assets on a modified statutory basis	**8,343**	**3,724**	**12,067**	7,629	2,550	10,179
Additional value of in-force long-term business[1]	**4,875**	**–**	**4,875**	4,340	–	4,340
Net assets on an EEV basis[2]	**13,218**	**3,724**	**16,942**	11,969	2,550	14,519
Shareholders' capital, share premium, shares held by employee trusts and merger reserves			**5,638**			4,622
Modified statutory basis retained profit			**2,682**			1,932
Additional EEV basis retained profit			**4,617**			4,198
Shareholders' funds on an EEV basis			**12,937**			10,752
Minority interests			**1,182**			953
			14,119			11,705
Subordinated debt			**2,823**			2,814
Total capital, reserves and subordinated debt			**16,942**			14,519

* Restated for the effect of implementing European Embedded Value principles.

Approved by the Board on 8 March 2005.

Andrew Moss
Group Finance Director

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:

	2004 £m	2003 £m	Movement in the year £m
Group's share included in shareholders' funds	**4,617**	4,198	419
Minority interest share	**258**	142	116
Balance at 31 December	**4,875**	4,340	535

2. Analysis of net assets on an EEV basis is as follows:

	2004 £m	2003 £m
Embedded value	**13,014**	11,751
RBSG goodwill	**204**	218
Long-term business net assets on an EEV basis	**13,218**	11,969

Alternative method of reporting long-term business continued

Basis of preparation – EEV basis

The consolidated profit and loss account and balance sheet statements on pages 128 to 131 present the Group's results and financial position for the life and related businesses 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.

The Group has replaced the Achieved Profits basis with the EEV basis of reporting as its main measure of performance for life and related businesses and comparative figures for the Group's 31 December 2003 supplementary financial statements have been restated accordingly. The impact on the Group's consolidated supplementary reporting is to reduce shareholders' funds as at 31 December 2003 by £413 million from £11,165 million to £10,752 and to reduce the Group's consolidated profit after tax and minority interest for the 2003 financial year by £49 million to £1,593 million. The full impact of the adoption of the EEV principles on the Group's results for the periods ending 31 December 2003 and 30 June 2004 is shown in the release to the market on 13 January 2005, "Restatement of Aviva's supplementary reporting to the European Embedded Value (EEV) basis".

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, as part of the restatement of 31 December 2003 and 30 June 2004 comparative figures. The approach is based on the well established capital asset pricing model theory and is in line with the EEV Principles and Guidance.

In addition, the results of our equity release business have been reclassified from non-insurance operations to life insurance operations. This has resulted in assets, liabilities and operating profits being reclassified out of non-insurance segments and into life segments. Comparatives for 2003 have been restated accordingly and the impact of the reclassification on consolidated shareholders' funds and consolidated profit for the 2003 financial year end is nil.

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 2004 and 2003 have been audited by the auditors, Ernst & Young LLP. Their report in respect of 2004 is shown on page 146.

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 128.

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
- 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 exchange rates adapted in this announcement are shown on page 76.

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 applying current legislation and practice together with future known changes. Profits are then grossed up for tax at the full rate of corporation tax for the UK and at an appropriate rate for each of the other countries, based on opening year tax rates.

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.

In the UK 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. In overseas businesses generally there are similar requirements restricting payments to shareholders from life businesses.

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. Where the required capital is covered by policyholder assets, for example in the UK with-profits funds, there is no impact of cost of capital on shareholder value. The assets regarded as covering the required capital are those that the operation deems appropriate.

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 (eg 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 factor (beta), and an allowance for the gearing impact of debt financing (including subordinated debt). The market-assessed 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. 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 the 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 update risk margin calculation.

Alternative method of reporting long-term business continued

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 UK 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, the average 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. An equivalent 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;
- 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;
- 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, tax and other) assumptions as at the end of the year.

Life EEV return	2004 £m	Restated* 2003 £m
New business contribution (after the effect of required capital)	**516**	474
Profit from existing business – expected return	**819**	761
– experience variances	**(15)**	(31)
– operating assumption changes	**(7)**	19
Expected return on shareholders' net worth	**298**	273
Life EEV operating return before tax	**1,611**	1,496
Investment return variances	**501**	696
Effect of economic assumption changes	**(318)**	(55)
Life EEV return before tax	**1,794**	2,137
Tax on operating profit	**(490)**	(457)
Tax change on other ordinary activities	**(58)**	(175)
Life EEV return after tax	**1,246**	1,505

* Restated for the effect of implementing European Embedded Value principles.

There were no development costs reported in either year.

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 132.

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**		Present value of new business premiums		New business contribution before the effect of required capital		New business contribution after the effect of required capital	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	Restated* 2003 £m	2004 £m	Restated* 2003 £m
Life and pensions business								
UK	**1,166**	1,118	**9,172**	8,516	**269**	250	**215**	212
Europe (excluding UK)								
France	**307**	241	**2,782**	2,224	**95**	72	**54**	39
Ireland	**86**	81	**561**	529	**19**	28	**16**	26
Italy	**198**	194	**1,799**	1,752	**48**	45	**34**	27
Netherlands (including Belgium and Luxembourg)	**261**	224	**2,168**	1,821	**80**	69	**43**	29
Poland	**37**	35	**241**	226	**11**	5	**9**	3
Spain	**248**	246	**2,110**	1,964	**143**	141	**121**	122
Other Europe	**124**	101	**804**	587	**5**	(1)	**–**	(6)
International	**171**	187	**1,050**	1,190	**36**	37	**24**	22
Total (before the effect of required capital)	**2,598**	2,427	**20,687**	18,809	**706**	646		
Effect of required capital					**(190)**	(172)		
Total (after the effect of required capital)					**516**	474	**516**	474

* Restated for the effect of implementing European Embedded Value principles.

**APE has been restated to include NUER volumes.

New business contribution before the effect of required capital includes minority interests in 2004 of £121 million *(2003: £109 million)*. This comprises minority interests in France of £7 million *(2003: £3 million)*, Italy £27 million *(2003: £25 million)*, Netherlands £10 million *(2003: £8 million)*, Poland £2 million *(2003: £1 million)* and Spain £75 million *(2003: £72 million)*.

New business contribution after the effect of required capital includes minority interests in 2004 of £94 million *(2003: £86 million)*. This comprises minority interests in France of £1 million *(2003: £nil)*, Italy £19 million *(2003: £15 million)*, Netherlands £8 million *(2003: £7 million)*, Poland £2 million *(2003: £1 million)* and Spain £64 million *(2003: £63 million)*.

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

	Annual premium equivalent**		Present value of new business premiums		New business contribution	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	Restated* 2003 £m
Analysed between:						
– Bancassurance channels	**587**	542	**4,967**	4,440	**242**	224
– Other distribution channels	**2,011**	1,885	**15,720**	14,369	**464**	422
Total	**2,598**	2,427	**20,687**	18,809	**706**	646

* Restated for the effect of implementing European Embedded Value principles.

**APE has been restated to include NUER volumes.

Alternative method of reporting long-term business continued

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

	Annual premium equivalent**		Present value of new business premiums		New business contribution†	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	Restated* 2003 £m
Analysed between:						
– Bancassurance channels	**328**	312	**2,728**	2,499	**74**	66
– Other distribution channels	**1,978**	1,846	**15,379**	14,148	**223**	206
Total	**2,306**	2,158	**18,107**	16,647	**297**	272

* Restated for the effect of implementing European Embedded Value principles.

**APE has been restated to include NUER volumes.

† 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.

	2004 £m	Restated* 2003 £m
UK	**(81)**	(41)
France	**22**	56
Netherlands (including Belgium and Luxembourg)	**12**	(60)
Europe	**23**	9
International	**9**	5
	(15)	(31)

* Restated for the effect of implementing European Embedded Value principles.

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.

	2004 £m	Restated* 2003 £m
UK	**(58)**	1
France	**35**	(27)
Netherlands (including Belgium and Luxembourg)	**21**	28
Europe	**(4)**	23
International	**(1)**	(6)
	(7)	19

* Restated for the effect of implementing European Embedded Value principles.

Further disclosures on experience variances and operating assumption changes are provided on pages 137 and 138.

Geographical analysis of life EEV operating return

	2004 £m	Restated* 2003 £m
UK	**551**	597
Europe (excluding UK)		
France	**286**	228
Ireland	**40**	57
Italy	**79**	70
Netherlands (including Belgium and Luxembourg)	**277**	198
Poland	**93**	99
Spain	**180**	165
Other Europe	**22**	18
International	**83**	64
	1,611	1,496

* Restated for the effect of implementing European Embedded Value principles.

Life EEV operating return includes minority interests in 2004 of £186 million *(2003: £157 million)*. This comprises minority interests in France of £9 million *(2003: £4 million),* Italy £43 million *(2003: £37 million)*, Netherlands £26 million *(2003: £13 million)*, Poland £16 million *(2003: £21 million)*, Spain £90 million *(2003: £81 million)* and Other Europe £2 million *(2003: £1 million)*.

Analysis of life EEV operating return

	2004 £m	Restated* 2003 £m
Life business	**1,569**	1,522
Equity release	**51**	31
Non-insurance service and holding companies	**(34)**	(75)
Fund management service companies	**25**	18
	1,611	1,496

* Restated for the effect of implementing European Embedded Value principles.

Segmental analysis of the components of life EEV operating return

Full year 2004	UK £m	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Other Europe £m	International £m	Total £m
New business contribution (after the effect of required capital)	**215**	**54**	**16**	**34**	**43**	**9**	**121**	**–**	**24**	**516**
Profit from existing business										
– expected return	**367**	**112**	**30**	**29**	**141**	**45**	**40**	**24**	**31**	**819**
– experience variances:										
Maintenance expenses[1]	**31**	**(2)**	**(1)**	**2**	**(9)**	**5**	**–**	**1**	**1**	**28**
Exceptional expenses[2]	**(153)**	**–**	**–**	**–**	**(12)**	**–**	**(1)**	**(3)**	**(1)**	**(170)**
Mortality/Morbidity[3]	**49**	**21**	**7**	**–**	**17**	**8**	**1**	**2**	**5**	**110**
Lapses[4]	**(50)**	**5**	**(1)**	**(5)**	**(2)**	**5**	**2**	**(4)**	**6**	**(44)**
Other[5]	**42**	**(2)**	**–**	**3**	**18**	**–**	**2**	**–**	**(2)**	**61**
	(81)	**22**	**5**	**–**	**12**	**18**	**4**	**(4)**	**9**	**(15)**
– operating assumption changes:										
Maintenance expenses[6]	**77**	**–**	**(6)**	**(3)**	**–**	**14**	**3**	**1**	**4**	**90**
Exceptional expenses[7]	**(34)**	**(2)**	**–**	**–**	**(72)**	**–**	**–**	**–**	**–**	**(108)**
Mortality/Morbidity	**2**	**–**	**(2)**	**7**	**5**	**(2)**	**–**	**1**	**(1)**	**10**
Lapses[8]	**(110)**	**–**	**(16)**	**(3)**	**9**	**–**	**1**	**1**	**(1)**	**(119)**
Other[9]	**7**	**37**	**–**	**1**	**79**	**2**	**3**	**(6)**	**(3)**	**120**
	(58)	**35**	**(24)**	**2**	**21**	**14**	**7**	**(3)**	**(1)**	**(7)**
Expected return on shareholders' net worth	**108**	**63**	**13**	**14**	**60**	**7**	**8**	**5**	**20**	**298**
Life EEV operating return before tax	**551**	**286**	**40**	**79**	**277**	**93**	**180**	**22**	**83**	**1,611**

1. Maintenance expenses in the UK reflect the benefit of cost saving initiatives undertaken.
2. Exceptional expenses in the UK reflect costs of £65 million for the restructuring of one business service division and one-off project costs of £88 million associated with the pace of regulatory change.
3. Mortality experience across our major businesses continues to be better than our assumptions for protection and annuity business in the UK and protection in continental Europe.
4. Lapse experience in the UK has been adverse and mainly relates to bonds, protection schemes and pension products.
5. In the UK, other experience profits include £29 million of profits arising from better than assumed default experience on corporate bonds and commercial mortgages.
6. Maintenance expense assumption changes in the UK reflects the benefit of cost saving initiatives coming through.
7. The UK and the Netherlands include capitalised additional future project expenses.
8. Adverse lapse assumption changes in the UK relates to unitised with-profit bonds and unit-linked bonds. In Ireland, lapse assumption changes have been made on unit-linked pensions business following recent experience.
9. Other operating assumptions in the Netherlands relates to positive changes in asset mix and tax reflecting, in part, the fact that the embedded value of Delta Lloyd was previously assessed using a blended average tax rate of 25%, which is below the local corporation tax rate. The calculation has been refined to tax all future profits at the full corporation tax rate at the beginning of the year of 34.5% and to allow explicitly for the tax benefit arising from investing in the "5% holdings" (investments in Dutch companies where at least 5% of the share capital is owned), on which all investment income is tax free. This change results in a £53 million benefit.

   France includes the benefit of tax assumption changes. France has historically recorded favourable tax operating experience as a result of better than assumed tax on dividend income because the tax assumptions had been set at full corporation tax for all future profits, whereas in fact dividend income from subsidiaries is tax exempt. In 2004, the calculation has been refined such that the future tax benefit arising from dividend from subsidiaries has now been recognised. This change results in a £39 million benefit.

Alternative method of reporting long-term business continued

Full year 2003*	UK £m	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Other Europe £m	International £m	Total £m
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:										
Maintenance expenses	(8)	1	(3)	(1)	(1)	4	1	(3)	–	(10)
Exceptional expenses[1]	(63)	(12)	–	(1)	(35)	–	(4)	1	(2)	(116)
Mortality/Morbidity[2]	22	14	3	3	(3)	7	2	2	4	54
Lapses[3]	(29)	(1)	(22)	(2)	(11)	5	(3)	2	3	(58)
Other[4]	37	54	11	8	(10)	4	4	(9)	–	99
	(41)	56	(11)	7	(60)	20	–	(7)	5	(31)
– operating assumption changes:										
Maintenance expenses[5]	7	(21)	2	–	1	51	(9)	4	1	36
Exceptional expenses	(7)	(2)	–	–	–	–	–	–	–	(9)
Mortality/Morbidity[6]	22	–	10	–	2	(20)	13	1	(1)	27
Lapses[7]	(46)	–	(10)	(4)	(2)	(3)	1	–	(3)	(67)
Other[8]	25	(4)	–	1	27	(13)	(1)	–	(3)	32
	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

* Restated for the effect of implementing European Embedded Value principles.

1. Exceptional expenses in the UK reflect one-off project costs including those associated with the pace of regulatory change. In the Netherlands, they relate to project costs in Delta Lloyd Life and development costs in Belgium.
2. Mortality experience has typically been better than anticipated in many of the Group businesses.
3. Lapse experience has been adverse in a number of businesses including on certain savings contracts in the UK.
4. In the UK, other experience profits include exceptional profits arising from better than assumed default experience on corporate bonds. In France, profits relate to the benefit of lower tax charges on dividends from subsidiaries and to a lesser extent, one-off benefits following the utilisation of tax losses.
5. In France, there is a £21million charge, mainly resulting from updated expense assumptions, following the revisions to the agreement signed between Aviva and the AFER association. Expense assumptions have been changed primarily in Poland reflecting improvements in efficiency.
6. Changes in the UK reflect expected beneficial mortality experience for protection business.
7. In the UK, lapse assumption changes reflect experience in savings contracts mainly on with-profits and endowment business.
8. Changes in the Netherlands primarily relate to increased annual management fees on unit-linked contracts.

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 2004 and 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.

			2004
	Net worth £m	Value of in-force £m	Total £m
Embedded value at the beginning of the year			
– Free surplus	**1,721**		
– Required capital*	**4,114**		
Total	**5,835**	**5,916**	**11,751**
New business contribution (after the effect of required capital)	**(520)**	**875**	**355**
Expected return on existing business – return on VIF	**–**	**576**	**576**
Expected return on existing business – transfer to net worth	**738**	**(738)**	**–**
Experience variances and operating assumption changes	**(98)**	**79**	**(19)**
Expected return on shareholders' net worth	**208**	**–**	**208**
Investment return variances and economic assumption changes	**167**	**(41)**	**126**
Life EEV return after tax	**495**	**751**	**1,246**
Exchange rate movements	**51**	**68**	**119**
Embedded value of businesses acquired	**79**	**23**	**102**
Amounts injected into life and related businesses	**324**	**–**	**324**
Amounts released from life and related businesses	**(576)**	**–**	**(576)**
Transfer to life and related businesses from other segments	**48**	**–**	**48**
Embedded value at the end of the year			
– Free surplus	**1,894**		
– Required capital*	**4,362**		
Total	**6,256**	**6,758**	**13,014**

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

The embedded value of business acquired in 2004 of £102 million represents the embedded value of Antarius, the bancassurance joint venture with Crédit du Nord, in France.

			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 to life and related businesses from other segments	29	–	29
Embedded value at the end of the year			
– Free surplus	1,721		
– Required capital*	4,114		
Total	5,835	5,916	11,751

* 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 year 2004 includes minority interests of £796 million *(2003: £568 million)*. This comprises minority interests in France of £120 million *(2003: £51 million)*, Italy £276 million *(2003: £222 million)*, Netherlands £59 million *(2003: £44 million)*, Poland £90 million *(2003: £72 million)*, Spain £244 million *(2003: £176 million)* and Other Europe £7 million *(2003: £3 million)*.

Alternative method of reporting long-term business continued

Segmental analysis of life and related businesses embedded value

	Net worth		Value of in-force covered business		Embedded value
	Required capital* 2004 £m	Free surplus 2004 £m	Present value of in-force 2004 £m	Cost of required capital 2004 £m	2004 £m
UK	**1,360**	**573**	**4,084**	**(403)**	**5,614**
Europe (excluding UK)					
France	**1,064**	**57**	**908**	**(210)**	**1,819**
Ireland	**86**	**195**	**352**	**(18)**	**615**
Italy	**237**	**187**	**166**	**(52)**	**538**
Netherlands (including Belgium and Luxembourg)	**945**	**509**	**1,355**	**(332)**	**2,477**
Poland	**99**	**89**	**401**	**(32)**	**557**
Spain	**194**	**28**	**415**	**(53)**	**584**
Other	**97**	**52**	**92**	**(28)**	**213**
International	**280**	**204**	**180**	**(67)**	**597**
	4,362	**1,894**	**7,953**	**(1,195)**	**13,014**

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

	Net worth		Value of in-force covered business		Embedded value	
	2004 £m	Restated* 2003 £m	2004 £m	Restated* 2003 £m	2004 £m	Restated* 2003 £m
UK	**1,933**	1,995	**3,681**	3,205	**5,614**	5,200
Europe (excluding UK)**						
France	**1,121**	1,012	**698**	547	**1,819**	1,559
Ireland	**281**	270	**334**	307	**615**	577
Italy	**424**	348	**114**	87	**538**	435
Netherlands (including Belgium and Luxembourg)	**1,454**	1,267	**1,023**	1,087	**2,477**	2,354
Poland	**188**	148	**369**	306	**557**	454
Spain	**222**	187	**362**	259	**584**	446
Other	**149**	140	**64**	44	**213**	184
International	**484**	468	**113**	74	**597**	542
	6,256	5,835	**6,758**	5,916	**13,014**	11,751

* Restated for the effect of implementing European Embedded Value prinicples.

**The movement in the net worth from that previously reported under achieved profits is £146 million at 31 December 2003 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 £4,362 million at 31 December 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 31 December 2004 by £1,195 million *(31 December 2003: £1,049 million)*.

Time value of options and guarantees

The following table sets out the reductions to embedded value to allow for the time value of options and guarantees relating to covered business at 31 December 2004 and 31 December 2003 by business units.

	2004 £m	2003 £m
UK	**44**	36
Europe (excluding UK)		
France	**79**	71
Ireland	**4**	6
Italy	**14**	10
Netherlands (including Belgium and Luxembourg)	**92**	76
Poland	**5**	4
Spain	**9**	10
Other Europe	**18**	10
International	**9**	9
	274	232

The time value of options and guarantees is most significant in the UK, France and the Netherlands. In the UK, this relates mainly to non-market value adjustment (MVA) guarantees on unitised with-profit business and guaranteed annuity rates. In France, this relates mainly to guaranteed crediting rates and surrender values on the AFER product. 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.

The increase in the time value of options and guarantees from £232 million at 31 December 2003 to £274 million at 31 December 2004 is primarily due to the 60bp fall in bond yields in continental Europe during the second half of 2004. The overall impact of the lower yields was an increase of £39 million.

The increased allowance in the UK largely reflected the new business written in Norwich Union Equity Release. In France, the allowance included in new business contribution of £10 million together with the impact of lower assumed bond yields of £7 million and a small allowance from Antarius in the acquired embedded value were partially offset by favourable investment variances, which reduced the time value of options and guarantees by £13 million. In the Netherlands, the key impacts were the increase due to lower assumed bond yields of £21 million and reduction arising from the tax assumption change of £10 million. The increase in Other Europe arose in our German business and reflects the impact of lower assumed bond yields.

Minority interest in life and related businesses EEV results

			2004	Restated* 2003
	Shareholders' interest £m	Minority interest £m	Group £m	Group £m
New business contribution before effect of required capital	**585**	**121**	**706**	646
Effect of required capital	**(163)**	**(27)**	**(190)**	(172)
New business contribution including effect of required capital	**422**	**94**	**516**	474
Life EEV operating return before tax	**1,425**	**186**	**1,611**	1,496
Life EEV return before tax	**1,592**	**202**	**1,794**	2,137
Attributed tax	**(479)**	**(69)**	**(548)**	(632)
Life EEV return after tax	**1,113**	**133**	**1,246**	1,505
Closing life and related businesses embedded value	**12,218**	**796**	**13,014**	11,751

* Restated for the effect of implementing European Embedded Value principles.

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 UK, the Eurozone and other territories. The principal economic assumptions used are as follows:

			UK			France
	2004	2003	2002	2004	2003	2002
Risk discount rate	**7.3%**	7.5%	7.2%	**6.4%**	7.0%	7.0%
Pre-tax investment returns:						
Base government fixed interest	**4.6%**	4.8%	4.5%	**3.7%**	4.3%	4.3%
Ordinary shares	**7.6%**	7.8%	7.5%	**6.7%**	7.3%	7.3%
Property	**6.6%**	6.8%	6.5%	**5.7%**	6.3%	6.3%
Future expense inflation	**3.3%**	3.4%	2.8%	**2.5%**	2.5%	2.5%
Tax rate	**30.0%**	30.0%	30.0%	**34.9%**	35.4%	35.4%
Required capital (% EU minimum)	**200%/100%**	200%/100%	200%/100%	**115%**	115%	115%

			Ireland			Italy
	2004	2003	2002	2004	2003	2002
Risk discount rate	**6.4%**	7.0%	7.0%	**6.4%**	7.0%	7.0%
Pre-tax investment returns:						
Base government fixed interest	**3.7%**	4.3%	4.3%	**3.7%**	4.3%	4.3%
Ordinary shares	**6.7%**	7.3%	7.3%	**6.7%**	7.3%	7.3%
Property	**5.7%**	6.3%	6.3%	**5.7%**	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%

Alternative method of reporting long-term business continued

	Netherlands			Poland		
	2004	2003	2002	2004	2003	2002
Risk discount rate	**6.4%**	7.0%	7.0%	**9.7%**	9.7%	11.7%
Pre-tax investment returns:						
Base government fixed interest	**3.7%**	4.3%	4.3%	**6.0%**	6.0%	8.0%
Ordinary shares	**6.7%**	7.3%	7.3%	**9.0%**	9.0%	11.0%
Property	**5.7%**	6.3%	6.3%	**n/a**	n/a	n/a
Future expense inflation	**2.5%**	2.5%	2.5%	**3.4%**	3.4%	5.4%
Tax rate	**31.5%***	25.0%	25.0%	**19.0%**	19.0%	27.0%
Required capital (% EU minimum)	**150%**	150%	150%	**150%**	150%	150%

	Spain		
	2004	2003	2002
Risk discount rate	**6.4%**	7.0%	7.0%
Pre-tax investment returns:			
Base government fixed interest	**3.7%**	4.3%	4.3%
Ordinary shares	**6.7%**	7.3%	7.3%
Property	**5.7%**	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%

*In the Netherlands, the tax rate assumed in determining the embedded value as at 31 December 2004 has been changed from 25%, which was the average rate of tax assumed by the intermediary division, to the full rate of corporation tax in the Netherlands. This change reflects the calculation refinements now adopted for the intermediary division, described on page 137, and the reduction in corporation tax from 34.5% to 31.5%, which was effective from 1 January 2005. In 2005, profits will be grossed up at the local corporation tax rate of 31.5% in the Netherlands, reflecting the economic basis at the start of the year, increasing both reported pre-tax profits and the corresponding tax charge.

Where there are service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company. Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk. Required capital in the UK 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 UK 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.

UK

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 over 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 (StDev) of future returns at 31 December 2004 for the three most significant asset classes:

	Mean*	StDev**
Equities	7.6%	20.0%
Property	6.6%	15.0%
Government bonds	4.6%	2.5%

* 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 one).

**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.

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.

Europe and International

Model (excluding UK)
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 one-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 2004 for the three most significant asset classes: equities, short-term bonds (defined to be of one-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 nine-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. Correlations between asset classes have been set using the same approach as described for the UK.

	5 year return		10 year return		20 year return	
	Mean*	StDev**	Mean*	StDev**	Mean*	StDev**
Short Government bonds	2.9%	1.6%	3.5%	3.5%	4.2%	6.8%
Long Government bonds	3.5%	4.7%	4.1%	3.7%	4.6%	4.1%
Equities	6.2%	19.7%	6.7%	19.4%	7.1%	19.2%

* 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 n^{th} root of the average accumulation minus one).

**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 EEV 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 2004 and the new business contribution before the effect of required capital for the full year 2004 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.

Alternative method of reporting long-term business continued

Embedded value (net of tax) 2004	As reported £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
UK	**5,614**	**(375)**	**400**	**(225)**	**240**
Europe (excluding UK)					
France	**1,819**	**(110)**	**120**	**(60)**	**55**
Ireland	**615**	**(25)**	**30**	**(5)**	**–**
Italy	**538**	**(20)**	**20**	**15**	**(30)**
Netherlands (including Belgium and Luxembourg)	**2,477**	**(160)**	**190**	**190**	**(290)**
Poland	**557**	**(30)**	**30**	**(5)**	**5**
Spain	**584**	**(30)**	**35**	**(20)**	**15**
Other	**213**	**(5)**	**5**	**10**	**(25)**
International	**597**	**(25)**	**30**	**(25)**	**15**
	13,014	**(780)**	**860**	**(125)**	**(15)**

Embedded value (net of tax) 2004	As reported £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 (or equivalent)
UK	**5,614**	**200**	**(210)**	**370**	**(370)**	**150**
Europe (excluding UK)						
France	**1,819**	**60**	**(60)**	**110**	**(130)**	**35**
Ireland	**615**	**20**	**(20)**	**15**	**(15)**	**5**
Italy	**538**	**15**	**(15)**	**10**	**(10)**	**10**
Netherlands (including Belgium and Luxembourg)	**2,477**	**250**	**(230)**	**310**	**(310)**	**85**
Poland	**557**	**5**	**(5)**	**5**	**(5)**	**10**
Spain	**584**	**–**	**–**	**5**	**(5)**	**5**
Other	**213**	**10**	**(10)**	**10**	**(10)**	**10**
International	**597**	**–**	**–**	**5**	**(5)**	**20**
	13,014	**560**	**(550)**	**840**	**(860)**	**330**

In general, the magnitude of the sensitivities will reflect the size of the embedded values, although this will vary as the sensitivities have different impacts on the different components of the embedded value. In addition, other factors can have a material impact, such as the nature of options and guarantees as well as the types of investments held. The interest rate sensitivity will vary significantly by territory, depending on the type of business written: for example, where non-profit business is well matched by backing assets, the favourable impact of reducing the risk discount rate is the dominant factor.

Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities, where the guarantee impacts to different extents under the different scenarios. This can be seen in the sensitivity of a 1% movement in the interest rate for the Netherlands, where there is a significant amount of business with investment return guarantees. The reduction of 60 basis points to the assumed pre-tax investment returns at 31 December 2004 has significantly increased the sensitivity, reflecting the level of the guarantees relative to the interest rate assumption.

Sensitivities to a 1% movement in the equity/property return will only impact the value of the in-force covered business, whereas a 10% movement in equity/property values may impact both the net worth and the value of in-force, depending on the allocation of assets.

New business contribution 2004	As reported £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
UK	**269**	**(50)**	**55**	**(20)**	**20**
Europe (excluding UK)					
France	**95**	**(9)**	**11**	**1**	**(1)**
Ireland	**19**	**(5)**	**5**	**–**	**–**
Italy	**48**	**(2)**	**2**	**1**	**(2)**
Netherlands (including Belgium and Luxembourg)	**80**	**(15)**	**20**	**10**	**(35)**
Poland	**11**	**(1)**	**1**	**–**	**–**
Spain	**143**	**(10)**	**11**	**(3)**	**2**
Other	**5**	**(1)**	**3**	**1**	**1**
International	**36**	**(4)**	**5**	**(1)**	**1**
	706	**(97)**	**113**	**(11)**	**(14)**

New business contribution 2004	As reported £m	1% increase in equity/property returns £m	1% decrease in equity/property returns £m
UK	**269**	**25**	**(30)**
Europe (excluding UK)			
France	**95**	**3**	**(4)**
Ireland	**19**	**3**	**(3)**
Italy	**48**	**–**	**–**
Netherlands (including Belgium and Luxembourg)	**80**	**22**	**(18)**
Poland	**11**	**–**	**–**
Spain	**143**	**–**	**–**
Other	**5**	**–**	**–**
International	**36**	**–**	**–**
	706	**53**	**(55)**

Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2004 and the new business contribution before the effect of required capital for the full year 2004 to the following changes in non-economic assumptions:

- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 pa would represent an expense assumption of £9 pa). 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); and
- 10% decrease in both mortality and morbidity rates.

In each sensitivity calculation, all other assumptions remain unchanged.

Embedded value (net of tax) 2004	As reported £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	10% decrease in mortality/morbidity rates £m
UK	**5,614**	**140**	**40**	**(100)**
Europe (excluding UK)				
France	**1,819**	**30**	**25**	**30**
Ireland	**615**	**15**	**5**	**5**
Italy	**538**	**5**	**5**	**–**
Netherlands (including Belgium and Luxembourg)	**2,477**	**70**	**10**	**(30)**
Poland	**557**	**15**	**25**	**15**
Spain	**584**	**10**	**20**	**10**
Other	**213**	**–**	**–**	**–**
International	**597**	**10**	**10**	**10**
	13,014	**295**	**140**	**(60)**

New business contribution (gross of tax) 2004	As reported £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	10% decrease in mortality/morbidity rates £m
UK	**269**	**13**	**15**	**15**
Europe (excluding UK)				
France	**95**	**4**	**4**	**4**
Ireland	**19**	**2**	**1**	**1**
Italy	**48**	**1**	**1**	**–**
Netherlands (including Belgium and Luxembourg)	**80**	**10**	**5**	**3**
Poland	**11**	**1**	**2**	**2**
Spain	**143**	**4**	**14**	**8**
Other	**5**	**1**	**3**	**2**
International	**36**	**2**	**2**	**3**
	706	**38**	**47**	**38**

Independent auditors' report to the directors of Aviva plc on the alternative method of reporting long-term business profits

We have audited the supplementary information on pages 128 to 145 in respect of the year ended 31 December 2004, which comprises a European Embedded Value basis Summarised 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 supplementary information has been prepared in accordance with the CFO Forum Principles as described on, and using the methodology and assumptions set out on pages 132 to 134. The supplementary information should be read in conjunction with the accounts prepared on the modified statutory solvency basis, which are on pages 64 to 111.

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 Annual Report, including, as described on page 49, the accounts prepared on the modified statutory solvency basis. Our responsibilities in relation to the Annual Report, including those accounts, are set out on page 63. The directors are also responsible for preparing the supplementary information on the above European Embedded Value basis.

Our responsibilities, as independent auditors, in relation to the supplementary information are established in the UK by the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the supplementary 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 in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the supplementary information. The other information comprises the Highlights of the year, the Chairman's statement, Business overview, Group chief executive's review, Operating review, Employees, Corporate social responsibility, Financial review, Directors' report, Corporate governance statement, Audit committee report, Nomination committee report and the unaudited part of the Directors' remuneration report.

Basis of audit opinion

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 supplementary 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 supplementary 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 supplementary information.

Opinion

In our opinion, the supplementary information for the year ended 31 December 2004 has been properly prepared in accordance with the European Embedded Value basis, using the methodology and assumptions set out on pages 132 to 134.

Ernst & Young LLP
Registered Auditor

London

8 March 2005

Aviva Group of companies

Parent Company
Aviva plc

Subsidiaries
The principal subsidiaries of the Company are listed below by country of incorporation. All are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, fund management or services in connection therewith, unless otherwise stated.

UK
CGNU Life Assurance Limited
CGU Bonus Limited
CGU Insurance plc
CGU International Insurance plc
CGU Underwriting Limited
Commercial Union Life Assurance Company Limited
General Accident plc
London & Edinburgh Insurance Group Limited
Morley Fund Management International Limited
Morley Fund Management Limited
Morley Investment Services Limited
Morley Pooled Pensions Limited
Morley Properties Limited
Northern Assurance Company Limited, The
Norwich Union Annuity Limited
Norwich Union Equity Release Limited
Norwich Union Healthcare Limited
Norwich Union Insurance Limited
Norwich Union Investment Funds Limited
Norwich Union Life & Pensions Limited
Norwich Union Linked Life Assurance Limited
Norwich Union Personal Finance Limited

Australia
Aviva Australia Holdings Limited and its principal subsidiaries:
- Norwich Union Life Australia Limited
- Navigator Australia Limited
- Portfolio Partners Limited

Belgium
Bank Nagelmackers 1747 NV (Banking) (99.6%)
Delta Lloyd Life NV

Bermuda
Curepool Limited

Canada
Aviva Canada Inc and its principal operating subsidiary:
- Aviva Insurance Company of Canada

Czech Republic
Aviva zivotni pojist'ovna a.s.

France
Aviva Participations SA and its principal subsidiaries:
- Aviva Assurances SA
- Aviva Courtage SA
- Aviva Direct SA
- Aviva France SA
- Aviva Gestion d'Actifs
- Aviva Vie SA
- Eurofil SA
- Société d'Epargne Viagére SA (75.0%)
- Union Financière de France Banque (Banking) (76.3%)
- Antarius (50.0%)

Germany
Delta Lloyd Deutschland AG and its principal subsidiary:
- Berlinische Lebensversicherung AG (99.5%)

Hong Kong
Aviva Life Insurance Company Limited

Hungary
Aviva Eletbiztosito Rt.

Ireland
Hibernian Group plc and its principal subsidiaries:
- Hibernian General Insurance Limited
- Hibernian Investment Managers Limited
- Hibernian Life & Pensions Limited

Italy
Aviva Italia Holding SpA and its principal subsidiaries:
- Aviva Vita SpA (25.5%)
- Commercial Union Assicurazioni SpA (50.0%)
- Commercial Union Life SpA (50.0%)
- Commercial Union Previdenza Compagnia di Assicurazioni e Riassicurazioni SpA (50.0%)
- Commercial Union Vita SpA (51.0%)
- Eurovita Assicurazioni SpA (40.5%)

Commercial Union Italia SpA

Luxembourg
Commercial Union International Life SA

Malaysia
Aviva Insurance Berhad (51.0%)

Netherlands
Delta Lloyd NV and its principal subsidiaries:
- Delta Lloyd ABN AMRO Verzekeringen Holding BV (51.0%)
- Delta Lloyd Asset Management NV
- Delta Lloyd Bankengroep NV (Banking)
- Delta Lloyd Levensverzekering NV
- Delta Lloyd Schadeverzekering NV
- Delta Lloyd Zorgverzekering NV
- OHRA Levensverzekeringen NV
- OHRA Schadeverzekeringen NV

Poland
Commercial Union Polska Towarzystwo Ubezpieczen Ogolnych SA (90.0%)
Commercial Union Polska Towarzystwo Ubezpieczen na Zycie SA (90.0%)
Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK SA (75.0%)

Portugal
Eurovida – Companhia de Seguros de Vida S.A. (50.0%)

Romania
Aviva Asigurari de Viata SA

Singapore
Aviva Limited

Spain
Aseguradora Valenciana SA, de Seguros y Reaseguros (50.0%)
Aviva Vida y Pensiones SA, de Seguros y Reaseguros
Bia Galicia de Seguros y Reaseguros (50.0%)
Caja Espana Vida, Compania de Seguros y Reaseguros (50.0%)
General Vida Sociedad Agencia de Seguros (25.0%)
Unicorp Vida, Compania de Seguros y Reaseguros (50.0%)

Thailand
Aviva Insurance (Thai) Co. Limited (68.4%)

Turkey
Aviva Hayat ve Emeklilik
Aviva Sigorta AS (98.6%)

United States
Aviva USA Corporation and its principal operating subsidiary:
- Aviva Life Insurance Company

Associates and joint ventures
The Group has ongoing interests in the following operations that are classified as associates or joint ventures. Further details of those operations that were most significant in 2004 are set out in notes 20 and 21 on pages 80 to 82.

UK
RBS Life Investments Limited (49.99%)
RBSG Collective Investments Limited (49.99%)
The British Aviation Insurance Company Limited (38.1%)
The Group also has interests in several UK property limited partnerships. Further details are provided in note 20 on page 30.

China
AVIVA – COFCO Life Insurance Company Limited (50.0%)

France
ProCapital SA (43.5%)

India
Aviva Life Insurance Company India Pvt. Limited (26.0%)

Shareholder information

Scrip dividend
The Aviva Scrip Dividend Scheme (the "Scheme") provides shareholders with the option of receiving new ordinary shares instead of cash dividends. The Scheme replaced the former Dividend Reinvestment Plan. Shareholders who have not already joined the Scheme but wish to do so should contact Lloyds TSB Registrars at the address on page 149 and request a mandate form. The mandate form will need to be received by Lloyds TSB Registrars no later than 25 April 2005 in order to be effective for the 2005 final dividend.

Dividend payments direct to your bank account
As an alternative to having dividends paid by cheque, shareholders can, if they wish, have them credited directly into their bank or building society account on the dividend payment date. For overseas shareholders, Transcontinental Account Payment Service (TAPS) is available, which allows shareholders in many countries to have dividends credited direct to their bank accounts in local currencies. To obtain further details and a mandate form please contact the Company's registrar at the address on page 149.

For those private shareholders who currently receive dividends paid directly into their bank or building society account, it is now the Company's practice to issue one consolidated tax voucher each year instead of a voucher with each dividend payment. Shareholders who do not wish to receive this service and wish to continue to receive tax vouchers with each dividend may elect to do so by contacting the Company's registrar at the address on page 149.

E-communications:
To receive communications electronically:
Log on to www.aviva.com/shareholders and register for shareholder e-communications. Shareholders will be able to access details of their Aviva shareholding online, elect to receive the Report and Accounts and other shareholder documentation electronically, update their address details online and elect to have their dividends paid directly into their bank or building society account.

To vote online at the AGM:
Please refer to the explanatory notes on the accompanying voting form which details the steps to vote online.

Share price
Shareholders can access the current share price of Aviva ordinary shares at www.aviva.com or alternatively can call 0906 843 2197*.

Share dealing facilities
The Company has arranged the following services that can be used to buy or sell Aviva shares. Alternatively if shareholders hold a share certificate they can also use any bank, building society or stockbroker offering share dealing facilities. If shareholders are in any doubt about buying or selling their shares they should seek professional financial advice.

Share dealing facilities for UK shareholders/share account members:
To buy and sell shares over the telephone or internet shareholders can contact Shareview Dealing, arranged through Lloyds TSB Registrars. For telephone purchases or sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday and for internet purchases or sales log on to www.shareview.co.uk/dealing

To buy or sell shares over the telephone, shareholders can contact Barclays Stockbrokers on 0870 549 3002 (if they hold a share certificate) or 0870 549 3001 (if they hold a share account statement).

NatWest Stockbrokers provide a Share Dealing Service at certain branches for Aviva Share Account holders only. For more information contact NatWest Stockbrokers on 0845 122 0689.

Share dealing facilities for overseas shareholders:
To sell Aviva shares over the telephone, shareholders can contact Barclays Stockbrokers on +44 (0)141 352 3959. Non-UK residents will need to provide various documentation in order to use this service, details will be provided on registration. Please note that regulations prevent this service being offered to US residents. Settlement proceeds will be sent to either a UK sterling bank account or by sterling cheque.

Amalgamating your shares
If shareholders received more than one copy of this Annual Report, it may be because Aviva has more than one record of shareholdings in their name. To ensure that shareholders do not receive duplicate mailings in future, they can have all their shares amalgamated into one account by contacting Lloyds TSB Registrars at the address on page 149.

ShareGift
The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares whose value makes it uneconomical to sell them. Details of the scheme are available from ShareGift at www.sharegift.org or can be obtained from the Company's registrar.

Shareholders with disabilities
Alternative versions of this publication (including braille, large print and audio-tape) are available on request from the Company's registrar.

* Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute.

Shareholder profile

The categories of ordinary shareholders and the ranges and size of shareholdings as at 31 December 2004 are set out below:

Analysis of shareholders	No. of shareholders	%	No. of shares	%
Individuals	815,491	97.46	291,956,949	12.79
Banks and nominee companies	15,872	1.90	1,864,412,386	81.69
Pension fund managers and insurance companies	114	0.01	7,982,002	0.35
Other corporate bodies	5,290	0.63	118,033,863	5.17
Total	836,767	100.00	2,282,385,200	100.00

Range of shareholdings	No. of shareholders	%	No. of shares	%
1 – 1,000	785,605	93.90	202,227,507	8.86
1,001 – 5,000	45,973	5.49	83,724,786	3.67
5,001 – 10,000	2,408	0.29	16,527,525	0.72
10,001 – 250,000	2,120	0.25	111,558,937	4.89
250,001 – 500,000	204	0.02	72,275,282	3.17
500,001 and above	457	0.05	1,796,071,163	78.69
Total	836,767	100.00	2,282,385,200	100.00

Group financial calendar for 2005

Annual General Meeting	26 April
Announcement of first quarter long-term savings new business figures	28 April
Announcement of unaudited six months' interim results	11 August
Announcement of third quarter long-term savings new business figures	27 October

Ordinary shares

Ex-dividend date	16 March
Record date	18 March
Scrip dividend price available	23 March
Dividend payment date	17 May

Preference shares

First dividend payment for 8⅜% cumulative irredeemable preference shares	31 March
First dividend payment for 8¾% cumulative irredeemable preference shares	30 June
Second dividend payment for 8⅜% cumulative irredeemable preference shares	30 September
Second dividend payment for 8¾% cumulative irredeemable preference shares	31 December

Useful contact details

Detailed below are various addresses that shareholders may find useful if they have a query in respect of their shareholding.

Please quote Aviva plc, as well as the name and address in which your shares are held, in all correspondence.

General shareholding, administration queries and Aviva share account queries	Lloyds TSB Registrars	The Causeway Worthing West Sussex BN99 6DA	0870 600 3952
Corporate and single company Peps	Barclays Stockbrokers Limited	Tay House 300 Bath Street Glasgow G2 4LH	0870 514 3263
Individual Savings Accounts (Isas)	Lloyds TSB Registrars (Isa Manager)	The Causeway Worthing West Sussex BN99 6DA	0870 242 4244

Internet sites

Aviva owns various internet sites, most of which interlink with each other.

Aviva Group	www.aviva.com
UK long-term savings and general insurance	www.norwichunion.com
Fund management	www.morleyfm.com
Aviva worldwide internet sites	www.aviva.com/websites

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