General Accident plc
Annual Report and Accounts 2005

Directors' report

The directors submit their Report and Accounts for General Accident plc ("GA") for the year ended 31 December 2005.

Principal activity
On 20 December 2005, the Company sold its investment in its immediate subsidiary Norwich Union Limited (formerly Norwich Union plc), to its parent company, Aviva plc. As a result of the transaction GA no longer acts as a holding company.

The income of the Company now consists of interest from loans to its parent company, Aviva plc.

Parent company
The parent company is Aviva plc.

Going concern
After making enquiries, the directors have a reasonable expectation that the Company has 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 financial statements.

Results
The Company results for the year are shown in the income statement on page 6.

Dividend
The directors are proposing a final ordinary dividend for 2005 of £6,380 million, payable in 2006 *(2004: £1,708 million, settled in 2005)*. The total cost of dividends for 2005, including preference dividends, amounted to £1,729 million *(2004: £357 million)*.

Share capital
The Company increased its authorised share capital on 9 May 2005, from £4,280,143,123 to £4,980,143,123, by the creation of 2,800,000,000 ordinary shares of 25 pence each.

On 24 August 2005, 2,121,028,142 ordinary shares of 25 pence each were issued to Aviva plc for a consideration of £530 million.

Authority to purchase own shares
At the Annual General Meeting held on 25 July 2005, shareholders renewed the Company's authority to make market purchases of up to 140 million 8⅞% preference shares and up to 110 million 7⅞% 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.

Directors
The current directors, and those in office during the year, are as follows:

Richard Harvey
Andrew Moss
Michael Pemberton
Philip Scott
Patrick Snowball
Tidjane Thiam
Richard Whitaker

Philip Scott and Richard Whitaker will retire by rotation in accordance with the articles of association at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment.

There were no contracts of significance in existence during or at the end of the year in which a director of the Company was materially interested.

Directors' interests
The table below shows the interests of directors at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. With the exception of the directors whose details appear below, all of the other directors are also directors of the Company's parent company, Aviva plc, and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802), are not required to disclose their share interests in Aviva plc in the Company's financial statements. Their interests can be found in the Report and Accounts of Aviva plc.

	At 1 January 2005	At 31 December 2005
M Pemberton	58,328	**39,129**
T Thiam	551	**1,059**
R Whitaker	2,681	**3,389**

None of the directors who held office at 31 December 2005 had an interest in the share capital of the Company.

Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown below. All the disclosed interests are beneficial.

Directors' report continued

Incentive plans

Details of Messrs Pemberton's, Thiam's and Whitaker's options to subscribe for ordinary shares of Aviva plc or awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans, are set out below.

(i) Share options

	At 1 January 2005 Number	Options granted during year Number	Options exercised or lapsed during year Number	At 31 December 2005 Number
M Pemberton				
Savings related options[1]	2,356	–	2,356	**–**
Executive options[2]	44,004	–	–	**44,004**
Bonus Plan options[3]	6,757	–	–	**6,757**
T Thiam				
Savings related options[1]	–	–	–	**–**
Executive options[2]	–	–	–	**–**
Bonus Plan options[3]	–	–	–	**–**
R A Whitaker				
Savings related options[1]	3,764	–	–	**3,764**
Executive options[2]	39,675	–	–	**39,675**
Bonus Plan options[3]	4,123	–	–	**4,123**

1. "Savings related options" are options granted under the Inland Revenue-approved Save As You Earn share option scheme. Options are normally exercisable during the six months period following the relevant (three, five or seven year) savings contract.
2. "Executive options" are those granted under the Aviva Executive Share Option Schemes, or predecessor schemes. No options have been granted to executive directors under these schemes. Options, granted on various dates from 1998 to 2003, are normally exercisable between the third and tenth anniversaries of their date of grant. Options are only exercisable if certain performance conditions are met.
3. "Bonus Plan options" are the options granted in 1999 and 2000 under the CGU Deferred Bonus Plan. Participants, who deferred their annual cash bonuses 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.

(ii) Share awards

	At 1 Jan 2005 Number	Awards granted during year Number	Awards vested during year Number	Awards lapsed during year Number	At 31 Dec 2005 Number
M Pemberton					
Aviva Long-Term Incentive Plan[1]	146,170	–	14,203	16,475	**115,492**
Aviva Long-Term Incentive Plan 2005[2]	–	36,112	–	–	**36,112**
Aviva Deferred Bonus Plan[3]	116,556	40,444	25,770	–	**131,230**
T Thiam					
Aviva Long-Term Incentive Plan[1]	109,033	–	–	–	**109,033**
Aviva Long-Term Incentive Plan 2005[2]	–	53,457	–	–	**53,457**
Aviva Deferred Bonus Plan[3]	51,156	39,914	–	–	**91,070**
R A Whitaker					
Aviva Long-Term Incentive Plan[1]	123,725	–	12,511	14,512	**96,702**
Aviva Long-Term Incentive Plan 2005[2]	–	28,555	–	–	**28,555**
Aviva Deferred Bonus Plan[3]	76,046	30,910	21,618	–	**85,338**

1. The "Aviva Long-Term Incentive Plan" was approved by shareholders at Aviva plc's 2001 Annual General Meeting and awards are made on an annual basis up to and including 2004. Awards are subject to the attainment of performance conditions over a three-year performance period. The three-year performance condition relating to the awards granted in March 2002 fell due for testing during the year. For any awards to vest under the TSR condition, Aviva plc's TSR, when compared with the TSR of a comparator group of European financial services companies 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 decile the number of awards vesting is determined on a straight-line basis. For any awards to vest under the ROCE condition, Aviva plc'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 2002, Aviva plc was ranked 10 out of the 20 companies in the comparator group and the ROCE was 26.2%. Accordingly, 23% of the awards vested based on the TSR part of the Plan and 17.2% of the awards vested under the ROCE condition. The 59.8% of the awards, which did not vest, lapsed.

Where no awards vest at the end of the three-year performance period the performance conditions can, under this particular Plan, be retested at the end of five years with the performance conditions being suitably adjusted. This situation occurred in relation to the awards granted in 2000, which fell for retesting in March 2005. For any awards to vest under the TSR condition, Aviva plc's TSR, when compared with the TSR of a comparator group of European financial services companies would need to at least match median performance when 20% of the awards become exercisable. For a top 10% 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, Aviva plc's ROCE would have to exceed 40% in excess of RPI over the five-year performance period which would mean 24% of the awards would vest, rising to 30% if the ROCE exceeded 50% over the same period. At the end of the performance period relating to the awards granted in 2000, Aviva plc was ranked 8 out of the 20 companies in the comparator group and the ROCE was 42.6%. Accordingly, 34.9% of the awards vested based on the TSR part of the Plan and 15.2% of the awards vested under the ROCE condition. The 49.9% of the awards that did not vest, lapsed.

2. The "Aviva Long-Term Incentive Plan 2005" was approved by shareholders at Aviva plc's 2005 Annual General Meeting. This "2005 Plan" replaced the Aviva Long-Term Incentive Plan described above.
3. The "Aviva Deferred Bonus Plan" was approved by shareholders at Aviva plc's 2001 Annual General Meeting. The awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under Aviva plc's Annual Bonus Plan and also the matching awards granted on a "one for one basis". The vesting of the awards on the third anniversary of their grant is not subject to performance conditions.

Creditor payment policy and practice
The Company has no trade creditors.

Auditor and the disclosure of information to the auditor
So far as each director is aware there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps that he is obliged to take as a director in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

In accordance with section 385 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company.

Directors' liabilities
Aviva plc, the parent company, has granted an indemnity to one or more of its directors against liability in respect of any proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of the sections 309A to 309C of the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

The Combined Code on Corporate Governance
The Combined Code on Corporate Governance sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies with listed preference shares in the United Kingdom to disclose, in relation to Section 1 of the Combined Code, how they have applied its principles.

General Accident plc is a wholly owned subsidiary of Aviva plc, a company listed on the London Stock Exchange. In terms of the governance structure of the Aviva group it is the view of the Board of that company that Aviva plc has been fully compliant throughout the accounting period with the provisions set down in Section 1 of the Combined Code, save that in view of the fact that the chairman of Aviva plc would be retiring on 31 December 2005 no performance review of the chairman was carried out during the year.

The Company has listed preference shares and the payment of dividends to the preference shareholders is reviewed by the Aviva plc Audit Committee and approved by the directors of the Company. There are no other significant risks associated with the Company's assets and liabilities and the Company seeks to maintain sufficient funds to meet dividends payable on the preference shares as they fall due.

By order of the Board.

Richard Whitaker
Company Secretary

31 March 2006

Registered Office
Pitheavlis, Perth, Scotland PH2 0NH
Registered in Scotland No. 119505

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and of International Financial Reporting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the directors to:

– select suitable accounting policies and ensure they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and

– state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

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. They are also ultimately responsible for the systems of internal control maintained for safeguarding its assets, and for the prevention and detection of fraud and other irregularities.

Independent auditors' report
to the members of General Accident plc

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense, the Reconciliation of Movements in Shareholders' Equity, the Cash Flow Statement, and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

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 financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 financial statements, 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 regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company'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 financial statements 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 financial statements.

Opinion
In our opinion the financial statements:

– give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and

– have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
31 March 2006

Accounting policies

General Accident plc (the "Company"), is a public limited company incorporated and domiciled in the United Kingdom ("UK"), and until 20 December 2005 was a holding company for some of the Aviva Group's subsidiaries.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(A) Basis of presentation

From 2005, all European Union listed companies are required to prepare financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. This is the Company's first set of full year results prepared in accordance with International Financial Reporting Standards (IFRS), applicable at 31 December 2005. Its previously reported 2004 financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004. The principal effects of the adoption of IFRS have been reflected within note 1 on first time adoption. These financial statements present information about the Company as an individual entity.

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. 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) Foreign currency translation

Translation differences on monetary financial assets and liabilities are included in foreign exchange gains and losses in the income statement.

(D) Net investment income

Investment income consists of dividends and interest receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Dividends received from subsidiary companies are recognised when approved by their shareholders.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

(E) Investments in subsidiaries

Subsidiaries are those entities (including Special Purpose Entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits.

In the balance sheet, subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by the Aviva Group's market capitalisation. They are classified as available for sale financial assets, with changes in their fair value being recorded in a separate investment valuation reserve within equity, except where the directors consider any shortfall to be an impairment. Provisions for impairment, and any changes thereto, are taken to the income statement.

(F) 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 90 days or less to maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet.

(G) Provisions and contingent liabilities

Provisions are recognised when the Company 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.

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated.

(H) Income taxes

The current tax credit is based on the taxable result for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

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 financial statements.

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.

(I) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, 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 is a non-derivative that contains no contractual obligation to deliver a variable number of shares, or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

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.

Income statement
For the year ended 31 December 2005

	Note	2005 £m	2004 £m
Income			
Net investment income	D & 11	**8,170**	396
Other income		**1**	–
Expenses			
Net foreign exchange (losses)/gains		**(6)**	4
Finance costs	11	**(47)**	(61)
Profit before tax		**8,118**	339
Tax credit	H & 5	**–**	16
Profit for the year		**8,118**	355

The accounting policies (identified alphabetically) on page 5 and notes (identified numerically) on pages 10 to 16 are an integral part of these financial statements. The auditors' report is on page 4.

Balance sheet
At 31 December 2005

	Note	2005 £m	2004 £m
Assets			
Non-current assets			
Investments in subsidiaries	2	**–**	19,989
Amounts owed by parent company	11	**21,258**	–
Amounts owed by fellow Group companies	11	**37**	151
		21,295	20,140
Current assets			
Amounts owed by parent company	11	**33**	–
Amounts owed by fellow Group companies	11	**4,304**	2,726
Cash and cash equivalents	F	**5**	–
Total assets		**25,637**	22,866
Equity			
Ordinary share capital	I & 6	**4,781**	4,251
Preference share capital	7	**250**	250
Called up capital		**5,031**	4,501
Share premium account	6	**8,859**	8,859
Investment valuation reserve	8	**–**	5,642
Retained earnings	8	**6,408**	19
Total equity		**20,298**	19,021
Liabilities			
Non-current liabilities			
Amounts owed to parent company	11	**445**	445
Amounts owed to fellow Group companies	11	**–**	76
		445	521
Current liabilities			
Amounts owed to parent company	11	**4,785**	3,299
Amounts owed to fellow Group companies	11	**101**	17
Other creditors		**8**	8
Total liabilities		**5,339**	3,845
Total equity and liabilities		**25,637**	22,866

Approved by the Board on 31 March 2006

Andrew Moss
Director

The accounting policies (identified alphabetically) on page 5 and notes (identified numerically) on pages 10 to 16 are an integral part of these financial statements. The auditors' report is on page 4.

Statement of recognised income and expense
For the year ended 31 December 2005

	Note	2005 £m	2004 £m
Fair value (losses)/gains on investment in subsidiary	2	**(5,642)**	2,414
Net (expense)/income recognised directly in equity		**(5,642)**	2,414
Profit for the year		**8,118**	355
Total recognised income and expense for the year		**2,476**	2,769

Reconciliation of movements in shareholders' equity
For the year ended 31 December 2005

	Note	2005 £m	2004 £m
Balance as at 1 January		**19,021**	15,109
Total recognised income and expense for the year		**2,476**	2,769
Dividends	8 & 9	**(1,729)**	(357)
Issue of share capital	6	**530**	1,500
Balance as at 31 December		**20,298**	19,021

The accounting policies (identified alphabetically) on page 5 and notes (identified numerically) on pages 10 to 16 are an integral part of these financial statements. The auditors' report is on page 4.

Cash flow statement
For the year ended 31 December 2005

All the Company's operating and investing cash requirements are met by fellow Group companies and settled through inter-company loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing activities, the following items pass through the Company's own bank account.

	2005 £m	2004 £m
Cash flows from financing activities		
Funding provided by fellow Group companies	**5**	5
Net cash from financing activities	**5**	5
Net increase in cash and cash equivalents	**5**	5
Cash and cash equivalents at 1 January	**–**	(5)
Cash and cash equivalents at 31 December	**5**	–

Cash and cash equivalents in the cash flow statement
At 31 December comprised

	2005 £m	2004 £m
Cash at bank and in hand	**5**	–
	5	–

The accounting policies (identified alphabetically) on page 5 and notes (identified numerically) on pages 10 to 16 are an integral part of these financial statements. The auditors' report is on page 4.

Notes to the Financial Statements
For the year ended 31 December 2005

1 – First time adoption of International Financial Reporting Standards
(i) Reconciliation of equity reported under UK GAAP to equity reported under IFRS

	As at 1 January 2004 £m	As at 31 December 2004 £m
Equity as reported under UK GAAP	13,387	15,136
Adjusted for:		
Revaluation of investments in subsidiaries (see (iii)(a) below)	1,782	3,934
Dividend recognition (see (iii)(b) below)	(60)	(49)
Equity as reported under IFRS	15,109	19,021

(ii) Reconciliation of profit and loss reported under UK GAAP to profit and loss reported under IFRS

	For the year ended 31 December 2004 £m
Profit for the year as reported under UK GAAP	1,716
Adjusted for:	
Dividend recognition (see (iii)(b) below)	(1,361)
Profit for the year as reported under IFRS	355

(iii) Adjustments between UK GAAP and IFRS
The basis for the material adjustments between UK GAAP and IFRS is as follows:

a) Investments in subsidiaries Under UK GAAP, subsidiaries are stated at current value which, for this purpose, is embedded value for life operations and net asset value for other entities. As a result of applying IAS 39, subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by the market capitalisation of the Aviva Group. This uplift in valuation increased shareholders' funds by £1,782 million at 1 January 2004 and by £3,934 million at 31 December 2004.

b) Dividend recognition Under UK GAAP, dividends were accrued in the period to which they related, regardless of when they were declared and approved. Under IAS 10 *Events after the Balance Sheet Date*, shareholders' dividends are accrued only when declared and appropriately approved. This affects both dividends receivable from subsidiaries and those payable to shareholders, reducing shareholders' funds by £60 million at 1 January 2004 and by £49 million at 31 December 2004. Profit for the year ended 31 December 2004 was similarly reduced by £1,361 million as a result.

2 – Investments in subsidiaries

Movements in the Company's investments in its subsidiaries are as follows:

	2005 £m	2004 £m
Fair value		
At 1 January	**19,989**	16,075
Acquisitions (see (a) below)	**1,643**	1,500
Disposals (see (b) below)	**(13,483)**	–
Dividend received (see (c) below)	**(2,507)**	–
Movement in fair value	**(5,642)**	2,414
At 31 December	**–**	19,989

a) *Acquisitions* On 24 August 2005, the Company purchased the entire issued ordinary share capital of RAC plc from its parent, Aviva plc, for a consideration of £1,113 million, settled by the issue of additional share capital issued by the Company, and the transfer of assumed inter-company debt.

On the same date, the Company purchased 5,303 million additional ordinary shares of 10 pence each at par value in its subsidiary, Norwich Union Limited (formerly Norwich Union plc), for a consideration of £530 million, settled as part of the sale of the entire share capital of RAC plc (see (b) below).

b) *Disposals* On 24 August 2005, the Company sold the entire issued ordinary share capital of RAC plc to Norwich Union Limited for a consideration of £1,113 million, settled through the purchase of additional share capital issued by Norwich Union Limited (see (a) above), and the transfer of assumed inter-company debt.

On 20 December 2005, the Company sold its entire investment in its subsidiary, Norwich Union Limited, to its parent, Aviva plc, for its fair value of £12,370 million, settled via an inter-company loan.

No gain or loss was recognised on these sales.

(c) Dividend received Of the in-specie dividend of £8,887 million received from Norwich Union Limited, £2,507 million has been credited against the cost of the investment in Norwich Union Limited.

3 – Directors and employees

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva Plc. The emoluments of these directors are not recharged to the Company.

The Company has no employees.

Notes to the Financial Statements
continued

4 – Auditors' remuneration

Auditors remuneration in respect of the Company was £25,000 *(2004: £40,000)*. The higher fees in 2004 reflect the fact that last year the Company was required to prepare consolidated statutory financial statements.

5 – Tax

a) Tax credited to income statement:

	2005 £m	2004 £m
Current tax		
For this year	**5**	16
Prior year adjustments	**(5)**	–
Total current tax	**–**	16
Total tax credited to income statement	**–**	16

b) Tax reconciliation: The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2005 £m	2004 £m
Profit before tax	**8,118**	339
Tax calculated at standard UK corporation tax rate of 30% *(2004: 30%)*	**(2,436)**	(102)
Adjustment to tax charge in respect of prior years	**(5)**	–
Non-assessable dividends	**2,441**	119
Other	**–**	(1)
Total tax credited to income statement	**–**	16

6 – Ordinary share capital

a) Details of the Company's ordinary share capital are as follows:

	2005 £m	2004 £m
The authorised share capital of the Company at 31 December was: 19,920,572,490 *(2004: 17,120,572,490)* ordinary shares of 25 pence each	**4,980**	4,280
The allotted, called up and fully paid share capital of the Company at 31 December was: 19,125,600,632 *(2004: 17,004,572,490)* ordinary shares of 25 pence each	**4,781**	4,251

The Company increased its authorised share capital on 9 May 2005, from £4,280,143,123 to £4,980,143,123 by the creation of 2,800,000,000 ordinary shares of 25 pence each.

b) Movements during the year:

	Number of shares	Share capital £m	Share premium £m
At 1 January	**17,004,572,490**	**4,251**	**8,859**
Shares issued	**2,121,028,142**	**530**	**–**
At 31 December	**19,125,600,632**	**4,781**	**8,859**

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.

On 24 August 2005, the Company issued 2,121,028,142 ordinary shares of 25 pence each at par value, amounting to £530 million, to Aviva plc as part of the consideration for the transfer of RAC plc. These shares rank parri passu in all respects with the existing ordinary shares of the Company.

7 – Preference share capital

The preference share capital of the Company at 31 December was:

	2005 £m	2004 £m
Authorised 300,000,000 cumulative irredeemable preference shares of £1 each	**300**	300
	300	300
Issued and paid up		
140,000,000 8⅞% cumulative irredeemable of £1 each	**140**	140
110,000,000 7⅞% cumulative irredeemable of £1 each	**110**	110
	250	250

The preference shares are irredeemable, but subject to the provisions of the Companies Act 1985, the Company may at any time purchase any preference shares upon such terms as the Board shall determine.

The preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares.

The Company's preference shares are listed on the London Stock Exchange.

Notes to the Financial Statements continued

8 – Reserves

	Investment valuation reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2004	3,228	21	3,249
Arising in the year:			
Profit for the year	–	355	355
Dividends and appropriations	–	(357)	(357)
Fair value gains	2,414	–	2,414
Balance at 31 December 2004	5,642	19	5,661
Arising in the year:			
Profit for the year	–	8,118	8,118
Dividends and appropriations	–	(1,729)	(1,729)
Fair value losses	(5,642)	–	(5,642)
Balance at 31 December 2005	**–**	**6,408**	**6,408**

The distributable proportion of the retained earnings of the Company at the end of the year is £28 million *(2004: distributable reserves were £68 million and were determined in accordance with UK GAAP)*. The balance of the retained earnings of £6,380 million *(2004: £1,423 million)*, whilst being unrealised in the context of ICAEW guidance note 07/03, is distributable by way of an in-specie distribution in kind of those non-cash assets of the Company that gave rise to the profit, in accordance with Section 276 of the Companies Act 1985.

9 – Dividends

	2005 £m	2004 £m
Ordinary dividends declared and charged to equity in the year		
Final 2003 – declared and settled on 23 September 2004	**–**	336
Final 2004 – declared and settled on 25 July 2005	**1,708**	–
	1,708	336
Preference dividends declared and charged to equity in the year	**21**	21
Total dividends	**1,729**	357

Subsequent to 31 December 2005, the directors proposed a final dividend for 2005 of £6,380 million. Subject to approval by shareholders at the AGM, the dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2006.

10 – Risk management policies

The Company's approach to risk and capital management

Governance framework The primary objective of the Company's risk financial management is to protect it from events or unforeseen circumstances that might hinder the sustainable achievement of the Company's objectives and financial performance, including failure to exploit opportunities as they arise.

The director's recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives, and can only provide reasonable assurance against misstatement or loss. The Company forms part of the Aviva plc Group where the framework has been established for identifying, evaluating and managing the significant financial and non-financial risks faced. The directors of the Company are satisfied that their adherence to this Group framework provides an adequate means of managing risk in the Company. These are documented below.

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 from fluctuation in foreign currency exchange rates, interest rates and equity prices.

Currency risk arises from a US $75 million *(2004: US $75 million)* inter-company loan payable.

Cash flow interest rate risk arises from the inter-company loans payable and receivable (see related party transactions note 11). The effect of a 100 basis point increase in interest rates would be an increase in net interest income of £211 million *(2004: decrease of £1 million)*.

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, or changes to the market value of assets caused by changing perceptions of the credit worthiness of such counterparties.

The Company's significant financial assets comprise amounts due from its parent, Aviva plc, and fellow group companies, and as such the credit risk arising from counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the financial assets, and the fact that the loans are settled, and not traded the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of such counterparties.

Liquidity risk

The Company seeks to maintain sufficient financial resources available to meet its obligations as they fall due.

Maturity periods and interest rate risk

The fair value or net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. Exposure to interest rate risk is managed through the monitoring of several risk measures.

Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include all risks to which the Company is exposed. Hence operational risks include, for example, information technology, information security, project management, tax, legal, fraud and compliance risks.

The line management in the Company has primary responsibility for the effective identification, management, monitoring and reporting of risks to the Company executive management team. The Company executive management team is responsible for satisfying itself that material risks are being mitigated and reported 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.

Notes to the Financial Statements continued

11 – Related party transactions

Apart from inter-company dividends receivable and payable, the only related party transactions are loans to and from related parties made on normal arm's length contractual terms. The maturity analysis of the related party loans is as follows:

		Contractual repricing or maturity dates							
Receivables	Denominated currency	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Over 5 years £m	Total £m	Effective interest rate %
2005	**£**	**2**	**–**	**21,258**	**–**	**–**	**–**	**21,260**	**5.1%**
2004	£	2	–	–	–	–	–	2	Nil

		Contractual repricing or maturity dates							
Payables	Denominated currency	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Over 5 years £m	Total £m	Effective interest rate %
2005	**£/$**	**199**	**–**	**–**	**–**	**–**	**445**	**644**	**5.9%**
2004	£/$	318	76	–	–	–	445	839	5.1%

Services provided to related parties (including dividend income)

	2005		2004	
	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Parent company	**33**	**21,291**	–	–
Fellow Group companies	**8,137**	**4,341**	396	2,877
	8,170	**25,632**	396	2,877

Services provided by related parties (including dividends declared)

	2005		2004	
	Expense incurred in year £m	Payable at year end £m	Expense incurred in year £m	Payable at year end £m
Parent company	**1,750**	**5,230**	394	3,744
Fellow Group companies	**5**	**101**	3	93
	1,755	**5,331**	397	3,837

The services provided to related parties in the year related to dividend income from Norwich Union Ltd (formerly Norwich Union plc) of £8,137 million *(2004: £396 million)* and interest income of £33 million *(2004: nil)* from Aviva plc. The services provided by related parties in the year related to inter-company interest of £47 million *(2004: £61 million)* and dividends paid of £1,708 million *(2004: £336 million)*.

Of the £21,291 million receivable from the parent, £12,390 million has been secured by a legal charge against the ordinary share capital of Norwich Union Limited, and £8,901 million has been secured by a legal charge against the ordinary share capital of Norwich Union Holdings Limited.

Compensation of key management

The Company bears no costs in relation to key management personnel, and all such costs are borne by Aviva plc.

12 – Parent company's details

The immediate and ultimate parent company is Aviva plc. Its group financial statements are available on application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

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