News release

AVIVA

11 August 2005

AVIVA PLC
INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 JUNE 2005

- Worldwide operating profit up 21% to £1,318 million
- Life operating profit up 5% to £857 million, with more than 60% coming from businesses outside the UK; Group margin up at 3.6% (2004: 3.5%)
- Strong long-term savings sales growth, up 13% to £12,078 million, with bancassurance a major driver for growth in continental Europe and Asia
- Sustained excellent general insurance performance, with general insurance and health profits up 18% to £694 million, and worldwide combined operating ratio ahead of target at 95% (2004: 97%)
- Strong performance from fund management with profits up 94% to £33 million# (2004: £17 million) and assets under management up to over £290 billion (31 December 2004: £280 billion)
- Interim dividend increased by 5%

Richard Harvey, group chief executive, commented:

"This is a very good set of results, delivered by managing our business for value. Our balanced international portfolio of life and general insurance businesses has enabled us to sustain real growth momentum.

"We've delivered strong and profitable life growth, reaping the benefit from our growing position in continental Europe and managing our UK business for profit. In Asia we continue to develop our footprint for the long-term with new distribution in India and access to new regional centres in China.

"In general insurance, we've delivered another excellent result, once again delivering strong and resilient returns. Our integration of RAC in the UK is moving quickly and we are on track to deliver our targeted cost savings for 2006.

"Our shareholders continue to see healthy dividend growth, backed by strong statutory profits. Our continuing aim is profitable growth in all our businesses."

Highlights	HY 05	HY 04	Growth in constant currency
Operating profit before tax – EEV basis*	£1,318m	£1,076m	21%
Operating profit before tax – IFRS basis**	£943m	£781m	19%
Life EEV operating return	£857m	£799m	5%
General insurance and health operating profit	£694m	£583m	18%
Worldwide long-term savings new business sales	£12,078m	£10,528m	13%
New business contribution – gross	£393m	£338m	15%
New business contribution – net of required capital, tax and minorities	£158m	£146m	7%
Total dividend per share	9.83p	9.36p	5%
Total shareholders' funds***	£12,633m	£11,661m^	-
Return on capital employed	14.6%	13.7%^	-
Net asset value per share	533p	511p^	-

All operating profit is from continuing operations.
All growth rates quoted are at constant rates of exchange.
The 2004 comparative information has been restated for the adoption of European Embedded Value (EEV) principles and International Financial Reporting Standards (IFRS).

* Including life EEV operating return, before exceptional items.
** Before exceptional items.
*** Measured on an EEV basis, excluding preference shares, direct capital instrument and minority interests.
^ As at 31 December 2004
# On an IFRS basis

Segmental analysis of Group operating profit*

Continuing operations		6 months 2005 £m	6 months 2004 at 2005 exchange rates Restated** £m	Restated** 6 months 2004 £m
Life EEV operating return				
United Kingdom		327	345	345
France		158	114	112
Ireland		22	16	16
Italy		47	37	36
Netherlands (including Belgium and Luxembourg)		115	135	132
Poland		46	41	35
Spain		92	83	81
Other Europe		14	14	14
International		36	28	28
		857	**813**	**799**
Fund Management[1]				
United Kingdom		5	-	-
France		2	5	5
Other Europe		5	1	1
International		6	4	4
		18	**10**	**10**
General insurance and health				
United Kingdom		431	364	364
France		17	20	20
Ireland		83	61	60
Netherlands		55	54	53
Other Europe		19	12	12
Canada		67	54	52
Other		22	22	22
		694	**587**	**583**
Non-insurance operations[2]		45	(12)	(12)
Corporate costs	– global finance transformation programme	(28)	(45)	(45)
	– central costs and sharesave schemes	(55)	(54)	(54)
Unallocated interest charges	– external	(130)	(125)	(124)
	– intra-group	(101)	(100)	(100)
	– net pension income	18	19	19
Group operating profit before tax*		**1,318**	**1,093**	**1,076**

* Group operating profit before tax. All operating profit is from continuing operations.

** Restated for the effect of implementing European Embedded Value principles.

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

2 Excludes the results of Norwich Union Equity Release. Also excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. These results are included within the Life EEV operating return.

The total IFRS operating profit for the six months to 30 June 2005 was £943 million (2004: £781 million; £794 million restated at constant exchange rates).

GROUP CHIEF EXECUTIVE'S STATEMENT

Aviva's strategy of managing for value has resulted in another very good result for the first six months of 2005. The Group has seen robust operational performance across all major businesses. Operating profit before tax is up 21% on an EEV basis to £1,318 million (2004: £1,076 million), representing an annualised return on capital employed of 14.6% (2004: annualised of 12.8%). On an IFRS basis, operating profit before tax reached £943 million (2004: £781 million), an increase of 19%.

The Board is announcing a dividend increase of 5% to 9.83 pence net per share. The dividend is strongly covered and is in line with our stated policy of growing the dividend by approximately 5% per annum, while looking to maintain a target cover in a range of 1.5 to 2.0 times operating earnings after tax.

Long-term savings

With over 50% of Aviva's life new business sales and contribution on both a headline and a post minorities basis coming from outside the UK, during the first half of 2005 we benefited from our growing position in continental Europe. Focusing on disciplined growth, our long-term savings businesses delivered a groupwide IRR of 13% (2004: 12%) and operating profit before tax grew 5% to £857 million on an EEV basis.

We delivered groupwide sales growth of 12% to £11,016 million on a PVNBP basis (2004: £9,753 million). With new business contribution up 15% to £393 million (2004: £338 million), Aviva is clearly demonstrating its focus on profitable growth. On a post-minorities basis, both new business sales and new business contribution rose by 7%.

Sales in continental Europe grew strongly by 21% to £6,218 million driven by our increasing presence in bancassurance across most of our businesses. New business contribution on a gross basis increased 21% to £240 million and on a net basis increased by 16% to £76 million. In particular, we demonstrated a particularly strong increase in value in our French business where new business contribution increased 52% to £71 million compared to sales volume growth of 36% to £1,854 million. Our Crédit du Nord bancassurance arrangement is showing impressive performance with sales of £411 million in the first half. Aviva France is managing its business mix towards a greater proportion of unit-linked products and this in turn is delivering increased margins of 3.8%, compared to 3.4% for the same period last year.

The market for long-term savings business in the UK has been very competitive during the first six months of the year. Our strategic focus on managing our business for value continues. Sales were lower at £4,244 million (2004: £4,299 million), while new business contribution rose 6% to £135 million (2004: £127 million) increasing new business margins to 3.2% from 3.0%. We aim to retain significant presence across the product portfolio whilst selling all our product ranges comfortably above the cost of capital. We expect some margin pressure in the short term but remain confident in the medium-term growth prospects for the UK life market.

Our Asian operations have seen significant developments this year. We continue to increase the rate of growth in new business sales, in line with our longer-term strategic ambitions in the region. In India, we continue to develop our bancassurance relationships and direct sales force. In China we have received regulatory approval to open new sales offices in Nauchong and Mianyang in Sichuan province, and Zhongshan in Guangdong province, which further extend our reach in this growing market, and we have applied for further licences.

Fund management

Our fund management operations continue to deliver improved performance. Worldwide investment sales increased 35% to £1,062 million (2004: £775 million). On an IFRS basis, operating profit before tax almost doubled to £33 million from £17 million and assets under management at 30 June 2005 grew to over £290 billion (31 December 2004: £280 billion). New business flows, tight management of our cost base, an increase in fee income and the performance of world investment markets have all contributed to this improved result.

General Insurance

With a COR of 95%, our general insurance performance is comfortably ahead of our stated target of 100%. Aviva's general insurance operations continue to outperform with operating profit of £694 million (2004: £583 million) demonstrating the continued resilience of the returns.

In the UK we have since continued to produce excellent results with an operating profit of £431 million, up 19% from £361 million. The COR of 96% demonstrates the value of disciplined underwriting, an efficient supply chain, and positive claims experience. Investment in innovative technology has been possible due to strict cost management. We believe digital flood mapping, for example, provides Norwich Union Insurance with a competitive advantage.

The acquisition of RAC was completed on 4 May and the integration has commenced and is firmly on track. We are excited by the opportunities now available to us and we are confident of achieving our stated 2006 target of £80 million of cost savings. The pro-forma six months operating profit before tax for the RAC business was ahead of plan at £51 million (2004: £45 million), achieved during a period of uncertainty for the business. A profit of £17 million has been included in the Group results relating to the post acquisition period.

Outlook

We believe that Aviva has a strong platform for organic growth in long-term savings across continental Europe, the UK and Asia. In general insurance we continue to generate high returns for shareholders and will continue to maximise the opportunities our scale advantage brings. We continue to review value-driven inorganic growth opportunities and new market entries.

In summary, these are a very good set of results. Our balanced portfolio of international life and general insurance businesses has enabled Aviva to sustain real growth momentum, generating value for both shareholders and customers.

Richard Harvey
Group chief executive

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NEWSWIRES: There will be a conference call today for wire services at 8.15am (BST) on +44 (0)20 7365 1854 Quote: Aviva, Richard Harvey.

ANALYSTS: A presentation to investors and analysts will take place at 9:00am (BST) at St Helen's, 1 Undershaft, London, EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.cantos.com. In addition a replay will be available on these websites later today. There will also be a live teleconference link to the investor and analyst meeting on +44 (0) 20 7365 1854. A replay facility will be available until 25 August 2005 on +44 (0) 20 7784 1024. The pass code is 4063138# for the whole presentation including Question & Answer session or 3104645# for Question & Answer session only.

The presentation slides will be available on the Group's website, www.aviva.com/investors/presentations.cfm from 8.30am (BST).

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. High resolution images are also available for the media to view and download free of charge from www.vismedia.co.uk

Photographs are available from the Aviva media centre at www.aviva.com/media.

Notes to editors

- Aviva is one of the leading providers of life and pensions to Europe with substantial positions in other markets around the world, making it the world's sixth largest insurance group based on both gross worldwide premiums and market capitalisation at 31 December 2004.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total income of £40 billion and assets under management of £280 billion at 31 December 2004.
- Overseas currency results are translated at average exchange rates.
- The present value of new business premiums (PVNBP) is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the term of the new contracts, and is expressed at the point of sale.
- All growth rates are quoted at constant currency, which excludes the impact of changes in exchange rates between periods.
- This interim announcement may contain "forward-looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Aviva's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Aviva and its affiliates operate. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements.

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

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OPERATING AND FINANCIAL REVIEW

Group operating profit before tax

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. Our statutory results have therefore been reported on an International Financial Reporting Standard (IFRS) basis rather than the previous modified statutory basis and comparatives for prior periods have been restated accordingly. Aviva continues to believe that embedded value provides the best way to value, measure and report life businesses and European Embedded Value (EEV) is therefore a more accurate reflection of the performance of the Group's life results.

The first six months of 2005 saw a continuation of the strong operational performance across all our major businesses. This has been achieved by our continued focus on profitable growth, pricing and cost control, our disciplined approach to underwriting and efficient claims handling. The Group achieved an operating profit before tax, including life EEV operating return, of £1,318 million (2004: £1,076 million), an increase of 21%. On an IFRS basis, operating profit before tax increased by 19% to £943 million (2004: £781 million).

	EEV basis		IFRS basis	
	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 £m	Restated 6 months 2004 £m
Life EEV operating return / IFRS long-term business profit	857	799	510	520
Fund management	18	10	33	17
General insurance and health	694	583	694	583
Other:				
Other operations	45	(12)	2	(35)
Corporate costs	(83)	(99)	(83)	(99)
Unallocated interest charges	(213)	(205)	(213)	(205)
Operating profit before tax	**1,318**	**1,076**	**943**	**781**

* Restated for the effect of implementing European Embedded Value principles.

Long-term savings

Our worldwide long-term new business sales showed good progress in the first half of 2005 with growth of 13% to £12,078 million (2004: £10,528 million). Of this, life and pension sales increased by 12% to £11,016 million (2004: £9,753 million) and investment sales rose by 35% to £1,062 million (2004: £775 million).

Total new business sales on a present value of new business (PVNBP) basis

	6 months 2005			Local currency growth		
	Life and pensions £m	Retail investments £m	Total £m	Life and pensions %	Retail investments %	Total %
Long-term savings sales						
United Kingdom	4,244	513	4,757	(1%)	14%	-
Europe (excluding UK)	6,218	443	6,661	21%	63%	23%
International	554	106	660	31%	63%	36%
	11,016	**1,062**	**12,078**	**12%**	**35%**	**13%**
Navigator	432	-	432	33%	-	33%

In the UK, Norwich Union delivered total long-term savings sales of £4,757 million as the company continued to focus on delivering customer and shareholder value by taking decisive pricing and commission actions in an increasingly competitive market. As a result, the first half of the year saw lower pension sales offset by strong growth in unit-linked bonds and annuities. Pricing actions in the second quarter benefited protection sales as anticipated and improved the company's market presence for the longer term. Norwich Union is committed to achieving disciplined growth to maintain a market-leading position.

Sales in continental Europe continue to grow, accounting for 55% of total new business sales. Our businesses delivered 23% growth in these sales to £6,661 million, reflecting the success of our distribution arrangements, product offerings and quality of service. Our Crédit du Nord and ABN AMRO bancassurance arrangements contributed to strong sales growth in France and the Netherlands, respectively. Sales in Italy increased significantly due to strong product marketing campaigns and the expansion of our distribution network with Banche Popolari Unite (BPU) from the start of 2005. In Ireland, growth in our single premiums products increased, as our five year capital guaranteed fund continues to be popular. In Spain, we continued to focus on higher margin protection and pension products. After excluding one-off sales, underlying sales in Spain were broadly flat.

In our International businesses, sales in Asia continue to grow benefiting from our strong partnerships in the region. Strong sales growth was achieved in Singapore and Hong Kong, the largest components of our business in Asia, which include sales through our partnership with the banking group DBS. We continue to make excellent progress in developing our

Indian and Chinese operations through the combination of our attractive savings products and strong relationships with local partners. In mature markets in Australia and the US, we continue to improve our distribution, product range and product terms. In the US, the recently launched equity-indexed annuity product is expected to provide a more balanced product range that is less susceptible to low interest rates.

In the UK we anticipate modest market growth in the second half of the year and Norwich Union will focus on achieving disciplined growth in a competitive market. We continue to reap the benefits of our strong position in continental Europe and this region remains key to our growth. Our bancassurance network will enable us to benefit further from the significant opportunities these markets provide. Asia provides excellent longer-term growth potential and our growing distribution infrastructure in the region will allow us to increase value progressively.

Life EEV operating return

		6 months 2005 £m	Restated* 6 months 2004 £m
New business contribution (after the effect of required capital)		286	251
Profit from existing business	– expected return	434	417
	– experience variances	(31)	(20)
	– operating assumption changes	7	-
Expected return on shareholders' net worth		161	151
Life EEV operating return before tax		**857**	**799**

* Restated for the effect of implementing the European Embedded Value principles.

The life EEV operating return before tax was 5% higher at £857 million (2004: £799 million) due to both new and existing business. New business contribution after the effect of required capital was 12% higher at £286 million (2004: £251 million), reflecting the ongoing benefits of our pricing and cost control actions and an improvement in business mix towards less capital-intensive unit-linked products. New business margins before the effect of required capital increased to 3.6% (full year 2004: 3.4%) driven by improved business mix in the UK, France and Spain. The Group's new business margin after the effect of required capital was also higher at 2.6% (full year 2004: 2.5%), reflecting improved business mix and our value focus.

The expected returns on existing business and shareholders' net worth were higher at £595 million (2004: £568 million) and reflect the application of lower economic assumptions on higher start of year embedded values. Adverse experience variances were £31 million (2004: £20 million adverse) and were partially offset by positive operating assumption changes of £7 million (2004: nil).

	Present value of new business premiums		New business contribution(1)		New business margin(2)		
	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 %	6 months 2004 %	Full year 2004 %
Life and pensions business							
United Kingdom	4,244	4,299	135	127	3.2%	3.0%	2.9%
Europe (excluding UK)	6,218	5,027	240	195	3.9%	3.9%	3.8%
International	554	427	18	16	3.2%	3.7%	3.4%
	11,016	**9,753**	**393**	**338**	**3.6%**	**3.5%**	**3.4%**

* Restated for the effect of implementing the European Embedded Value principles.
(1) Before effect of required capital which amounted to £107 million (2004: £87 million).
(2) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

UK

Our market-leading business, Norwich Union, recorded a life EEV operating return of £327 million (2004: £345 million). The result includes a larger new business contribution before required capital of £135 million (2004: £127 million), with an improved margin of 3.2% (full year 2004: 2.9%). The increase in margin is driven by pricing and commission actions and improved business mix towards higher margin products. After deducting the effect of required capital, the margin also increased to 2.5% (full year 2004: 2.3%) and includes an increased proportion of annuity business, which carries a required capital margin of 200% of the EU minimum solvency requirement. The IRR of 11.4% represents an improvement from the first half of last year (2004: 11.0%) and has been maintained since the full year 2004. We continue to maintain our focus on value through margin and IRR, balancing this with retaining a market-leading position.

Adverse experience variances of £30 million include £30 million of reorganisation costs and £50 million of higher project expenses which were partially offset by favourable mortality experience on annuity and protection business amounting to

£41 million (2004: £17 million favourable). Expected returns on shareholders' net worth and the value of in-force were broadly unchanged at £252 million (2004: £251 million).

Europe (excluding UK)

New business contribution increased to £240 million (2004: £195 million), with strong performances in Spain, Italy and France which included a contribution of £17 million from our joint venture with Crédit du Nord. New business margins before and after required capital increased to 3.9% and 2.8% (full year 2004: 3.8% and 2.6%) respectively, as business mix shifted towards higher margin, less capital intensive products particularly in France and Spain. This was offset mainly by a decrease in margins in the Netherlands, due to the impact of the reduction in bond yields by 60 basis points at the end of 2004. Smaller decreases in Italy and Ireland were due to changes in product mix.

Life EEV operating return from our continental European businesses was £494 million (2004: £426 million) as new business contribution after required capital improved by £37 million to £171 million. Expected returns were higher at £318 million (2004: £294 million). Although adverse experience variances were small at £2 million (2004: £6 million profit), this included favourable mortality experience of £28 million (2004: £15 million) and positive tax experience of £16 million (2004: £10 million). These were offset by adverse persistency and expense experience of £23 million and £13 million (2004: £8 million and £13 million adverse), respectively.

International

The life EEV operating return from our International business was £36 million (2004: £28 million), benefiting from higher new business contribution in Singapore and Australia and more favourable experience variances. New business margins before and after the effect of required capital were 3.2% and 1.8% respectively (full year 2004: 3.4% and 2.3% respectively).

Bancassurance margins – before required capital, tax and minority interests

The weighted average bancassurance new business margins before the effect of required capital in the six months were 4.6% (full year 2004: 4.9%). This reflects the change in geographical mix with lower weighting of the high margin business in Spain and a higher weighting of sales from our partnerships in Italy and France where margins are lower by comparison.

	Present value of new business premiums		New business contribution[1]		New business margin[2]		
	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 %	6 months 2004 %	12 months 2004 %
United Kingdom	267	216	7	7	2.6%	3.2%	2.6%
France	411	-	17	-	4.1%	-	3.1%
Italy	1,240	715	32	21	2.6%	2.9%	2.8%
Netherlands	347	238	9	10	2.6%	4.2%	4.3%
Spain	855	1,053	76	71	8.9%	6.7%	7.3%
Asia	102	83	8	7	7.8%	8.4%	6.4%
Total bancassurance channels	**3,222**	**2,305**	**149**	**116**	**4.6%**	**5.0%**	**4.9%**

* Restated for the effect of implementing European Embedded Value principles.

1 Before effect of required capital which amounted to £31 million (2004: £23 million).

2 New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

In the UK, the new business margin from life and pensions sales from our partnership with The Royal Bank of Scotland Group (RBSG) was maintained at 2.6% (full year 2004: 2.6%). In France our bancassurance joint venture with Crédit du Nord produced an increased new business margin of 4.1% (full year 2004: 3.1%) reflecting unit-linked sales growth. The new business bancassurance margin in Italy was 2.6% (full year 2004: 2.8%), reflecting the increased proportion of lower margin savings and structure bond products sold. In Spain, our bancassurance partnerships produced an increased margin of 8.9% (full year 2004: 7.3%, or excluding one-off business underlying margin: 8.3%) benefiting from demand for pension and protection products in the period. Our bancassurance agreement with ABN AMRO in the Netherlands generated a margin of 2.6% (full year 2004: 4.3%) as new business sales included an annuity business special promotion in the first quarter of 2005. The new business bancassurance margin from our partnership with DBS in Singapore and Hong Kong was 7.8% (full year 2004: 6.4%) reflecting the profitable growth of these developing operations.

After the effect of required capital, the bancassurance margin was 3.7% (full year 2004: 4.0%), again reflecting the change in the geographical mix.

New business contribution – after deducting required capital, tax and minority interest

New business margins after required capital, tax and minority interest improved to 1.7% (full year 2004: 1.6%). The increase arose primarily in our non-bancassurance channels, reflecting the impact of tactical pricing actions and benefits from changes to business mix towards high margin products, such as unit-linked products in France.

	Present value of new business premiums[1]		New business contribution[2]		New business margin[3]		
				Restated*			
	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	6 months 2005 %	6 months 2004 %	Full year 2004 %
Bancassurance channels	1,678	1,263	42	35	2.5%	2.8%	2.7%
Other distribution channels	7,597	7,288	116	111	1.5%	1.5%	1.5%
Total life and pensions business	**9,275**	**8,551**	**158**	**146**	**1.7%**	**1.7%**	**1.6%**
Analysed:							
UK	4,244	4,299	74	74	1.7%	1.7%	1.6%
Continental Europe	4,477	3,825	76	64	1.7%	1.7%	1.6%
International	554	427	8	8	1.4%	1.9%	1.7%

* Restated for the effect of implementing European Embedded Value principles
(1) Stated after deducting the minority interest.
(2) Stated after deducting the required capital, tax and minority interest.
(3) New business margin represents the ratio of new business contribution to present value of new business premiums expressed as a percentage.

In the six months to 30 June 2005 the post-minority value of new business sales and new business contribution from our combined European businesses exceeded that from our UK Life operations.

Long-term business operating profit on an international financial reporting standard (IFRS) basis
On an IFRS basis, our long-term business operating profit before shareholder tax was broadly flat at £510 million (2004: £520 million).

The operating result from the UK with-profit business of £33 million (2004: £49 million) reflects the reduction in bonus rates compared to 2004 and the change in the shareholder tax rate. The UK non-profit result was broadly unchanged at £178 million (2004: £179 million).

In continental Europe, life IFRS operating profit totalled £315 million (2004: £235 million) which was driven primarily by increased profits in France and Spain. In France, the improvement to £131 million (2004: £89 million) is due to the Crédit du Nord joint venture, with underlying growth reflecting the profitable development of the business and tightly controlled expenses. Additionally, the result includes the benefit of higher investment gains. In the Netherlands, the operating profit was £58 million (2004: £54 million). This includes a charge of £70 million for in the money guarantees on unit-linked contracts arising from falling interest rates whose impact has been partially offset by releases in reserving margins elsewhere. Operating profit in Spain increased to £39 million (2004: £24 million) due to the higher sales of protection products which deliver statutory earnings in the first year.

Our International businesses reported a loss of £16 million (2004: £57 million profit) reflecting lower realised gains in our principal International life businesses and a change in valuation basis in Asia introduced on 1 January 2005.

Fund management operating profit
Operating profit from our worldwide fund management businesses increased to £33 million (2004: £17 million) on an IFRS basis. Assets under management at 30 June 2005 grew to over £290 billion (31 December 2004: £280 billion) reflecting the impact of new business flows and the performance of world investment markets.

In the UK, our fund management businesses comprise our institutional business Morley Fund Management (Morley), our retail investment business trading as Norwich Union, and our collective investment joint venture business with RBSG. These businesses reported an operating profit of £11 million (2004: £3 million) in the period.

Morley reported a profit of £11 million (2004: £4 million). The result reflects increased investment fees whilst continuing to focus on cost control. Fee income has risen due to new business mandates, revenue enhancing initiatives launched in 2004 and improved investment market performance. Whilst the expense base has been maintained, Morley continues to invest in the business in order to maintain its competitive position and respond to changing market conditions. In addition, a further £11 million (2004: £4 million) is included within the Group results relating to other Morley businesses, including the pooled pensions business and overseas operations. This brings the contribution that Morley makes to the total Group result to £22 million (2004: £8 million). Morley was named “Property Manager of the Year” at the UK Pensions Awards 2005 as its expertise in property continues to be recognised.

Operating profit from Norwich Union’s retail investment business, amounted to £3 million (2004: £5 million), whilst our collective investment business with RBSG benefited from lower new business strain from sales of regular premium investment to report a loss of £3 million (2004: loss of £6 million).

Aviva Gestion d’Actifs, our market-leading fund management operation in France, was awarded best asset manager for its investment performance over one, three and five years by La Tribune/Standard & Poor’s for the second consecutive year. Operating profit from Aviva Gestion d’Actifs increased to £10 million (2004: £8 million) on an IFRS basis. Operating profits across our Other Europe and International businesses rose to £5 million (2004: £3 million). New business sales through

Navigator, our master trust fund administration business in Australia, increased by 26% to £403 million (2004: £318 million), benefiting from continuing improvements in product offerings. Our Navigator business in Singapore reported sales of £29 million (2004: £5 million).

On an EEV basis, the total operating profit from our fund management businesses was £18 million (2004: £10 million) predominantly relating to those funds managed on behalf of third parties and Group non-life businesses.

General insurance and health operating profit

Our worldwide general insurance and health operations reported an increase of 18% in operating profit to £694 million (2004: £583 million). The Group's general insurance combined operating ratio (COR) improved to 95% (full year 2004: 97%). Scale advantages, focused underwriting, claims management and efficiencies continue to provide us with ongoing benefits.

Underwriting profit for the period amounted to £182 million (2004: £92 million). The improved performance was driven by our disciplined approach to underwriting, claims management and lower claims frequency across all our major businesses. Better than expected weather-related claims experience in the first six months of 2005 amounted to £3 million (2004: £30 million). The worldwide expense ratio was maintained at 11.2% (full year 2004: 11.2%) reflecting the benefit of ongoing cost efficiency initiatives across our business operations offset by our continued investment in the business to gain competitive advantage. The expense ratio includes employee benefit costs on a more current actuarial basis than previously accounted for under UK GAAP.

The longer-term investment return (LTIR) on general insurance and health business assets increased to £512 million (2004: £491 million). The higher start-of-year asset base, together with positive cash inflows, more than offset the decrease in LTIR rates applied in 2005. As previously announced, the Group has decided to make this discretionary change to its LTIR methodology from 2005 in addition to including the amortisation of the premium or discount arising upon the acquisition of fixed income securities as a proxy for gross redemption yield and restated its 2004 comparatives accordingly.

	Net written premiums		Underwriting result*		Operating profit*	
	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	6 months 2004 £m
United Kingdom	2,891	2,819	104	52	431	364
Europe (excluding UK)	1,605	1,598	57	27	174	145
International	708	718	21	13	89	74
Continuing operations	**5,204**	**5,135**	**182**	**92**	**694**	**583**

* Excludes the Financial Services Compensation Scheme levy of nil (2004: £25 million).

UK

Our general insurance business, Norwich Union Insurance (NUI) delivered an operating profit of £431 million (2004: £361 million) and COR of 96% (full year 2004: 97%). This excellent result reflects disciplined underwriting and pricing, resulting in favourable claims experience. The cost of the storms in January was mitigated by better than expected weather during the rest of the period, to give a neutral impact (2004: £20 million benefit). We are on target to deliver £240 million annualised savings in claims costs through effective supply chain management. Despite a highly competitive market we have achieved a 5% increase in personal motor rates (2004: 2%) and 6% (including indexation) in homeowners rates (2004: 5%). Commercial rate increases have flattened but profitability remains excellent.

Premium growth is 2%, however we are accelerating our strategy to move closer to our customers with 22% net written premium growth in our direct operation. The acquisition of RAC on 4 May 2005 reinforced this strategy providing access to 2.2 million direct Roadside members and the opportunity to develop fully the RAC brand in insurance and financial services. Furthermore the purchase enhances our partnership business introducing new distribution partners, with an additional 4.5 million corporate Roadside customers and the potential to develop the RAC's current partnership relationships.

The acquisition of RAC was completed on 4 May for a consideration of £1.1 billion paid in the form of ordinary shares and cash in equal proportions. The fair value of tangible net liabilities acquired, including the pension fund deficit, amounted to £0.3 billion. The difference between the fair value of consideration and the fair value of tangible net liabilities of £1.4 billion, represents the value of the brand and other intangibles net of associated deferred tax and the residual goodwill arising on acquisition.

Excellent progress has been made on the integration of RAC. The senior management team was announced on 30 June and the new organisation will be finalised by the end of September. We are confident of meeting the commitments on integration costs and savings we previously announced on 9 March. The pre-tax costs of restructuring are around £100 million; £14 million integration costs have been included within these interim results. We are on track to deliver the previously announced 2006 pre-tax cost savings of at least £80 million and increased revenue and cashflow. The combined organisation has a wide range of product offering and capabilities that will touch customers at each stage of their motoring lives. We are currently developing specific opportunities, outlined on 9 March, including growing RAC's direct insurance business, developing new packaged services and growing Roadside assistance with risk pricing.

RAC delivered a good performance in the six month period, with operating profit growth in all divisions. RAC results for May and June have been included within these interim results with the Roadside business, presented as general insurance, contributing £6 million to NUI's underwriting result. Individual membership numbers for Roadside are in line with 2004 levels.

Excluding the impact of RAC, our expense ratio improved to 10.5% (full year 2004: 10.6%). The inclusion of RAC Roadside (which includes expense but no commission costs) increased the expense ratio to 10.8%. As previously announced there will be a reduction in headcount of 900 through combining the support functions of both companies. We also announced 800 back office roles will be offshored as part of the integration process.

Our focus on cost management continues to provide opportunities to invest in initiatives that confer competitive advantage. Our 'Pay As You Drive'™ pilot is expanding and our digital flood map is now being used in England and Wales. On 31 March 2005, NUI signed a contract with Barclays to become its sole provider of household, motor and travel insurance. This deal will strengthen our leadership in this market by providing access to over 15 million potential customers across the UK. As part of the deal, NUI purchased the associated underwriting company Gresham Insurance from Barclays at a cost of £75 million. On 20 July NUI extended the long-standing agreement with Asda to be its sole provider of general insurance until the end of 2009, providing access to 11 million customers. These deals strengthen our position as partner of choice to the UK's best brands.

Our health insurance business in the UK reported a breakeven result (2004: £3 million).

Europe (excluding UK)

In Europe, our general insurance and health businesses produced an operating profit of £174 million (2004: £145 million).

In France, our general insurance and health business recorded an operating profit of £17 million (2004: £20 million) with an underwriting loss of £12 million (2004: loss of £9 million). Net written premiums increased by 9% to £424 million (2004: £382 million) reflecting rating increases. The longer-term investment return was unchanged at £29 million. The general insurance business reported a COR of 100% (full year 2004: 101%), as a larger proportion of premiums are renewed in the first half of the year.

In Ireland, the increasingly competitive market that developed last year has continued to intensify into the first half of 2005. This led to a reduction in net written premiums in Hibernian, our market-leading general insurance business, to £262 million (2004: £292 million). Encouragingly for the rest of 2005, premium rates on personal motor are starting to stabilise. Operating profit increased to £83 million (2004: £60 million) while the COR improved to 80% (full year 2004: 87%). The underwriting profit of £53 million (2004: £38 million) reflects our disciplined underwriting, reduced claims frequency and lower costs. The half year result includes better than expected weather-related claims of £3 million (2004: £3 million). The business is investing in Geocoding, a flood mapping project providing new underwriting and risk selection techniques and will continue to maintain its careful, focused and targeted approach to underwriting. Hibernian was awarded "Best Commercial Insurer" in the 2004 Irish Brokers Association (IBA) Service Excellence Awards.

In the Netherlands, general insurance and health operating profit was broadly unchanged at £55 million (2004: £53 million). The general insurance COR improved to 94% (full year 2004: 95%) reflecting lower claims and the timing of premiums. Legislative reforms in the Dutch healthcare market, effective 1 January 2006, will integrate the provision of public and private health insurance. Accordingly, this will create opportunities for our health business as more healthcare services move to private providers.

International

Our International general insurance businesses recorded an operating profit of £89 million (2004: £74 million).

Our Canadian business reported an increased underwriting profit of £14 million (2004: £5 million) and COR of 98% (full year 2004: 97%) which reflects the benefit of favourable claims frequency in all major classes of business. Net written premiums were comparable at £627 million (2004: £601 million). Legislative automobile reforms have led to lower premiums, which have been matched by lower claim costs. The commercial market continues to soften. Aviva Canada is increasing its distribution capability through our strategic alliance with Loblaw Companies Ltd., Canada's leading grocer, which provides products under the supermarket's own President's Choice Financial (PCF) brand, a first for the Canadian insurance market. The initiative continues to be rolled out successfully with launches in Quebec in March and Alberta later this year. In March we launched the pilot for Aviva Autograph, a pay-as-you-drive product which rewards responsible drivers with lower premiums. The longer-term investment return was higher at £53 million (2004: £47 million), primarily reflecting the higher asset base more than offsetting the application of lower LTIR rates.

The operating profit from our other International businesses was £22 million (2004: £22 million) including £16 million reported by the Group's captive. We announced we had completed the first stage in the sale of our Asian general insurance operations in February 2005, and we have recognised £145 million of profit on sale in the results for the period. The second stage will complete in the second half of the year.

Other operations

The result of the Group's other operations improved to £2 million (2004: loss of £35 million) on an IFRS basis and includes £11 million (2004: nil) from RAC's Consumer Services, Business Solutions, Lex Vehicle Leasing and Manufacturer Support Services divisions which have been classed as non-insurance. In July 2005, we completed the transaction to transfer the ownership of the Hyundai Cars (UK) from RAC to Hyundai Motor UK Limited. Accordingly we have presented the assets and liabilities of this business as held for sale on the balance sheet. We completed the transfer in July 2005.

On an IFRS basis, the increased loss by NU Life Services of £38 million (2004: loss of £15 million) reflects the inclusion of £30 million of one-off reorganisation costs. This was more than offset by an increase in the profitability of our banking and other operations in the Netherlands.

On an EEV basis, an operating profit of £45 million (2004: £12 million loss) was recorded by our other operations. The main difference between the two bases relates to the treatment of the losses incurred by NU Life Services on the administration services provided to our UK Life business, which are included within the life EEV operating return.

Corporate costs

Corporate costs were lower at £83 million (2004: £99 million) and include £28 million (2004: £45 million) in respect of the global finance transformation programme (GFTP). This decrease is in line with the reduced level of finance-related change activity across the Group which peaked in 2004 and successfully completed during the first half of 2005. Consequently there will be no further GFTP costs reported. Other corporate costs amounted to £55 million (2004: £54 million).

Unallocated interest charges

Unallocated interest charges comprise internal and external interest on borrowings, subordinated debt and intra-group loans not allocated to local business operations and net pension income. Total interest costs in the period were £231 million (2004: £224 million). External interest costs were slightly higher at £130 million (2004: £124 million) while internal interest costs were broadly unchanged at £101 million (2004: £100 million). Net pension income of £18 million (2004: £19 million) represents the expected return on pension scheme assets less the interest charge on pension scheme liabilities. This is now recognised as a consequence of adopting IFRS.

Interest on the direct capital instrument is not included within unallocated interest and it is instead treated as an appropriation of profits retained in the period. In accordance with IFRS, this appropriation will be charged when declared and settled. Accordingly, the £20 million appropriation made in July 2005 will be reflected in the second half of the year.

Cost savings

We continue to focus on cost control and operational efficiencies. We have successfully delivered the savings from the initiatives previously announced and we are now focused on growing the business while maintaining the cost base. We continue to make progress on the cost saving initiatives announced as part of the RAC acquisition and in relation to the UK Life transformation project. In respect of our UK life operation, we have incurred costs of £30 million in the period, which brings the spend to date to £95 million. We remain on track to spend a total of £153 million by 2007 and to deliver annualised savings of £130 million.

Profit on ordinary activities before tax

	EEV basis		IFRS basis	
	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 £m	6 months 2004 £m
Operating profit before tax	**1,318**	**1,076**	**943**	**781**
Impairment of goodwill	(10)	-	(10)	-
Amortisation of acquired additional value of in-force long-term business	-	-	(44)	(35)
Amortisation and impairment of other intangibles	(8)	(1)	(16)	(2)
Financial Services Compensation Scheme and other levies	-	(25)	-	(25)
Profit on disposal of subsidiary and associates	145	8	145	8
Short-term fluctuations on return of investments backing general insurance and health business	120	(238)	120	(238)
Variation from longer-term investment return – life business	719	(202)	-	-
Effect of economic assumption changes	(531)	56	-	-
Integration costs	(14)	-	(14)	-
Exceptional costs for termination of operations	-	(40)	-	(40)
Profit before tax/ Profit before tax attributable to shareholders' profits	**1,739**	**634**	**1,124**	**449**

* Restated for the effect of implementing European Embedded Value principles.

Profit before tax on an EEV basis was higher at £1,739 million (2004: £634 million), and includes the positive investment return variances of £839 million (2004: £440 million adverse) and the £531 million adverse impact of economic assumption changes (2004: £56 million profit). The completion of the first phase of the sale of our Asian general insurance businesses resulted in a profit on sale of £145 million. Integration costs of £14 million reflect the integration activity following the acquisition of RAC in May.

The variance from longer-term investment return reflects the higher than assumed overall equity returns during the period following improvements in the equity markets of between 6% and 10% and increased market values of fixed income securities following the fall in bond yields. This resulted in unrealised gains on the Group's life embedded value. Long-term economic assumption changes, which are set by reference to long-term bond yields, were revised downwards at 30 June 2005 in both the UK and Eurozone by 40 and 50 basis points respectively. These lower assumptions have reduced the expected value of future profits from in-force life contracts, reducing profits by £531 million.

The non-life short-term fluctuations of £120 million (2004: £238 million adverse) are principally due to the higher equity market returns compared to our longer-term investment return assumptions. The effect of the non-life investment market movements, profit on disposal, and integration costs are included in the IFRS profit before tax attributable to shareholders' profits to £1,124 million (2004: £449 million).

The taxation charge for the period was £530 million (2004: £249 million) on an EEV basis and includes a charge of £412 million (2004: £350 million) in respect of operating profit, which is equivalent to an effective rate of 31.3% (2004: 32.5%). On an IFRS basis the effective tax rate on operating profit was 27.1% (2004: 31.4%).

Dividend

Ordinary dividends

The Board has proposed an interim dividend of 9.83 pence net per share (2004: 9.36 pence) payable on 17 November 2005 to shareholders on the register on 19 August 2005.

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") negative outlook from Moody's. These ratings were reaffirmed in March 2005 and reflect the Group's very strong liquidity, competitive position, capital base, increasing 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.

Return on capital employed

The Group's normalised annualised 2005 post-tax operating return on equity was 14.6% (full year 2004: 13.7%), which reflects the strong operational performance delivered by our businesses in the period. The normalised annualised return is based on the post-tax operating profit from continuing operations, including the EEV operating return, expressed as a percentage of the opening equity 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 IFRS basis, the directors consider that the European Embedded Value principles provide 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.

At 30 June 2005 the Group had £20.6 billion (31 December 2004: £19.3 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 borrowings.

	30 June 2005	**31 December 2004**
Total shareholders' funds – EEV basis (including minority interests)	£15.1 billion	£14.0 billion
Total capital employed by business operations	£20.6 billion	£19.3 billion
Net asset value per share	533 pence	511 pence

The increase in shareholders' funds reflects strong operational performance in the first half of the year and the capital raised as part of the acquisition of RAC in May. Net asset value per ordinary share, based on equity shareholders' funds, was higher at 533 pence per share.

Regulatory bases

EU Groups directive

	30 June 2005	**31 December 2004**
Insurance Groups Directive (IGD) excess solvency	£2.6 billion	£3.6 billion
Cover (times) over EU minimum	1.6 times	1.9 times

Aviva Group had an estimated excess regulatory capital, as measured under the EU Groups Directive, of £2.6 billion at 30 June 2005 (31 December 2004: £3.6 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 life reserves respectively and for Aviva's general insurance portfolio of business 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 (the US, Australia and Canada) a risk charge on assets and liabilities approach is used.

The FSA introduced further changes to the valuation rules which apply during 2005. From 1 January 2005, the valuations of non-insurance subsidiaries were restated from market value to net asset value reducing IGD by £0.6 billion. Furthermore, the FSA introduced the rules for accounting for pension fund deficits under IAS with effect from April 2005. The impact of this is to reduce Aviva's excess solvency by £0.4 billion. The impact of these valuation changes has been offset by the Group's strong solvency capital generation in the period which amounted to £0.6 billion while the acquisition of RAC reduced the excess regulatory capital by a further £0.8 billion. As previously announced, completion of the first phase of the Asian general insurance business sale in period improved 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. We have established the Group's risk and governance frameworks to ensure compliance and finalised the parameters and assumptions that underpin the internal capital adequacy (ICA) assessment. An evaluation of our framework by the FSA will take place during the course of 2005. From 1 January 2006, the Group will be required to have a positive IGD basis solvency level at all times.

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 estimated excess solvency margin (representing the regulatory value of excess available assets over the required minimum margin) increased to £6.2 billion (31 December 2004: £5.7 billion) after covering the minimum capital base of £3.9 billion (31 December 2004: £4.1 billion).

The table below sets out the regulatory basis of these general insurance groups at 30 June 2005 and 31 December 2004.

	30 June 2005			31 December 2004		
	NUI plc	**CGUII Group**	**NUI and CGUII Group pro forma**	**NUI plc**	**CGUII Group**	**NUI and CGUII Group pro forma**
Regulated asset value £bn	£1.0 bn	£9.1 bn	£10.1 bn	£1.0 bn	£8.8 bn	£9.8 bn
Required minimum margin £bn	£0.4 bn	£3.5 bn	£3.9 bn	£0.4 bn	£3.7 bn	£4.1 bn
Excess solvency margin £bn	£0.6 bn	£5.6 bn	£6.2 bn	£0.6 bn	£5.1 bn	£5.7 bn
Cover (times)	2.8 times	2.6 times	2.6 times	2.6 times	2.4 times	2.4 times

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 adverse situations. 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 evolve 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 (31 December 2004: £3.3 billion) of capital. This compares with a total of £5.5 billion (31 December 2004: £5.0 billion) of shareholders' capital employed in our 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 (i.e. level of solvency capital at which local regulator is 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 EU minimum.

The required capital across all the Group's businesses varies depending on the level of operational, market and currency risk, 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 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 30 June 2005 the regulatory capital held in the Group's long-term business amounted to £6.4 billion (31 December 2004: £6.3 billion) which represents 177% (31 December 2004: 168%) of the EU minimum requirements.

UK Life operations

Available capital

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-profits 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, less promises. Realistic balance sheet information is shown below for the three main UK with-profits funds, CGNU Life, Commercial Union Life Assurance Company (CULAC) and Norwich Union Life and Pensions (NUL&P). These realistic liabilities have been included within the long-term business provision and the liability for investment contracts on the Group's IFRS balance sheet at 30 June 2005 and 31 December 2004.

The required capital margin has increased since December 2004 mainly as a result of a change in assumptions in relation to charges made for guarantees within the RCM calculation.

	30 June 2005				
	Estimated Realistic assets £bn	Realistic liabilities*[1] £bn	Estimated Realistic orphan estate[2] £bn	Estimated required capital margin[3] £bn	Estimated excess £bn
CGNU Life	13.9	12.2	1.7	0.6	1.1
CULAC	13.9	12.2	1.7	0.5	1.2
NUL&P	25.7	24.5	1.2	1.1	0.1
Aggregate	**53.5**	**48.9**	**4.6**	**2.2**	**2.4**

* These realistic liabilities include the shareholders' share of future bonuses of £0.6 billion. Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £48.3 billion.

1 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 £0.8 billion, £1.0 billion and £3.4 billion for CGNU Life, CULAC and NUL&P respectively (31 December 2004: £0.6 billion, £0.9 billion and £3.3 billion for CGNU Life, CULAC and NUL&P respectively).

2 Estimated realistic orphan estate at 31 December 2004 was £1.7 billion, £1.6 billion and £1.2 billion for CGNU Life, CULAC and NUL&P respectively.

3 The required capital margin (RCM) is 2.0 times covered by the orphan estate (31 December 2004: 2.6 times).

In addition to those funds disclosed above, the PM fund holds £2.8billion of realistic assets and liabilities. However, as realistic assets and liabilities are equal in the PM fund, there is no impact on the realistic orphan estate.

The aggregate investment mix of the assets in the three main with-profit funds at 30 June 2005 was:

	30 June 2005 %	31 December 2004 %
Equity	38%	36%
Property	15%	15%
Fixed interest	40%	43%
Other	7%	6%
	100%	**100%**

The equity backing ratio, including property, supporting with-profit asset shares is 66% in CGNU Life and CULAC and 55% in NUL&P. With-profit new business is mainly written through CGNU Life.

Group capital statement

The purpose of the capital statement is to set out the financial strength of the Group 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.

	30 June 2005						Restated* 31 December 2004
	UK with-profit funds £bn	Other UK life operations[3] £bn	Overseas life operations £bn	Total life £bn	Other operations[4] £bn	Total £bn	Total £bn
Total shareholders' funds	-	2.8	4.9	7.7	2.1	9.8	9.0
Other sources of capital[1]	-	-	0.1	0.1	2.8	2.9	3.0
Unallocated divisible surplus	4.4	0.2	3.1	7.7	-	7.7	7.5
Adjustments onto a regulatory basis[2]	0.2	(1.9)	(3.4)	(5.1)	(3.4)	(8.5)	(6.7)
Total available capital	**4.6**	**1.1**	**4.7**	**10.4**	**1.5**	**11.9**	**12.8**

*Restated for the adoption of FRS 27.

1 Other sources of capital represents: subordinated debt of £2,789 million (31 December 2004: £2,847 million) issued by Aviva plc and £120 million (31 December 2004: £129 million) subordinated perpetual loan notes issued by a Dutch subsidiary undertaking.

2 Including an adjustment for minorities

3 Other UK life operations include £238 million (31 December 2004: £300 million) of UDS, relating to Hibernian life which is owned by the UK life shareholders' funds.

4 Other operations include general insurance and fund management businesses.

The December 2004 restated capital position statement reflects the reduction in shareholders' funds under IFRS. The restated unallocated divisible surplus reflects the impact of IFRS and FRS 27 which restates UK with-profit liabilities to the realistic basis. The 2004 capital position remains unchanged however, as the FSA does not require us to restate our regulatory solvency position. The June 2005 capital position reflects the impact of the acquisition of RAC by Aviva.

Sensitivity analysis

The sensitivity of the Groups' shareholders' funds on an EEV basis at 30 June 2005 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

31 December 2004 £bn		30 June 2005 £bn	Equities down 10% £bn	Interest rates up 1% £bn
13.8	Long-term savings[1,]	13.8	13.1	13.7
5.5	General insurance and other	6.8	6.4	6.6
(5.3)	Borrowings[2]	(5.5)	(5.5)	(5.5)
14.0	**Shareholders' funds**	**15.1**	**14.0**	**14.8**

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

LIFE NEW BUSINESS SALES

Geographical analysis of life, pensions and investment sales, new business contribution and new business margin

	Present value of new business premiums[1]			New business contribution[3]			New business margin [4]	
	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[2]	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[2]	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m
Life and pensions								
United Kingdom	**4,244**	**4,299**	**(1%)**	**135**	**127**	**6%**	**3.2%**	**3.0%**
France	1,854	1,337	36%	71	46	52%	3.8%	3.4%
Ireland	349	267	28%	9	13	(28%)	2.6%	4.9%
Italy	1,333	811	61%	33	22	45%	2.5%	2.7%
Netherlands (including Belgium and Luxembourg)	1,241	981	24%	39	40	(5%)	3.1%	4.1%
Poland	112	121	(22%)	5	5	(4%)	4.5%	4.1%
Spain	965	1,122	(16%)	80	68	15%	8.3%	6.1%
Other Europe	364	388	(8%)	3	1	300%	0.8%	0.3%
Continental Europe	**6,218**	**5,027**	**21%**	**240**	**195**	**21%**	**3.9%**	**3.9%**
International	**554**	**427**	**31%**	**18**	**16**	**12%**	**3.2%**	**3.7%**
Total life and pensions	**11,016**	**9,753**	**12%**	**393**	**338**	**15%**	**3.6%**	**3.5%**
Investment sales[5]								
United Kingdom	**513**	**451**	**14%**					
Netherlands	180	120	49%					
Poland	26	49	(56%)					
Other Europe	237	91	157%					
Continental Europe	**443**	**260**	**63%**					
International	**106**	**64**	**63%**					
Total investment sales	**1,062**	**775**	**35%**					
Total long-term savings	**12,078**	**10,528**	**13%**					
Navigator sales (not included above)	432	323	33%					

1 All references to sales in this announcement refer to the present value of new business premiums (PVNBP) unless otherwise stated. PVNBP is the present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.
2 Growth rates are calculated based on constant rates of exchange.
3 Stated before the effect of required capital.
4 New business margin represents the ratio of new business contribution to PVNBP, expressed as a percentage.
5 Investment sales are calculated as new single premium plus annualised value of new regular premiums.

United Kingdom:
In an increasingly competitive market, Norwich Union continued to rebalance its product mix to maximise returns. While, total sales, including investment sales, in the first half of 2005 were broadly flat at £4,757 million (2004: £4,750 million) the company's focus on value resulted in a 6% increase in new business contribution to £135 million (2004: £127 million). New business margin was higher at 3.2% (full year 2004: 2.9%). Norwich Union has enjoyed a strong performance in the individual annuity, bond and retail investments markets owing to a combination of dynamic pricing actions and continuing improvements to product offerings. The protection market remains challenging and the company continues to take strategic pricing actions in order to retain an appropriate presence for the long-term.

Norwich Union continues to benefit from its strong and broad investment offering. Total bond sales increased 20% to £1,158 million (2004: £964 million) with a 46% increase in unit-linked bond sales. During the second quarter Norwich Union further enhanced its investment bond product, broadening the fund range to include manager of manager funds and launching Forecast, an online portfolio planning tool for financial advisers. These initiatives are expected to deliver further benefits to new business sales volumes in the second half of the year.

The company recognises that building a significant position in collective investments will be an increasingly important driver of future growth and continues to develop its capability in this area. This increased focus on collective investments resulted in sales growth of 14% to £513 million (2004: £451 million).

The protection market remains challenging reflecting the continued slowdown in the property market. Total protection sales were £467 million (2004: £534 million) excluding equity release. Norwich Union has used pricing actions to maintain a strongly competitive position, given the strategic importance of this market. Equity release sales totalled £179 million (2004: £197 million) and Norwich Union has a market leading position, which it expects to maintain as the market develops.

Individual annuity sales increased by 39% to £787 million (2004: £568 million). Norwich Union has maintained the good momentum from the first quarter of 2005 and remains positive about the outlook for the remainder of the year.

Norwich Union has successfully repositioned its pensions mix to deliver a strong improvement in value. Total pensions sales, including individual and group business, were £1,653 million (2004: £2,036 million). Total individual pension sales were £1,175 million (2004: £1,478 million), reflecting lower individual personal pensions sales due to tactical repositioning partly offset by increased group personal pension sales of £598 million (2004: £548 million). Recent actions include launching a "non stakeholder" personal pension at the end of 2004 and varying commission levels in order to move the product mix from low margin "stakeholder" products to higher margin products. This market remains a strategic focus for long-term profitable growth. Norwich Union maintains a strong position in the corporate pensions market, with sales of £478 million (2004: £558 million), extracting value from tactical opportunities as the market changes in the run up to Pensions Simplification.

The joint venture with the Royal Bank of Scotland Group delivered strong sales, increasing 16% to £476 million (2004: £409 million). Norwich Union's share of these increased by 22% to £319 million (2004: £261 million), reflecting the benefits of closer integration between the sales force and the bank network. These benefits are expected to continue through the rest of the year. The product range has been augmented with the addition of the Norwich Union Portfolio Bond. Growth is expected to continue in the second half of the year from increasing sales force numbers and further enhancements to the investment, protection and pension propositions. New business margin was maintained at 2.6% (full year 2004: 2.6%).

Norwich Union is well placed to compete in a depolarised market and has secured all the distribution agreements it needs to maintain a leading market position. Following the successful launch of the Lifetime wrap[1] platform, over 200 financial advisors have already signed up. As recently announced, Norwich Union has increased its share of Lifetime to 96%. Further enhancements to this platform around pensions and investments offerings are planned during the second half of the year.

Norwich Union expects modest market growth in the remainder of 2005 with current trends within each individual product line continuing. The company remains committed to delivering value, while maintaining a leading position in key markets. Norwich Union is well placed over the medium-term to achieve profitable growth in line with the market and exploit opportunities as the market improves.

Continental Europe:

France:

Aviva France reported an excellent 36% growth in sales to £1,854 million (2004: £1,337 million), with £411 million of sales through the new bancassurance joint venture with Crédit du Nord. This is an impressive result for the joint venture and represents stronger growth than other bancassurers in the French market.

Aviva France continues to focus on moving the business mix towards a greater proportion of unit-linked business and Crédit du Nord's performance includes the benefit of a special offer on unit-linked business. These products accounted for 40% of total sales in the first half of 2005 (2004: 29%), with sales increasing 88% to £740 million (2004: £387 million). This change in product mix resulted in a strong increase in the margin to 3.8% (full year 2004: 3.4%), and includes the margin on new business from the Crédit du Nord joint venture of 4.1% (full year 2004: 3.1%).

AFER, the largest savings association in France with more than 625,000 members at the end of June 2005, continues to be an important source of new business. Sales through AFER grew steadily at 4% to £865 million (2004: £819 million) against a high comparator. AFER sales now account for 47% of total new business for Aviva France (2004: 61%) as Crédit du Nord adds distribution diversity. Unit-linked sales through AFER increased by 61% to £195 million (2004: £119 million) and now represent 23% of the total AFER sales. Euro fund sales declined to £670 million (2004: £700 million).

New business sold through channels other than AFER and Crédit du Nord showed good growth of 10% to £578 million (2004: £518 million) benefiting from strong sales of unit-linked products.

Market growth in France for the first half of the year was 12% but is expected to fall back in the second half to give a rate of market growth of less than 10% for the whole of 2005. With a diversified distribution capability and a broad range of savings products, Aviva France is well positioned for continued growth.

Ireland:

Hibernian Life and Pensions maintained its position as the third largest Irish life and pensions provider with a 28% increase in sales to £349 million (2004: £267 million). This performance benefited from higher than expected sales of single premium business, which increased by 123% to £191 million (2004: £85 million).

New single premium pension sales were 87% higher at £123 million (2004: £65 million) and included a significant number of large contracts across all categories of pensions, reflecting the attractive choice of fund managers. New regular premium

[1] A wrap is an IT service that allows financial advisers to manage and transact on a range of different client investments.

pension sales were lower at £118 million (2004: £131 million), demonstrating continued customer and broker focus on single premium products.

Life single premium sales increased to £68 million (2004: £20 million) and benefited from the guaranteed fund that provides a five year capital guarantee, launched in 2004. Life regular premium sales were £40 million (2004: £51 million) as a result of modest increments to existing Special Savings Incentive Account (SSIA) policies as well as lower protection sales following repricing actions during the first quarter due to increased reinsurance costs.

New business contribution was £9 million (2004: £13 million) with a margin of 2.6% (full year 2004: 3.4%). The reduction in the margin reflects the higher level of single premium sales and the competitive pressures within the market.

Italy:
New business sales increased strongly by 61% to £1,333 million (2004: £811 million), including one-off single premium direct business of £73 million (2004: £82 million). This is higher than the growth in the Italian bancassurance market which increased by 36% based on total sales. The momentum of new business sales from Aviva's bancassurance partners continued into the second quarter of 2005. Aviva Italy concentrated marketing efforts in the first six months, in order to capture a good share of the buoyant long-term savings market. However, this exceptional growth rate is not expected to continue at the same level for the rest of the year as the country's economic slowdown is likely to restrain market growth.

Sales through UniCredito Italiano were 27% higher at £502 million (2004: £388 million), reflecting strong growth in single premium unit-linked savings business following the launch of new products and marketing campaigns in the first half of 2005.

Banche Popolari Unite (BPU) achieved strong growth with sales of £350 million (2004: £138 million). Sales benefited from the extension of the agreement with BPU to a further 380 branches from the start of 2005 and the start of sales through the financial adviser network of BPU in the second quarter of the year. New business from structured investment bonds with limited offer periods continued to be successful and there was increased demand for single premium profit sharing contracts.

Total sales from Banca Popolare Italiana Group (formerly Banca Popolare di Lodi Group) were higher at £305 million (2004: £130 million), reflecting continued strong demand for both structured investment bonds and profit sharing policies.

Sales through Banca delle Marche also increased strongly to £83 million (2004: £59 million), following a successful marketing campaign in the first half of the year.

New business contribution was £33 million (2004: £22 million) reflecting the strong growth in sales, with the margin lower at 2.5% (full year 2004: 2.7%) reflecting business mix, with a higher proportion of lower margin structured investment bonds and profit sharing business.

Netherlands:
Delta Lloyd achieved strong new business sales growth, including investment sales, of 27% to £1,421 million (2004: £1,101 million). Sales through the joint venture with ABN AMRO increased by 43% to £347 million (2004: £238 million).

Pension and annuity sales increased by 54% to £763 million (2004: £485 million). This reflects strong growth in annuity sales following a successful limited offer promotion by ABN AMRO that ended in April, designed to raise market awareness of the joint venture. Annuity volumes in the second quarter returned to a long-term sustainable level. Sales through ABN AMRO and the direct division continued to perform well, showing a seasonal effect, as well as good offers from the direct division. Individual and group pension sales continued to grow at a steady pace. Group pensions business continues to be an area of focus for the group, with 2005 new business sales comprising a larger number of medium-sized contracts compared with last year. The increase in regular premium pensions sales of 83% to £306 million (2004: £164 million) is partly due to the launch in the first quarter of the on-line version of the personal pension plan product.

Life and saving sales were £478 million (2004: £496 million). Single premium sales of £196 million (2004: £221 million), include sales through ABN AMRO where its education and savings plans are highly regarded in the market. Investment sales increased by 49% to £180 million (2004: £120 million), continuing the sales momentum from the first quarter and reflecting a strengthening of the Delta Lloyd brand in this market.

New business contribution was £39 million (2004: £40 million) with a margin of 3.1% (full year 2004: 3.7%). The reduction is as a result of the decrease in interest rates applied in calculating new business contribution which were lower by 60 basis points at the start of 2005. The margins would be broadly unchanged, if this effect is excluded.

Poland:
Total life and pension new business sales were £112 million (2004: £121 million).

Life sales were higher at £62 million (2004: £52 million) as a result of currency strengthening and higher sales of regular premium savings business. CU Polska is focused on raising the productivity of the sales force, enhancing distribution capabilities and extending the product offering. New product launches are scheduled later in the year.

Pension sales were £50 million (2004: £69 million). The comparator includes non-recurring sales of £26 million made through the Polish State Agency in respect of employees without a chosen pension provider. Following legislative changes prompted by competition issues, CU Polska and two other pension companies have been excluded from this business in 2005.

Mutual fund sales were lower at £26 million (2004: £49 million) reflecting continued investor caution. The Polish equity market was very volatile in the first half of 2005 and investor preference switched to less risky fixed-income funds.

CU Polska is in the process of finalising a number of alliances with distribution partners in order to generate sales growth.

Spain:
Total new business sales were £965 million (2004: £1,122 million), including one-off sales of £25 million through Aviva Vida y Pensiones (2004: £177 million through Caixa Galicia). Excluding one-off sales, new business sales were broadly flat at £940 million (2004: £945 million).

Through the bancassurance distribution channels, the product focus in the second quarter has continued to be on higher margin protection and pension products, although there was an increase in volume of lower margin traditional savings products compared to the first quarter of this year. As a result of this beneficial product mix, the new business contribution has increased by 15% to £80 million (2004: £68 million) and the new business margin has increased to 8.3% (full year 2004: 6.8%). Total sales through bancassurance partners in Spain were lower at £855 million (2004: £1,053 million, which includes one-off sales of £177 million).

Aviva continues to be a leading bancassurer in the Spanish life market and was number four in the market overall in the first quarter of 2005, based on gross written premiums. Growth potential is still strong across bancassurance partnerships, although quarterly sales volumes are variable due to the timing of marketing campaigns and product launches. Increased sales momentum in traditional savings products is expected in the second half of 2005 as new products are developed and launched, which should result in a more balanced product mix between protection and savings products.

At Aviva Vida y Pensiones, which distributes through a direct sales force and intermediaries, new business sales increased to £110 million (2004: £60 million). Most of the increase is due to strong sales of individual pensions and unit-linked life business, and included one-off sales of £25 million (2004: nil) in respect of large group savings and risk schemes.

Other Europe:
Sales from Aviva's other European businesses decreased by 8% to £364 million (2004: £388 million), including total sales in Germany of £142 million (2004: £187 million). The sales slowdown in Germany is in line with local market trends following changes in tax laws introduced at the start of 2005.

In Turkey, where Aviva is a top-five life insurance provider, total new business sales increased to £75 million (2004: £55 million), continuing to reflect good levels of regular premium sales in the personal pensions market.

Sales through Norwich Union's Dublin-based offshore life and savings business were £68 million (2004: £50 million).

Sales of Luxembourg UCITS increased to £237 million (2004: £91 million) as a result of improved investor sentiment and further development of broker relationships and distribution channels.

Aviva is currently evaluating opportunities in the Russian market. This follows recent regulatory reform and developments in the long-term savings market.

International:

Asian businesses:
Aviva continues to increase the rate of growth in new business sales generated by its Asian businesses in line with its longer-term strategic ambitions in the region. Total sales from the operations in Asia included in the Group's headline result, have increased by 62% to £172 million (2004: £107 million) and now account for 2% (2004: 1%) of the Group's sales. Strong growth was achieved in all the Asian operations.

Singapore: Sales at Aviva Singapore increased to £108 million (2004: £75 million), benefiting from the strong partnership with banking group DBS, together with increased sales from the broker channel. The partnership has around 50% of the bancassurance regular premium new business market, reflecting its focus on selling higher margin regular premium business. Aviva is also the market leader in the developing broker market, and employee benefits and healthcare business segments. Total Navigator Asia sales, which are not included in the new business figures, have increased significantly to £29 million (2004: £5 million), facilitated by strong distribution relationships with key brokers and an increase in the number of funds offered.

Hong Kong: Sales from the partnership with DBS in Hong Kong continued to increase strongly by 51% to £35 million (2004: £24 million) with an increasing contribution from the broker channel launched towards the end of 2004. Single premium sales of £16 million (2004: £8 million) benefited from the launch of a limited offer savings product.

India: Total sales from the joint-venture life business with Dabur Group increased by 86% to £50 million (2004: £27 million), ranking Aviva eighth amongst private providers. Aviva's 26% attributable share of new business sales was £13 million (2004: £7 million). Distribution is through the growing direct sales force, now numbering 5,500, and bancassurance partnerships, including Canara Bank, India's second largest bank. Four new bancassurance agreements with cooperative banks have been signed in the first half of 2005 bringing the total numbers of bancassurance agreements to ten. Bancassurance distribution has been strengthened by an extension of the partnership with American Express for a further 10 years.

China: Sales through the joint-venture life business, Aviva COFCO, continue to grow rapidly. Total sales were £32 million (2004: £2 million). Aviva's 50% share of new business sales was £16 million (2004: £1 million). The company has improved its market position among foreign joint venture life insurers, based on premium income, to be ranked third. Due to the rapid growth of group business the market rankings of foreign insurers remain volatile. Aviva has received regulatory approval to open a sales office in Nauchong in the province of Sichuan, in addition to those already approved in the cities of Zhongshan in Guangdong province and Mianyang in Sichuan. This brings the total number of major cities where Aviva is licensed to three, with sales offices in a further three cities. Applications for further new licenses have been made to the China Insurance Regulatory Commission.

Australia:
Life and pension sales increased by 5% to £160 million (2004: £151 million) including growth from single premium corporate pension transfers and protection products launched in late 2004. Sales of investment products in the region have improved as a result of more positive investor sentiment towards equity-backed investments. While not included in the new business figures, sales of Navigator, the master trust fund administration business, increased to £403 million (2004: £318 million) as a result of ongoing improvements in product offerings. Aviva remains focused on growth and has recently agreed a number of strategic investments and alliances with distribution partners to secure and enhance future sales volumes. This includes a strategic stake in Professional Investment Holding and alliance with HBOS.

United States:
Life and pension sales grew by 36% to £222 million (2004: £169 million), benefiting from distribution improvements, new single premium deferred annuity products and revised product terms. The company's focus remains on broadening distribution and improving growth. The wider product offering, including the recent launch of an equity-indexed annuity, is expected to reduce the volatility of new business volumes, which have previously been depressed due to the low interest rate environment.

Present value of life new business premiums

The present value of new business premiums (PVNBP) is derived from the single premiums and regular premiums of the products sold during the financial period and is expressed at the point of sale.

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

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

	30 June 2005					30 June 2004
	Regular premiums £m	Weighted average capitalisation factor	Present value of regular premiums £m	Single premiums £m	Present value of new business premiums £m	Present value of new business premiums £m
United Kingdom						
Individual pensions	120	5.1	611	564	1,175	1,478
Group pensions	44	5.5	240	238	478	558
Annuities	-	-	-	787	787	568
Bonds	-	-	-	1,158	1,158	964
Protection [1]	66	5.1	337	309	646	731
Total life and pensions	**230**	**5.2**	**1,188**	**3,056**	**4,244**	**4,299**
France						
Euro funds[2]	7	5.6	39	990	1,029	865
Unit-linked funds	21	5.9	124	616	740	387
Protection business	13	6.5	84	1	85	85
Total life and pensions	**41**	**6.0**	**247**	**1,607**	**1,854**	**1,337**
Ireland						
Life and savings	8	5.0	40	68	108	71
Pensions	24	4.9	118	123	241	196
Total life and pensions	**32**	**4.9**	**158**	**191**	**349**	**267**
Italy						
Life and savings	30	6.2	187	1,146	1,333	811
Total life and pensions	**30**	**6.2**	**187**	**1,146**	**1,333**	**811**
Netherlands (including Belgium and Luxembourg)						
Life	35	8.1	282	196	478	496
Pensions	38	8.1	306	457	763	485
Total life and pensions	**73**	**8.1**	**588**	**653**	**1,241**	**981**
Poland						
Life and savings	9	4.3	39	23	62	52
Pensions	5	7.6	38	12	50	69
Total life and pensions	**14**	**5.5**	**77**	**35**	**112**	**121**
Spain						
Life and savings	34	6.8	232	548	780	791
Pensions	15	6.3	95	90	185	331
Total life and pensions	**49**	**6.7**	**327**	**638**	**965**	**1,122**
Other Europe						
Life and pensions	**38**	**4.9**	**187**	**177**	**364**	**388**
International						
Life and pensions	**56**	**4.1**	**228**	**326**	**554**	**427**
Total	**563**	**5.7**	**3,187**	**7,829**	**11,016**	**9,753**

1 United Kingdom includes single premiums of £179 million (2004: £197 million) in respect of NUER included in Protection business.
2 Euro funds are savings that receive an annual bonus declaration, based on the investment performance of the underlying funds.

Analysis of sales via our principal bancassurance channels

	Total single premium and regular premium sales		Present value of new business premiums [2]	
	6 months to 30 June 2005 £m	Local currency growth [1]	6 months to 30 June 2005 £m	Local currency growth [1]
Life and pensions				
United Kingdom				
Royal Bank of Scotland Group	240	25%	267	24%
	240	**25%**	**267**	**24%**
France				
Crédit du Nord (commenced 1 October 2004)	353	-	411	-
	353	**-**	**411**	**-**
Italy				
UniCredito Italiano	432	23%	502	27%
Banca Popolare Italiana Group (formerly Banca Popolare di Lodi Group)	296	141%	305	130%
Banca delle Marche	34	70%	83	38%
Banche Popolari Unite	328	134%	350	149%
	1,090	**72%**	**1,240**	**70%**
Netherlands				
ABN AMRO	193	42%	347	43%
	193	**42%**	**347**	**43%**
Spain				
Bancaja	326	(6%)	402	(3%)
Caixa Galicia	138	(59%)	191	(47%)
Unicaja	83	(16%)	131	(7%)
Caja Espãna	58	(19%)	78	(13%)
Caja de Granada	36	(22%)	53	(25%)
	641	**(29%)**	**855**	**(21%)**
International				
DBS	40	67%	102	24%
	40	**67%**	**102**	**24%**
Total life and pensions	**2,557**	**36%**	**3,222**	**37%**
Investment sales[3]				
United Kingdom				
Royal Bank of Scotland Group	52	20%	52	20%
	52	**20%**	**52**	**20%**
Total bancassurance sales	**2,609**	**35%**	**3,274**	**36%**

1 Growth rates are calculated based on constant rates of exchange.
2 Present value of new business premiums (PVNBP) is the present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.
3 Investment sales are calculated as new single premium plus annualised value of new regular premiums.

Analysis of total new business sales via the joint venture with Royal Bank of Scotland Group (RBSG)

Total sales through the joint venture with RBSG are provided below on a 100% basis and for Aviva's share. In reporting the life and pensions results, a 50% share of sales written through the joint venture life company and 100% of single premium with-profit and unit-linked bond sales written through a Norwich Union fund are included. Investment sales represent Aviva's 50% share of the collective investment sales.

	Total RBSG sales		Aviva's share	
	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m
Total life and pension sales	375	323	267	218
Collective investment sales	101	86	52	43
Total RBSG bancassurance sales	**476**	**409**	**319**	**261**

Detailed worldwide long-term savings new business analysis

	Single			Regular			Total
	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth [1]	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth [1]	Local currency growth [1]
United Kingdom							
Individual pensions	564	800	(30%)	120	136	(12%)	(27%)
Group pensions	238	303	(22%)	44	49	(10%)	(20%)
Annuities	787	568	39%	-	-	-	39%
Bonds	1,158	964	20%	-	-	-	20%
Protection	309	303	2%	66	88	(25%)	(4%)
Total life and pensions	**3,056**	**2,938**	**4%**	**230**	**273**	**(16%)**	**2%**
Peps/Isas/Unit trusts/Oeics	504	437	16%	9	14	(33%)	14%
	3,560	**3,375**	**6%**	**239**	**287**	**(17%)**	**4%**
France							
Euro funds[2]	990	836	17%	7	6	21%	17%
Unit-linked funds	616	326	86%	21	10	108%	86%
Protection business	1	21	(94%)	13	11	17%	(57%)
	1,607	**1,183**	**34%**	**41**	**27**	**52%**	**34%**
Ireland							
Life and savings	68	20	241%	8	9	(13%)	161%
Pensions	123	65	87%	24	26	(9%)	59%
	191	**85**	**123%**	**32**	**35**	**(10%)**	**84%**
Italy							
Life and savings	1,146	694	63%	30	20	49%	63%
	1,146	**694**	**63%**	**30**	**20**	**49%**	**63%**
Netherlands (including Belgium & Luxembourg)							
Life	196	221	(13%)	35	41	(17%)	(13%)
Pensions	457	321	41%	38	24	55%	42%
Total life and pensions	**653**	**542**	**19%**	**73**	**65**	**10%**	**18%**
Unit trusts	180	120	49%	-	-	-	49%
	833	**662**	**24%**	**73**	**65**	**10%**	**23%**
Poland							
Life and savings	23	20	(5%)	9	7	6%	(2%)
Pensions	12	13	(22%)	5	8	(46%)	(31%)
Total life and pensions	**35**	**33**	**(12%)**	**14**	**15**	**(22%)**	**(15%)**
Mutual funds	24	48	(58%)	2	1	49%	(56%)
	59	**81**	**(39%)**	**16**	**16**	**(18%)**	**(35%)**
Spain							
Life and savings	548	626	(14%)	34	27	25%	(12%)
Pensions	90	249	(64%)	15	15	1%	(61%)
	638	**875**	**(28%)**	**49**	**42**	**16%**	**(26%)**
Other Europe							
Life and pensions	177	167	6%	38	41	(10%)	3%
UCITS and other	237	91	157%	-	-	-	157%
	414	**258**	**59%**	**38**	**41**	**(10%)**	**50%**
International							
Life and pensions	326	225	48%	56	51	10%	41%
Unit trusts	106	64	63%	-	-	-	63%
	432	**289**	**51%**	**56**	**51**	**10%**	**45%**
Total long-term savings	**8,880**	**7,502**	**17%**	**574**	**584**	**(3%)**	**16%**
Analysed:							
Life and pensions	7,829	6,742	15%	563	569	(2%)	14%
Investment sales	1,051	760	36%	11	15	(27%)	35%
Total long-term savings	**8,880**	**7,502**	**17%**	**574**	**584**	**(3%)**	**16%**
Navigator sales (not included above)	432	323	33%				

1 Growth rates are calculated based on constant rates of exchange.
2 Euro funds are savings that receive an annual bonus declaration, based on the investment performance of the underlying funds.

Analysis of UK long-term savings by distribution channel

	Single			Regular			Total
	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[1]	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[1]	Local currency growth[1]
IFA							
- life & pensions products	2,216	2,085	6%	181	219	(17%)	4%
- investment products	247	191	30%	-	1	(40%)	30%
	2,463	**2,276**	**8%**	**181**	**220**	**(17%)**	**6%**
Bancassurance partnership with RBSG							
- life & pensions products	231	184	25%	9	8	18%	25%
- investment products	43	30	42%	9	13	(33%)	20%
	274	**214**	**28%**	**18**	**21**	**(14%)**	**24%**
Other partnerships/Direct							
- life & pensions products	609	669	(9%)	40	46	(15%)	(9%)
- investment products	214	216	(1%)	-	-	(14%)	(1%)
	823	**885**	**(7%)**	**40**	**46**	**(15%)**	**(7%)**
Total UK long-term savings	**3,560**	**3,375**	**6%**	**239**	**287**	**(17%)**	**4%**

1 Growth rates are calculated based on constant rates of exchange.

Annual premium equivalent [1]

	Life and pensions sales		Investment sales		Total sales	
	6 months to 30 June 2005 £m	Local currency growth[2]	6 months to 30 June 2005 £m	Local currency growth[2]	6 months to 30 June 2005 £m	Local currency growth[2]
IFA	403	(6%)	25	28%	428	(4%)
Bancassurance partnership with RBSG	32	23%	13	(19%)	45	7%
Other partnerships/Direct	101	(11%)	21	(1%)	122	(10%)
Total UK long-term savings	**536**	**(6%)**	**59**	**4%**	**595**	**(5%)**

1 Annual premium equivalent (APE) is the UK industry's standard measure of new regular premiums and 10% of single premiums.
2 Growth rates are calculated based on constant rates of exchange.

Analysis of France long-term savings by fund

	Single			Regular			Total
	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[1]	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[1]	Local currency growth[1]
AFER							
- Euro funds [2]	670	700	(6%)	-	-	-	(6%)
- Unit-linked funds	195	119	61%	-	-	-	61%
	865	**819**	**4%**	**-**	**-**	**-**	**4%**
Bancassurance partnership with Crédit du Nord							
- Euro funds	200	-	-	2	-	-	-
- Unit-linked funds	140	-	-	10	-	-	-
- Protection	-	-	-	1	-	-	-
	340	**-**	**-**	**13**	**-**	**-**	**-**
Other							
- Euro funds	120	136	(13%)	5	6	(14%)	(13%)
- Unit-linked funds	281	207	33%	11	10	14%	32%
- Protection	1	21	(97%)	12	11	11%	(60%)
	402	**364**	**9%**	**28**	**27**	**7%**	**9%**
Total France long-term savings	**1,607**	**1,183**	**34%**	**41**	**27**	**52%**	**34%**

1 Growth rates are calculated based on constant rates of exchange.
2 Euro funds are savings that receive an annual bonus declaration, based on the investment performance of the underlying funds.

Annual premium equivalent

	Annual premium equivalent[1]		
	6 months to 30 June 2005 £m	6 months to 30 June 2004 £m	Local currency growth[2]
Life and pensions			
United Kingdom	**536**	**567**	**(6%)**
France	202	145	37%
Ireland	51	44	16%
Italy	145	89	60%
Netherlands (including Belgium and Luxembourg)	138	119	14%
Poland	17	18	(20%)
Spain	113	130	(14%)
Other Europe	55	58	(5%)
Continental Europe	**721**	**603**	**17%**
International	**89**	**74**	**22%**
Total life and pensions	**1,346**	**1,244**	**7%**
Investment sales			
United Kingdom	**59**	**58**	**4%**
Netherlands	18	12	49%
Poland	4	6	(41%)
Other Europe	24	9	157%
Continental Europe	**46**	**27**	**63%**
International	**11**	**6**	**63%**
Total investment sales	**116**	**91**	**26%**
Total long-term savings	**1,462**	**1,335**	**9%**

1 Annual premium equivalent (APE) is the UK industry's standard measure of new regular premiums and 10% of single premiums.
2 Growth rates are calculated based on constant rates of exchange.

Glossary

Life profits reporting

In reporting the headline operating profit, life profits have been included using the European Embedded Value basis. This is used throughout the Aviva Group to assess performance, having adopted the EEV Principles. We have focused on the EEV basis, as we believe EEV operating return is a more realistic measure of the performance of the businesses than IFRS basis. The IFRS basis is used in our financial statements and, on this basis, the operating profit before tax on continuing operations amounted to £943 million (2004: £781 million). The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum.

Definitions of Group key performance indicators and other terms

Annual premium equivalent (APE)	–	Method for calculating life, pensions and investment new business levels. It equals the total of new annualised regular premiums plus 10% of single premiums.
Assets under management	–	Represents all assets managed by the Group including funds held on behalf of third parties.
CGUII	–	A principal UK general insurance company and the parent of the majority of the Group's overseas general insurance and life assurance subsidiaries.
Combined operating ratio (COR)	–	The aggregate of incurred claims expressed as a percentage of earned premiums and written expenses and written commissions expressed as a percentage of written premiums.
Covered business	–	The contracts to which the EEV methodology has, in line with the *EEV Principles,* been applied.
EU solvency	–	The excess of assets over liabilities and the world-wide minimum solvency margins, excluding goodwill and the additional value of in-force long-term business, and excluding the surplus held in the Group's life funds. The Group solvency calculation is determined according to the UK Financial Services Authority application of EU Insurance Groups Directive rules.
Financial Options and Guarantees	–	Features of the *covered business* conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.
Free Surplus	–	The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.
Gross risk free yields	–	Gross of tax yields on risk free fixed interest investments, generally Government bonds.
Holding Company	–	A legal entity with a function of being a consolidating entity for primary financial reporting of *covered business*.
Implicit items	–	Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
Life EEV operating return	–	Operating return on the EEV basis relating to the lines of business included in the embedded value calculations. From continuing operations and is stated before tax, impairment of goodwill and exceptional items.
Life EEV return	–	Total return on the EEV basis relating to the lines of business included in the embedded value calculations. From continuing operations.
Look-through basis	–	Inclusion of the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business.
IFRS operating profit	–	From continuing operations, stated before tax attributable to shareholders' profits, impairment of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.
Net asset value per ordinary share	–	Net asset value divided by the number of ordinary shares in issue. Net asset value is based on equity shareholders' funds.
New business contribution	–	Is calculated using the same economic assumptions as those used to determine the embedded values at the beginning of each year and is stated before tax and the effect of required capital.
New business margin	–	New business margins are calculated as the new business contribution divided by the present value of new business premiums (PVNBP), and expressed as a percentage. Previously, under the Achieved Profits basis, they were expressed as new business contribution divided by premiums measured on an annual premium equivalent (APE) basis.
Orphan estate	–	The assets of the long-term with-profit funds less the realistic reserves 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.
Present value of new business premiums (PVNBP)	–	Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.
Required Capital	–	The amount of assets, over and above the value placed on liabilities in respect of *covered business,* whose distribution to shareholders is restricted.
Service companies	–	Companies providing administration or fund management services to the *covered business*.
Solvency cover	–	The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin.
Statutory Basis	–	The valuation basis and approach used for reporting financial statements to local regulators.
Stochastic Techniques	–	Techniques that incorporate the potential future variability in assumptions affecting their outcome.
Time Value and Intrinsic Value	–	A financial option or guarantee has two elements of value, the *time value* and *intrinsic value.* The *intrinsic value* is the discounted value of the option or guarantee at expiry, assuming that future economic conditions follow best estimate assumptions. The *time value* is the additional value arising from uncertainty about future economic conditions.

EEV basis

Summarised consolidated income statement – EEV basis
For the six months ended 30 June 2005

Page	30 June 2005 €m		6 months 2005 £m	Restated* 6 months 2004 £m	Full year 2004 £m
		Operating profit			
31	1,242	Life EEV operating return	857	799	1,611
	26	Fund management[1]	18	10	20
53	1,006	General insurance and health	694	583	1,259
		Other:			
	65	Other operations[2]	45	(12)	(41)
55	(120)	Corporate costs	(83)	(99)	(188)
55	(309)	Unallocated interest charges	(213)	(205)	(437)
	1,910	**Operating profit before tax**	**1,318**	**1,076**	**2,224**
	(14)	Impairment of goodwill	(10)	-	(41)
	(12)	Amortisation and impairment of other intangibles	(8)	(1)	(3)
	-	Financial Services Compensation Scheme and other levies	-	(25)	(49)
	1,216	Variation from longer-term investment return	839	(440)	662
	(770)	Effect of economic assumption changes	(531)	56	(318)
52	210	Profit on the disposal of subsidiaries and associates	145	8	34
52	(20)	Integration costs	(14)	-	-
52	-	Exceptional costs for termination of operations	-	(40)	(40)
	2,520	**Profit before tax**	**1,739**	**634**	**2,469**
	(597)	Tax on operating profit	(412)	(350)	(618)
	(171)	Tax on profit/(loss) on other activities	(118)	101	(32)
	1,752	**Profit for the period**	**1,209**	**385**	**1,819**
		Attributable to:			
	1,623	Equity shareholders of Aviva plc	1,120	308	1,641
	129	Minority interests	89	77	178
	1,752		**1,209**	**385**	**1,819**

* Restated for the effect of implementing European Embedded Value principles.
All 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 arises from the provision of fund management services to our Life businesses. These results are included within the Life EEV operating return.

2 Excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. The results for the six month period to 30 June 2004 also exclude the results of Norwich Union Equity Release (NUER). These results are included within the Life EEV operating return. Other subsidiaries providing services to our life businesses do not materially impact the Group results.

Earnings per share – EEV basis
For the six months ended 30 June 2005

6 months 2005	Earnings per share	6 months 2005	Restated* 6 months 2004	Full year 2004
	Operating profit on an EEV basis after tax, attributable to equity shareholders in respect of Aviva Plc			
51.6c	Continuing operations	35.6p	28.6p	63.1p
	Profit after tax for the year on an EEV basis, attributable to equity shareholders of Aviva plc			
70.0c	Basic (pence per share)	48.3p	13.3p	72.0p
69.3c	Diluted (pence per share)	47.8p	13.1p	71.4p

* Restated for the effect of implementing European Embedded Value principles.

Summarised consolidated statement of recognised income and expense – EEV basis
For the six months ended 30 June 2005

	6 months 2005 £m	Restated* 6 months 2004 £m	Full year 2004 £m
Fair value gains/(losses), net of transfers to the income statement	1	(38)	151
Actuarial (losses)/gains and on pension schemes	(46)	18	(145)
Foreign exchange rate movements	(340)	(294)	119
Aggregate tax effect – shareholder tax	18	41	(15)
Net (expense)/income recognised directly in equity	**(367)**	**(273)**	**110**
Profit for the period**	1,209	385	1,819
Total recognised income and expense for the period	**842**	**112**	**1,929**

* Restated for the effect of implementing European Embedded Value principles.
** Stated before the effect of foreign exchange rate movements, which are reported within the foreign exchange rate movements line.

Summarised consolidated statement of changes in equity – EEV basis
For the six months ended 30 June 2005

	6 months 2005 £m	Restated* 6 months 2004 £m	Full year 2004 £m
Balance at 1 January	**14,011**	**11,534**	**11,534**
Total recognised income and expense for the period	842	112	1,929
Dividends and appropriations (note 14)	(373)	(351)	(570)
Movement in shares held by employee trusts	-	1	1
Issue of share capital for the acquisition of RAC	530	-	-
Other issue of share capital	27	23	25
Shares issued in lieu of dividends	12	-	103
Issue of direct capital instrument, net of transaction costs of £9 million	-	-	981
Capital contribution from minority shareholders	93	-	4
Minority share of dividends declared in the period	(36)	(41)	(41)
Minority interest in acquired subsidiaries	-	-	45
Total equity	**15,106**	**11,278**	**14,011**
Minority interests	**(1,283)**	**(987)**	**(1,160)**
Balance at 30 June / 31 December	**13,823**	**10,291**	**12,851**

* Restated for the effect of implementing European Embedded Value principles.

Summarised consolidated balance sheet – EEV basis
As at 30 June 2005

30 June 2005 €m		30 June 2005 £m	Restated* 30 June 2004 £m	31 December 2004 £m
	Assets			
	Intangible assets			
3,366	Goodwill	2,289	1,137	1,184
1,350	Acquired value of in-force business and other intangible assets	918	466	516
7,709	Additional value of in-force long-term business	5,242	4,493	4,949
1,287	Property and equipment	875	895	812
16,284	Investment property	11,073	10,267	11,057
2,050	Investments in joint ventures	1,394	1,115	1,242
1,313	Investments in associates	893	841	886
	Financial investments			
145,204	Debt securities	98,739	90,348	98,719
70,449	Equity securities	47,905	42,214	47,291
33,432	Other investments	22,734	17,603	20,346
32,237	Loans	21,921	19,098	22,055
12,912	Reinsurance assets	8,780	7,520	8,503
72	Current tax assets	49	8	-
1,234	Deferred tax assets	839	704	908
14,081	Receivables and other financial assets	9,575	6,901	7,509
4,728	Deferred acquisition costs and other assets	3,215	3,645	3,189
3,794	Prepayments and accrued income	2,580	2,285	2,307
21,184	Cash and cash equivalents	14,405	10,002	12,779
163	Assets of operations classified as held for sale	111	-	-
372,849	**Total assets**	**253,537**	**219,542**	**244,252**
	Equity			
874	Share capital	594	566	570
6,487	Capital reserves	4,411	3,839	3,878
749	Other reserves	509	237	736
3,056	Retained earnings	2,079	1,107	1,709
7,412	Additional retained profit on an EEV basis	5,040	4,342	4,768
18,578	**Equity attributable to shareholders of Aviva plc**	**12,633**	**10,091**	**11,661**
1,750	Preference share capital and direct capital instrument	1,190	200	1,190
1,887	Minority interests	1,283	987	1,160
22,215	**Total equity**	**15,106**	**11,278**	**14,011**
	Liabilities			
188,324	Gross insurance liabilities	128,060	113,222	124,122
104,419	Gross liability for investment contracts	71,005	58,932	69,555
11,371	Unallocated divisible surplus	7,732	9,128	7,549
3,541	Provisions	2,408	1,803	2,056
1,584	Current tax liabilities	1,077	871	922
2,434	Deferred tax liabilities	1,655	979	1,543
15,735	Borrowings	10,700	8,817	10,090
10,362	Payables and other financial liabilities	7,047	8,639	7,240
9,184	Other liabilities	6,245	3,820	4,917
3,631	Net asset value attributable to unitholders	2,469	2,053	2,247
49	Liabilities of operations classified as held for sale	33	-	-
350,634	**Total liabilities**	**238,431**	**208,264**	**230,241**
372,849	**Total equity and liabilities**	**253,537**	**219,542**	**244,252**

* Restated for the effect of implementing European Embedded Value principles.

Segmentation of summarised consolidated balance sheet – EEV basis
As at 30 June 2005

	Life and related businesses 30 June 2005 £m	General business and other 30 June 2005 £m	Group 30 June 2005 £m	Restated* Life and related businesses 30 June 2004 £m	Restated* General business and other 30 June 2004 £m	Restated* Group 30 June 2004 £m	Group 31 December 2004 £m
Total assets before acquired additional value of in-force long-term business	211,209	36,760	247,969	184,337	30,336	214,673	238,939
Acquired additional value of in-force long-term business	326	-	326	376	-	376	364
Total assets included in the statutory IFRS balance sheet	**211,535**	**36,760**	**248,295**	**184,713**	**30,336**	**215,049**	**239,303**
Liabilities of the long-term business	(203,113)	-	(203,113)	(177,002)	-	(177,002)	(198,483)
Liabilities of the general insurance and other businesses	-	(35,411)	(35,411)	-	(31,331)	(31,331)	(31,827)
Net assets on a statutory IFRS basis	**8,422**	**1,349**	**9,771**	**7,711**	**(995)**	**6,716**	**8,993**
Pension scheme funding adjustment[1]	93	-	93	69	-	69	69
Additional value of in-force long-term business[2]	5,242	-	5,242	4,493	-	4,493	4,949
Net assets on an EEV basis[3]	**13,757**	**1,349**	**15,106**	**12,273**	**(995)**	**11,278**	**14,011**
Equity capital, capital reserves, shares held by employee trusts and other reserves			5,514			4,642	5,184
IFRS basis retained earnings			2,079			1,107	1,709
Additional EEV basis retained profit			5,040			4,342	4,768
Equity attributable to shareholders of Aviva plc on an EEV basis			**12,633**			**10,091**	**11,661**
Preference share capital and direct capital instrument			1,190			200	1,190
Minority interests			1,283			987	1,160
EEV basis total equity			**15,106**			**11,278**	**14,011**

* Restated for the effect of implementing European Embedded Value principles

1 The difference in pension scheme funding arises on the embedded value balance sheet as the element of the pension scheme deficit which relates to UK Life and other related businesses is now incorporated within shareholders' funds at an amount equivalent to the post-tax contributions discounted using the UK Life business risk discount rate.

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

	30 June 2005 £m	31 December 2004 £m	Movement in the period £m
Group's share included in shareholders funds	5,040	4,768	272
Minority interest share	295	250	45
Difference in pension scheme funding	(93)	(69)	(24)
Balance at 30 June / 31 December	5,242	4,949	293

3 Analysis of net assets on an EEV basis is made up as follows:

	30 June 2005 £m	Restated* 30 June 2004 £m	31 December 2004 £m
Long-term business net assets on an EEV basis	13,757	12,273	13,826
Comprises:			
Embedded value	12,989	11,473	13,014
RBSG goodwill	217	217	217
Goodwill allocated to long-term business	551	583	595
Long-term business net assets on an EEV basis	13,757	12,273	13,826

* Restated for the effect of implementing European Embedded Value principles

Basis of preparation – EEV basis

The consolidated income statement and balance sheet on pages 24 to 27 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 International Financial Reporting Standards (IFRS) basis. The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum in May 2004.

In the Directors' opinion, the EEV basis provides a more accurate reflection of the performance of the Group's life and related operations year on year than results presented under the IFRS basis. The Directors consider that the EEV methodology is a refinement to the Achieved Profits basis previously adopted by the Group and represents a more 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 Group's revised approach to establishing economic assumptions (specifically investment returns, required capital and discount rates) was reviewed by Tillinghast, a firm of actuarial consultants, as part of the restatement work. 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 30 June 2004 have been restated accordingly and the impact of the reclassification on consolidated shareholders' funds and consolidated profit for the six months to 30 June 2004 is nil.

The results for the six month period to 30 June 2005 and 30 June 2004 are unaudited but have been reviewed by the auditors, Ernst & Young LLP. Their report in respect of 30 June 2005 is included in the Interim Report on page 58 of that document. The interim accounts do not constitute statutory accounts as defined by Section 240 of the Companies Act 1985.

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. The adoption of IFRS has resulted in no change to the Group's definition of new business and so includes contracts that meet the definition of "non-participating investment" contracts under IFRS.

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. In addition, the results of Group companies providing significant 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 new contracts and expected future contractual alterations to 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 income statement items have been translated using an average exchange rate for the relevant period. The exchange rates adopted in this announcement are shown on page 50.

EEV 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 IFRS 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-profit 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 be able to replicate exactly the stream of future profits. The RDR is a combination of a risk free rate to reflect the time value of money plus a risk margin to make prudent allowance for the risk that experience in future years may differ from that assumed. In particular, a risk margin is added to allow for the risk that expected additional returns on certain asset classes (e.g. equities) are not achieved.

Risk discount rates for our life businesses have been calculated using a risk margin based upon a Group Weighted Average Cost of Capital (WACC). The Group WACC is calculated using a gross risk free interest rate, an equity risk margin, a market assessed risk factor (beta), and an allowance for the gearing impact of debt financing (including subordinated debt). The market assessed risk factor 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 current economic factors and is updated only if a significant change has occurred. In particular, changes in risk profile arising from movements in asset mix are allowed for via the updated risk margin calculation.

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 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 IFRS 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 IFRS 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;
- the profit from existing business equal to:
  - the expected return on the value of the in-force covered business at the beginning of the period,
  - experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value,
  - the impact of changes in operating assumptions including risk margins;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected return based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

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

Life EEV return	**6 months 2005 £m**	**Restated* 6 months 2004 £m**	**Full year 2004 £m**
New business contribution (after the effect of required capital)	286	251	516
Profit from existing business			
– expected return	434	417	819
– experience variances	(31)	(20)	(15)
– operating assumption changes	7	-	(7)
Expected return on shareholders' net worth	161	151	298
Life EEV operating return before tax	**857**	**799**	**1,611**
Investment return variances	719	(202)	501
Effect of economic assumption changes	(531)	56	(318)
Life EEV return before tax	1,045	653	1,794
Tax on operating profit	(266)	(244)	(490)
Tax (charge)/credit on other ordinary activities	(65)	36	(58)
Life EEV return after tax	**714**	**445**	**1,246**

* Restated for the effect of implementing European Embedded Value principles.

There were no separate development costs reported in these periods.

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 28.

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

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

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution before the effect of required capital		New business contribution after the effect of required capital	
	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 £m	Restated* 6 months 2004 £m
Life and pensions business								
United Kingdom	536	567	4,244	4,299	135	127	105	106
Continental Europe								
France	202	145	1,854	1,337	71	46	48	27
Ireland	51	44	349	267	9	13	8	11
Italy	145	89	1,333	811	33	22	20	14
Netherlands (including Belgium and Luxembourg)	138	119	1,241	981	39	40	18	25
Poland	17	18	112	121	5	5	5	4
Spain	113	130	965	1,122	80	68	70	55
Other Europe	55	58	364	388	3	1	2	(2)
International	89	74	554	427	18	16	10	11
Total (before the effect of required capital)	**1,346**	**1,244**	**11,016**	**9,753**	**393**	**338**		
Effect of required capital					**(107)**	**(87)**		
Total (after the effect of required capital)					**286**	**251**	**286**	**251**

1 United Kingdom APE has been restated to include NUER APE volumes of £18 million (six months 30 June 2004: £20 million)
* Restated for the effect of implementing European Embedded Value Principles.

New business contribution before the effect of required capital includes minority interests for the six months to 30 June 2005 of £77 million (six months to 30 June 2004: £56 million). This comprises minority interests in France of £11 million (six months to 30 June 2004: £2 million), Italy £20 million (six months to 30 June 2004: £13 million), Netherlands £5 million (six months to 30 June 2004: £5 million), Poland £1 million (six months to 30 June 2004: £1 million) and Spain £40 million (six months to 30 June 2004: £35 million).

New business contribution after the effect of required capital includes minority interests for the six months to 30 June 2005 of £58 million (six months to 30 June 2004: £42 million). This comprises minority interests in France of £6 million (six months to 30 June 2004: nil), Italy £12 million (six months to 30 June 2004: £8 million), Netherlands £4 million (six months to 30 June 2004: £4 million), Poland £1 million (six months to 30 June 2004: £1 million) and Spain £35 million (six months to 30 June 2004: £29 million).

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

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution	
	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	Restated* 6 months 2004 £m
Analysed between:						
– Bancassurance channels	369	275	3,222	2,305	149	116
– Other distribution channels	977	969	7,794	7,448	244	222
Total	**1,346**	**1,244**	**11,016**	**9,753**	**393**	**338**

1 APE has been restated to include NUER volumes.
* Restated for the effect of implementing European Embedded Value Principles.

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

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution[2]	
	6 months 2005 £m	Restated* 6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	Restated* 6 months 2004 £m
Analysed between:						
– Bancassurance channels	197	154	1,678	1,263	42	35
– Other distribution channels	955	948	7,597	7,288	116	111
Total	**1,152**	**1,102**	**9,275**	**8,551**	**158**	**146**

1 APE has been restated to include NUER volumes.
2 Contribution stated after deducting the effect of required capital, tax and minority interests.
* Restated for the effect of implementing European Embedded Value Principles.

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

The internal rate of return (IRR) on life and pensions new business for the Group was 12.7% for the six months to 30 June 2005 (full year to 31 December 2004: 12.3%).

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

				6 months 2005
	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
UK	11%	174	82	256
Continental Europe				
France	13%	10	48	58
Ireland	11%	13	6	19
Italy	13%	5	32	37
Netherlands (including Belgium and Luxembourg)	8%	22	37	59
Poland	18%	4	2	6
Spain	26%	8	30	38
Other Europe	11%	9	9	18
International	15%	13	19	32
Total	**13%**	**258**	**265**	**523**

The total initial capital for life and pensions new business for the six months to 30 June 2005 of £258 million (six months to 30 June 2004: £309 million) shown above is expressed at the point of sale. Hence it is higher than the impact of writing that new business on net worth of £210 million (six months to 30 June 2004: £280 million) shown on page 36, because the latter amount includes expected profits from the point of sale to the end of the reporting period, partly offset by the expected return on the initial capital.

Aviva's reported internal rates of return calculations are based on the total invested capital used to support the writing of the new business. However, this underestimates the returns due to the Group's shareholders as the total invested capital includes the cash flows attributable to both the Group's debt holders as well as the Group's shareholders. As the cost of debt capital is significantly lower than the Group's IRRs this underestimates the returns on new business for our shareholders measured through the reported internal rate of return calculations.

The Group could equally have defined the internal rate of return calculations based on the cash flows that are attributable to the Group's shareholders as opposed to total cash flows.

The effect on the reported calculation of the internal rates of return on this basis is to increase the IRR for UK Life from 11.4% to 13.6%. The revised calculation assumes that the external capital composition of the Group, 30% debt and 70% equity, is used to finance the initial and required capital, and allows for the cost of debt by deducting the relevant proportion of the Group's debt serving costs from the future cash flows earned over the lifetime of the products.

The leveraged new business returns comfortably exceed the Group's cost of equity at 30 June 2005 of 8.6% (based on a risk free rate of 4.2%, an equity risk margin of 3% and a market assessed beta of 1.46).

Experience variances

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

	6 months 2005 £m	Restated* 6 months 2004 £m	Full year 2004 £m
United Kingdom	(30)	(19)	(81)
France	18	2	22
Netherlands (including Belgium and Luxembourg)	(13)	(1)	12
Europe	(7)	5	23
International	1	(7)	9
	(31)	**(20)**	**(15)**

* 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.

	6 months 2005 £m	Restated* 6 months 2004 £m	Full year 2004 £m
United Kingdom	-	7	(58)
France	-	(1)	35
Netherlands (including Belgium and Luxembourg)	6	3	21
Europe	1	(10)	(4)
International	-	1	(1)
	7	**-**	**(7)**

* Restated for the effect of implementing European Embedded Value Principles.

Further disclosures on experience variances and operating assumption changes on an EEV basis are provided on pages 67, 68 and 69.

Geographical analysis of life EEV operating return

	6 months 2005 £m	Restated* 6 months 2004 £m	Full year 2004 £m
United Kingdom	327	345	551
Continental Europe			
France	158	112	286
Ireland	22	16	40
Italy	47	36	79
Netherlands (including Belgium and Luxembourg)	115	132	277
Poland	46	35	93
Spain	92	81	180
Other Europe	14	14	22
International	36	28	83
	857	**799**	**1,611**

* Restated for the effect of implementing European Embedded Value Principles.

Life EEV operating return includes minority interests in the six months to 30 June 2005 of £98 million (six months to 30 June 2004: £83 million). This comprises minority interests in France of £13 million (six months to 30 June 2004: £4 million), Italy £26 million (six months to 30 June 2004: £20 million), Netherlands £7 million (six months to 30 June 2004: £14 million), Poland £6 million (six months to 30 June 2004: £5 million), Spain £45 million (six months to 30 June 2004: £39 million) and Other Europe £1 million (six months to 30 June 2004: £1 million).

Analysis of life EEV operating return

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Life businesses	844	792	1,569
Equity release	21	21	51
Non-insurance service and holding companies	(23)	(26)	(34)
Fund management service companies	15	12	25
	857	**799**	**1,611**

Analysis of movement in life and related businesses embedded value

The following tables provide an analysis of the movement in embedded value for the life and related businesses for the six months to 30 June 2005 and for the six months to 30 June 2004. The analysis is shown separately for net worth and the value of in-force covered business, and includes amounts transferred between these categories. The transfer from life and related businesses to other segments consists of service company profits and losses during the reported period that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.

All figures are shown net of tax.

		6 months 2005		
		Net worth £m	Value of in-force £m	Total £m
Embedded value at the beginning of the period	– Free surplus	1,894		
	– Required capital[1]	4,362		
	Total	**6,256**	**6,758**	**13,014**
New business contribution (after the effect of required capital)		(210)	405	195
Expected return on existing business – return on VIF		-	303	303
Expected return on existing business – transfer to net worth		455	(455)	-
Experience variances and operating assumption changes		81	(98)	(17)
Expected return on shareholders' net worth		110	-	110
Investment return variances and economic assumption changes		288	(165)	123
Life EEV return after tax		**724**	**(10)**	**714**
Exchange rate movements		(165)	(129)	(294)
Amounts injected into life and related businesses		192	-	192
Amounts released from life and related businesses		(647)	-	(647)
Transfer from life and related businesses to other segments		10	-	10
Embedded value at the end of the period	– Free surplus	2,122		
	– Required capital[1]	4,248		
	Total	**6,370**	**6,619**	**12,989**

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

Required capital has reduced in the period by £114 million. The movement comprises an increase of £265 million in relation to new business written, a reduction of £267 million in relation to in-force business and a reduction of £112 million in relation to movements in foreign exchange rates. The reduction in the in-force required capital includes a release of £245 million arising from the restructure of the UK non-profit funds.

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

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

Segmental analysis of life and related businesses embedded value

30 June 2005	Net worth		Value of in-force covered business		Total
	Required capital[1] £m	Free surplus £m	Present value of in-force £m	Cost of required capital £m	Embedded value £m
United Kingdom	1,239	475	4,182	(427)	5,469
Continental Europe					
France	1,072	84	909	(193)	1,872
Ireland	87	190	336	(18)	595
Italy	246	325	164	(53)	682
Netherlands (including Belgium and Luxembourg)	930	694	1,074	(304)	2,394
Poland	95	59	381	(29)	506
Spain	213	23	451	(54)	633
Other	70	80	101	(26)	225
International	296	192	199	(74)	613
	4,248	**2,122**	**7,797**	**(1,178)**	**12,989**

[1] 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	
	30 June 2005 £m	Restated* 30 June 2004 £m	30 June 2005 £m	Restated* 30 June 2004 £m	30 June 2005 £m	Restated* 30 June 2004 £m
United Kingdom	1,714	1,622	3,755	3,414	5,469	5,036
Continental Europe						
France	1,156	1,049	716	571	1,872	1,620
Ireland	277	262	318	293	595	555
Italy	571	319	111	108	682	427
Netherlands (including Belgium and Luxembourg)	1,624	1,222	770	1,012	2,394	2,234
Poland	154	121	352	281	506	402
Spain	236	194	397	278	633	472
Other	150	137	75	52	225	189
International	488	453	125	85	613	538
	6,370	**5,379**	**6,619**	**6,094**	**12,989**	**11,473**

* Restated for the effect of implementing European Embedded Value Principles.

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 £4,248 million at 30 June 2005 (30 June 2004: £3,980 million) is included within the net worth.

The value of in-force covered business includes the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases. This impact reduces the value of in-force covered business at 30 June 2005 by £1,178 million (30 June 2004: £1,120 million).

The embedded value at the end of the six month period 30 June 2005 includes minority interests of £903 million (30 June 2004: £589 million). This comprises minority interests in France of £135 million (30 June 2004: £55 million), Italy £347 million (30 June 2004: £224 million), Netherlands £62 million (30 June 2004: £52 million), Poland £83 million (30 June 2004: £65 million), Spain £267 million (30 June 2004: £191 million) and Other Europe £9 million (30 June 2004: £2 million).

Time value of options and guarantees

The following table sets out the time value of options and guarantees relating to covered business by territory at 30 June 2005, 30 June 2004 and 31 December 2004.

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
United Kingdom	44	35	44
Continental Europe			
France	81	66	79
Ireland	2	6	4
Italy	12	11	14
Netherlands (including Belgium and Luxembourg)	97	72	92
Poland	4	4	5
Spain	8	10	9
Other Europe	16	10	18
International	12	8	9
	276	**222**	**274**

The time value of options and guarantees (TVOG) is most significant in the United Kingdom, France and the Netherlands. In the United Kingdom, 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 traditional business including the AFER fund. In the Netherlands, this relates mainly to maturity guarantees on unit linked products and interest rate guarantees on traditional individual and group profit sharing business.

The TVOG has largely remained unchanged over the period. The total movement in the period from 31 December 2004 includes an increase of £12 million due to the 50 basis points fall in bond yields in continental Europe during 2005 together with the allowance included in new business contribution of £12 million which have largely been offset by the favourable impacts of investment returns and exchange rates.

Minority interest in life and related businesses EEV results

	6 months to 30 June 2005			Full year 2004
	Shareholders' interest £m	Minority interest £m	Group £m	Group £m
New business contribution before effect of required capital	316	77	393	706
Effect of required capital	(88)	(19)	(107)	(190)
New business contribution including effect of required capital	**228**	**58**	**286**	**516**
Life EEV operating return before tax	**759**	**98**	**857**	**1,611**
Life EEV return before tax	939	106	1,045	1,794
Attributed tax	(295)	(36)	(331)	(548)
Life EEV return after tax	**644**	**70**	**714**	**1,246**
Closing life and related businesses embedded value	**12,086**	**903**	**12,989**	**13,014**

Principal economic assumptions – deterministic calculations

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

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

	United Kingdom				**France**			
	30 June 2005	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**	**30 June 2005**	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**
Risk discount rate	6.9%	7.3%	7.8%	7.5%	5.9%	6.4%	7.0%	7.0%
Pre-tax investment returns:								
Base government fixed interest	4.2%	4.6%	5.1%	4.8%	3.2%	3.7%	4.3%	4.3%
Ordinary shares	7.2%	7.6%	8.1%	7.8%	6.2%	6.7%	7.3%	7.3%
Property	6.2%	6.6%	7.1%	6.8%	5.2%	5.7%	6.3%	6.3%
Future expense inflation	3.1%	3.3%	3.5%	3.4%	2.5%	2.5%	2.5%	2.5%
Tax rate	30.0%	30.0%	30.0%	30.0%	34.9%	34.9%	35.4%	35.4%
Required Capital (% EU minimum)	200% / 100%	200% / 100%	200% / 100%	200% / 100%	115%	115%	115%	115%

	Ireland				**Italy**			
	30 June 2005	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**	**30 June 2005**	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**
Risk discount rate	5.9%	6.4%	7.0%	7.0%	5.9%	6.4%	7.0%	7.0%
Pre-tax investment returns:								
Base government fixed interest	3.2%	3.7%	4.3%	4.3%	3.2%	3.7%	4.3%	4.3%
Ordinary shares	6.2%	6.7%	7.3%	7.3%	6.2%	6.7%	7.3%	7.3%
Property	5.2%	5.7%	6.3%	6.3%	5.2%	5.7%	6.3%	6.3%
Future expense inflation	4.0%	4.0%	4.0%	4.0%	2.5%	2.5%	2.5%	2.5%
Tax rate	12.5%	12.5%	12.5%	12.5%	38.3%	38.3%	38.3%	39.8%
Required Capital (% EU minimum)	150%	150%	150%	150%	115%	115%	115%	115%

	Netherlands				**Poland**			
	30 June 2005	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**	**30 June 2005**	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**
Risk discount rate	5.9%	6.4%	7.0%	7.0%	8.7%	9.7%	11.2%	9.7%
Pre-tax investment returns:								
Base government fixed interest	3.2%	3.7%	4.3%	4.3%	5.0%	6.0%	7.5%	6.0%
Ordinary shares	6.2%	6.7%	7.3%	7.3%	8.0%	9.0%	10.5%	9.0%
Property	5.2%	5.7%	6.3%	6.3%	7.0%	n/a	n/a	n/a
Future expense inflation	2.5%	2.5%	2.5%	2.5%	2.4%	3.4%	4.9%	3.4%
Tax rate	31.5%	31.5%	25.0%	25.0%	19.0%	19.0%	19.0%	19.0%
Required Capital (% EU minimum)	150%	150%	150%	150%	150%	150%	150%	150%

	Spain			
	30 June 2005	**31 Dec 2004**	**30 June 2004**	**31 Dec 2003**
Risk discount rate	5.9%	6.4%	7.0%	7.0%
Pre-tax investment returns:				
Base government fixed interest	3.2%	3.7%	4.3%	4.3%
Ordinary shares	6.2%	6.7%	7.3%	7.3%
Property	5.2%	5.7%	6.3%	6.3%
Future expense inflation	2.5%	2.5%	2.5%	2.5%
Tax rate	35.0%	35.0%	35.0%	35.0%
Required Capital (% EU minimum)	125% / 110%	125% / 110%	125% / 110%	125% / 110%

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 United Kingdom is 200% EU minimum for Norwich Union Annuities Ltd and 100% for other companies. Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.

Other economic assumptions

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

Bonus rates on participating business have been set at levels consistent with the economic assumptions and Aviva's medium-term bonus plans. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the

shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

Principal economic assumptions – stochastic calculations

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

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

United Kingdom

Model
Overall asset returns have been generated assuming that the portfolio total return has a lognormal distribution. The mean and standard deviation of the overall asset return have been calculated using the evolving 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. The most significant assumption for the stochastic calculation is the distribution of future long-term interest rates, since this is an important factor in the cost of guaranteed annuity options.

Summary Statistics
The following table sets out the means and standard deviations (StDev) of future returns at 30 June 2005 for the three most significant asset classes. Interest rates are assumed to have a lognormal distribution with an annualised standard deviation of 12% p.a. for the natural logarithm of the interest rate.

	Mean[1]	StDev[2]
Equities	7.2%	20%
Property	6.2%	15%
Government Bonds	4.2%	2.5%

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

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

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

Summary Statistics
The following table sets out the means and standard deviations of future euro returns at 30 June 2005 for the three most significant asset classes: equities, short-term bonds (defined to be of 1 year duration) and long-term bonds (defined to be 10 year zero coupon bonds). In the accumulation of 10 year bonds, it is assumed that these are held for one year, sold as 9 year bonds then the proceeds are reinvested in 10 year bonds, although in practice businesses follow more complex asset strategies or tend to adopt a buy and hold strategy. Correlations between asset classes have been set using the same approach as described for the United Kingdom.

	5- year return		10- year return		20- year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]	Mean[1]	StDev[2]
Short Government Bonds	2.7%	1.5%	3.1%	3.1%	3.7%	6.0%
Long Government Bonds	3.2%	4.3%	3.7%	3.3%	4.1%	3.7%
Equities	6.0%	19.8%	6.2%	19.5%	6.7%	19.1%

1 Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation minus 1).

2 Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

Other assumptions

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

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

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

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

Other
It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values, except where driven by varying future investment conditions under stochastic economic scenarios.

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2005 and the new business contribution before the effect of required capital for the six months to 30 June 2005 to:

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

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

Embedded value (net of tax) 30 June 2005	**As reported on page 37 £m**	**1% increase in discount rates £m**	**1% decrease in discount rates £m**	**1% increase in interest rates £m**	**1% decrease in interest rates £m**
United Kingdom	5,469	(375)	400	(215)	225
Continental Europe					
France	1,872	(125)	140	(75)	65
Ireland	595	(25)	25	(30)	30
Italy	682	(20)	20	25	(40)
Netherlands (including Belgium and Luxembourg)	2,394	(110)	130	215	(600)
Poland	506	(30)	30	(5)	5
Spain	633	(35)	40	(25)	20
Other	225	(5)	5	-	(5)
International	613	(25)	30	(20)	-
	12,989	**(750)**	**820**	**(130)**	**(300)**

Embedded value (net of tax) 30 June 2005	**As reported on page 37 £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) £m**
United Kingdom	5,469	200	(215)	360	(360)	160
Continental Europe						
France	1,872	80	(75)	105	(110)	30
Ireland	595	15	(15)	10	(10)	5
Italy	682	10	(10)	10	(10)	10
Netherlands (including Belgium and Luxembourg)	2,394	270	(305)	310	(330)	85
Poland	506	5	(5)	5	(5)	10
Spain	633	-	-	5	(5)	5
Other	225	5	(5)	10	(10)	5
International	613	5	(5)	10	(10)	20
	12,989	**590**	**(635)**	**825**	**(850)**	**330**

In general, the magnitude of the sensitivities will reflect the size of the embedded values, though 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 the 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 50 basis points to the assumed pre-tax investment returns at 30 June 2005 has significantly increased this 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 before required capital (gross of tax) 6 months to 30 June 2005	**As reported on page 32 £m**	**1% increase in discount rates £m**	**1% decrease in discount rates £m**	**1% increase in interest rates £m**	**1% decrease in interest rates £m**
United Kingdom	135	(28)	28	(11)	10
Continental Europe					
France	71	(7)	9	(1)	1
Ireland	9	(1)	2	-	-
Italy	33	(1)	1	1	(2)
Netherlands (including Belgium and Luxembourg)	39	(8)	10	12	(25)
Poland	5	(1)	1	-	-
Spain	80	(7)	8	(3)	3
Other	3	(1)	1	1	1
International	18	(3)	3	3	(5)
	393	**(57)**	**63**	**2**	**(17)**

New business contribution before required capital (gross of tax) 6 months to 30 June 2005	**As reported on page 32 £m**	**1% increase in equity/property returns £m**	**1% decrease in equity/property returns £m**
United Kingdom	135	12	(13)
Continental Europe			
France	71	2	(2)
Ireland	9	1	(1)
Italy	33	-	-
Netherlands (including Belgium and Luxembourg)	39	7	(10)
Poland	5	-	-
Spain	80	-	-
Other	3	1	-
International	18	-	-
	393	**23**	**(26)**

One of the key assumptions underpinning the new business contribution is the appropriate level of required capital supporting different types of products. The effect of the assumptions relating to levels of required capital is most significant in relation to annuity business written in the UK. Aviva believes that, based on its current assessment of the risks associated with annuities, particularly in relation to longevity risk, the appropriate level of capital required to support the risks for this business is equivalent to 200% of the required minimum margins (RMM), notwithstanding the prudent margins incorporated in the technical provisions. Changing the assumption of the required capital backing annuities to 100%, increases the reported value of new business contribution reported after the effect of required capital for the six months to 30 June 2005 by £11 million and increases the embedded value by £160 million, as shown on page 42.

Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2005 and the new business contribution before the effect of required capital for the six months to 30 June 2005 to the following changes in non-economic assumptions:

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

In each sensitivity calculation, all other assumptions remain unchanged.

Embedded value (net of tax) 30 June 2005	**As reported on page 37 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
United Kingdom	5,469	140	45	(110)
Continental Europe				
France	1,872	30	25	30
Ireland	595	10	5	5
Italy	682	5	5	-
Netherlands (including Belgium and Luxembourg)	2,394	75	5	(60)
Poland	506	15	25	15
Spain	633	10	20	10
Other	225	5	5	-
International	613	10	10	10
	12,989	**300**	**145**	**(100)**

New business contribution before required capital (gross of tax) 6 months to 30 June 2005	**As reported on page 32 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
United Kingdom	135	7	8	8
Continental Europe				
France	71	2	3	3
Ireland	9	-	1	-
Italy	33	1	-	-
Netherlands (including Belgium and Luxembourg)	39	4	4	(1)
Poland	5	-	1	1
Spain	80	3	8	5
Other	3	-	1	-
International	18	1	1	2
	393	**18**	**27**	**18**

The demographic sensitivities shown above represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change, and impacts may partially offset.

IFRS basis

Summarised consolidated income statement – IFRS basis
For the six months ended 30 June 2005

Page	6 months 2005 €m		6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
		Income			
64,66	18,365	Premiums written net of reinsurance	12,672	11,677	23,351
	17,909	Net premiums earned	12,357	11,380	23,175
	777	Fee and commission income	536	379	872
	14,607	Net investment income	10,079	2,934	16,050
	36	Share of profit after tax of joint ventures and associates	25	36	99
	772	Other operating income	533	258	357
	34,101		**23,530**	**14,987**	**40,553**
		Expenses			
	(7,939)	Change in insurance liabilities, net of reinsurance	(5,478)	(1,508)	(6,104)
	(13,566)	Claims and benefits paid, net of recoveries from reinsurers	(9,360)	(8,811)	(17,625)
	(4,351)	Expenses attributed to investment contracts	(3,002)	(1,715)	(5,635)
	(514)	Change in unallocated divisible surplus	(355)	890	(1,330)
	(2,926)	Fee and commission expense	(2,019)	(1,868)	(4,734)
	(2,358)	Other operating expenses	(1,627)	(1,338)	(2,655)
	(401)	Finance costs	(277)	(209)	(445)
	2,046	**Profit before tax**	**1,412**	**428**	**2,025**
	(417)	Tax attributable to policyholders' returns	(288)	21	(383)
	1,629	**Profit before tax attributable to shareholders' profits**	**1,124**	**449**	**1,642**
		Tax expense			
	(642)	United Kingdom tax	(443)	(44)	(280)
	(220)	Overseas tax	(152)	(115)	(374)
	(862)		(595)	(159)	(654)
	417	Less: tax attributable to policyholders' returns	288	(21)	383
	(445)	Tax attributable to shareholders' profits	(307)	(180)	(271)
	1,184	**Profit for the period**	**817**	**269**	**1,371**
		Attributable to:			
	1,096	Equity shareholders of Aviva plc	756	234	1,275
	88	Minority interests	61	35	96
	1,184		**817**	**269**	**1,371**

All profit is from continuing operations.

6 months 2005		6 months 2005	6 months 2004	Full year 2004
	Earnings per share – IFRS basis			
47.1c	Basic (pence per share)	32.5p	10.0p	55.8p
46.5c	Diluted (pence per share)	32.1p	9.9p	55.3p

Subsequent to 30 June 2005, the directors proposed an interim dividend for 2005 of 9.83p (interim 2004: 9.36p) per ordinary share, £233 million (interim 2004: £211 million) in total. This will be accounted for as an appropriation of retained earnings in the full year ending 31 December 2005.

Reconciliation of Group operating profit to retained profit for the period – IFRS basis
For the six months ended 30 June 2005

Page	6 months 2005 €m		6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
		IFRS operating profit before tax attributable to shareholders' profits			
53	739	Long term business	510	520	1,116
53	48	Fund management	33	17	40
53	1,006	General insurance and health	694	583	1,259
		Other:			
55	3	Other operations	2	(35)	(121)
55	(120)	Corporate costs	(83)	(99)	(188)
55	(309)	Unallocated interest charges	(213)	(205)	(437)
	1,367	**IFRS operating profit before tax attributable to shareholders' profits**	**943**	**781**	**1,669**
	(14)	Impairment of goodwill	(10)	-	(41)
	(65)	Amortisation and impairment of acquired value of in-force business	(44)	(35)	(85)
	(23)	Amortisation and impairment of other intangibles	(16)	(2)	(7)
	-	Financial Services Compensation Scheme and other levies	-	(25)	(49)
54	174	Short term fluctuation in return on investments backing general insurance and health business	120	(238)	161
52	210	Profit on the disposal of subsidiaries and associates	145	8	34
52	(20)	Integration costs	(14)	-	-
52	-	Exceptional costs for termination of operations	-	(40)	(40)
	1,629	**Profit before tax attributable to shareholders' profits**	**1,124**	**449**	**1,642**
		Tax attributable to shareholders' profits			
56	(371)	Operating profit	(256)	(245)	(319)
56	(74)	Other activities	(51)	65	48
	1,184	**Profit after tax attributable to shareholders**	**817**	**269**	**1,371**

6 months 2005		6 months 2005	6 months 2004	Full year 2004
	Earnings per share – IFRS operating profit basis			
39.3c	Basic (pence per share)	27.1p	21.8p	54.1p

Summarised consolidated balance sheet – IFRS basis
As at 30 June 2005

30 June 2005 €m		30 June 2005 £m	30 June* 2004 £m	31 December 2004 £m
	Assets			
	Intangible assets			
3,366	Goodwill	2,289	1,137	1,184
1,350	Acquired value of in-force business and other intangible assets	918	466	516
1,287	Property and equipment	875	895	812
16,284	Investment property	11,073	10,267	11,057
2,050	Investments in joint ventures	1,394	1,115	1,242
1,313	Investments in associates	893	841	886
	Financial investments			
145,204	Debt securities	98,739	90,348	98,719
70,449	Equity securities	47,905	42,214	47,291
33,432	Other investments	22,734	17,603	20,346
32,237	Loans	21,921	19,098	22,055
12,912	Reinsurance assets	8,780	7,520	8,503
72	Current tax assets	49	8	-
1,234	Deferred tax assets	839	704	908
14,081	Receivables and other financial assets	9,575	6,901	7,509
4,728	Deferred acquisition costs and other assets	3,215	3,645	3,189
3,794	Prepayments and accrued income	2,580	2,285	2,307
21,184	Cash and cash equivalents	14,405	10,002	12,779
163	Assets of operations classified as held for sale	111	-	-
365,140	**Total assets**	**248,295**	**215,049**	**239,303**
	Equity			
874	Share capital	594	566	570
6,487	Capital reserves	4,411	3,839	3,878
749	Other reserves	509	237	736
3,056	Retained earnings	2,079	1,107	1,709
11,166	**Equity attributable to shareholders of Aviva plc**	**7,593**	**5,749**	**6,893**
1,750	Preference share capital and direct capital instrument	1,190	200	1,190
1,453	Minority interests	988	767	910
14,369	**Total equity**	**9,771**	**6,716**	**8,993**
	Liabilities			
188,324	Gross insurance liabilities	128,060	113,222	124,122
104,419	Gross liability for investment contracts	71,005	58,932	69,555
11,371	Unallocated divisible surplus	7,732	9,128	7,549
3,678	Provisions	2,501	1,872	2,125
1,584	Current tax liabilities	1,077	871	922
2,434	Deferred tax liabilities	1,655	979	1,543
15,735	Borrowings	10,700	8,817	10,090
10,362	Payables and other financial liabilities	7,047	8,639	7,240
9,184	Other liabilities	6,245	3,820	4,917
3,631	Net asset value attributable to unitholders	2,469	2,053	2,247
49	Liabilities of operations classified as held for sale	33	-	-
350,771	**Total liabilities**	**238,524**	**208,333**	**230,310**
365,140	**Total equity and liabilities**	**248,295**	**215,049**	**239,303**

* Balance sheet at 30 June 2004 has not been restated for FRS 27 *Life Assurance* as the Group considers this is impracticable, as a consequence of the need for hindsight.

Summarised consolidated statement of recognised income and expense – IFRS basis
For the six months ended 30 June 2005

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Fair value gains/(losses), net of transfers to the income statement	1	(38)	151
Actuarial (losses)/gains on pension schemes	(46)	18	(145)
Foreign exchange rate movements	(265)	(230)	59
Aggregate tax effect – shareholder tax	18	41	(15)
Net (expense)/income recognised directly in equity	**(292)**	**(209)**	**50**
Profit for the period*	817	269	1,371
Total recognised income and expense for the period	**525**	**60**	**1,421**

* Stated before the effect of foreign exchange rate movements, which are reported within the foreign exchange rate movements line.

Summarised consolidated statement of changes in equity – IFRS basis
For the six months ended 30 June 2005

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Balance at 1 January	**8,993**	**7,024**	**7,024**
Total recognised income and expense for the period	525	60	1,421
Dividends and appropriations (note 14)	(373)	(351)	(570)
Movement in shares held by employee trusts	-	1	1
Issue of share capital for the acquisition of RAC	530	-	-
Other issue of share capital	27	23	25
Shares issued in lieu of dividends	12	-	103
Issue of direct capital instrument, net of transaction costs of £9 million	-	-	981
Capital contributions from minority shareholders	93	-	4
Minority share of dividends declared in the period	(36)	(41)	(41)
Minority interest in acquired subsidiaries	-	-	45
Total equity	**9,771**	**6,716**	**8,993**
Minority interests	**(988)**	**(767)**	**(910)**
Balance at 30 June/31 December	**8,783**	**5,949**	**8,083**

Summarised consolidated cash flow statement – IFRS basis
For the six months ended 30 June 2005

The cash flows presented in this statement cover all the Group's activities and include flows from policyholder and shareholder activities.

	6 months 2005				
	Long-term business operations £m	Non-long-term business operations £m	Total 6 months 2005 £m	Total 6 months 2004 £m	Total Full year 2004 £m
Cash flows from operating activities					
Cash generated from operations	3,586	1,630	5,216	4,670	14,568
Tax (paid)/ received	(155)	138	(17)	(48)	(290)
Net cash from operating activities	**3,431**	**1,768**	**5,199**	**4,622**	**14,278**
Cash flow from investing activities:					
Acquisition of subsidiaries, joint ventures and associates, net of cash acquired	(77)	(623)	(700)	-	(294)
Disposal of subsidiaries, joint ventures and associates, net of cash transferred	-	192	192	174	308
Net purchases of property and equipment	(10)	(34)	(44)	(99)	(61)
Net purchases of other financial investments	(1,814)	(544)	(2,358)	(4,474)	(12,806)
Net loans granted to joint ventures and associates	-	-	-	-	(129)
Dividends received from associates and joint ventures	16	-	16	41	52
Net cash from investing activities	**(1,885)**	**(1,009)**	**(2,894)**	**(4,358)**	**(12,930)**
Cash flow from financing activities:					
Proceeds from issue of shares, net of transaction costs	-	27	27	3	3
Proceeds from issue of Direct Capital Instrument, net of transaction costs	-	-	-	-	981
Dividends and appropriations paid to group equity capital holders	-	(373)	(373)	(351)	(467)
Dividends paid to minority interests of subsidiaries	(20)	(16)	(36)	(41)	(41)
Movement in shares held by employee trusts	-	-	-	1	1
Interest paid on borrowings	(118)	(159)	(277)	(209)	(445)
Net drawdown/(repayment) of borrowings	(365)	420	55	714	1,713
Finance lease payments	-	(5)	(5)	(6)	(26)
Non-trading cash flows between operations	(58)	58	-	-	-
Capital contributions from minority shareholders	93	-	93	-	4
Net cash from financing activities	**(468)**	**(48)**	**(516)**	**111**	**1,723**
Total cash flow	**1,078**	**711**	**1,789**	**375**	**3,071**
Net increase in cash and cash equivalents	1,078	711	1,789	375	3,071
Cash and cash equivalents at 1 January	9,086	3,040	12,126	9,023	9,023
Effect of exchange rate changes on cash and cash equivalents	(214)	(118)	(332)	(87)	32
Cash and cash equivalents at 30 June/31 December	**9,950**	**3,633**	**13,583**	**9,311**	**12,126**
Cash and cash equivalents at 30 June/31 December comprised:					
Cash at bank and in hand	2,709	1,388	4,097	1,626	1,631
Cash equivalents	7,623	2,685	10,308	8,376	11,148
	10,332	4,073	14,405	10,002	12,779
Bank overdrafts	(382)	(440)	(822)	(691)	(653)
	9,950	**3,633**	**13,583**	**9,311**	**12,126**

1. Basis of preparation – IFRS basis

(a) From 2005, all European Union listed companies are required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). The FSA listing rules in the UK require that the 2005 interim results must also be presented on a basis consistent with IFRS. Accordingly, the results for the six months to 30 June 2005 have been prepared using the Group's accounting policies under IFRS published in the market release on 5 July 2005, "Impact of International Financial Reporting Standards on the results for 31 December 2004". This is the Group's first set of financial results prepared in accordance with IFRS accounting policies and its previously reported 2004 consolidated financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRSs being 1 January 2004.

The Group's accounting policies are in accordance with IFRS issued by the IASB. The European Union has endorsed all relevant IFRS with the exception of the amendment to IAS19 *Employee Benefits (2004)*, the amendments to IAS39 *The Fair Value Option* published by the IASB in June 2005 and Interpretation 4 of the International Financial Reporting Interpretations Committee *Determining whether an Arrangement contains a Lease* (IFRIC4). These amendments and IFRIC4 are expected to be endorsed by the European Commission during 2005 and, although they are not mandatory until 2006, the Group has decided to adopt them early and reflect their impact within this interim announcement. The Group's full year financial statements at 31 December 2005 will be prepared in accordance with these endorsed IFRSs and this announcement reflects the accounting policies expected to apply at the year end.

The IFRSs themselves are subject to possible amendment by interpretative guidance from the IASB or external bodies and are therefore subject to change prior to publication of the Group's full year financial statements for the year ended 31 December 2005.

(b) In line with the requirements of International Financial Reporting Standard 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS1), Aviva has applied the Group's accounting policies under IFRS retrospectively at the date of transition being 1 January 2004, with exception of a number of permitted exemptions. These are detailed in the market release of 5 July 2005, "Impact of International Financial Reporting Standards on the results for 31 December 2004".

(c) Aviva has chosen to revisit its longer term investment return ("LTIR") methodology from 2005 as part of a discretionary change not required by IFRS. This change in accounting policy was adopted and detailed in the market release of 5 July "Impact of International Financial Reporting Standards on the results for 31 December 2004".

(d) The requirements of International Financial Reporting Standard 5, *Non-current Assets Held for Sale and Discontinued Operations* have been applied prospectively from 1 January 2005.

(e) Financial Reporting Standard 27, *Life Assurance* (FRS27) was issued by the UK's Accounting Standards Board (ASB) on 13 December 2004, following the Penrose inquiry. 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 adopt voluntarily in full the standard from 2005 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 and FRS 27, only the balance sheet at 31 December 2004 has been restated for the impact of FRS27. No adjustments have been made, nor are any required, to the 2004 income statement, the opening balance sheet at 1 January 2004 or the balance sheet at 30 June 2004.

(f) In accordance with Phase I of International Financial Reporting Standard 4, *Insurance Contracts* (IFRS 4), 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.

(g) 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 consolidated financial statements are stated in sterling, which is the Company's functional and presentation currency. As supplementary information, consolidated financial information is also presented in Euros.

(h) The results for the six months to 30 June 2005 and the results for the six months to 30 June 2004 are unaudited but have been reviewed by the auditor, Ernst & Young LLP. The interim accounts do not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The results on an IFRS basis for the full year 2004 have been audited by Ernst & Young LLP. The Group's 2004 Annual Report and Accounts have been filed with the Registrar of Companies. The auditors have reported on the 2004 accounts and their report was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2. Exchange rates

The euro rates employed in this announcement are an average rate of 1 euro = £0.69 (6 months to 30 June 2004: 1 euro = £0.68; full year 2004: 1 euro = £0.68) and a closing rate of 1 euro = £0.68 (30 June 2004: 1 euro = £0.67; 31 December 2004: 1 euro = £0.71).

3. Acquisitions

(a) RAC plc

On 4 May 2005, the Group acquired 100% of the share capital of RAC plc. The results of RAC plc's operations have been included in the consolidated financial statements of the Group with effect from 4 May 2005, and contributed £17 million to the consolidated profit before tax.

	£m
Purchase cost	
Cash paid	566
Fair value of 88 million shares issued, based on their published price at date of exchange (average of £6.03 per share)	530
Costs attributable	17
Total	**1,113**

The assets and liabilities at the date of acquisition were:

	Book value £m	Goodwill reversal and intangible revaluation £m	Pension scheme valuation £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets					
Goodwill	510	(510)	-	-	-
Intangible assets	59	333	-	-	392
Tax assets	58	-	-	(58)	-
Other assets	608	-	-	52	660
Total assets	**1,235**	**(177)**	**-**	**(6)**	**1,052**
Liabilities					
Provisions					
Pension deficit	(257)	-	(56)	-	(313)
Other	(8)	-	-	(4)	(12)
Tax liabilities	-	(118)	17	47	(54)
Other liabilities	(708)	-	-	(5)	(713)
Total liabilities	**(973)**	**(118)**	**(39)**	**38**	**(1,092)**
Shareholders' funds acquired	**262**	**(295)**	**(39)**	**32**	**(40)**
Goodwill (including £118 million arising from the creation of the deferred tax liability on intangibles)					**1,153**
Intangible assets					392
Total goodwill and intangible assets					1,545
Less: deferred tax liability					(118)
Total value of goodwill and intangible assets net of associated tax included on balance sheet					1,427

Separable intangible assets have been identified and valued by an independent third party at £392 million, using estimated post-tax cash flows and post-tax discount rates. These comprise the RAC, BSM and Lex brands and contractual customer relationships. Of this £260 million has been assessed as having an indefinite life with the remaining £132 million being amortised over 9 to 22 years.

A deferred tax liability of £118 million has been provided against these intangible assets, resulting in an increase in residual goodwill by this amount. Although this liability has been recognised in accordance with IAS12, and a proportion will be amortised to the income statement as the related intangible asset is amortised, this liability is only payable if the intangible asset is sold separately and this is not expected to happen.

The pension scheme valuation adjustment and associated deferred taxation represents the effect of aligning the assumptions of the RAC plc schemes to those of Aviva. The fair value of the RAC pension deficit at the date of acquisition amounted to £313 million (£219 million after deferred tax).

The residual goodwill of £1,153 million essentially represents synergies, both in increased revenues and in reduced costs, expected to arise in RAC plc and our UK general insurance business as a result of the acquisition.

£14 million of integration costs for the restructuring of the combined Norwich Union Insurance and RAC businesses has been included in the results to 30 June 2005.

In July 2005, the Group completed the transfer of ownership of Hyundai Cars (UK) to motor manufacturer Hyundai Motor UK Limited . Accordingly, the assets and liabilities of this business have been presented as held for sale on the balance sheet.

(b) Gresham Insurance Company Limited

On 31 March 2005, the Group acquired 100% of the share capital of Gresham Insurance Company Limited. The cash consideration including purchase costs was £75 million. The fair value of the net assets acquired, including intangibles of £14 million, was £75 million, giving rise to no goodwill on acquisition.

(c) Solus Automotive Limited

On 11 May 2005, the Group acquired 100% of the share capital of Solus Automotive Limited. The cash consideration including purchase costs was £20 million, including £12 million of cash and £8 million of deferred consideration. The fair value of the net assets acquired was nil, giving rise to £20 million of goodwill on acquisition.

(d) Unaudited pro forma combined revenues and profit

Shown below are unaudited pro forma figures for combined revenues and profit as though the acquisition date for all business combinations effected during the period had been 1 January 2005, after giving effect to purchase accounting adjustments and the elimination of intercompany transactions. The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions taken place at 1 January 2005, nor is it necessarily indicative of future results.

	6 months 2005 £m
Revenues (premiums and fee income)	13,636
IFRS profit before tax attributable to shareholders	1,138

4. Exceptional costs for termination of operations

In February 2004, the Group announced the closure of its UK national broker subsidiary, Hill House Hammond (HHH) together with the sale of its commercial business. The associated pre-tax costs of the closure of HHH were £40 million and relate to termination activities, including redundancy costs and closure provisions.

5. Profit on the disposal of subsidiaries and associates

The net profit on the disposal of subsidiary and associated undertakings comprises:

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
General insurance businesses			
United Kingdom	-	-	28
France	1	7	6
Asia (a)	145	-	-
Other small operations	(1)	1	-
	145	**8**	**34**

(a) Sale of Asian general insurance businesses

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 Co 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.

The transaction is expected to complete in 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. The businesses in Macau and Dah Sing were then sold prior to 30 June 2005. The sale of Indonesia completed in July 2005 and the remaining businesses will be included as part of the completion of Phase II, expected in the second half of 2005. The assets and liabilities of these businesses are included in the totals held for sale on the balance sheet.

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.

The results of the Asian general insurance business have been consolidated with those of the Group's ongoing operations until the completion of each 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 income statement from 1 January 2004 to the date of completion. This will be offset by a corresponding change to the final profit on sale. Total profit on sale on the first tranche of the disposal was £145 million and £102 million after tax.

6. Geographical analysis of life IFRS operating profit

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
United Kingdom			
With-profit	33	49	97
Non-profit	178	179	256
Europe (excluding UK)			
France	131	89	213
Ireland	14	14	31
Italy	24	19	49
Netherlands (including Belgium and Luxembourg)	58	54	214
Poland	48	39	80
Spain	39	24	72
Other	1	(4)	5
International	(16)	57	99
Total	**510**	**520**	**1,116**

7. Geographical analysis of fund management IFRS operating profit

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Morley			
- UK business	11	4	10
- European and International business	7	3	8
Other fund management operations			
UK			
- Royal Bank of Scotland	(3)	(6)	(6)
- Norwich Union investment funds	3	5	4
France	10	8	15
Other Europe	1	-	2
International	4	3	7
Total	**33**	**17**	**40**

8. Geographical analysis of general insurance and health

(a) Operating result

	Operating profit			Underwriting result		
	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
United Kingdom	431	364	797	104	52	146
Europe (excluding UK)						
France	17	20	33	(12)	(9)	(16)
Ireland	83	60	135	53	38	82
Netherlands	55	53	88	14	2	10
Other	19	12	32	2	(4)	6
International						
Canada	67	52	133	14	5	37
Other	22	22	41	7	8	6
Total	**694**	**583**	**1,259**	**182**	**92**	**271**

(b) Investment return information

	Actual investment return credited to income			Longer-term investment return		
	6 months 2005 £m	**6 months 2004 £m**	**Full year 2004 £m**	**6 months 2005 £m**	**6 months 2004 £m**	**Full year 2004 £m**
United Kingdom	280	301	569	327	312	651
Europe (excluding UK)						
France	23	24	48	29	29	49
Ireland	24	18	39	30	22	53
Netherlands	53	19	83	41	51	78
Other	14	12	20	17	16	26
International						
Canada	44	39	83	53	47	96
Other	15	15	33	15	14	35
Total longer-term investment return				**512**	**491**	**988**
Total actual investment income	**453**	**428**	**875**			
Realised gains /(losses)	55	(6)	47			
Unrealised gains/(losses)	124	(169)	227			
Total actual investment return	**632**	**253**	**1,149**			

The total short-term fluctuation in investment return of £120 million (six months 30 June 2004: £(238) million; full year 2004: £161 million) is the difference between the total actual investment return of £632 million (six months 30 June 2004: £253 million; full year 2004: £1,149 million) and the total longer-term investment return of £512 million (six months 30 June 2004: £491 million; full year 2004: £988 million).

Actual income and longer-term investment return both contain the amortisation of the discount/premium arising on the acquisition of fixed income securities.

The longer-term investment return is calculated separately for each principal general insurance and health business unit. 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 period, 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.

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	
	2005 %	**2004 %**	**2005 %**	**2004 %**
United Kingdom	7.6%	7.8%	6.6%	6.8%
France	6.7%	7.3%	5.7%	6.3%
Ireland	6.7%	7.3%	5.7%	6.3%
Netherlands	6.7%	7.3%	5.7%	6.3%
Canada	7.4%	7.7%	6.4%	6.7%

The table below shows the sensitivity of Group operating profit before tax to changes in the longer-term rates of return:

			6 months 2005 £m	**6 months 2004 £m**
Movement in investment return for	**By**	**Change in**	**By**	**By**
Equities	1% higher/lower	Group operating profit	27	25
Properties	1% higher/lower	Group operating profit	4	3

9. Other operations

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
RAC	11	-	-
Hill House Hammond	-	(9)	(8)
Personal finance subsidiaries	1	-	(1)
Your Move	-	8	9
Norwich Union Life Services	(38)	(15)	(80)
Other	28	(19)	(41)
	2	**(35)**	**(121)**

10. Corporate costs

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Global finance transformation programme	(28)	(45)	(85)
Central costs and sharesave schemes	(55)	(54)	(103)
	(83)	**(99)**	**(188)**

11. Unallocated interest charges

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
External			
subordinated debt	(85)	(84)	(169)
other	(45)	(40)	(77)
Internal	(101)	(100)	(219)
Net finance income on pension schemes	18	19	28
	(213)	**(205)**	**(437)**

12. Tax

(a) Tax charged to the income statement

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Current tax:			
For the year	492	214	475
Prior year adjustments	21	(48)	(92)
Total current tax	**513**	**166**	**383**
Deferred tax:			
Origination and reversal of timing differences	66	(6)	272
Changes in tax rates or tax laws	-	(1)	(1)
Write down of deferred tax assets	16	-	-
Total deferred tax	**82**	**(7)**	**271**
Total tax charged to income statement	**595**	**159**	**654**

12. Tax (continued)

(a) Tax charged to the income statement (continued)

The tax expense attributable to policyholders' returns in the UK, Ireland and Australia included in the tax charge is as follows:

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Current tax	198	49	195
Deferred tax	90	(70)	188
Total tax attributable to policyholders' returns charged to income statement	**288**	**(21)**	**383**

Tax charge analysed between

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Tax charge/(credit) attributable to policyholders' returns	288	(21)	383
Tax charge on IFRS operating profit before tax attributable to shareholders' profits from continuing operations	256	245	319
Tax charge/(credit) on profit on other activities	51	(65)	(48)
Total tax charged to income statement	**595**	**159**	**654**

(b) Tax charged to equity

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Deferred tax	(18)	(41)	15
Total tax charged to equity	**(18)**	**(41)**	**15**

(c) Tax reconciliation

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

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Net profit before tax	**1,412**	**428**	**2,025**
Tax calculated at standard UK corporation tax rate of 30% (2004: 30%)	424	128	608
Different basis of tax for UK life insurance	164	29	217
Adjustment to tax charge in respect of prior years	20	(34)	(88)
Non-assessable dividends	(59)	(41)	(30)
Non-taxable profit on sale of subsidiaries and associates	-	20	12
Disallowable expenses	21	26	65
Different local basis of tax on overseas profits/(losses)	34	5	(13)
Deferred tax assets not recognised	7	15	(120)
Other	(16)	11	3
Tax charge for the period	**595**	**159**	**654**

13. Earnings per share

(a) Basic earnings per share

	6 months 2005			6 months 2004			Full year 2004		
	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p
Operating profit attributable to ordinary shareholders from continuing operations	943	623	27.1	781	492	21.8	1,669	1,221	54.1
Adjusted for the following items:									
– Impairment of goodwill	(10)	(10)	(0.4)	-	-	-	(41)	(41)	(1.8)
– Amortisation and net impairment of acquired value of in-force business	(44)	(44)	(1.9)	(35)	(35)	(1.6)	(85)	(85)	(3.8)
– Amortisation and net impairment of other intangibles	(16)	(14)	(0.6)	(2)	(2)	(0.1)	(7)	(7)	(0.3)
– Financial Services Compensation Scheme and other levies	-	-	-	(25)	(18)	(0.8)	(49)	(29)	(1.3)
– Short term fluctuation on return on investments backing general insurance and health business	120	100	4.3	(238)	(190)	(8.4)	161	195	8.7
– Profit on the disposal of subsidiaries and associates	145	102	4.4	8	8	0.4	34	34	1.5
– Integration costs	(14)	(10)	(0.4)	-	-	-	-	-	-
– Exceptional costs for termination of operations	-	-	-	(40)	(30)	(1.3)	(40)	(30)	(1.3)
Profit attributable to ordinary shareholders	**1,124**	**747**	**32.5**	**449**	**225**	**10.0**	**1,642**	**1,258**	**55.8**

Earnings per share has been calculated based on the operating profit before impairment of goodwill, amortisation and impairment of acquired additional value of in-force long-term business and other intangibles and exceptional items, after tax, attributable to ordinary shareholders, for continuing operations, as well as on the profit attributable to ordinary shareholders. The directors believe the former earnings per share figures provide a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,300 million (six months 30 June 2004: 2,252 million; full year 2004: 2,256 million) ordinary shares in issue, after deducting shares owned by the employee share trusts.

The actual number of shares in issue at 30 June 2005 was 2,371 million (30 June 2004: 2,262 million; full year 2004: 2,282 million).

(b) Diluted earnings per share:

	6 months 2005			6 months 2004			Full year 2004		
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit attributable to equity shareholders	747	2,300	32.5	225	2,252	10.0	1,258	2,256	55.8
Dilutive effect of share awards and options	-	26	(0.4)	-	22	(0.1)	-	18	(0.5)
Diluted earnings per share	**747**	**2,326**	**32.1**	**225**	**2,274**	**9.9**	**1,258**	**2,274**	**55.3**

14. Dividends and appropriations

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Ordinary dividends declared and charged to equity in the period			
Final 2003 - 15.15p per share, paid on 17 May 2004	-	342	342
Interim 2004 - 9.36p per share, paid on 17 November 2004	-	-	211
Final 2004 -16.00p per share, paid on 17 May 2005	364	-	-
	364	**342**	**553**
Preference dividends declared and charged to equity in the period	9	9	17
	373	**351**	**570**

Subsequent to 30 June 2005, the directors proposed an interim dividend for 2005 of 9.83p per ordinary share, £233 million in total. This will be accounted for as an appropriation of retained earnings in the full year ending 31 December 2005.

Interest payable on the deferred capital instrument issued in November 2004 is treated as an appropriation of retained profits and, accordingly, it is accounted for when paid. No interest has been paid since the deferred capital instrument was issued last year, and the first and subsequent payments will be made in the second half of each accounting period. The pre-tax accumulated interest payable at 30 June 2005 amounted to £31 million (31 December 2004: £6 million). Tax relief will be obtained at a rate of 30%.

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 11 August 2005.

15. Segmental information

(a) Segmental results – primary reporting format - business segments

The principal activity of the Group is financial services, which is managed using the following reportable segments: long-term business, fund management, general insurance and health.

Long-term business
Our long-term business comprises 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 associates and joint ventures, as well as the equity release business written in the UK.

Fund management activities
Our fund management business invests policyholders' and shareholders' funds, provides investment management services for institutional pension fund mandates and manages a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Clients include Aviva group businesses and third-party financial institutions, pension funds, public sector organisations, investment professionals and private investors.

General insurance and health
Our general insurance and health business provides insurance cover to individuals and to small and medium-sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses.

Other
Head office expenses, such as Group treasury and finance functions, and other activities not related to the core business segments are included as "Other" in the following tables. Any segments that are not reportable segments due to their immateriality are also included in this category, together with eliminations and any other reconciling items. Certain financing costs and taxes are not allocated among the segments.

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are on normal commercial terms and market conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet but excluding items such as tax and borrowings.

15. Segmental information (continued)

(a) Segmental results of the income statement – primary reporting format - business segments for the six months ended 30 June 2005

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment revenue from external customers:					
Net earned premiums	7,468	-	4,889	-	12,357
Fee and commission income	286	114	15	121	536
	7,754	114	4,904	121	12,893
Net Investment income	9,311	4	688	76	10,079
Other income	25	1	73	434	533
Inter segment revenue	16	73	(3)	(86)	-
Total income	**17,106**	**192**	**5,662**	**545**	**23,505**
Claims and benefits paid, net of recoveries from reinsurers	(6,490)	-	(2,870)	-	(9,360)
Change in insurance liabilities, net of reinsurance	(5,147)	-	(331)	-	(5,478)
Change in unallocated divisible surplus	(355)	-	-	-	(355)
Expenses attributed to investment contracts	(3,002)	-	-	-	(3,002)
Fee and commission expense	(683)	(33)	(1,286)	(17)	(2,019)
Other operating expenses					
Depreciation	(7)	(2)	(5)	(28)	(42)
Amortisation of acquired value of business in-force	(36)	-	-	-	(36)
Net impairment of acquired value of business in-force	(7)	-	-	-	(7)
Net impairment of other intangible assets	(8)	-	(5)	(3)	(16)
Impairment of goodwill	(10)	-	-	-	(10)
Other impairment losses recognised in the income statement	(4)	-	-	-	(4)
Other expenses	(528)	(123)	(295)	(566)	(1,512)
Finance costs	(118)	-	(22)	(137)	(277)
Total expenses	**(16,395)**	**(158)**	**(4,814)**	**(751)**	**(22,118)**
Segment result before share of profit/(loss) of joint ventures and associates	711	34	848	(206)	1,387
Share of profit/(loss) of joint ventures and associates	23	(3)	-	5	25
Segmental result before tax	**734**	**31**	**848**	**(201)**	**1,412**
Unallocated costs:					
Tax attributable to policyholders' returns					(288)
Tax attributable to shareholders' profits					(307)
Total tax expense					(595)
Profit for the period					**817**

15. Segmental information (continued)

(b) Segmental results of the income statement – primary reporting format - business segments continued

Reconciliation to operating profit before tax attributable to shareholders' profits for the six months ended 30 June 2005

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment result before tax	734	31	848	(201)	1,412
Add:					
Impairment of goodwill	10	-	-	-	10
Amortisation of acquired value of in-force business	44	-	-	-	44
Impairment of other intangible assets	8	-	5	3	16
Net profit on the disposal of subsidiaries and associates	-	-	(41)	(104)	(145)
Integration costs	-	-	-	14	14
Short-term fluctuation on investment return	-	-	(120)	-	(120)
Corporate costs reallocation	2	2	2	(6)	-
	798	33	694	(294)	1,231
Less:					
Tax attributable to policyholders' returns	(288)	-	-	-	(288)
Operating profit before tax attributable to shareholders' profits	**510**	**33**	**694**	**(294)**	**943**

15. Segmental information (continued)

(c) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2004

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment revenue from external customers					
Net earned premiums	13,533	-	9,642	-	23,175
Fee and commission income	443	144	25	260	872
	13,976	144	9,667	260	24,047
Net investment income	14,557	17	1,216	260	16,050
Inter-segment revenue	8	126	7	(141)	-
Other income	133	58	4	162	357
Total income	**28,674**	**345**	**10,894**	**541**	**40,454**
Claims and benefits paid, net of recoveries from reinsurers	(11,967)	-	(5,658)	-	(17,625)
Change in insurance liabilities, net of reinsurance	(5,393)	-	(711)	-	(6,104)
Change in unallocated divisible surplus	(1,330)	-	-	-	(1,330)
Expenses attributed to investment contracts	(5,635)	-	-	-	(5,635)
Fee and commission expense	(2,068)	(77)	(2,482)	(107)	(4,734)
Other operating expenses					
Depreciation	(14)	(4)	(19)	(60)	(97)
Amortisation of acquired value of business in force	(72)	-	-	-	(72)
Net impairment of acquired value of business in force	(12)	-	-	-	(12)
Net impairment of other intangible assets	(7)	-	-	-	(7)
Impairment of goodwill	(18)	-	(2)	(21)	(41)
Other impairment losses recognised in the income statement	(1)	-	-	(24)	(25)
Other reversal of impairment losses recognised in the income statement	-	-	-	-	-
Other expenses	(721)	(230)	(685)	(765)	(2,401)
Finance costs	(126)	-	(43)	(276)	(445)
Total expenses	**(27,364)**	**(311)**	**(9,600)**	**(1,253)**	**(38,528)**
Segmental result before share of profit/(loss) of joint ventures and associates	**1,310**	**34**	**1,294**	**(712)**	**1,926**
Share of profit/(loss) of joint ventures and associates	71	(6)	-	34	99
Segmental results before tax	**1,381**	**28**	**1,294**	**(678)**	**2,025**
Unallocated costs:					
Tax attributable to policyholders' returns					(383)
Tax attributable to shareholders' profits					(271)
Total tax expense					(654)
Profit for the period					**1,371**

15. Segmental information (continued)

(d) Segmental results of the income statement – primary reporting format - business segments

Reconciliation to operating profit before tax attributable to shareholders' profits for the year ended 31 December 2004

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment result before tax from continuing operations	**1,381**	**28**	**1,294**	**(678)**	**2,025**
Add: Impairment of goodwill	18	-	2	21	41
Amortisation of acquired value of in-force business	85	-	-	-	85
Impairment of other intangible assets	7	-	-	-	7
Financial Services Compensation Scheme and other levies	-	9	40	-	49
Short-term fluctuation on investment return	-	-	(161)	-	(161)
Net profit on the disposal of subsidiaries and associates	4	-	62	(100)	(34)
Exceptional costs for termination of operations	-	-	-	40	40
Corporate costs reallocation	4	3	22	(29)	-
	1,499	40	1,259	(746)	2,052
Less:					
Tax attributable to policyholders' returns	(383)	-	-	-	(383)
Operating profit before tax attributable to shareholders' profits	**1,116**	**40**	**1,259**	**(746)**	**1,669**

(e) Segmental balance sheet – primary reporting format – on business segments

As at 30 June 2005

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Goodwill	551	-	359	1,379	2,289
Acquired value of in-force business and other intangible assets	425	-	379	114	918
Investment property	10,662	-	357	54	11,073
Investments in joint ventures and associates	2,069	40	8	170	2,287
Financial investments					
Debt securities	86,818	-	9,320	2,601	98,739
Equity securities	44,843	1	2,460	601	47,905
Other investments	22,455	5	231	43	22,734
Loans	16,763	-	2,710	2,448	21,921
Other assets	26,949	429	10,137	2,026	39,541
Segment assets	**211,535**	**475**	**25,961**	**9,436**	**247,407**
Unallocated assets – tax assets					888
Total assets					**248,295**
Insurance liabilities	109,933	-	18,127	-	128,060
Liability for investment contracts	71,005	-	-	-	71,005
Unallocated divisible surplus	7,732	-	-	-	7,732
Borrowings					
External	3,601	-	2,014	746	6,361
Other liabilities, including inter-segment liabilities	6,968	169	(525)	9,214	15,826
Net asset value attributable to unitholders	2,469	-	-	-	2,469
Segment liabilities	**201,708**	**169**	**19,616**	**9,960**	**231,453**
Unallocated liabilities					
Central borrowings					4,339
Tax liabilities					2,732
Total liabilities					**238,524**

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies.

15. Segmental information (continued)

(f) Segmental balance sheet – primary reporting format on business segments

As at 31 December 2004

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Goodwill	595	-	308	281	1,184
Acquired value of in-force business and other intangible assets	451	-	19	46	516
Property and equipment	404	7	133	268	812
Investment property	10,639	-	362	56	11,057
Investments in joint ventures and associates	1,995	40	13	80	2,128
Financial investments					
Debt securities	86,897	2	9,255	2,565	98,719
Equity securities	44,269	1	2,449	572	47,291
Other investments	20,067	6	224	49	20,346
Loans	17,090	-	2,635	2,330	22,055
Other assets	23,455	311	9,786	735	34,287
Segment assets	**205,862**	**367**	**25,184**	**6,982**	**238,395**
Tax					908
Total assets					**239,303**
Insurance liabilities	106,329	-	17,793	-	124,122
Liability for investment contracts	69,555	-	-	-	69,555
Unallocated divisible surplus	7,549	-	-	-	7,549
Borrowings					
External	4,082	-	1,439	270	5,791
Other liabilities, including inter-segment liabilities	6,250	191	474	7,367	14,282
Net asset value attributable to unitholders	2,247	-	-	-	2,247
Segment liabilities	**196,012**	**191**	**19,706**	**7,637**	**223,546**
Unallocated liabilities					
Central borrowings					4,299
Tax liabilities					2,465
Total liabilities					**230,310**

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies.

(g) Goodwill allocation and impairment testing

IFRS requires formal impairment testing to be carried out annually. The Group's policy is to perform formally this testing at year end. For impairment testing, goodwill has been allocated to cash-generating units by geographical reporting unit and business segment. In line with the Group's policy, the last formal impairment test was carried out at 31 December 2004. The tests led to an impairment charge of £41 million which comprised £21 million on one non-insurance Dutch operation, £17 million on other small European businesses and £3 million on other operations. In the first six months of 2005, an impairment charge of £10 million was made in respect of smaller European acquisitions.

Other long lived assets such as acquired additional value of in-force, and other intangibles are not subject to formal impairment testing but are amortised on an annual basis. There have been no indications of impairment and hence no charge has been made in any period.

15. Segmental information (continued)

(h) Long-term business summary analysis by geographical segment

(i) Income statement

	Net written premiums			Fee and commission income			Profit before tax		
	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
United Kingdom	**2,228**	**2,228**	**4,768**	**96**	**95**	**145**	**471**	**175**	**650**
France	1,803	1,345	2,892	78	63	140	114	89	196
Ireland	95	106	195	10	9	15	18	19	52
Italy	696	548	1,084	31	17	44	14	16	28
Netherlands	1,227	966	1,859	18	3	15	56	55	220
Poland	148	129	267	10	6	11	48	39	80
Spain	664	707	1,206	16	14	29	33	21	61
Other Europe	260	261	565	16	2	24	(4)	(7)	(8)
Europe excluding United Kingdom	**4,893**	**4,062**	**8,068**	**179**	**114**	**278**	**279**	**232**	**629**
International	**347**	**252**	**697**	**11**	**11**	**20**	**(16)**	**55**	**102**
Total	**7,468**	**6,542**	**13,533**	**286**	**220**	**443**	**734**	**462**	**1,381**

The following analysis shows the net written premiums from associates and joint ventures which are not included in the analysis above.

	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
RBS	102	125	319
India	6	2	6
China	13	1	3
	121	128	328

(ii) Balance sheet

	Segmental total assets		Net assets	
	30 June 2005 £m	31 December 2004 £m	30 June 2005 £m	31 December 2004 £m
United Kingdom	**112,071**	**107,495**	**2,868**	**3,162**
France	41,642	41,827	1,149	1,175
Ireland	5,102	5,108	376	403
Italy	9,686	9,492	606	478
Netherlands (including Belgium and Luxembourg)	27,485	27,357	1,761	1,758
Poland	1,546	1,564	142	176
Spain	5,809	5,638	717	761
Other Europe	1,283	1,104	161	160
Europe excluding United Kingdom	**92,553**	**92,090**	**4,912**	**4,911**
International	**6,911**	**6,277**	**642**	**735**
Total	**211,535**	**205,862**	**8,422**	**8,808**

15. Segmental information (continued)

(i) Geographical analysis of life and pensions and investment sales – new business and total income

For the purpose of recording life and pensions new business premiums, the Group's policy is to include 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 associates and joint ventures as well as the equity release business written in the UK. This includes both insurance and investment contracts as defined under IFRS 4 "Insurance Contracts" and is consistent with the definition of covered business used for our supplementary embedded value reporting.

	New single premiums		New regular premiums		Total income		
	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
Life and pensions:							
United Kingdom	**3,056**	**2,938**	**230**	**273**	**2,228**	**2,228**	**4,768**
France	1,607	1,183	41	27	1,803	1,345	2,892
Ireland	191	85	32	35	95	106	195
Italy	1,146	694	30	20	696	548	1,084
Netherlands (including Belgium and Luxembourg)	653	542	73	65	1,227	966	1,859
Poland	35	33	14	15	148	129	267
Spain	638	875	49	42	664	707	1,206
Other Europe	177	167	38	41	260	261	565
Total Europe excluding United Kingdom	**4,447**	**3,579**	**277**	**245**	**4,893**	**4,062**	**8,068**
International	**326**	**225**	**56**	**51**	**347**	**252**	**697**
Total life and pensions (including share of associates)	**7,829**	**6,742**	**563**	**569**	**7,468**	**6,542**	**13,533**
Retail sales of mutual fund type products:							
United Kingdom	504	437	9	14	513	451	859
Netherlands	180	120	-	-	180	120	196
Poland	24	48	2	1	26	49	77
Other Europe	237	91	-	-	237	91	254
International	106	64	-	-	106	64	243
Total investment sales	**1,051**	**760**	**11**	**15**	**1,062**	**775**	**1,629**
Total long term savings (including share of associates)	**8,880**	**7,502**	**574**	**584**	**8,530**	**7,317**	**15,162**

Single premiums are those relating to products issued by the Group, which provide for the payment of one premium only.
Regular premiums are those where there is a contractual obligation to pay on an ongoing basis.

* Included within new business sales is £2,104 million single premiums and £194 million regular premiums (six months 30 June 2004: £2,060 million single premiums and £203 million regular premiums; full year 2004: £4,338 million single premiums and £410 million regular premiums), in respect of contracts that meet the definition of "non-participating investment" contracts under IFRS 4 "Insurance Contracts". Under IFRS, the premiums on these contracts are not included in the Group income statement under earned premiums, but are included on the balance sheet as a deposit.

15. Segmental information (continued)

(j) General insurance and health business summary analysis by geographical segment

(i) Income statement

	Net written premiums			Fee and commission income			Profit before tax		
	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m	6 months 2005 £m	6 months 2004 £m	Full year 2004 £m
United Kingdom	**2,891**	**2,819**	**5,715**	**-**	**-**	**-**	**430**	**85**	**702**
France	424	382	670	-	1	4	30	27	71
Ireland	262	292	545	-	1	1	93	60	144
Netherlands	790	800	1,286	14	10	18	123	53	145
Other Europe	129	124	230	1	1	2	17	8	44
Europe excluding United Kingdom	**1,605**	**1,598**	**2,731**	**15**	**13**	**25**	**263**	**148**	**404**
Canada	627	601	1,202	-	-	-	94	35	153
Other	81	117	170	-	-	-	61	12	35
International	**708**	**718**	**1,372**	**-**	**-**	**-**	**155**	**47**	**188**
Total	**5,204**	**5,135**	**9,818**	**15**	**13**	**25**	**848**	**280**	**1,294**

(ii) Balance sheet

	Segmental total assets		Net assets	
	30 June 2005 £m	31 December 2004 £m	30 June 2005 £m	31 December 2004 £m
United Kingdom	**13,073**	**12,927**	**3,006**	**2,504**
France	1,767	1,741	351	416
Ireland	1,865	1,989	453	498
Netherlands	4,542	3,677	510	461
Other Europe	879	914	137	162
Europe excluding United Kingdom	**9,053**	**8,321**	**1,451**	**1,537**
Canada	3,291	3,111	704	687
Other	544	825	324	277
International	**3,835**	**3,936**	**1,028**	**964**
Total	**25,961**	**25,184**	**5,485**	**5,005**

(iii) General insurance, fund management and other investments mix at 30 June 2005

	United Kingdom £m	Continental Europe £m	International £m	Total £m
Equity securities-fair value	1,669	948	445	3,062
Debt and fixed income securities at market value	5,198	4,973	1,750	11,921
Loans secured by mortgages and other loans	623	4,518	17	5,158
Other investments	23	256	-	279
Investments in joint ventures and associates	181	37	-	218
Investment property	237	171	3	411
Total investments	**7,931**	**10,903**	**2,215**	**21,049**

Statistical supplement

Segmental analysis of the components of life EEV operating return

6 months ended 30 June 2005 £m

	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	105	48	8	20	18	5	70	2	10	286
Profit from existing business										
- expected return	203	61	16	16	64	23	23	12	16	434
- experience variances:										
Maintenance expenses	(1)	1	-	(1)	(6)	3	(2)	-	(2)	(8)
Exceptional expenses[1]	(80)	1	(2)	-	(6)	-	(1)	-	-	(88)
Mortality/Morbidity[2]	41	11	3	-	8	7	(1)	-	3	72
Lapses[3]	(5)	(2)	(6)	(3)	(6)	-	(3)	(3)	(1)	(29)
Other[4]	15	7	(2)	1	(3)	2	1	-	1	22
	(30)	18	(7)	(3)	(13)	12	(6)	(3)	1	(31)
- operating assumption changes:										
Maintenance expenses	-	-	-	-	-	-	-	-	-	-
Exceptional expenses	-	-	-	-	-	-	-	-	-	-
Mortality/Morbidity	-	-	-	-	-	-	-	-	-	-
Lapses	-	-	-	-	-	-	-	-	-	-
Other[5]	-	-	-	-	6	-	-	1	-	7
	-	-	-	-	6	-	-	1	-	7
Expected return on shareholders' net worth	49	31	5	14	40	6	5	2	9	161
Life EEV operating return before tax	**327**	**158**	**22**	**47**	**115**	**46**	**92**	**14**	**36**	**857**

1. Exceptional expenses in the UK reflect £30 million relating to the ongoing transformation of the Life business and £50 million of other exceptional project costs associated with regulatory change.
2. Mortality experience continues to be better than assumed across most of our businesses, and particularly for protection and annuity business in the UK and AFER in France.
3. Lapse experience in the UK has been worse than assumed and mainly relates to with-profit bonds. In Ireland, the adverse persistency has mainly arisen on unit-linked pensions business. In the Netherlands the adverse persistency has mainly arisen on group business.
4. In the UK, other experience profits primarily relates to better than assumed default experience on corporate bonds and commercial mortgages.
5. In the Netherlands, other operating assumption changes mainly relates to the reduction of the guaranteed investment return on certain products in Belgium.

Segmental analysis of the components of life EEV operating return

6 months ended 30 June 2004 £m

	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	106	27	11	14	25	4	55	(2)	11	251
Profit from existing business										
- expected return	200	53	14	15	71	21	21	10	12	417
- experience variances:										
Maintenance expenses	(1)	(1)	1	-	(2)	2	1	(2)	-	(2)
Exceptional expenses[1]	(32)	(1)	-	-	(10)	-	-	(1)	(10)	(54)
Mortality/Morbidity[2]	17	7	1	-	3	3	1	-	1	33
Lapses[3]	(14)	2	(8)	-	-	-	(1)	(1)	2	(20)
Other[4]	11	(5)	-	1	8	1	-	7	-	23
	(19)	2	(6)	1	(1)	6	1	3	(7)	(20)
- operating assumption changes:										
Maintenance expenses	-	-	-	-	-	-	-	-	1	1
Exceptional expenses	-	-	-	-	-	-	-	-	-	-
Mortality/Morbidity	-	-	-	-	-	-	-	-	-	-
Lapses[5]	-	-	(9)	-	-	-	-	-	-	(9)
Other	7	(1)	(1)	-	3	-	-	-	-	8
	7	(1)	(10)	-	3	-	-	-	1	-
Expected return on shareholders' net worth	51	31	7	6	34	4	4	3	11	151
Life EEV operating return before tax	**345**	**112**	**16**	**36**	**132**	**35**	**81**	**14**	**28**	**799**

1 Exceptional expenses reflect project spend, including costs associated with the pace of regulatory change in the UK.
2 Mortality experience has typically been better than anticipated in many of the group businesses in particular in the UK on annuity and PHI contracts.
3 Lapse experience has been adverse in a number of businesses including on savings businesses in the UK, and on some classes of business in Ireland.
4 In the UK, other experience profits include exceptional profits arising from better than assumed default experience on corporate bonds and commercial mortgages.
5 In Ireland, lapse assumption changes have been made on unit linked pension business following recent experience.

Segmental analysis of the components of life EEV operating return

Full year 2004 £m

	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
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 the business services 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 business 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 reflect 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 one-off 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. Previously 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.

Supplementary analyses – life and related businesses

(a) Analysis of service companies and fund management businesses within embedded value

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

			30 June 2005	31 December 2004
	Fund Management £m	Non-Insurance £m	Total £m	Total £m
United Kingdom	53	(397)	(344)	(343)
France	43	(10)	33	32
Other Europe and International	11	(18)	(7)	(15)
	107	**(425)**	**(318)**	**(326)**

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

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

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

(b) Pension schemes

(i) Treatment of pension scheme deficits for IFRS

On the IFRS balance sheet, the amount described as Provisions includes the pension scheme deficits and comprises:

	30 June 2005 £m	31 December 2004 £m
Deficits in the staff pension schemes	1,220	893
Other obligations to staff pension schemes – Insurance policies issued by Group companies	813	813
Total IAS 19 obligations to staff pension schemes	2,033	1,706
Other provisions	468	419
Provisions	**2,501**	**2,125**

(ii) Treatment of pension scheme deficits in embedded value

The adoption of the EEV principles and the inclusion of NULS in the calculations have resulted in the recognition within EEV of the future funding obligations to the UK pension scheme in relation to both future service costs and pension deficits. The table below shows the component parts of the impact of adopting the EEV principles on the UK life valuation.

	30 June 2005 £m	31 December 2004 £m
Impact of:		
Increasing maintenance and normal project allowances	(128)	(124)
Increase in future service pension scheme contribution rate from 11% to 29% (31 December 2004: 25%)	(123)	(126)
	(251)	(250)
Pension scheme deficits funding	(146)	(147)
	(397)	**(397)**

Pension costs are accounted in NULS following the "look-through" principle and are included in the embedded value. The funding rate for the annual pension cost is 29% of pensionable salaries and allowance has been made for the entire contribution reducing the embedded value of UK Life and related business at 30 June 2005 by £123 million (31 December 2004: £126 million).

In addition, pension deficit funding equivalent in 2004 to a further 13% of pensionable salaries commenced on 1 January 2004. The NULS share of the total UK pension scheme deficit is approximately 42% and this liability is fully provided for in the UK embedded value. In effect, under the EEV methodology the element of the pension fund deficit which relates to the UK life and other related businesses is now incorporated within shareholders' funds at an amount equivalent to the post-tax contributions discounted using the UK Life business risk discount rate. This is equal to £146 million at 30 June 2005 (31 December 2004: £147 million), which differs from the IAS19 basis of evaluating pension deficits.

In quantifying the impact on the embedded value for the UK covered business, the shareholders have been assumed to incur all of the additional contributions except for an amount equivalent to approximately 2% of pensionable salaries which has been attributed to the with-profits funds. This reflects the contractual nature of the current MSA which prevents shareholders from recharging both the increase in future service costs from 11% to 29% (31 December 2004: 25%) of pensionable salaries and the cost of funding the deficit to the UK with-profit funds.

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

(iii) Treatment of pension scheme deficits on the Group embedded value balance sheet

The Group has accounted for its pension scheme costs in accordance with IAS 19 for the non life and overseas life businesses. The element of the pension fund deficits which relates to the UK life and other related businesses is included at an amount equivalent to the post-tax contributions discounted using the UK Life business risk discount rate. The following table sets out the pension scheme deficits in the Group embedded value balance sheet.

	30 June 2005 £m	**31 December 2004 £m**
IAS 19 pension scheme deficits post tax	855	628
Deduct element relating to UK life on IAS 19 basis	(239)	(216)
	616	412
Element relating to UK life funding contributions included within EEV covered business	146	147
Total pension scheme deficits on the embedded value balance sheet	762	559
Deferred tax asset	365	265
Total pension scheme deficits on the embedded value balance sheet pre-tax	1,127	824
Other obligations to staff pension schemes – Insurance policies issued by Group companies	813	813
Other provisions	468	419
Pension obligations and other provisions	**2,408**	**2,056**

The pension scheme deficits shown above of £855 million (31 December 2004: £628 million) include the associated deferred tax asset of £365 million (31 December 2004: £265 million).

(c) Assets under management

	Life and related business 30 June 2005 £m	General business and other 30 June 2005 £m	Group 30 June 2005 £m	Group 31 December 2004 £m
Total IFRS assets included in the balance sheet	**211,535**	**36,760**	**248,295**	**239,303**
Additional value of in-force long-term business	5,335	-	5,335	5,018
Total EEV assets included in the balance sheet	**216,870**	**36,760**	**253,630**	**244,321**
Third party funds under management:				
Unit trusts, Oeics, Peps and Isas			11,207	10,527
Segregated funds			25,831	24,899
Total assets under management			**290,668**	**279,747**

General insurance business only: geographical analysis

(a) General insurance

	Operating Profit		Longer-term investment return		Underwriting result	
	6 months 2005 £m	Full year 2004 £m	6 months 2005 £m	Full year 2004 £m	6 months 2005 £m	Full year 2004 £m
United Kingdom	431	788	325	647	106	141
France	14	25	22	39	(8)	(14)
Ireland	83	135	30	53	53	82
Netherlands	39	51	21	33	18	18
Canada	67	133	53	96	14	37
Other	41	73	32	61	9	12
	675	**1,205**	**483**	**929**	**192**	**276**

(b) Combined operating ratio analysis – geographical basis – general insurance business only

	Claims ratio		Expense ratio		Combined operating ratio	
	6 months 2005 %	Full year 2004 %	6 months 2005 %	Full year 2004 %	6 months 2005 %	Full year 2004 %
United Kingdom	64.3%	64.4%	10.8%	10.6%	96%	97%
France	72.3%	73.4%	10.3%	12.1%	100%	101%
Ireland	59.2%	66.6%	11.1%	10.3%	80%	87%
Netherlands	60.0%	59.4%	12.9%	11.9%	94%	95%
Canada	66.4%	66.6%	12.5%	12.1%	98%	97%
	64.5%	**65.0%**	**11.2%**	**11.2%**	**95%**	**97%**

Ratios are measured in local currency.
The total Group ratios are based on average exchange rates applying to the respective periods.

Definitions:

Claims ratio	–	Incurred claims expressed as a percentage of net earned premiums.
Expense ratio	–	Written expenses excluding commissions expressed as a percentage of net written premiums.
Commission ratio	–	Written commissions expressed as a percentage of net written premiums.
Combined operating ratio	–	Aggregate of claims ratio, expense ratio and commission ratio.

(c) General insurance business only: class of business analyses

(i) United Kingdom

	Net written premiums		Underwriting result		Combined operating ratio	
	6 months 2005 £m	Full year 2004 £m	6 months 2005 £m	Full year 2004 £m	6 months 2005 %	Full year 2004 %
Personal						
Motor	774	1,383	(14)	(12)	102%	102%
Homeowner	572	1,041	25	24	97%	97%
Other	309	737	7	9	96%	100%
	1,655	3,161	18	21	99%	100%
Commercial						
Motor	364	755	17	19	95%	97%
Property	451	924	56	98	85%	88%
Other	266	597	15	3	94%	99%
	1,081	2,276	88	120	91%	94%
£m	**2,736**	**5,437**	**106**	**141**	**96%**	**97%**

During the six months to 30 June 2005, annualised rating increases were as follows; personal motor: 5%; homeowners: 6% (including indexation); commercial motor: 3% decrease; commercial property: 1% decrease; and commercial liability: 1%.

(ii) France

	Net written premiums		Underwriting result		Combined operating ratio	
	6 months 2005 €m	Full year 2004 €m	6 months 2005 €m	Full year 2004 €m	6 months 2005 %	Full year 2004 %
Motor	221	370	(6)	(12)	100%	103%
Property and other	264	399	(6)	(9)	99%	100%
€m	**485**	**769**	**(12)**	**(21)**	**100%**	**101%**
£m	**335**	**530**	**(8)**	**(14)**	**100%**	**101%**

(iii) Netherlands

	Net written premiums		Underwriting result		Combined operating ratio	
	6 months 2005 €m	Full year 2004 €m	6 months 2005 €m	Full year 2004 €m	6 months 2005 %	Full year 2004 %
Property	207	368	23	6	92%	90%
Motor	178	347	12	27	93%	95%
Liability	48	56	-	(12)	102%	119%
Other	189	287	(9)	6	105%	97%
€m	**622**	**1,058**	**26**	**27**	**94%**	**95%**
£m	**429**	**720**	**18**	**18**	**94%**	**95%**

(iv) Canada

	Net written premiums		Underwriting result		Combined operating ratio	
	6 months 2005 C$m	Full year 2004 C$m	6 months 2005 C$m	Full year 2004 C$m	6 months 2005 %	Full year 2004 %
Automobile	863	1,747	11	5	99%	100%
Property	418	821	25	79	93%	90%
Liability	151	249	(7)	(12)	105%	106%
Other	22	42	4	14	80%	66%
C$m	**1,454**	**2,859**	**33**	**86**	**98%**	**97%**
£m	**627**	**1,232**	**14**	**37**	**98%**	**97%**

Appendix A

Group Capital Structure

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 European Embedded Value basis provides a more accurate reflection of the performance of the Group's life operations year on year than results under IFRS. Accordingly, the Group's capital structure is analysed on this basis.

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

Capital employed by segment

	30 June 2005 £m	31 December 2004 £m
Long-term savings	13,757	13,826
General insurance and health	5,485	5,005
Other business	1,714	838
Corporate	(365)	(372)
Total capital employed	**20,591**	**19,297**
Financed by		
Equity shareholders' funds and minority interests	13,916	12,821
Direct capital instrument	990	990
Preference shares	200	200
Subordinated debt	2,789	2,847
External debt	1,550	1,452
Net internal debt	1,146	987
	20,591	**19,297**

At 30 June 2005 the Group had £20.6 billion (31 December 2004: £19.3 billion) of total capital employed in our trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, direct capital instruments, subordinated debt and internal and external borrowings.

In the first half of 2005, the total capital employed in our long-term savings operations decreased by £0.1 billion from the previous year end; the capital employed in our general insurance businesses increased by £0.5 billion reflecting the profits in the period; the capital employed in our non-insurance businesses rose by £0.9 billion from £0.8 billion to £1.7 billion reflecting the RAC acquisition.

In addition to its external funding sources, the Group has a number of internal debt arrangements in place. These have allowed the 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. Although intra-group loans in nature, they are counted as part of the capital base for the purpose of capital management. All internal loans satisfy arms length criteria and all interest payments have been made when due.

In order to better reflect the underlying level of internal leverage the presentation of internal debt was revised at the 2004 year end. The revised presentation depicts 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. The corporate net liabilities represent the pension scheme deficit held centrally.

The ratio of the Group's external debt plus subordinated debt to shareholders' funds was 29% (31 December 2004: 31%). Fixed charged cover on an EEV basis, which measures the extent to which external interest costs are covered by EEV operating profit, was 9.2 times (31 December 2004: 8.2 times).

At 30 June 2005 the market value of the Group's external debt, subordinated debt, preference shares, including both the Aviva plc preference shares and the General Accident plc preference shares of £250 million, within minority interests, and direct capital instrument was £6,383 million (31 December 2004: £5,953 million), with a weighted average cost of 3.8% (31 December 2004: 3.9%). The Group WACC is 7.1% and has been calculated by reference to the cost of equity and cost of debt at the relevant date. It is based on an equity market premium of 3% and a market beta of 1.46.

Group capital structure (continued)

Deployment of equity shareholders' funds

	30 June 2005					31 December 2004
	Equities £m	Fixed income securities £m	Other investments £m	Other net assets £m	Total £m	Total £m
Assets						
Long-term savings	686	3,522	1,157	1,923	7,288	7,572
General insurance, health, and other business	3,062	1,160	1,687	(1,272)	4,637	4,859
	3,748	4,682	2,844	651	11,925	12,431
Goodwill					2,506	1,401
Additional and acquired value of in-force long-term business and other intangible assets					6,160	5,465
Assets backing total capital employed in continuing operations					**20,591**	**19,297**
External debt					(1,550)	(1,452)
Net Internal debt					(1,146)	(987)
Subordinated debt					(2,789)	(2,847)
					15,106	**14,011**
Minority interests					(1,283)	(1,160)
Direct Capital Instrument					(990)	(990)
Preference capital					(200)	(200)
Equity shareholders' funds					**12,633**	**11,661**

Our exposure to equities has decreased from £3.9 billion at 31 December 2004 to £3.7 billion, which represents 18% of our capital employed.

Return on capital employed

	30 June 2005			31 December 2004
	Normalised after-tax return £m	Opening equity capital £m	Return on capital %	Return on capital %
Long-term savings	591	13,826	8.7%	8.9%
General insurance and health	447	5,005	18.7%	17.1%
Other business	45	838	11.1%	(2.0)%
Corporate	(56)	(372)	32.4%	40.9%
	1,027	**19,297**	**10.9%**	**10.4%**
Borrowings	(120)	(5,286)	4.6%	3.9%
	907	**14,011**	**13.4%**	**13.9%**
Minority interests	(77)	(1,160)	13.7%	17.5%
Direct capital instrument	-	(990)	-	-
Preference capital	(9)	(200)	8.5%	8.5%
Equity shareholders' funds	**821**	**11,661**	**14.6%**	**13.7%**

The return on capital is calculated as the after-tax return on opening equity capital, based on Group operating profit, including Life EEV operating return, on continuing operations.

Group capital structure (continued)

Shareholders' funds, including minority interests.

		30 June 2005 Closing shareholders' funds			31 December 2004 Closing shareholders' funds		
	Note	IFRS net assets £m	Internally generated AVIF £m	Total Equity £m	IFRS net assets £m	Internally generated AVIF £m	Total Equity £m
Life assurance	1,2						
United Kingdom		2,868	2,829	5,697	3,162	2,703	5,865
France		1,149	723	1,872	1,175	644	1,819
Ireland		376	253	629	403	248	651
Italy		606	87	693	478	72	550
Netherlands (including Belgium and Luxembourg)		1,761	649	2,410	1,758	727	2,485
Poland		142	364	506	176	381	557
Spain		717	345	1,062	761	279	1,040
Other Europe		161	64	225	160	53	213
International		642	21	663	735	(89)	646
		8,422	**5,335**	**13,757**	**8,808**	**5,018**	**13,826**
General insurance and health	2,3						
United Kingdom		3,006		3,006	2,504		2,504
France		351		351	416		416
Ireland		453		453	498		498
Netherlands		510		510	461		461
Other Europe		137		137	162		162
Canada		704		704	687		687
Other		324		324	277		277
		5,485	-	**5,485**	**5,005**	**-**	**5,005**
Other business	2,3	1,714		1,714	838		838
Corporate		(365)		(365)	(372)		(372)
External debt	4	(1,550)		(1,550)	(1,452)		(1,452)
Internal debt		(1,146)		(1,146)	(987)		(987)
Subordinated debt		(2,789)		(2,789)	(2,847)		(2,847)
		(4,136)	**-**	**(4,136)**	**(4,820)**	**-**	**(4,820)**
Shareholders' funds, including minority interests		**9,771**	**5,335**	**15,106**	**8,993**	**5,018**	**14,011**
Comprising							
Equities		3,748		3,748	3,881		3,881
Debt and fixed income securities		4,682		4,682	4,802		4,802
Property		1,521		1,521	1,292		1,292
Deposits and other investments		1,323		1,323	1,480		1,480
Intangible assets	5	3,331	5,335	8,666	1,848	5,018	6,866
Other net assets		651		651	976		976
Borrowings		(5,485)		(5,485)	(5,286)		(5,286)
		9,771	**5,335**	**15,106**	**8,993**	**5,018**	**14,011**

Group capital structure (continued)

Shareholders' funds, including minority interests (continued)

Notes
1. The internally generated AVIF includes an adjustment of £93 million (2004: £69 million) relating to the treatment of the pension fund deficit.
2. Goodwill of £2,506 million (2004: £1,401 million) has been allocated as follows: life assurance £768 million (2004: 812 million); general insurance and health £845 million; (2004: £465 million) and other businesses £893 million (2004: £124 million).
3. Intangibles of £493 million (2004: £65 million) have been allocated as follows: general insurance and health £379 million (2004: £106 million); other businesses £114 million (2004: £46 million).
4. The external borrowings reported in the summary consolidated balance sheet of £10,700 million (2004: £10,090 million) comprise £5,481 million (2004: £5,096 million) securitised mortgage funding, £2,789 million (2004: £2,847 million) subordinated debt, £881 million (2004: £695 million) borrowings by operating businesses and £1,550 million (2004: £1,452 million) borrowings by holding companies of the Group not allocated to operating companies (shown as external debt).
5. Total intangible assets of £8,666 million (2004: £6,866 million) comprise goodwill of £2,506 million (2004: £1,401 million); additional value of inforce long-term business of £5,667 million (2004: £5,400 million) and other intangibles of £493 million (2004: £124 million). The associated deferred tax liability on the other intangibles of £141 million (2004: nil) is included within other net assets.

Geographical analysis of return on capital employed

For the six months to 30 June 2005

		Operating return (Note1)		**Opening Shareholders' funds including minority interests**	**Annualised Return on Capital**
	Note	**Before tax £m**	**After tax £m**	**£m**	**%**
Life assurance					
United Kingdom		327	229	5,865	8.0%
France		158	103	1,819	11.6%
Ireland		22	19	651	5.9%
Italy		47	29	550	10.8%
Netherlands (including Belgium and Luxembourg)		115	79	2,485	6.5%
Poland		46	36	557	13.3%
Spain		92	60	1,040	11.9%
Other Europe		14	10	213	9.6%
International		36	26	646	8.2%
		857	**591**	**13,826**	**8.7%**
General insurance and health					
United Kingdom		363	254	2,504	21.3%
France		17	11	416	5.4%
Ireland		83	73	498	31.5%
Netherlands		55	38	461	17.2%
Other Europe		19	12	162	15.4%
Canada		67	44	687	13.2%
Other		22	15	277	11.1%
		626	**447**	**5,005**	**18.7%**
Other business		63	45	838	11.1%
Corporate		(65)	(56)	(372)	32.4%
External debt		(45)	(38)	(1,452)	5.3%
Net internal debt	2	(33)	(23)	(987)	4.7%
Subordinated debt		(85)	(59)	(2,847)	4.2%
		1,318	**907**	**14,011**	**13.4%**

Notes
1. The operating return is based upon Group operating profit, which is stated before impairment of goodwill, amortisation of additional value of in-force business, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The return before tax of £(33) million comprises investment return of £68 million and unallocated interest of £(101) million.

Group capital structure (continued)

Geographical analysis of return on capital employed (continued)

Year ended 31 December 2004

	Note	Restated operating return (Note 1) Before tax £m	After tax £m	Opening shareholders' funds including minority interests £m	Return on Capital %
Life assurance					
United Kingdom		551	385	5,439	7.1%
France		286	185	1,559	11.9%
Ireland		40	35	613	5.7%
Italy		79	49	436	11.2%
Netherlands (including Belgium and Luxembourg)		277	201	2,461	8.2%
Poland		93	75	458	16.4%
Spain		180	117	916	12.8%
Other Europe		22	14	78	17.9%
International		83	60	598	10.0%
		1,611	**1,121**	**12,558**	**8.9%**
General insurance and health					
United Kingdom		662	484	2,711	17.9%
France		33	21	435	4.8%
Ireland		135	118	391	30.2%
Netherlands		90	67	311	21.5%
Other Europe		32	20	109	18.3%
Canada		133	86	618	13.9%
Other		41	29	246	11.8%
		1,126	**825**	**4,821**	**17.1%**
Other business		(21)	(14)	683	(2.0)%
Corporate		(160)	(81)	(198)	40.9%
External debt		(77)	(65)	(1,879)	3.5%
Net internal debt	2	(86)	(61)	(1,613)	3.8%
Subordinated debt		(169)	(118)	(2,838)	4.2%
		2,224	**1,607**	**11,534**	**13.9%**

Notes
1. The operating return is based upon Group operating profit, which is stated before impairment of goodwill, amortisation of additional value of in-force business, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The return before tax of £(86) million comprises investment return of £133 million and unallocated interest of £(219) million.

Strategic Investments

The Group has certain equity investments which are classified as strategic. The market value of these holdings and the percentage of the issued share capital of these companies held by the Group are as follows:

	Long Term business		General & Other		Market Value		Proportion held	
	30 June 2005 £m	31 December 2004 £m	30 June 2005 £m	31 December 2004 £m	30 June 2005 £m	31 December 2004 £m	30 June 2005 %	31 December 2004 %
Munich Ruckversicherungs Gesellschaft	114	205	157	179	271	384	2.0%	2.5%
Unicredito Italiano	277	283	248	255	525	538	2.9%	2.8%
Societe Generale	-	242	-	2	-	244	-	1.1%
	391	**730**	**405**	**436**	**796**	**1,166**		

Appendix B
First time adoption

First time adoption of International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards (IFRS) for the first time in preparing these financial statements for the six months ended 30 June 2005.

The date of transition to IFRS is 1 January 2004. During 2005, the Group has already published the following restated UK GAAP financial information onto an IFRS basis:

- Restated preliminary opening balance sheet as at 1 January 2004 under International Financial Reporting Standards, published in Appendix B to Aviva plc preliminary announcement 2004 on 9 March 2005 and also on pages 114 to 126 of Aviva plc Annual report and accounts for 2004, including auditors' opinion on page 127.

- Release to the market on 5 July 2005, "Impact of international financial reporting standards on the results for 31 December 2004", including the auditors' opinion on pages 33 and 34, containing restated 31 December 2004 financial information as follows:

  - summarised consolidated pro forma operating profit statement and notes to the analysis of adjustments as a result of the transition to IFRS;
  - summarised consolidated statement of recognised income and expense;
  - summarised consolidated statement of changes in equity;
  - summarised consolidated balance sheet and notes to the analysis of adjustments as a result of the transition to IFRS;
  - summarised consolidated income statement – EEV basis;
  - summarised consolidated balance sheet – EEV; and
  - the Group's IFRS accounting policies.

In addition, a further update was given on the opening summarised consolidated balance sheet as at 1 January 2004, to take into account changes in IFRS since the publication of the Aviva plc preliminary announcement 2004 on 9 March 2005

In order to show comparative balances, a reconciliation of equity reported under UK GAAP to equity reported under IFRS as at 30 June 2004 and a reconciliation of profit and loss reported under UK GAAP to profit and loss reported under IFRS for the six months ended 2004 are shown below.

Reconciliation of equity reported under UK GAAP to equity reported under IFRS:

	As at 30 June 2004 £m
Equity as reported under UK GAAP (MSSB)	**7,152**
Adjusted for:	
Investment valuation (note 1)	46
Insurance changes (note 2)	302
Employee benefits (note 3)	(806)
Goodwill and other intangibles (note 4)	100
Dividend recognition (note 5)	220
Deferred tax (note 6)	(348)
Borrowings and cash (note 7)	(26)
Other items (note 8)	76
Equity as reported under IFRS	6,716

Notes to the analysis of adjustments to equity as at 30 June 2004 as a result of the transition to IFRS

Note 1: Investment valuation

The adjustments in respect of investment valuation arise from the following:

	£m
Increase in valuation of debt securities	1,367
Change in valuation of certain mortgages	123
Other sundry adjustments	5
	1,495

a) Debt securities

Under UK GAAP, equity securities and unit trusts are carried at current value. Debt and other fixed income securities are also 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 IAS 39, 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 £1,367 million at 30 June 2004. This change in the valuation of debt securities is largely offset by corresponding movements in the unallocated divisible surplus and technical liabilities. The net impact on shareholders' funds at 30 June 2004 is £46 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 IAS 39, which has increased the value of investments by £123 million. The annuity liabilities which are backed by these assets have been correspondingly revalued, reflecting the use of current interest rates. Consequently, there is an increase in shareholders' funds at 30 June 2004 of £33 million.

Revaluation reserve

Under IFRS, certain investment gains are recorded as a separate component of shareholders' equity, whereas under UK GAAP they would be included in retained earnings.
Separate revaluation reserves are created for:

- Changes in the fair value of securities classified as available for sale;
- Changes in the value of owner-occupied property;
- Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures and from borrowings designated as hedges of such items; and
- Changes in the fair value of derivatives that are designated and qualify as cash flow hedges.

The amounts included in the above reserves are, where appropriate, net of deferred tax and impairment losses.

The above requirements have resulted in a transfer from retained earnings of £237 million into separate revaluation reserves at 30 June 2004.

Note 2: Insurance changes

The impact on shareholders' funds of insurance changes is as follows:

	£m
Derecognition of claims equalisation provision	375
Change in valuation of reinsurance treaties	(42)
Application of an active liability valuation basis in the Netherlands	20
Change in value of non-participating investment contracts and other sundry items	(51)
	302

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 30 June 2004 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 accounting policies. The remaining 17% 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.

The product classification change results in technical provisions being allocated between insurance and investment contracts and £58,932 million of liabilities classified as investment contracts.

b) Equalisation provision

An equalisation provision is recorded in the balance sheet 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 £375 million in shareholders' funds as a result of the removal of the equalisation provision.

c) Reinsurance treaties

Following a full review of all our reinsurance contracts, a small number of the Group's reinsurance treaties have been revalued under IFRS, leading to a reduction in the value of reinsurance assets of £42 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.

d) Application of an active liability valuation basis in the Netherlands

The conversion to IFRS has been a particular issue in the Dutch industry where traditionally both bond investments and associated insurance liabilities have been held at amortised cost. IAS 39 requires bonds to be held at fair value and hence to prevent an equity mis-match, the Group has chosen to move to a more active liability valuation basis for its insurance liabilities within the Netherlands. Gross liabilities increased by £23 million as a result of this change at 30 June 2004.
Having applied an active basis for valuing liabilities on traditional gross and individual savings business, the amount representing undistributed gains on investments backing these products, which were previously booked to the fund for future appropriations under UK GAAP, of £43 million has been released to equity.

e) Non-participating investment contracts and other sundry items

The liability for those contracts classified as non-participating investment contracts is valued in accordance with IAS 39. 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 and of other sundry items is £51 million.

Note 3: Employee benefits

Under the Group's UK GAAP pension policy, as set out in Statement of Standard Accounting Practice, *Accounting for Pensions Cost* (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 has not applied the "corridor approach" to valuing pension deficits.

This change in accounting has resulted in the removal of the Group's SSAP24 balances, a net debtor of £276 million, after allowing for deferred tax, at 30 June 2004 and the recognition of a deficit of £530 million, net of deferred tax, valued in accordance with IAS19. This gives an overall impact on shareholders' funds of £806 million at 30 June 2004.

The Group has assumed that substantially all of the pension deficit will fall to be borne by the shareholders. This is particularly relevant to the UK pension scheme deficit, which forms the majority of the deficit recognised by the Group. Costs, including pension costs, are charged to the UK Life companies and with-profits funds on the basis of a pre-determined Management Services Agreement (MSA). As reported at the time of the conversion to EEV, where similar assumptions have been made in connection with deficit funding, under the MSA, NU Life Services Ltd can renegotiate the terms relating to the recharging of the costs to the UK with profits funds in 2008, subject to regulatory approval. In evaluating the impact on IFRS, Aviva has not sought to pre-empt the outcome of this renegotiation. Any changes to the recharges in respect of the pension deficit will be credited to equity in the period agreement is obtained.

In some countries, the pension schemes have invested in the Group's Life funds. IAS 19 requires the liquidity of the scheme's assets to be considered and if these are non-transferable, the presentation of the total obligation to the scheme must include these amounts.

The Group has chosen to review its presentation of these investments. Non-transferable obligations to staff pension schemes included within technical provisions under UK GAAP are deducted from Insurance liabilities and included within Provisions under IFRS.

Note 4: Goodwill / Other intangibles

Under IAS 36, *Impairment of Assets*, goodwill is no longer amortised but is tested for impairment, at least annually. Any goodwill amortised prior to the date of transition (1 January 2004) or, for goodwill arising before 1 January 1998, eliminated against shareholders' funds has not been reinstated. Amortisation charged in 2004 under UK GAAP is not charged to profit under IFRS to the extent that it does not relate to an impairment and hence shareholders' funds upon conversion to IFRS increase. In addition, negative goodwill of £37 million at 30 June 2004 previously recognised under UK GAAP is included directly in retained earnings.

IFRS 3 *Business combinations* requires that intangible assets such as customers lists, which can be separately identified and valued, must be recognised separately in the balance sheet. The Group has applied IFRS 3 to acquisitions since 1 January 2004, which has resulted in £8 million of goodwill being reclassified as other intangibles upon conversion to IFRS.

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 IAS10, *Events after the Balance Sheet Date*, shareholders' dividends are accrued only when declared and appropriately approved. This has increased shareholders' funds by £220 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. IAS 12 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 30 June 2004 that reduce shareholders' funds are:

	£m
Reversal of discounting (the total discounting applied to UK GAAP deferred tax liabilities was £210 million, of which £166 million relates to non-life and shareholders' interests)	166
Deferred tax impact of the removal of the equalisation provision	119
Deferred tax impact of other changes to technical provisions, valuation of investments and other sundry adjustments	63
Net decrease to shareholders' funds	348

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 £3,774 million. The equity impact of £26 million relates to the use of the fair value option to mortgages of the UK equity release business, the loan notes which are securitised upon them and backing derivatives. This has increased borrowings by £97 million. Additionally, £6,906 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 £76 million.
The other significant reclassification and presentational changes which have no impact on shareholders' funds are:

- Assets held to cover linked liabilities of £42,921 million are no longer disclosed in a single line but have been reported in the various asset classifications. Of this amount assets of £3,675 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 £58,932 million at 30 June 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.
- Mutual funds have been consolidated as these vehicles meet the definition of a subsidiary. This has resulted in an increase in gross assets of £2,053 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.

Reconciliation of profit and loss reported under UK GAAP to profit and loss reported under IFRS:

	For the six months ended 30 June 2004 £m
Profit as reported under UK GAAP (MSSB)	263
Adjusted for:	
Investment and insurance liabilities	(14)
Employee benefits (note 3)	(18)
Goodwill (note 4)	51
Other items	(14)
Deferred tax	1
Profit/(loss) as reported under IFRS	**269**

Notes to the analysis of adjustments to the reconciliation of profit and loss reported under UK GAAP to profit and loss reported under IFRS for the six months ended 30 June 2004

Note 1: Investment valuation

The main investment valuation change upon conversion to IFRS is that assets, which are not classified as being held to maturity, are required to be held at fair value. Under UK GAAP certain of the Group's bonds were held at amortised cost. This change in valuation of debt securities resulted in a £1,367 million increase in the valuation of securities at 30 June 2004. Most of this change was offset by corresponding movements in the unallocated divisible surplus and technical liabilities. However, there was a residual uplift which resulted in a positive increase in the Group's shareholders' funds and the year on year movement in respect of those investments classified as "at fair value through profit or loss" is reported as increased profits in the income statement.

In addition changes to investment accounting have resulted in £1 million of investment gains being reclassified from short term fluctuations to the life operating profit.

Note 2: Insurance liabilities

Insurance changes consist of:

- The removal of the claims equalisation provision, improving profit before tax by £11 million but with no impact on operating profit;
- The revaluation of liabilities and deferred acquisition costs on those contracts classified as non-participating investment contracts reducing operating profit by £43 million;
- The revaluation of certain life reinsurance treaties, increasing operating profit by £6 million;
- Other sundry changes to our general insurance business reserves increasing operating profit in 2004 by £3 million.

Note 3: Employee benefits

The overall impact of adopting IAS 19 *Employee benefits* and IFRS 2 *Share based compensation* has been to increase costs by £18 million in 2004. The increase in costs partly reflects the fact that IAS 19 has used a more current actuarial valuation to measure the ongoing pension service cost. The charge under UK GAAP was based on the SSAP 24 valuation which for the main UK scheme, as disclosed in the 2004 Report and Accounts, was last updated for financial reporting purposes in April 2002.

Note 4: Goodwill

Goodwill is no longer amortised under IFRS but is subject to annual impairment review. The UK GAAP amortisation charge was £49 million for the six months ended 30 June 2004. No additional impairment arose as a result of the transition to IFRS.

A further £2 million credit arises to profit before tax, as goodwill previously charged directly to reserves was deducted from profit upon disposal of subsidiaries under UK GAAP. Under IFRS no such deduction is required. This change has no impact on operating profit or shareholders' funds.

Consolidated cash flow statement

The principal differences between the cash flow statement under UK GAAP and IFRS are the different definitions of cash and cash equivalents and the inclusion of the cash generated and consumed by the long-term businesses.

Shareholder services

Scrip dividend

The Aviva Scrip Dividend Scheme (the "Scheme") provides shareholders with the option of receiving new ordinary shares instead of cash dividends. Shareholders who have not already joined the Scheme but wish to do so should contact Lloyds TSB Registrars at the address on page 86 and request a mandate form. The mandate form will need to be received by Lloyds TSB Registrars no later than 20 October 2005 in order to be effective for the 2005 interim 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 86.

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 86.

E-Communications

Shareholders can receive communications electronically by logging onto www.aviva.com/shareholders and registering 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.

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 8.00am 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.

NatWest Stockbrokers Limited is operated by a joint venture between The Royal Bank of Scotland Group plc and The Toronto-Dominion Bank. Registered Number: 1959479 England. Registered Office: Waterhouse Square, 138-142 Holborn, London EC1N 2TH. Member of the London Stock Exchange and OFEX. Authorised and regulated by the Financial Services Authority.

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 and 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 receive more than one copy of any shareholder communication, 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 86.

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.
** All 0870 numbers are charged at national rates, and are only available if you are calling from the UK.
For your protection and ours, to check instructions and maintain high quality service standards, we may record and monitor calls made to or from Barclay's Stockbrokers. New Business Development hours are 8.00am - 6pm Monday - Friday, excluding Bank Holidays.

Group financial calendar for 2005

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	17 August
Record date	19 August
Scrip dividend price available	24 August
Last date for scrip dividend mandate forms to be received in order to be effective for 2005 interim dividend	20 October
Dividend payment date	17 November
Preference Shares	
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 the 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

Corporate social responsibility (CSR)

Aviva's CSR policy and programme continues to take firmer roots within the business and to generate support with staff, shareholders and customers. For Aviva, CSR is defined 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. 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. Aviva's CSR performance is also highly ranked by growing numbers of research agencies and investment houses. More details can be found on our website at www.aviva.com/csr

Aviva plc

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