News release

9 March 2005

PRELIMINARY RESULTS FOR THE 12 MONTHS ENDED 31 DECEMBER 2004 AND ACQUISITION OF RAC PLC

- Worldwide operating profit up 25% to £2,344 million from clear focus on managing business for value
- Life operating profit up 9% to £1,611 million reflecting steady return of customer confidence
- Accelerating long-term savings sales growth up 12% to £20,687 million with outperformance in many markets in Europe and investment sales up 44% to £1,629 million
- Continued excellent general insurance performance with profits up 47% to £1,326 million; worldwide combined operating ratio ahead of target at 96.7%
- Aviva to bring together Norwich Union Insurance and RAC to create a powerful new combination in insurance and motoring services and delivering substantial shareholder value potential to Aviva's shareholders (see separate announcement)
- Total dividend increased by 5%, strongly covered by post tax statutory profits
- Improved transparency and disclosure from early adoption of European Embedded Value

Richard Harvey, group chief executive, commented:

"Aviva is thriving. This is a strong set of results, delivered by managing our business for value for customers and shareholders. Our diversified business model brings the complementary qualities of long-term savings and general insurance. Our aim is profitable growth in all of our businesses.

"We have one of the strongest platforms for long-term savings growth across continental Europe and this now accounts for over 50% of our life and pensions new business. We've also gained good ground in the long-term growth markets of Asia. The outlook is brighter for long-term savings across our main markets as savers' confidence continues to return.

"Our general insurance business continues to deliver very strong and resilient earnings through scale benefits and innovation. Today we've also announced the acquisition of RAC plc which builds on our success in the UK general insurance market and creates a powerful new combination in insurance and motoring services while delivering substantial shareholder value potential to Aviva's shareholders.

"Our shareholders are seeing healthy dividend growth underpinned by strong statutory profits."

Highlights	FY 04	FY 03	Growth in constant currency
Operating profit before tax – EEV basis*	£2,344m	£1,906m	25%
Operating profit before tax – modified statutory basis**	£1,861m	£1,490m	27%
Life EEV operating return	£1,611m	£1,496m	9%
General insurance operating profit	£1,326m	£911m	47%
Present value of new business premiums (PVNBP)#	£20,687m	£18,809m	12%
Investment sales	£1,629m	£1,141m	44%
New business contribution	£706m	£646m	11%
Total dividend per share	25.36p	24.15p	5%
Total shareholders' funds***	£12,937m	£10,752m	20%
Return on capital employed	14.4%	13.1%	-
Net asset value per share	532p	484p	10%

All operating profit is from continuing operations.

* Including life European Embedded Value (EEV) operating return, before amortisation of goodwill and exceptional items.

** Before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.

*** Measured on an EEV basis, excluding minority interests.

\# From continuing operations, including share of associates' premiums and new single premium mortgage completion sales through Norwich Union Equity Release.

All growth rates quoted are at constant rates of exchange.

Segmental analysis of Group operating profit*

Continuing operations		2004 £m	2003 at 2004 exchange rates Restated** £m	Restated** 2003 £m
Life EEV operating return				
United Kingdom		551	597	597
France		286	224	228
Ireland		40	56	57
Italy		79	69	70
Netherlands (including Belgium and Luxembourg)		277	194	198
Poland		93	94	99
Spain		180	162	165
Other Europe		22	17	18
International		83	60	64
		1,611	**1,473**	**1,496**
Health				
United Kingdom		12	13	13
France		8	9	9
Netherlands		38	38	39
		58	**60**	**61**
Fund Management[1]				
United Kingdom		1	(11)	(11)
France		7	5	5
Other Europe		6	1	2
International		9	1	-
		23	**(4)**	**(4)**
General insurance				
United Kingdom		832	676	676
France		32	34	35
Ireland		153	89	91
Netherlands		71	34	35
Other Europe		39	32	32
Canada		152	12	12
Other		47	28	30
		1,326	**905**	**911**
Non-insurance operations[2]		(31)	6	8
Corporate costs	– global finance transformation programme	(85)	(60)	(60)
	– central costs and sharesave schemes	(93)	(100)	(100)
Unallocated interest charges	– external	(246)	(209)	(210)
	– intra-group	(219)	(196)	(196)
Group operating profit before tax*		**2,344**	**1,875**	**1,906**

* Group operating profit before tax, before amortisation of goodwill and exceptional items. 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 modified statutory operating profits for the year to 31 December 2004 were £1,861 million (2003: £1,490 million; £1,471 million restated at constant exchange rates).

GROUP CHIEF EXECUTIVE'S STATEMENT

Our powerful combination of life and general insurance businesses has delivered a 25% increase in group operating profit on the European Embedded Value (EEV) basis of £2,344 million and a return on capital employed of 14.4% for the year. This is a strong set of results, achieved by managing our business for value on behalf of both our customers and shareholders.

The excellent growth in life new business volumes has been matched by a growth in profits with new business contribution up 11% to £706 million. The internal rate of return (IRR) on life new business written was broadly maintained at 12.3% (2003: 12.4%). The combined operating ratio (COR) in our general insurance business was 96% in the second half of 2004, improving on the excellent performance we saw in the first six months and well ahead of our stated target of 100%.

The Board has proposed a final dividend of 16.00 pence net per share (2003: 15.15 pence) payable on 17 May 2005 to shareholders on the register on 18 March 2005. This brings the total dividend for 2004 to 25.36 pence net per share, a healthy increase of 5% on 2003. The dividend was covered 2.25 times by modified statutory earnings. Our dividend policy remains unchanged: to grow the dividend by approximately 5% per annum, whilst looking to retain cover in a range of 1.5 to 2 times operating earnings after tax on a modified statutory basis.

Long-term savings

During 2004 there was a gradual return of customer confidence and this, combined with the all-round strength of our life businesses, saw us increase long-term savings new business by 17%, to £17,224 million. Many of our businesses grew ahead of their local markets.

Worldwide life and pensions new business was up 12% to £20,687 million (PVNBP basis). New business contribution increased by 11% to £706 million. Total life operating profit was £1,611 million (2003: £1,496 million). In the UK, operating profit was £551 million (2003: £597 million), reflecting the impact of increased new business contribution notwithstanding increased lapse experience.

In the UK, Norwich Union Life saw a return to growth in 2004 with total sales up 12% to £7,877 million as the long-term savings market showed some recovery from the lower volumes seen in 2003. The IRR for the full year improved to 11.4% from 11.0% in the first half of 2004, due to product mix and pricing actions, notwithstanding lapse assumption changes. The IRR has decreased from 12.1% in 2003 as a result of reduced with-profit business. We remain committed to improving the IRR by 1% each year, targeting an IRR of 15% in the UK life business.

During 2005 the new depolarised distribution landscape will start to emerge in the UK. Norwich Union is well-placed to benefit from these changes and has already announced arrangements with a number of major distribution partners including Bankhall, Millfield, the Portman Building Society, Sesame, and more recently, Barclays and Fidelity. We continue to hold discussions with a number of other distribution groups and these represent further opportunity for Norwich Union to strengthen its distribution capability.

In Continental Europe we have one of strongest platforms for long-term savings and sales here accelerated strongly in 2004, up 23% to £8,339 million. For the first time, sales from Continental Europe accounted for more than 50% of the Group's life and pensions business. We delivered particularly strong growth in both France and the Netherlands while our operations in Italy and Spain outperformed their local markets.

In France, sales grew by 29% over 2003 with record growth from our relationship with the AFER savings association. Our new bancassurance agreement with Crédit du Nord came on stream in the final quarter of the year. Overall sales saw the benefit of steadily improving equity markets with a return to unit-linked investments and Aviva France's unit-linked sales doubled to almost £700 million in the year.

Delta Lloyd in the Netherlands saw excellent growth across its full product range. Sales of group pension products, a specific area of focus for Delta Lloyd, increased by 30% and life product sales were up 37% with strong growth in both the Netherlands and Belgium. Our joint venture with ABN AMRO goes from strength to strength with sales up strongly in 2004 following on from the excellent start in 2003.

During 2004 we also gained good ground in Asia, building on the firm foundations we have set down in both China and India to ensure Aviva is positioned to participate in these high growth markets. These investments complement our established businesses in Singapore and Hong Kong where we are in partnership with DBS. In China we now have three city licences as in September we began business in Beijing and Chengdu, the provincial capital in Sichuan, adding to our operation in Guangzhou which was launched in January 2003.

General Insurance

In 2004 we delivered another tremendous general insurance result with operating profits up 47% to £1,326 million which corresponds to a return on capital employed of 20.1%. The worldwide COR was 96.7% for the year, with results from all markets showing an improvement on 2003.

In a relatively flat rating environment in UK personal lines we have maintained profitability. This has been assisted by claims cost savings in our supply chain that amounted to an increase of £55 million across our UK portfolio. We continued to push ahead on expense efficiency and the expense ratio in the UK reduced to 10.0% (2003: 10.5%). Following the closure of Hill House Hammond, our UK high street broker, we are on target to convert around 500,000 policies onto our low-cost NU Direct platform.

Profits in both Ireland and Canada showed significant growth year on year due to lower claims frequency in both markets. In Ireland our COR was 87% although current premium rates are adjusting to reflect lower claims costs. In Canada underlying performance was strong as 2003 profits had been depressed by the impact of prior year claims reserving of £70 million in our Canadian subsidiary, Pilot.

In the Netherlands profitability increased due to an improved COR from the ABN AMRO business of 90% (2003: 93%) and cost savings from the implementation of a shared service centre.

The general outlook is for stable premium rates across both personal and commercial lines, although we anticipate decreases in Ireland. We confirm our COR target of 100% for 2005 and 2006 based on our continued focus on underwriting discipline, claims costs and expense efficiency.

Cost Savings

Reducing costs and improving our operational efficiency continued to be one of our key objectives for 2004. We have successfully achieved our targets announced in 2003, delivering earned savings of £225 million in 2004 and accordingly, we expect to achieve annualised savings of £250 million in 2005. Activity has focused mainly on the larger UK businesses.

In addition, in 2004 Aviva France absorbed the Crédit du Nord business into its existing cost base and Delta Lloyd held costs stable against a growing life and general insurance business. Improving levels of efficiency remains firmly on our agenda and our UK life business has previously announced further annualised cost savings of £130 million from 2007 after incurring around £150 million of one-off costs. Having successfully achieved cost savings, our strategy is to grow the business while maintaining our cost base.

Balance Sheet

In the final quarter of 2004 we strengthened our balance sheet with the issue of a direct capital instrument, raising £990 million. The proceeds will be used to pay down senior debt and over £300 million had been paid down by the end of the year. This restructuring of the balance sheet has helped improve the Group's already strong Insurance Groups Directive (IGD) surplus capital position to £3.6 billion (2003: £2.4 billion) at the end of 2004.

Net asset value per share rose to 532 pence (2003: 484 pence) supported by strong operating profits, higher than assumed investment returns and foreign exchange profits. Total assets under management grew to £273 billion (2003: £240 billion) driven by the benefit of new business flows in the period and the improvement in worldwide investment markets.

Outlook

In 2004 we made good progress in delivering value to our customers through cost efficiency and improved customer service. All of our businesses have been tasked with improving in these key customer areas.

With our early adoption of EEV and IFRS disclosures, we are well prepared for the introduction of new financial reporting and regulatory rules.

We have come through a period of difficult markets in recent years in excellent shape. Aviva has a strong platform in long-term savings for organic growth and we start 2005 with greater expectations, than a year ago, of steady market growth. In general insurance, Aviva has clear competitive scale advantages, generating high returns for shareholders, on which we will look to leverage. We will continue to augment our growth ambitions from time to time with value-driven acquisitions.

Richard Harvey
Group chief executive

Enquiries:

Richard Harvey	Group chief executive	Telephone +44 (0)20 7662 2286
Andrew Moss	Group finance director	Telephone +44 (0)20 7662 2679
Analysts:		
Steve Riley	Investor relations director	Telephone +44 (0)20 7662 8115
Media:		
Hayley Stimpson	Director of external affairs	Telephone +44 (0)20 7662 7544
Sue Winston	Head of group media relations	Telephone +44 (0)20 7662 8221
Rob Bailhache	Financial Dynamics	Telephone +44 (0)20 7269 7200
Transaction press office		Telephone +44 (0)20 7662 2866

NEWSWIRES: There will be a conference call today for wire services at 8:15am (GMT) on +44 (0)20 7365 1828 Quote: Aviva, Richard Harvey.

PRESS: There will be a press conference today at 12.30pm (GMT) at Aviva, St Helen's, 1 Undershaft, London, EC3P 3DQ. Journalists wishing to attend should ring Anna Marsh, Financial Dynamics in advance on +44 (0)20 7269 7229.

ANALYSTS: A presentation to investors and analysts will take place at 9:30am (GMT) 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 for two weeks on +44 (0) 20 7984 7578. The pass code is 7125647# for the whole presentation including Question & Answer session or 3831407# for Question & Answer session only.

A results only Q&A teleconference will be hosted by Nic Nicandrou, Group Financial Control Director at 1.45pm (GMT) for additional detailed questions. The dial in number will be +44 (0)20 7365 1828. A replay facility will be available up to 13 March 2005 and can be accessed by dialing +44(0)20 7784 1024 and entering pin number 8618446#.

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

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 fifth largest insurance group based on gross worldwide premiums at 31 December 2003.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide premium income (before reinsurance) and retail investment sales from continuing operations of £33 billion and assets under management of £273 billion.
- 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 preliminary 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.

This document should be read in conjunction with, and is qualified in its entirety by reference to, the full terms of the announcement by Aviva dated 9 March 2005 relating to the recommended offer for RAC (the "Offer").

This document does not constitute an offer to sell or invitation to purchase any securities in any jurisdiction.

The release, publication or distribution of this document in certain jurisdictions may be restricted by law. The availability of the Offer, if made, to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are located. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and observe, any applicable requirements.

The Offer is not being made, directly or indirectly, in, into or from, or by the use of mails or any means of instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, nor will it be made in, into or from the US, Australia, Canada or Japan. Accordingly, copies of this document and formal documentation relating to the Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in, into or from the US, Australia, Canada or Japan and the Offer will not be capable of acceptance by any such use, instrumentality or facility within the US, Australia, Canada or Japan and persons receiving this document or any formal documentation (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in, into or from the US, Australia, Canada or Japan. Doing so may render invalid any purported acceptance of the Offer. All RAC Shareholders or other persons (including nominees, trustees or custodians) who would or otherwise intend to or may have a contractual or legal obligation to forward this document or any formal documentation relating to the Offer to any jurisdiction outside the United Kingdom should refrain from doing so and seek appropriate professional advice before taking any such actions.

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Expected revenue synergies and cost savings statements in this document have been calculated on the basis of the existing costs and operating structures of the companies and by reference to current prices and the current regulatory environment. The statements of estimated revenue synergies and cost savings relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. As a result of this, the revenue synergies and cost savings referred to may not be achieved, or those achieved could be materially different from those estimated.

A statement in this document that the Offer will be earnings accretive from 2006 does not constitute a profit forecast and should not be interpreted to mean that earnings for 2006 or any subsequent financial period would necessarily be greater than those for any preceding financial period.

Financial calendar 2005

Final 2004 dividend ex-dividend date (ordinary shares)	16 March
Scrip price setting period for final 2004 dividend	16-22 March
Final 2004 dividend record date (ordinary shares)	18 March
Announcement of scrip dividend price for final dividend	23 March
Last date for receipt of scrip elections for final dividend	25 April (close of business)
Annual General Meeting	26 April
Announcement of long-term savings new business for 3 months to 31 March 2005	28 April
Final 2004 dividend payment date (ordinary shares)	17 May
Announcement of unaudited six months' interim results	11 August
Interim 2005 dividend ex-dividend date (ordinary shares)	17 August
Scrip price setting period for interim 2005 dividend	17 – 23 August
Interim 2005 dividend record date (ordinary shares)	19 August
Announcement of scrip dividend price for interim dividend	24 August
Last date for receipt of scrip elections for interim dividend	20 October (close of business)
Announcement of long-term savings new business for 9 months to 30 September 2005	27 October
Interim dividend payment date (ordinary shares)	17 November

Contents

	Page
Operating and financial review	1
European Embedded Value (EEV) basis	
Summarised consolidated profit and loss account – EEV basis	20
Earnings per share – EEV basis	21
Consolidated statement of total recognised gains and losses – EEV basis	21
Reconciliation of movements in consolidated shareholders' funds – EEV basis	21
Summarised consolidated balance sheet – EEV basis	22
Segmentation of summarised consolidated balance sheet – EEV basis	23
Basis of preparation – EEV basis	24
EEV methodology	25
Components of life EEV return	27
New business contribution	28
EEV basis – new business contribution before and after the effect of required capital, tax and minority interest	29
Post tax internal rate of return on life and pensions new business	29
Experience variances	30
Operating assumption changes	30
Geographical analysis of life EEV operating return	30
Analysis of movement in life and related businesses embedded value	31
Segmental analysis of life and related businesses embedded value	32
Time value of options and guarantees	33
Minority interest in life and related businesses EEV results	33
Principal economic assumptions – deterministic calculations	34
Principal economic assumptions – stochastic calculation	35
Other assumptions	36
Sensitivity analysis – economic assumptions	37
Sensitivity analysis – non-economic assumptions	39
Modified statutory basis	
Summarised consolidated profit and loss account – modified statutory basis	40
Earnings per share – modified statutory basis	41
Consolidated statement of total recognised gains and losses	41
Reconciliation of movements in consolidated shareholders' funds	41
Summarised consolidated balance sheet	42
Consolidated cash flow statement	43
Basis of preparation – modified statutory solvency basis	44
Exchange rates	44
Acquisitions	44
Exceptional costs for termination of operations	44
Disposals	45
Geographical analysis of life and pensions and investment sales – new business and total income	46
Geographical analysis of modified statutory life operating profit	47
Geographical analysis of health premiums after reinsurance and operating result	47
Geographical analysis of general insurance premiums after reinsurance and operating result	48
Fund management operating result	50
Non-insurance operations	50
Corporate costs	50
Tax	51
Dividends	52
Earnings per share	52
Statistical supplement	
Life EEV operating return before tax	54
Supplementary analyses	
General insurance – geographical ratio analysis	56
General insurance – class of business analyses	59
Appendix A: Group capital structure	62
Appendix B: Restated preliminary opening balance sheet as at 1 January 2004 under International Financial Reporting Standards	70
Shareholder information	86

OPERATING AND FINANCIAL REVIEW

Group operating profit before tax

Following the launch of the European Embedded Value (EEV) principles in May 2004, the Group has adopted these principles for its 31 December 2004 supplementary financial statements. The EEV principles have therefore replaced the Achieved Profits basis previously reported by the Group. Accordingly, the 31 December 2003 comparative figures have been restated.

During 2004, the Group continued to focus its core businesses on creating shareholder value. Throughout the year appropriate pricing actions have been taken, the efficiency of claims management processes have improved and cost savings have been made. As a result the Group's operating profit before tax from continuing operations, including life EEV operating return, increased 25% at constant exchange rates to £2,344 million (2003: £1,906 million). This includes strong performances from both the life and general insurance operations and delivers an increased return on capital of 14.4% (2003: 13.1%) exceeding our target of 10% after inflation. On a modified statutory basis, the operating profit from continuing operations was up 27% to £1,861 million (2003: £1,490 million).

	EEV basis		MSSB basis	
		Restated*		
	2004 £m	2003 £m	2004 £m	2003 £m
Life EEV operating return / Modified statutory life profit	1,611	1,496	1,185	1,122
Health	58	61	58	61
Fund management	23	(4)	43	10
General insurance	1,326	911	1,326	911
Non-insurance operations	(31)	8	(108)	(48)
Corporate costs	(178)	(160)	(178)	(160)
Unallocated interest charges	(465)	(406)	(465)	(406)
Operating profit before tax	**2,344**	**1,906**	**1,861**	**1,490**

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

Long-term savings

In terms of long-term savings new business growth, the Group had a strong finish to the year with worldwide total new business sales up 17% to £17.2 billion (2003: £14.9 billion).

Total new business sales

	2004			Local currency growth		
	Life and pensions £m	Retail investments £m	Total £m	Life and pensions %	Retail investments %	Total %
Long-term savings sales						
United Kingdom	7,018	859	7,877	10%	26%	12%
Europe (excluding UK)	7,812	527	8,339	22%	49%	23%
International	765	243	1,008	(4%)	144%	13%
	15,595	**1,629**	**17,224**	**15%**	**44%**	**17%**
Navigator	661	-	661	5%	-	5%

In 2004 we saw a gradual return of customer confidence in many of our markets and we captured growth through our trusted brands, strong distribution network and wide product range. Worldwide life and pension sales were up 15% to £15,595 million (2003: £13,793 million).

In the UK, Norwich Union continues to focus on profitable growth, and retained its market-leading position while growing both value and market share. Total sales, including investment sales, increased by 12% to £7,877 million (2003: £7,051 million), reflecting a strong performance given pricing actions taken throughout the year in pensions, annuities and protection business.

Our Continental European businesses now account for over half of life and pensions new business sales and total life and pension sales accelerated, up 22% to £7,812 million (2003: £6,569 million). Our businesses in France, the Netherlands, Italy and Spain outperformed local market growth and our bancassurance sales in these businesses made strong contributions to local performance. Total bancassurance sales were up 17% to £4,022 million (2003: £3,507 million) and include sales from our new bancassurance arrangement in France with Crédit du Nord. Total retail investment sales were up 44% to £1,629 million (2003: £1,141 million) reflecting improvement in investor confidence towards equity-backed and property-backed products.

In the UK we expect modest market growth in 2005, with a stronger pick-up in 2006 and 2007. We remain very positive about the growth prospects in our continental European markets, particularly through our bancassurance network, where customer penetration rates for insurance products offer significant opportunities. We continue to make further progress in developing our businesses and distribution capability in our Asian life businesses, particularly in India and China to complement our businesses in Singapore and Hong Kong. The region provides excellent longer-term growth potential.

Life EEV operating return

		2004 £m	Restated* 2003 £m
New business contribution (after the effect of required capital)		516	474
Profit from existing business	– expected return	819	761
	– experience variances	(15)	(31)
	– operating assumption changes	(7)	19
Expected return on shareholders' net worth		298	273
Life EEV operating return before tax		**1,611**	**1,496**

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

Life EEV operating return before tax was higher at £1,611 million (2003: £1,496 million) driven by higher profits from both new and in-force business. Higher sales volumes and product mix contributed an additional £42 million of new business contribution relative to 2003. The combined expected returns on existing business and shareholders' net worth increased by £83 million due to higher start of year embedded values. The overall adverse impact of experience variances and operating assumption changes was marginally higher compared to the prior period, although there were a number of significant positive and negative variances in our various life businesses.

Under EEV, the calculation of new business margin is now based on new business sales measured as the present value of new business premiums (PVNBP), rather than the current UK industry standard Annual Premium Equivalent (APE) measure of annual premiums plus 10% of single premiums. This change to the basis of calculating margins produces a more meaningful ratio, since profit and income are now calculated using consistent economic and operating assumptions.

The table below sets out new business margin information measured on both a PVNBP and APE basis. To facilitate market comparisons new business margins have also been calculated on the traditional basis using sales expressed on an APE basis.

	Present value of new business premiums		New business contribution[1]		New business margin[2] (using PVNBP)		New business margin[3] (using APE)	
	2004 £m	2003 £m	2004 £m	Restated* 2003 £m	2004 %	2003 %	2004 %	2003 %
United Kingdom	**9,172**	**8,516**	**269**	**250**	**2.9%**	**2.9%**	**23.1%**	**22.4%**
France	2,782	2,224	95	72	3.4%	3.2%	30.9%	29.9%
Ireland	561	529	19	28	3.4%	5.3%	22.0%	34.7%
Italy	1,799	1,752	48	45	2.7%	2.6%	24.3%	23.2%
Netherlands (including Belgium and Luxembourg)	2,168	1,821	80	69	3.7%	3.8%	30.6%	30.8%
Poland	241	226	11	5	4.6%	2.2%	29.7%	14.2%
Spain	2,110	1,964	143	141	6.8%	7.2%	57.8%	57.2%
Other Europe	804	587	5	(1)	0.6%	(0.2%)	4.0%	(1.0%)
Continental Europe	**10,465**	**9,103**	**401**	**359**	**3.9%**	**3.9%**	**31.8%**	**32.0%**
International	1,050	1,190	36	37	3.4%	3.1%	21.1%	19.8%
Total life and pensions business	**20,687**	**18,809**	**706**	**646**	**3.4%**	**3.4%**	**27.2%**	**26.6%**

* Restated for the effect of implementing European Embedded Value principles.
1 Before effect of required capital which amounted to £190 million (2003: £172 million).
2 EEV basis new business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.
3 New business margin represents the ratio of new business contribution on an EEV basis to annual premium equivalent, expressed as a percentage.

Our world-wide new business contribution increased by 11% to £706 million (2003: £646 million) driven by strong growth in the UK, France and the Netherlands. This represents a new business margin using PVNBP of 3.4% (2003: 3.4%) while margins on an APE basis were 27.2% (2003: 26.6%) reflecting the benefits of pricing, cost control measures and business mix. The internal rate of return (IRR) of our life and pensions new business was 12.3% (2003: 12.4%).

PVNBP represents the total single premium sales received in the year and the discounted value of premiums expected to be received over the term of the new regular premium contracts, and is expressed at the point of sale. Consequently, the

PVNBP calculation is sensitive to changes in the mix of single and annual premium business and changes in product mix, as different products have different terms. PVNBP is also sensitive to interest rate movements.

UK

Norwich Union continues to leverage successfully its strong brand, wide product offering and multi-distribution network to achieve profitable growth, with total sales on a PVNBP basis up 8% to £9,172 million (2003: £8,516 million). We are well placed for the changes taking place in the market as a result of depolarisation, having already announced distribution agreements with Bankhall, Millfield, Portman Building Society, Sesame in 2004 and, more recently, with Barclays and Fidelity. We start 2005 with a greater degree of confidence in the market, with modest market growth expected in 2005 and a stronger pick up beyond then.

New business contribution increased by 8% to £269 million (2003: £250 million) with a new business margin on a PVNBP basis of 2.9% (2003: 2.9%). Pricing and cost actions have resulted in a change in business mix towards higher margin products and this, together with the securitisation of our protection business has partially offset the impact on the margin of lapse assumption changes. The IRR for the full year improved to 11.4% (2003: 12.1%) from 11.0% in the first half as the second half of the year benefited from improved product mix and the pricing actions we have taken during the year.

Life EEV operating return was lower at £551 million (2003: £597 million). The decrease reflects adverse experience variances and operating assumption changes which in aggregate amounted to a loss of £139 million (2003: loss of £40 million) which offset the higher contribution to profits from new business and the higher expected returns from existing business and shareholders' net worth of £475 million (2003: £425 million). Adverse exceptional expenses of £153 million (2003: £63 million adverse) includes exceptional project costs associated with required regulatory change and other one-off strategic projects. As previously indicated, the £65 million of costs for the restructure of our UK life business are also included. The benefits of the cost saving initiatives undertaken in prior years are coming through, with a positive expense experience variance of £31 million (2003: loss of £8 million). This allowed Norwich Union to reduce maintenance expense loadings, increasing profits by £77 million (2003: £7 million).

Persistency experience on bond, protection, pension and endowment products was greater than our assumptions, generating a loss of £50 million (2003: loss of £29 million). While action is being taken to improve our current persistency experience, Norwich Union has strengthened the persistency assumptions with a consequential adverse impact on profits of £110 million (2003: loss of £46 million). The change reflects, both the actual experience and higher assumed levels of unitised with-profit policy surrenders occurring at set policy anniversary dates where market value adjustments (MVAs) do not apply. Norwich Union has again reported mortality profits of £51 million (2003: £44 million) and better than expected default experience on corporate bond and commercial mortgages of £29 million (2003: £39 million).

Europe (excluding UK)

Our Continental European operations delivered accelerated new business life and pensions growth of 18% up to £10,465 million (2003: £9,103 million) on a PVNBP basis, with particularly strong performances from France, the Netherlands and our bancassurance partnerships in Italy and Spain. New business contribution was £401 million (2003: £359 million) with a new business margin on a PVNBP basis of 3.9% (2003: 3.9%) and new business margin on an APE basis of 31.8% (2003: 32.0%).

France: Aviva France outperformed the market in 2004 with 28% growth in new business sales to £2,782 million (2003: £2,224 million) on a PVNBP basis. Single premium sales through our partnership with AFER increased by 33% to £1,594 million (2003: £1,225 million), and sales on a PVNBP basis of unit-linked funds across all distribution channels nearly doubled to £818 million. New business contribution increased to £95 million (2003: £72 million) representing a new business margin on a PVNBP basis of 3.4% (2003: 3.2%), reflecting strong sales of unit-linked products. Life EEV operating return was £286 million (2003: £228 million) reflecting the improved contribution from new business and higher experience and operating assumption change profits of £57 million (2003: £29 million). The positive experience variances included £21 million of mortality profits on protection business. Recurring levels of tax experience profits of £10 million (2003: £51 million) have led us to review the tax assumptions improving returns by £39 million.

Ireland: Hibernian continues to be the third largest Irish life and pensions provider, with an 8% increase in new business sales on a PVNBP basis to £561 million (2003: £529 million). This performance benefits from both strong single premium pension sales throughout the year and increased sales of savings products in the fourth quarter. New business contribution was £19 million (2003: £28 million) giving a full year new business margin on a PVNBP basis of 3.4% (2003: 5.3%). The decrease in margin reflects lapse assumption changes on unit-linked pensions business and the competitive market for protection products. Life EEV operating return was £40 million (2003: £57 million) which includes an adverse impact of £16 million due to lapse assumption changes on unit-linked pensions business.

Italy: Total new business sales from our Italian business were 5% higher at £1,799 million (2003: £1,752 million) on a PVNBP basis. New business contribution was £48 million (2003: £45 million) with an improved new business margin on a PVNBP basis of 2.7% (2003: 2.6%) reflecting increased sales of structured bond products. Life EEV operating return was £79 million (2003: £70 million).

Netherlands (including Belgium and Luxembourg): In 2004, our top five life and pensions business, Delta Lloyd, reported a 22% increase in new business sales to £2,168 million (2003: £1,821 million) on a PVNBP basis. This includes strong sales across all our major product lines and sales from our bancassurance agreement with ABN AMRO of £493 million (2003: £345 million) on a PVNBP basis. New business contribution was £80 million (2003: £69 million) with a full year new business margin on a PVNBP basis of 3.7% (2003: 3.8%). New business margin on an APE basis was broadly flat at 30.6% (2003: 30.8%), reflecting continued favourable business mix and increased business through ABN AMRO in 2004. Life EEV operating return was £277 million (2003: £198 million) largely reflecting an improvement in experience and operating assumption changes to a profit of £33 million (2003: loss of £32 million). Exceptional project-related adverse expense experience amounting to £12 million (2003: loss of £35 million) has caused us to re-evaluate our approach to allowing for these costs. We have now incorporated an appropriate loading within annual maintenance costs, the impact of which was to reduce our reported profits in 2004 by £72 million. The impact of this was partially offset by mortality experience profits of £17 million. In addition, refinements made to the modelling of tax assumptions and positive asset mix changes have delivered £79 million of profits (2003: £27 million).

Poland: CU Polska continues to be one of the market leaders and reported total new business sales of £241 million (2003: £226 million) on a PVNBP basis. New business contribution was £11 million (2003: £5 million) with an improvement in margin to 4.6% (2003: 2.2%) reflecting pricing and cost actions. Life EEV operating return was £93 million (2003: £99 million).

Spain: Our bancassurance businesses delivered strong results in 2004 and Aviva Spain continues to be a leading bancassurance business in the Spanish life market. Total sales on a PVNBP basis increased by 10% to £2,110 million (2003: £1,964 million). New business contribution was £143 million (2003: £141 million) with a full year new business margin on a PVNBP basis of 6.8% (2003: 7.2%). The fall in margin reflects the lower margin bulk pension transfer business in Bia Galicia in 2004. Excluding one-off business of £290 million on a PVNBP basis (2003: £210 million) the underlying margin was 7.6% (2003: 6.7%). Life EEV operating return was £180 million (2003: £165 million), reflecting improved expected returns and experience on in-force business.

International

Asia offers significant future growth potential and we continue to make good progress in our developing businesses in Singapore, Hong Kong, India and China. Sales through our partnerships in India and China continued to progress well with total sales on a PVNBP basis of £56 million (2003: £27 million) and £66 million (2003: £38 million) respectively. Our share of these sales amounted to £15 million (2003: £7 million) in India and £33 million (2003: £19 million) in China, representing our 26% and 50% share of the business respectively. Our joint venture life business with Dabur Group in India is now the eighth largest amongst private providers. Distribution is through a number of bancassurance partnerships including ABN AMRO, Canara Bank and the 3,200 strong direct sales force. In China, we now operate in Guangzhou, Beijing and Chengdu. Aviva COFCO began writing group life insurance policies in January 2005, making it one of the first foreign or Sino-foreign life assurers operating in China to write this type of business.

Total PVNBP from our International businesses amounted to £1,050 million (2003: £1,190 million), affected by lower sales of fixed annuity products in the United States. New business contribution was £36 million (2003: £37 million) with a full year new business margin on a PVNBP basis of 3.4% (2003: 3.1%), benefiting from higher margin sales in Asia. Life EEV operating return from our International businesses was £83 million (2003: £64 million) reflecting increases in new business contribution from our Asian operations and improved returns on existing business, primarily in Australia, offset by decreased contribution due to lower sales in the US.

Bancassurance margins - *Before cost of capital, tax and minority interests*

Bancassurance new business margins before cost of capital, tax and minority interests on a PVNBP basis were 4.9% (2003: 5.1%) and on an APE basis were 41.2% (2003: 41.3%).

	Present value of new business premiums		**New business contribution[1]**		**New business margin[2] (using PVNBP)**		**New business margin[3] (using APE)**	
				Restated*				
	2004 £m	**2003 £m**	**2004 £m**	**2003 £m**	**2004** *%*	**2003** *%*	**2004** *%*	**2003** *%*
United Kingdom	461	533	12	13	2.6%	2.4%	21.1%	19.4%
France	127	-	4	-	3.1%	-	23.3%	-
Italy	1,666	1,512	46	43	2.8%	2.8%	25.1%	25.1%
Netherlands	493	387	21	16	4.3%	4.1%	32.2%	32.2%
Spain	1,956	1,848	142	143	7.3%	7.7%	63.5%	62.5%
Asia	264	160	17	9	6.4%	5.6%	42.0%	35.7%
Total bancassurance channels	**4,967**	**4,440**	**242**	**224**	**4.9%**	**5.0%**	**41.2%**	**41.3%**

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

1 Before effect of required capital which amounted to £43 million (2003: £39 million).

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

3 New business margin represents the ratio of new business contribution on an EEV basis to annual premium equivalent, expressed as a percentage.

In the UK, new business margins from life and pensions sales through our partnership with the Royal Bank of Scotland Group (RBSG) increased to 2.6% (2003: 2.4%) on a PVNBP basis reflecting improved product mix, despite lower than expected new business sales volumes in 2004. Norwich Union continues to work with RBSG to deliver improved future sales growth and profitability.

New business bancassurance margins from our new joint venture with Crédit du Nord generated margins of 3.1% on a PVNBP basis. In 2005, as the arrangement beds down, we expect the proportion of unit-linked business, and hence margins, to increase.

In the Netherlands, ABN AMRO new business margins increased to 4.3% (2003: 4.1%) and they continue to be higher than the total business in the Netherlands due to more favourable product mix. In Spain, new business bancassurance margins were 7.3% (2003: 7.7%) on a PVNBP basis impacted by the lower margin one-off bulk pension transfer in the year. Excluding one-off business the underlying Spanish bancassurance margin is 8.3% (2003: 7.3%). The PVNBP margin reflects business mix, influenced by marketing campaigns and product launches during the year.

New business bancassurance margins from our partnership with DBS in Singapore and Hong Kong were 6.4% (2003: 5.6%) on a PVNBP basis reflecting continued profitable growth.

New business margin – after minority interest, tax and cost of capital
New business contribution after the cost of capital, tax and the deduction of the minority interest grew by 11% to £297 million (2003: £272 million), with a margin on a PVNBP basis of 1.6% (2003: 1.6%) and an increased margin on an APE basis of 12.9% (2003: 12.6%). This increasing trend is driven by higher margins in both our bancassurance and non-bancassurance businesses due to pricing measures, and reflects the shift towards unit-linked business.

	Present value of new business premiums		New business contribution[1]		New business margin[2] (using PVNBP)		New business margin[3] (using APE)	
				Restated*				
	2004 £m	2003 £m	2004 £m	2003 £m	2004 %	2003 %	2004 %	2003 %
Bancassurance channels	2,728	2,499	74	66	2.7%	2.6%	22.5%	21.2%
Other distribution channels	15,379	14,148	223	206	1.5%	1.5%	11.3%	11.2%
Total life and pensions business	**18,107**	**16,647**	**297**	**272**	**1.6%**	**1.6%**	**12.9%**	**12.6%**

* Restated for the effect of implementing European Embedded Value principles.
1 After the effect required capital, tax and minority interest.
2 EEV basis new business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.
3 New business margin represents the ratio of new business contribution on an EEV basis to annual premium equivalent, expressed as a percentage.

Life operating profit on a modified statutory basis
On a modified statutory basis, our life operating profit amounted to £1,185 million (2003: £1,122 million). As a result of falling annual and final bonus rates, our UK with-profit result has decreased to £107 million (2003: £145 million). The UK non-profit result of £478 million (2003: £433 million) reflects a higher surplus on existing business.

In Continental Europe, life modified statutory profit increased to £566 million (2003: £506 million) with strong results across most of our businesses, particularly in the Netherlands, Italy and Spain. Operating profit in the Netherlands increased to £166 million (2003: £107 million) as increased investment return and focus on controlling costs delivered profitable growth. Operating profit in Spain increased to £61 million (2003: £50 million) largely driven by the impact of higher volumes of risk business, which delivers statutory earnings in the first year, and higher investment returns. Operating profit in Italy increased to £43 million (2003: £30 million) largely driven by increased sales of structured bonds and higher investment returns. In Poland, operating profit decreased to £84 million (2003: £103 million) as 2003 included a one-off benefit of £21 million following regulatory changes in the level of required reserves on pensions business.

Health
Premium income after reinsurance from our health business was £994 million (2003: £1,066 million), with total operating profit of £58 million (2003: £61 million). Our business in the Netherlands continued to be the main contributor to the results with operating profit of £38 million (2003: £39 million) where we continue to focus on reviewing the profitability of business on renewal which has led to the loss of volume during the year, with little impact on operating profits. The total combined operating ratio for the health business was 100% (2003: 101%).

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

Our UK fund management business comprises Morley Fund Management retail and institutional business, our retail investment business operating as Norwich Union, and our collective investment business with RBSG. These businesses reported a profit of £10 million (2003: loss of £6 million).

Morley's UK businesses reported a profit of £12 million (2003: £3 million) due to an increase in fee income, reflecting the improvement in investment markets and the benefit of performance fees, and controlled operating costs. Within the Group results are further profits of £12 million (2003: £6 million) relating to other Morley businesses including the pooled pensions business and the overseas operations. This brings the contribution that Morley makes to the total group result on a MSSB basis to £24 million (2003: £9 million).

Operating result through Norwich Union retail investment businesses improved to £5 million (2003: loss of £3 million) benefiting from lower costs. The loss of £7 million (2003: loss of £6 million) reported by our new collective investment vehicle with RBSG is due to new business strain from sales of regular premium investment business.

Aviva Gestion d'Actifs, maintained its reputation for strong investment performance, with over 65% of our funds in the top quartile for returns over three years. Operating profit was £17 million (2003: £13 million) on an MSSB basis. In Australia our master trust fund administration business, Navigator, reported increased sales of £648 million (2003: £617 million) benefiting from improvements in product offerings and a more competitive fee structure. These sales are excluded from the Group's headline new business figures. Operating profit increased in Australia by £8 million due to the improvement in investment markets and tight cost control. Sales from our Navigator business in Singapore were £13 million (2003: £8 million). The embedded value of our Navigator Australian business was £54 million (2003: £53 million) on an EEV basis.

On an EEV basis, the reported operating profits in respect of fund management were £23 million (2003: loss of £4 million) and principally relate to fund management profits on transactions with third parties and the management of group internal non-life funds.

General insurance
Our worldwide general insurance operations reported excellent results with a 47% increase in total operating profit to £1,326 million (2003: £911 million). We continue to see the benefits of our strategy of focusing on personal and small commercial business, underpinned by our strict adherence to our operational disciplines of focused underwriting and efficient claims handling despite an increasingly competitive environment. Our worldwide combined operating ratio (COR) improved to 96.7% (2003: 100%), with the UK, Ireland, the Netherlands and Canada reporting CORs of 97%, 87%, 95% and 97% respectively. This outperforms our target Group COR of 100% set for each year from 2004 to 2006 across the worldwide general insurance business.

The underwriting result improved to a profit of £301 million (2003: loss of £54 million) due to strong underwriting disciplines, and lower claims frequency, and is underpinned by a strong reserving basis. Also included is the benefit of better than expected weather-related claims experience of £50 million (2003: £40 million) and the non-recurrence of the prior year reserve strengthening in 2003 of £70 million in our Canadian subsidiary, Pilot. The worldwide expense ratio from continuing operations was 10.9% (2003: 11.3%). The improvement reflects our continued focus on achieving enhanced efficiencies and the benefit of our cost savings initiatives. Our claims reserves are calculated within a range of possible outcomes and our actuarial analysis suggests that our claims reserves across the Group are strong.

Our longer-term investment return improved to £1,025 million (2003: £965 million) reflecting, in part, the higher start of year investment values and the returns earned on the positive cash flows during 2004.

	Net written premiums		**Underwriting result***		**Operating profit***	
	2004 £m	**2003 £m**	**2004 £m**	**2003 £m**	**2004 £m**	**2003 £m**
United Kingdom	5,434	5,135	158	50	832	676
Europe (excluding UK)	2,018	1,915	99	6	295	193
International	1,363	1,474	44	(110)	199	42
Continuing operations	**8,815**	**8,524**	**301**	**(54)**	**1,326**	**911**

* Excludes the change in the equalisation provision of £23 million (2003: £49 million).

UK
In the UK, Norwich Union Insurance (NUI) delivered an increased operating profit of £832 million (2003: £676 million), with excellent results in both personal and commercial lines. Our multi-distribution strategy supports sustainable, profitable growth, with a 6% year on year growth in net written premiums to £5,434 million (22% growth in Retail which is now around 17% of net written premiums). Better than expected weather-related claims experience has benefited our result by £50 million (2003: £30 million) and we have delivered a 2% improvement in COR to 97%. This performance has been achieved in an environment of significant organisational change and preparation for the FSA regulatory regime.

Our personal lines COR has improved to 100%. We achieved modest rate increases (2% in personal motor and 1% in homeowners), and there is no evidence of significant rate cutting in the personal lines market. Disciplined underwriting, allied with a £55 million increase in claims cost savings through our supply chain management across our business lines, has enabled us to sustain profitability. We have delivered an excellent commercial lines COR of 94% (2003: 96%). Commercial rate increases are moderating (4% for commercial property and 7% for commercial liability), but maintaining our focus on the SME sector and rigorous cost control has enabled us to increase levels of profitability.

We have kept our promise to deliver a full year expense ratio of 10.0%, reaffirming our position as a low-cost provider. During 2004 we successfully completed the offshoring migration of 1,200 roles, bringing the total number of jobs relocated to around 2,600. We continue to invest in market-leading initiatives, including digital flood maps and 'Pay As You Drive'™ insurance, which will help to provide the competitive advantage required to maintain our COR levels through the underwriting cycle.

A key part of our strategy is to increase access to our customers through broader propositions that include non-insurance products and services. In August, we acquired HPI Group Holdings Ltd (HPI), the UK's leading independent provider of vehicle information and checking services, at a cost of £120 million. This acquisition fits well with our strategy of offering customers motoring solutions, strengthening our position as a service provider while offering further distribution opportunities. In addition, we have launched a 'Pay As You Drive'™ Young Drivers' product aimed at 18-21 year-olds. Young drivers now have the chance to get more affordable insurance premiums, which will be based on when and how often they drive their car. In a Professional Broking magazine survey we were voted the best insurer for service. We also won the Insurance Times' general insurer of the year for the second year running.

NUI is in advanced negotiations with Barclays to become their sole provider of their general insurance products. This will include the provision of household products, in addition to the motor and travel portfolio we currently underwrite. The deal will strengthen our market position, supports our strategy of building mutually beneficial partnerships to distribute our products and is a step towards becoming the preferred partner of the UK's best brands.

Europe (excluding UK)

In Continental Europe, our general insurance businesses produced total operating profit of £295 million (2003: £193 million) with significant improvements in performance in Ireland and the Netherlands. Weather-related claims in 2004 were in line with long-term averages whereas 2003 included a benefit of £10 million in this respect.

In France our business reported a slight improvement in the underwriting result to a loss of £8 million (2003: loss of £9 million) with net premiums rising to £524 million (2003: £515 million). We achieved a COR of 101% (2003: 102%), as we continue to maintain our underwriting and cost control disciplines. The longer-term investment return in France was lower at £40 million (2003: £44 million).

In Ireland, the market became progressively more competitive throughout 2004 and, as a result, premiums in Hibernian, our market-leading general insurance business in Ireland, decreased to £545 million (2003: £611 million). We reported a substantial improvement in operating profit of £153 million (2003: £91 million) with a COR of 87% (2003: 97%), underlining the success of our selective underwriting strategy and focus on containing claims costs. We continue to participate in market initiatives to control claims including the introduction of discounts to penalty point free drivers and those who complete our Ignition driver training programme. Weather-related claims were in line with long-term averages (2003: £7 million benefit). The Irish market remains very price competitive, with continuing external pressures for providers to reduce rates. The Government has been instrumental in changing the business environment and has reduced the cost of tort awards, which has consequently led to premium reductions. We have made substantial progress in renewing key business partnerships in our intermediary market, and have successfully increased the customer base in our direct channel. The benefits of these actions should help to support short to medium-term growth.

In the Netherlands, operating profit increased to £71 million (2003: £35 million) with an improved COR of 95% (2003: 101%), reflecting cost control initiatives, including the benefits of the shared service centre which commenced at the end of 2003. The results also include the ABN AMRO general insurance operations with a COR of 90% (2003: 93%). Our focus is on motor and property personal lines and small commercial risks, particularly in the income protection and absenteeism sectors, which we anticipated will grow in importance in the market. A number of products were updated and new products launched during the year to complement our existing offering.

International

Our International businesses recorded an operating profit from continuing operations of £199 million (2003: £42 million) . The 2003 result included a £70 million claims reserve strengthening in our Canadian subsidiary, Pilot.

Our Canadian general insurance business reported increased operating profits of £152 million (2003: £82 million excluding impact of Pilot) and a COR of 97% (2003: 101% excluding the impact of Pilot). The result benefits from rate increases in all lines of business, albeit at a lower rate than 2003, and improved claims frequency. Aviva Canada successfully launched at the end of 2003 the President's Choice Financial (PCF) Corporate Partnership initiative with Loblaw's, Canada's largest supermarket chain, widening our distribution capability. In a number of provinces, successful legislative motor reforms have led to lower claims costs and lower premiums for customers, as expected.

The operating profit from our other international businesses of £47 million (2003: £30 million) includes the results of the Group's captive and £21 million (2003: £22 million) from our Asian businesses. In September 2004, we agreed to sell our Asian general insurance operations to Mitsui Sumitomo Insurance Co Limited for £250 million, a multiple of 3.5 times book value. These operations comprise our businesses in Singapore, Malaysia, Thailand, Indonesia, Hong Kong, the Philippines, Marianas, Macau and Taiwan. The sale will be completed in stages with the first stage completed in February 2005. The second stage is anticipated to complete later in the year. The results of this business will continue to be included until the sale is formally completed. Had the sale completed on 31 December 2004, we would have reported a pre-tax profit on disposal of £169 million.

Non-insurance operations

The result of the Group's non-insurance operations on an MSSB basis was a loss of £108 million (2003: loss of £48 million). On an EEV basis, non-insurance losses amounted to £31 million (2003: profit of £8 million). The main difference between the two bases relates to the exclusion of NU Life Services losses arising on services provided to UK life businesses which are factored into the life EEV operating return.

The deterioration in the non-insurance result is principally due to a one-off £40 million vacant property provision following the completion of a UK-wide owner-occupied property strategy review which assessed current requirements in light of headcount reductions in the UK in recent years.

Corporate costs
Corporate costs were higher in the year at £178 million (2003: £160 million) and include global finance transformation programme (GFTP) costs of £85 million (2003: £60 million). The GFTP costs reflect the peak of the considerable investment required in response to the significant accounting and regulatory external changes that the Group must comply with now and over the foreseeable future. We expect GFTP costs to reduce to around £40 million in 2005 when the programme will be completed. Other corporate costs were lower at £93 million (2003: £100 million).

Unallocated interest charges
These charges comprise internal and external interest on external borrowings, subordinated debt and intra-group loans not allocated to local business operations. Total interest costs were £465 million (2003: £406 million). External interest costs were £246 million (2003: £210 million), and include the full year's charge of £95 million on the subordinated debt issued in September 2003, offset by the impact of interest rate falls and the repayment of senior debt. Internal interest costs were higher at £219 million (2003: £196 million).

We took advantage of the low interest rate environment and favourable market conditions to issue a direct capital instrument which was four times oversubscribed and raised a sterling equivalent of £990 million. This transaction allowed us to lock into favourable funding rates and will be used to repay existing senior debt over the course of 2005 and will leave overall debt levels unchanged. This also enhanced our strong regulatory capital position, whilst leaving the financial leverage of the Group unchanged.

The issuance of the direct capital instrument is treated and accounted for as equity, in accordance with FRS 4 'Capital Instruments', and hence the interest charge is treated as an appropriation of profits. Accordingly, the interest charge is not included within operating profit as external interest but is shown as an appropriation in the profit and loss statement. The charge for the year was £6 million. The accounting treatment does not affect the calculation of dividend cover or return on capital employed as non-ordinary share appropriations are excluded in calculating these key performance indicators.

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

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

Update on cost savings in 2004 compared to 2003	**Benefit to the profit and loss account £m**
UK life	43
UK general insurance	27
Other businesses	-
Corporate costs	(18)
Total	**52**

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

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

Profit on ordinary activities before tax

	EEV basis		MSSB basis	
		Restated*		
	2004 £m	2003 £m	2004 £m	2003 £m
Operating profit before tax	**2,344**	**1,906**	**1,861**	**1,490**
Amortisation of goodwill	(120)	(103)	(120)	(103)
Amortisation of acquired additional value of in-force long-term business	-	-	(126)	(135)
Financial Services Compensation Scheme and other levies	(49)	-	(49)	-
Change in claims equalisation provision	(23)	(49)	(23)	(49)
Exceptional costs for termination of operations	(50)	(19)	(50)	(19)
Loss on disposal of subsidiary undertakings	(136)	(6)	(136)	(6)
Effect of economic assumption changes	(318)	(55)	-	-
Short-term fluctuations in investment return – general insurance and shareholder business	64	83	64	83
Variation from longer-term investment return – life business	501	696	67	129
Profit on ordinary activities before tax	**2,213**	**2,453**	**1,488**	**1,390**

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

On an EEV basis the profit before tax was £2,213 million (2003: £2,453 million), which includes losses on the disposal of subsidiaries of £136 million (2003: £6 million loss), positive variations from the assumed levels of longer-term investment returns of £565 million (2003: £779 million) and the negative impact of economic assumption changes of £318 million (2003: loss of £55 million).

In July 2004, the Group disposed of its Your Move estate agency and e.surveying business for a total consideration of £42 million, with net assets disposed of £12 million. We achieved an economic profit on disposal of £26 million after deducting the associated disposal costs of £4 million. However, the loss on sale of £141 million has arisen due to the requirement to incorporate in the calculation £167 million of goodwill previously written off to reserves. The same goodwill amount is also credited directly to the profit and loss account reserve and therefore has a neutral effect on shareholders' funds.

The variance from the longer-term investment return reflects the benefit of unrealised gains on the Group's life embedded value, following higher than assumed overall equity returns during the year and higher market values for fixed income securities arising from falling bond yields. Long-term economic assumptions are revised at each period close. These assumptions are set by reference to the long-term bond yields and have been revised downwards at 31 December 2004 in both the UK and the Euro zone by 20 and 60 basis points respectively. Lower long-term economic assumptions have the effect of reducing the expected value of future profits from in-force life contracts, reducing profits by £318 million.

The short-term fluctuations in investment return for non-life businesses of £64 million (2003: £83 million) reflect a combination of the positive impact of decreases in short and medium terms bond yields across our major European businesses year on year and higher actual returns on equities compared to our longer-term investment return assumptions.

The profit before tax on a modified statutory basis was £1,488 million (2003: £1,390 million). This improvement reflects the continued strong operational performance in our core businesses, particularly in the general insurance businesses.

The taxation charge for the period was £647 million (2003: £739 million) on an EEV basis and includes £651 million in respect of the operating profit from continuing operations, which is equivalent to an effective rate of 27.8% (2003: 29.5%). On a modified statutory basis the effective rate on operating profit from continuing operations amounted to 24.5% (2003: 27.0%). The tax charge for the year includes one-off tax credits of around £200 million, as a result of offsetting UK tax losses from prior years against current year profits. These losses were previously treated as unrecognised deferred tax assets.

Dividends

Ordinary dividends

The Group has a progressive dividend policy of growing the dividend by approximately 5% per annum whilst retaining cover at between 1.5 to 2 times the operating earnings after tax, measured on a modified statutory solvency basis. In line with this policy, the Board has recommended a final ordinary dividend of 16.00 pence net per share (2003: 15.15 pence) payable on 17 May 2005 to shareholders on the register on 18 March 2005. This equates to 5% growth in the total dividend for 2004 of 25.36 pence (2003: 24.15 pence) and a dividend cover for the year ended 31 December 2004 of 2.25 times (2003: 1.82 times).

8 3/8 % cumulative irredeemable preference shares of £1 each

The Board has declared a dividend payment of 4 3/16 % per share for the six month period ending 31 March 2005 payable on 31 March 2005 to preference shareholders on the register on 18 March 2005.

8 3/4 % cumulative irredeemable preference shares of £1 each

The Board has declared a dividend payment of 4 3/8 % per share for the six month period ending on 30 June 2005 payable on 30 June 2005 to preference shareholders on the register on 3 June 2005.

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

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

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

In overview our work to date on implementing IFRS has led us to the following preliminary conclusions:
a) accounting for substantially all of the general insurance business and approximately 85% of our long-term business will be unchanged. The remaining 15% of our life products will be accounted under International Accounting Standard (IAS) 39 – Financial instruments;
b) IFRS is a technical accounting change to the way we report and present our consolidated MSSB results. There is no change to the underlying economics of Aviva's business; and
c) IFRS will not impact our dividend policy nor significantly impact the Group's solvency calculations which are the subject of separate regulation.

As anticipated, the impact of implementing IFRS on our balance sheet at 31 December 2003 is a reduction of £250 million on our reported statutory basis equity shareholders' funds. Life EEV is unaffected by the impact of IFRS and so those adjustments relating to the life segment do not change life shareholders' funds on an EEV basis. The reduction of £250 million includes a £106 million decrease to the life segment's equity shareholders' funds. This is stated after a notional allocation of £211 million of the IAS 19 pension deficit relating to UK life covered business, in line with the pension disclosures on page 58. A reconciliation between UK GAAP and IFRS basis shareholders' funds is also included in this preliminary announcement. We will report our first set of results under IFRS as part of the interim announcement in 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") from Moody's. These ratings were reaffirmed in September 2004 and reflect the Group's financial and capital strength, strong underlying earnings and positive strategic management.

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

(i) match the profile of its assets and liabilities, taking account of the risks inherent in each business. In the case of the Group's life operations, which have long-term liabilities, the majority of capital is held in fixed income securities. A significant proportion of the capital supporting the Group's general insurance and health operations is held in equities, reflecting the relatively low risk profile of these businesses;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders, regulators and rating agencies;
(iii) retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit lines, and access to a range of capital markets;
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
(v) manage exposures to movement in exchange rates by aligning the deployment of capital by currency with the Group's capital requirements by currency.

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

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

Return on capital employed

The Group's return on capital employed for the year increased to 14.4% (2003: 13.1%) reflecting the strong operational performances of our businesses particularly general insurance. The normalised return is based on the post-tax operating profit including the EEV operating return, before amortisation of goodwill and exceptional items, expressed as a percentage of the opening equity capital on an EEV basis.

Different measures of capital

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

i) Accounting bases
Although the Group is required to report its results on the modified statutory solvency basis, the directors consider that the European Embedded Value 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 31 December 2004 the Group had £19.3 billion (31 December 2003: £17.8 billion) of total capital employed in its trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

	2004	**2003**
Total shareholders' funds – EEV basis (including minority interests)	£14.1 billion	£11.7 billion
Total capital employed by business operations	£19.3 billion	£17.8 billion
Net asset value per share	532 pence	484 pence

The improvement in shareholders' funds reflects strong operational performance and the issuance of the direct capital instrument which raised £990 million. Net asset value per ordinary share, based on equity shareholders' funds, was higher by 10% at 532 pence per share after adding back the equalisation provision of £388 million (31 December 2003: £364 million).

Regulatory bases
EU Groups directive

	2004	**2003**
Insurance Groups Directive (IGD) excess solvency	£3.6 billion	£2.4 billion
Cover (times) over EU minimum	1.9 times	1.7 times

Aviva Group had an estimated excess regulatory capital, as measured under the EU Groups Directive, of £3.6 billion at 31 December 2004 (31 December 2003: £2.4 billion). This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the Group's UK life funds. The minimum solvency requirement for the Group's European businesses is based on the Solvency 1 Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked 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. In November 2004 the Group enhanced its strong regulatory position through issuing £990 million of a direct capital instrument. Completion of the Asian general insurance business sale in 2005 will improve the IGD excess solvency by £0.2 billion.

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

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

General insurance

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

The table below sets out the regulatory basis of these general insurance groups at 31 December 2004 and 31 December 2003.

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

	2003		
	NUI plc	**CGUII Group**	**NUI and CGUII Group pro forma**
Regulated asset value £bn	£0.9 bn	£6.5 bn	£7.4 bn
Required minimum margin £bn	£0.3 bn	£3.1 bn	£3.4 bn
Excess solvency margin £bn	£0.6 bn	£3.4 bn	£4.0 bn
Cover (times)	3.0 times	2.1 times	2.1 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 objective continues to be the optimal usage of capital through appropriate allocation to our businesses.

The introduction of the ICA regime has resulted in the calculation of the realistic capital needed to meet policyholder requirements under a range of adverse scenarios. As a result we have been in discussion with our regulator for both our life and general insurance business to agree specific risk adjusted capital requirements. Our risk based capital model underpins our ICA modelling, and will form the basis of our discussions with the regulator in agreeing such capital requirements, along with our strong risk management processes. We continue to 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 (2003 £3.3 billion) of capital. This compares with a total of £4.6 billion (2003: £4.5 billion) of shareholders' capital employed in the general insurance businesses.

Life operations
Economic bases
For the Group's non-participating worldwide life assurance business the Group has set its capital requirements as the higher of:
- Target levels set by reference to own internal risk assessment and internal objectives
- Minimum capital level (i.e. level of solvency capital at which local regulator empowered to take action)

Having undertaken an assessment of the level of operational, demographic, market and currency risk of each of our life businesses, we have quantified the levels of capital required for each business. We have expressed these as a percentage of 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 31 December 2004 the regulatory capital held in the Group's long-term business amounted to £6.3 billion which represents 175% of the EU minimum requirements.

UK Life operations

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

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

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

Regulatory basis

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

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

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

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

	31 December 2004				
	Estimated Realistic assets £bn	Estimated Realistic liabilities [1,2] £bn	Estimated Realistic orphan estate[3] £bn	Estimated required capital margin[4] £bn	Estimated excess £bn
CGNU Life	12.2	10.5	1.7	0.3	1.4
CULAC	13.5	11.9	1.6	0.4	1.2
NUL&P	26.3	25.1	1.2	1.0	0.2
Aggregate	**52.0**	**47.5**	**4.5**	**1.7**	**2.8**

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

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

3 Estimated realistic orphan estate at 31 December 2003 was £1.3 billion, £1.6 billion and £1.4 billion for CGNU Life, CULAC and NUL&P respectively.
4 The required capital margin (RCM) is 2.6 times covered by the orphan estate in aggregate (2003: 2.5 times).

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

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

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

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

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

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

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

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

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

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

FRS27 Group capital statement

In addition to the new FSA realistic reporting regime, the UK Accounting Standards Board (ASB) issued a new financial reporting standard in December 2004, known as FRS 27, requiring certain capital disclosures to be made. The purpose of the capital statement is to set out the financial strength of the entity and to provide an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital. The capital statement below has been prepared in accordance with MoU entered into by Aviva, the ASB and other insurers in relation to the application of FRS 27 in 2004, and shows available capital resources for the Group.

	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 Shareholders' funds (MSSB basis)	-	3.0	4.1	7.1	2.1	9.2
Other sources of capital [1]	-	-	0.2	0.2	2.8	3.0
Fund for Future Appropriations	8.1	0.3	0.8	9.2	-	9.2
Adjustments onto a regulatory basis[2]	(3.6)	(1.9)	(0.6)	(6.1)	(2.5)	(8.6)
Total available capital	**4.5**	**1.4**	**4.5**	**10.4**	**2.4**	**12.8**

1 Other sources of capital represents: Subordinated debt of £2,823 million issued by Aviva plc and £129 million subordinated perpetual loan notes issued by a Dutch subsidiary undertaking.
2 Including an adjustment for minorities.
3 Other UK life operations include £300 million of fund for future appropriations, relating to Hibernian life which is owned by UK life shareholders' funds.
4 Other operations include general insurance and fund management businesses.

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

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

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

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

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

(i) UK with-profit funds (CGNU Life, CULAC and NUL&P) – any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and shareholders. With-profits policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund in the case of CGNU Life, CULAC and NUL&P.
(ii) UK non-participating funds – any available surplus held in these is attributable to shareholders. Capital within the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
(iii) Overseas life operations – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.

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

Sensitivity analysis

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

31 December 2003 £bn		**31 December 2004 £bn**	**Equities down 10% £bn**	**Interest rates up 1% £bn**
12.0	Long-term savings[1]	13.2	12.5	13.1
5.8	General insurance and other	6.1	5.9	5.8
(6.1)	Borrowings[2]	(5.2)	(5.2)	(5.2)
11.7	**Shareholders' funds**	**14.1**	**13.2**	**13.7**

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 appreciation/falls.

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

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

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

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

Financial guarantees and options

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

Valuation of guarantees and options under EEV
The reported cost to shareholders of the options and guarantees provided under life contracts is represented by the valuation of options and guarantees under the EEV methodology. This includes two components: the intrinsic value and the time value. The intrinsic value is the cost to shareholders arising under the best estimate assumptions and is allowed for in the calculation of the present value of in-force business. The time value, which is calculated separately, is the additional cost to shareholders arising from variability of future investment returns, and reflects the fact that in some adverse economic scenarios shareholders will incur additional costs associated with the guarantees under the EEV methodology. The time value is calculated on a stochastic basis, using 'real world' assumptions to evaluate the mean cost, which is deducted from the embedded value. At 31 December 2004 this amounted to £274 million (2003: £232 million). Further details are provided on page 33.

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

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

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

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

UK life

With-profits business

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

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

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

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

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

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

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

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

Non-profit business

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

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

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

Overseas life business

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

France

Guaranteed surrender values and guaranteed minimum bonuses

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

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

Non-AFER contracts with guaranteed surrender values had liabilities of £6 billion at 31 December 2004 and guaranteed annual bonus rates are between 0% and 4.5% (except for some larger guarantees of up to 7.0% on some older contracts which account for less than 2.4% of these liabilities). For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2004.

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

Netherlands

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

Under Dutch regulation, liability testing is carried out to determine if additional liabilities are required for portfolio guarantees. No such reserves were required at the end of 2004. The total liabilities for traditional business at end 2004 are £8 billion analysed as follows:

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

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

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

Ireland

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

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

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

Spain and Italy

Guaranteed investment returns and guaranteed surrender values
The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy, where traditional profit sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At end 2004, total liabilities for traditional profit sharing Spanish business were £2 billion with a further provision of £13 million for guarantees. Total liabilities for Italian business were £4 billion with a further

provision of £49 million for guarantees. Liabilities are most sensitive to changes in the level of interest rates; it is estimated that provisions for guarantees would need to increase by £56 million in Spain and £14 million in Italy if interest rates were 1% lower from the end 2004 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively assuming a long term market interest rate of 1.68% and no lapses or premium discontinuances.

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 modified statutory basis. The modified statutory basis is used in our financial statements and, on this basis, the operating profit before tax on continuing operations amounted to £1,861 million (2003: £1,490 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)	–	UK industry standard for calculating life, pensions and investment new business levels. It equals the total of new annualised regular premiums plus 10% of single premiums.
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, amortisation 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 and is stated before amortisation of goodwill and exceptional items.
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.
Modified statutory operating profit	–	From continuing operations, and is stated before tax, amortisation 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, adding back the equalisation provision of £388 million (31 December 2003: £364 million).
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.

Summarised consolidated profit and loss account – EEV basis
For the year ended 31 December 2004

Page	2004 €m		2004 £m	Restated* 2003 £m
		Operating profit		
27	2,369	Life EEV operating return	1,611	1,496
47	86	Health	58	61
	34	Fund management[1]	23	(4)
48	1,950	General insurance	1,326	911
	(46)	Non-insurance operations[2]	(31)	8
50	(262)	Corporate costs	(178)	(160)
50	(684)	Unallocated interest charges	(465)	(406)
	3,447	**Operating profit before tax, amortisation of goodwill and exceptional items****	**2,344**	**1,906**
	(177)	Amortisation of goodwill	(120)	(103)
	(72)	Financial Services Compensation Scheme and other levies	(49)	-
	3,198	Operating profit before tax	2,175	1,803
	831	Variation from longer-term investment return	565	779
	(468)	Effect of economic assumption changes	(318)	(55)
	(34)	Change in the equalisation provision	(23)	(49)
45	(200)	Net loss on the disposal of subsidiary and associated undertakings	(136)	(6)
44	(73)	Exceptional costs for termination of operations	(50)	(19)
	3,254	**Profit on ordinary activities before tax**	**2,213**	**2,453**
	(957)	Tax on operating profit – before amortisation of goodwill and exceptional items	(651)	(563)
	6	Tax on credit/(charge) on (loss)/profit on other ordinary activities	4	(176)
	2,303	**Profit on ordinary activities after tax**	**1,566**	**1,714**
	(244)	Minority interests	(166)	(121)
	2,059	**Profit for the financial year**	**1,400**	**1,593**
52	(25)	Preference dividends	(17)	(17)
52	(9)	Direct capital instrument appropriation	(6)	-
	2,025	**Profit for the financial year attributable to equity shareholders**	**1,377**	**1,576**
52	(845)	Ordinary dividends	(575)	(545)
	1,180	**Retained profit for the financial year**	**802**	**1,031**

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

** All operating profit is from continuing operations.

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

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

Earnings per share – EEV basis
For the year ended 31 December 2004

2004	Earnings per share	2004	Restated* 2003
98.8c	Operating profit on an EEV basis before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders**	67.2p	53.0p
89.7c	Profit attributable to equity shareholders	61.0p	70.0p
88.8c	Profit attributable to equity shareholders – diluted	60.4p	69.8p

* Restated for the effect of implementing European Embedded Value principles.
** All operating profit is from continuing operations.

Consolidated statement of total recognised gains and losses – EEV basis
For the year ended 31 December 2004

	2004 £m	Restated* 2003 £m
Profit for the financial year**	1,400	1,593
Foreign exchange gains	104	415
Total recognised gains arising in the year	**1,504**	**2,008**

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

Reconciliation of movements in consolidated shareholders' funds – EEV basis
For the year ended 31 December 2004

	2004 £m	Restated* 2003 £m
Shareholders' funds at the beginning of the year, as originally reported on an achieved profits basis		**9,668**
Prior year adjustment		(364)
Shareholders' funds at the beginning of the year, as restated	**10,752**	9,304
Total recognised gains arising in the year	1,504	2,008
Dividends and appropriations	(598)	(562)
Movement in shares held by employee trusts	1	-
Increase in share capital	25	2
Issue of direct capital instrument	990	-
Issue costs of direct capital instrument	(9)	-
Shares issued in lieu of dividend	103	-
Goodwill written back	169	-
Shareholders' funds at the end of the year on an EEV basis	**12,937**	**10,752**

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

Summarised consolidated balance sheet – EEV basis
As at 31 December 2004

	31 December 2004 £m	Restated* 31 December 2003 £m
Assets		
Goodwill	1,135	1,105
Investments		
Land and buildings	637	637
Investments in associated undertakings and participating interests	178	279
Variable yield securities	3,149	2,967
Fixed interest securities	10,750	10,098
Mortgages and loans, net of non-recourse funding	1,387	929
Deposits	1,871	435
Other investments	29	34
	18,001	15,379
Reinsurers' share of technical provisions	2,589	2,926
Reinsurers' share of provision for linked liabilities	852	579
Assets of the long-term business	148,209	136,709
Assets held to cover linked liabilities	51,144	40,665
Other assets	9,889	10,829
Acquired value of in-force long-term business	451	488
Additional value of in-force long-term business	4,875	4,340
Total assets	**237,145**	**213,020**
Capital, reserves and subordinated debt		
Shareholders' funds		
Equity	7,130	6,354
Non-equity	1,190	200
Minority interest	1,182	953
Additional retained profit on an EEV basis	4,617	4,198
Subordinated debt	2,823	2,814
Total capital, reserves and subordinated debt	**16,942**	**14,519**
Liabilities		
Liabilities of the long-term business	131,099	121,125
Fund for future appropriations	9,218	8,443
Technical provision for linked liabilities	51,996	41,244
General insurance liabilities	18,155	17,515
Borrowings	1,423	1,720
Other creditors and provisions	8,312	8,454
Total liabilities, capital, reserves and subordinated debt	**237,145**	**213,020**

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

Segmentation of summarised consolidated balance sheet – EEV basis
As at 31 December 2004

	Life and related businesses 2004 £m	General business and other 2004 £m	Group 2004 £m	Restated* Life and related businesses 2003 £m	Restated* General business and other 2003 £m	Restated* Group 2003 £m
Total assets before acquired additional value of in-force long-term business	200,205	31,614	231,819	177,953	30,239	208,192
Acquired additional value of in-force long-term business	451	-	451	488	-	488
Total assets included in the modified statutory balance sheet	**200,656**	**31,614**	**232,270**	**178,441**	**30,239**	**208,680**
Liabilities of the long-term business	(192,313)	-	(192,313)	(170,812)	-	(170,812)
Liabilities of the general insurance business	-	(27,890)	(27,890)	-	(27,689)	(27,689)
Net assets on a modified statutory basis	**8,343**	**3,724**	**12,067**	**7,629**	**2,550**	**10,179**
Additional value of in-force long-term business [1]	4,875	-	4,875	4,340	-	4,340
Net assets on an EEV basis [2]	**13,218**	**3,724**	**16,942**	**11,969**	**2,550**	**14,519**
Shareholders' capital, share premium, shares held by employee trusts and merger reserves			5,638			4,622
Modified statutory basis retained profit			2,682			1,932
Additional EEV basis retained profit			4,617			4,198
Shareholders' funds on an EEV basis			**12,937**			**10,752**
Minority interests			1,182			953
			14,119			11,705
Subordinated debt			2,823			2,814
Total capital, reserves and subordinated debt on an EEV basis			**16,942**			**14,519**

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

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

	31 December 2004 £m	31 December 2003 £m	Movement in the year £m
Group's share included in shareholders' funds	4,617	4,198	419
Minority interest share	258	142	116
Balance at 31 December	4,875	4,340	535

2 Analysis of net assets on an EEV basis is as follows:

	31 December 2004 £m	31 December 2003 £m
Embedded value	13,014	11,751
RBSG goodwill	204	218
Long-term business net assets on an EEV basis	13,218	11,969

Basis of preparation – EEV basis

The consolidated profit and loss account and balance sheet statements on pages 20 to 23 present the Group's results and financial position for the life and related businesses on the European Embedded Value (EEV) basis and for its non-life businesses on the modified statutory solvency basis. The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum in May 2004.

The Group has replaced the Achieved Profits basis with the EEV basis of reporting as its main measure of performance for life and related businesses and comparative figures for the Group's 31 December 2003 supplementary financial statements have been restated accordingly. The impact on the Group's consolidated supplementary reporting is to reduce shareholders' funds as at 31 December 2003 by £413 million from £11,165 million to £10,752 million and to reduce the Group's consolidated profit after tax and minority interest for the 2003 financial year by £49 million to £1,593 million. The full impact of the adoption of the EEV principles on the Group's results for the periods ending 31 December 2003 and 30 June 2004 is shown in the release to the market on 13 January 2005, "Restatement of Aviva's supplementary reporting to the European Embedded Value (EEV) basis".

The Group's revised approach to establishing economic assumptions (specifically investment returns, required capital and discount rates) has been reviewed by Tillinghast, a firm of actuarial consultants, as part of the restatement of 31 December 2003 and 30 June 2004 comparative figures. The approach is based on the well established capital asset pricing model theory and is in line with the EEV Principles and Guidance.

In addition, the results of our equity release business have been reclassified from non-insurance operations to life insurance operations. This has resulted in assets, liabilities and operating profits being reclassified out of non-insurance segments and into life segments. Comparatives for 2003 have been restated accordingly and the impact of the reclassification on consolidated shareholders' funds and consolidated profit for the 2003 financial year end is nil.

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

The results for 2004 and 2003 have been audited by the auditors, Ernst & Young LLP. Their report in respect of 2004 is included in the Report and Accounts on page 146 of that document.

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

Covered business includes the Group's share of our joint venture operations including our arrangement with The Royal Bank of Scotland Group (RBSG) and our operations in India and China. For our joint venture with RBSG, the goodwill arising on the acquisition of the associate company, RBS Life Investments Limited, is included within the 'Amortisation of goodwill' on page 20.

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

New business premiums
New business premiums include:

- premiums arising from the sales of new contracts during the period;
- non-contractual additional premiums, including future Department of Work and Pensions (DWP) rebate premiums; and
- expected renewals on 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 profit and loss items have been translated using an average exchange rate for the relevant period. The exchange rates adopted in this announcement are shown on page 44.

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 modified statutory basis of reporting, but the timing of recognition is different.

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

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Profits are then grossed up for tax at the full rate of corporation tax for the UK and at an appropriate rate for each of the other countries based on opening year tax rates.

Net worth
The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets, and consists of the required capital and free surplus. The level of required capital for each business, which ranges between 100% and 200% of the EU minimum solvency requirement for our main European businesses, reflects the level of capital considered by the Directors to be appropriate to manage the business, allowing for our internal assessment of the level of market, insurance and operating risk inherent in the underlying products. The same definition of required capital is used for both existing and new business. The free surplus comprises the market value of shareholder assets in excess of local statutory reserves and required capital.

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

In the UK, shareholders' distributable profits arise when they are released following actuarial valuations. These valuations are carried out in accordance with statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality, administration costs, as well as management and policyholder actions. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using best estimate assumptions of future experience. In overseas businesses generally, there are similar requirements restricting payments to shareholders from life businesses.

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

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

The cost of holding required capital is the difference between the required capital and the present value at the appropriate risk discount rate of the projected release of the required capital and investment earnings on the assets deemed to back the required capital. Where the required capital is covered by policyholder assets, for example in the UK with-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 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 modified statutory basis to the EEV basis.

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

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

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

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

Life EEV return	**2004 £m**	**Restated* 2003 £m**
New business contribution (after the effect of required capital)	516	474
Profit from existing business		
– expected return	819	761
– experience variances	(15)	(31)
– operating assumption changes	(7)	19
Expected return on shareholders' net worth	298	273
Life EEV operating return before tax	**1,611**	**1,496**
Investment return variances	501	696
Effect of economic assumption changes	(318)	(55)
Life EEV return before tax	**1,794**	**2,137**
Tax on operating profit	(490)	(457)
Tax charge on other ordinary activities	(58)	(175)
Life EEV return after tax	**1,246**	**1,505**

There were no separate development costs reported in either period.

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

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 24.

The contribution generated by new business written during the period is the present value of the projected stream of after tax distributable profit from that business. New business contribution before tax is calculated by grossing up the contribution after tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries. New business contribution has been calculated using the same economic assumptions as those used to determine the embedded value as at the start of the year and operating assumptions used to determine the embedded value as at the end of the year, and is rolled forward to the end of the financial period.

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

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

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution before the effect of required capital		New business contribution after the effect of required capital	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	Restated* 2003 £m	2004 £m	Restated* 2003 £m
Life and pensions business								
United Kingdom	1,166	1,118	9,172	8,516	269	250	215	212
Europe (excluding UK)								
France	307	241	2,782	2,224	95	72	54	39
Ireland	86	81	561	529	19	28	16	26
Italy	198	194	1,799	1,752	48	45	34	27
Netherlands (including Belgium and Luxembourg)	261	224	2,168	1,821	80	69	43	29
Poland	37	35	241	226	11	5	9	3
Spain	248	246	2,110	1,964	143	141	121	122
Other Europe	124	101	804	587	5	(1)	-	(6)
International	171	187	1,050	1,190	36	37	24	22
Total (before the effect of required capital)	**2,598**	**2,427**	**20,687**	**18,809**	**706**	**646**		
Effect of required capital					**(190)**	**(172)**		
Total (after the effect of required capital)					**516**	**474**	**516**	**474**

1 APE has been restated to include NUER volumes of £478 million (2003: £501 million).

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

New business contribution before the effect of required capital includes minority interests in 2004 of £121 million (2003: £109 million). This comprises minority interests in France of £7 million (2003: £3 million), Italy £27 million (2003: £25 million), Netherlands £10 million (2003: £8 million), Poland £2 million (2003: £1 million) and Spain £75 million (2003: £72 million).

New business contribution after the effect of required capital includes minority interests in 2004 of £94 million (2003: £86 million). This comprises minority interests in France of £1 million (2003: nil), Italy £19 million (2003: £15 million), Netherlands £8 million (2003: £7 million), Poland £2 million (2003: £1 million) and Spain £64 million (2003: £63 million).

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

	Annual premium equivalent[1]		Present value of new business premiums		New business contribution	
						Restated*
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Analysed between:						
- Bancassurance channels	587	542	4,967	4,440	242	224
- Other distribution channels	2,011	1,885	15,720	14,369	464	422
Total	**2,598**	**2,427**	**20,687**	**18,809**	**706**	**646**

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]	
						Restated*
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Analysed between:						
- Bancassurance channels	328	312	2,728	2,499	74	66
- Other distribution channels	1,978	1,846	15,379	14,148	223	206
Total	**2,306**	**2,158**	**18,107**	**16,647**	**297**	**272**

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

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

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 12.3% for the year to 31 December 2004 (31 December 2003: 12.4%).

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

	2004			
	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
UK	11%	421	148	569
Continental Europe				
France	11%	23	85	108
Ireland	12%	32	18	50
Italy	15%	10	39	49
Netherlands (including Belgium and Luxembourg)	9%	42	66	108
Poland	18%	9	3	12
Spain	24%	15	53	68
Other Europe	8%	28	16	44
International	15%	20	30	50
Total	**12%**	**600**	**458**	**1,058**

The total initial capital for life and pensions new business for 31 December 2004 of £600 million (2003: £655 million) shown above is expressed at the point of sale. Hence it is higher than the impact of writing that new business on net worth of £520 million (2003: £581 million) shown on page 31, 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.

Experience variances

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

	2004 £m	Restated* 2003 £m
United Kingdom	(81)	(41)
France	22	56
Netherlands (including Belgium and Luxembourg)	12	(60)
Europe	23	9
International	9	5
	(15)	**(31)**

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

Operating assumption changes

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

	2004 £m	Restated* 2003 £m
United Kingdom	(58)	1
France	35	(27)
Netherlands (including Belgium and Luxembourg)	21	28
Europe	(4)	23
International	(1)	(6)
	(7)	**19**

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

Further disclosures on experience variances and operating assumption changes are provided on page 54 and 55.

Geographical analysis of life EEV operating return

	2004 £m	Restated* 2003 £m
United Kingdom	551	597
Europe (excluding UK)		
France	286	228
Ireland	40	57
Italy	79	70
Netherlands (including Belgium and Luxembourg)	277	198
Poland	93	99
Spain	180	165
Other Europe	22	18
International	83	64
	1,611	**1,496**

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

Life EEV operating return includes minority interests in 2004 of £186 million (2003: £157 million). This comprises minority interests in France of £9 million (2003: £4 million), Italy £43 million (2003: £37 million), Netherlands £26 million (2003: £13 million), Poland £16 million (2003: £21 million), Spain £90 million (2003: £81 million) and Other Europe £2 million (2003: £1 million).

Analysis of life EEV operating return

	2004 £m	2003 £m
Life businesses	1,569	1,522
Equity release	51	31
Non-insurance service and holding companies	(34)	(75)
Fund management service companies	25	18
	1,611	**1,496**

Analysis of movement in life and related businesses embedded value

The following tables provide an analysis of the movement in embedded value for the life and related businesses for 2004 and 2003. The analysis is shown separately for net worth and the value of in-force covered business, and includes amounts transferred between these categories. The transfer from life and related businesses to other segments consists of service company profits and losses during the reported period that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.

All figures are shown net of tax.

		2004 Net worth £m	2004 Value of in-force £m	2004 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)		(520)	875	355
Expected return on existing business – return on VIF		-	576	576
Expected return on existing business – transfer to net worth		738	(738)	-
Experience variances and operating assumption changes		(98)	79	(19)
Expected return on shareholders' net worth		208	-	208
Investment return variances and economic assumption changes		167	(41)	126
Life EEV return after tax		**495**	**751**	**1,246**
Exchange rate movements		51	68	119
Embedded value of businesses acquired		79	23	102
Amounts injected into life and related businesses		324	-	324
Amounts released from life and related businesses		(576)	-	(576)
Transfer to life and related businesses from other segments		48	-	48
Embedded value at the end of the period	- Free surplus	1,894		
	- Required capital[1]	4,362		
	Total	**6,256**	**6,758**	**13,014**

The embedded value of business acquired in 2004 of £102 million represents the total embedded value of Antarius, the bancassurance joint venture with Crédit du Nord in France.

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

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

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

The embedded value at the end of the 2004 includes minority interests of £796 million (2003: £568 million). This comprises minority interests in France of £120 million (2003: £51 million), Italy £276 million (2003: £222 million), Netherlands £59 million (2003: £44 million), Poland £90 million (2003: £72 million), Spain £244 million (2003: £176 million) and Other Europe £7 million (2003: £3 million).

Segmental analysis of life and related businesses embedded value

31 December 2004	Net worth: Required capital[1] £m	Net worth: Free surplus £m	Value of in-force covered business: Present value of in-force £m	Value of in-force covered business: Cost of required capital £m	Embedded value £m
United Kingdom	1,360	573	4,084	(403)	5,614
Continental Europe					
France	1,064	57	908	(210)	1,819
Ireland	86	195	352	(18)	615
Italy	237	187	166	(52)	538
Netherlands (including Belgium and Luxembourg)	945	509	1,355	(332)	2,477
Poland	99	89	401	(32)	557
Spain	194	28	415	(53)	584
Other	97	52	92	(28)	213
International	280	204	180	(67)	597
	4,362	**1,894**	**7,953**	**(1,195)**	**13,014**

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

	Net worth: 31 December 2004 £m	Net worth: Restated* 31 December 2003 £m	Value of in-force covered business: 31 December 2004 £m	Value of in-force covered business: Restated* 31 December 2003 £m	Embedded value: 31 December 2004 £m	Embedded value: Restated* 31 December 2003 £m
United Kingdom[1]	1,933	1,995	3,681	3,205	5,614	5,200
Europe (excluding UK)						
France	1,121	1,012	698	547	1,819	1,559
Ireland	281	270	334	307	615	577
Italy	424	348	114	87	538	435
Netherlands (including Belgium and Luxembourg)	1,454	1,267	1,023	1,087	2,477	2,354
Poland	188	148	369	306	557	454
Spain	222	187	362	259	584	446
Other	149	140	64	44	213	184
International	484	468	113	74	597	542
	6,256	**5,835**	**6,758**	**5,916**	**13,014**	**11,751**

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

1 The UK net worth shown above is £146 million lower than that previously reported under achieved profits and relates to the reclassification of NUER's VIF from net worth to the present value of future in-force.

The shareholders' net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets. Required capital, net of implicit items, of £4,362 million at 31 December 2004 (31 December 2003: £4,114 million) is included within the net worth.

The value of in-force covered business includes the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases. This impact reduces the value of in-force covered business at 31 December 2004 by £1,195 million (31 December 2003: £1,049 million).

Time value of options and guarantees

The following table sets out the reductions to embedded value to allow for the time value of options and guarantees relating to covered business at 31 December 2004 and 31 December 2003 by business units.

	2004 £m	2003 £m
United Kingdom	44	36
Europe (excluding UK)		
France	79	71
Ireland	4	6
Italy	14	10
Netherlands (including Belgium and Luxembourg)	92	76
Poland	5	4
Spain	9	10
Other Europe	18	10
International	9	9
	274	**232**

The time value of options and guarantees is most significant in the 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 the AFER product. In the Netherlands, this relates mainly to maturity guarantees on unit-linked products and interest rate guarantees on traditional individual and group profit sharing business.

The increase in the time value of options and guarantees from £232 million at 31 December 2003 to £274 million at 31 December 2004 is primarily due to the 60bp fall in bond yields in continental Europe during the second half of 2004. The overall impact of the lower yields was an increase of £39 million.

The increased allowance in the UK largely reflected the new business written in Norwich Union Equity Release. In France, the allowance included in new business contribution of £10 million together with the impact of lower assumed bond yields of £7 million and a small allowance from Antarius in the acquired embedded value were partially offset by favourable investment variances, which reduced the time value of options and guarantees by £13 million. In the Netherlands, the key impacts were the increase due to lower assumed bond yields of £21 million and reduction arising from the tax assumption change of £10 million. The increase in Other Europe arose in our German business and reflects the impact of lower assumed bond yields.

Minority interest in life and related businesses EEV results

	2004			Restated* 2003
	Shareholders' interest £m	Minority interest £m	Group £m	Group £m
New business contribution before effect of required capital	585	121	706	646
Effect of required capital	(163)	(27)	(190)	(172)
New business contribution including effect of required capital	**422**	**94**	**516**	**474**
Life EEV operating return before tax	**1,425**	**186**	**1,611**	**1,496**
Life EEV return before tax	1,592	202	1,794	2,137
Attributed tax	(479)	(69)	(548)	(632)
Life EEV return after tax	**1,113**	**133**	**1,246**	**1,505**
Closing life and related businesses embedded value	**12,218**	**796**	**13,014**	**11,751**

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

Principal economic assumptions – deterministic calculations

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

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

	United Kingdom			France		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Risk discount rate	7.3%	7.5%	7.2%	6.4%	7.0%	7.0%
Pre-tax investment returns:						
Base government fixed interest	4.6%	4.8%	4.5%	3.7%	4.3%	4.3%
Ordinary shares	7.6%	7.8%	7.5%	6.7%	7.3%	7.3%
Property	6.6%	6.8%	6.5%	5.7%	6.3%	6.3%
Future expense inflation	3.3%	3.4%	2.8%	2.5%	2.5%	2.5%
Tax rate	30.0%	30.0%	30.0%	34.9%	35.4%	35.4%
Required Capital (% EU minimum)	200% / 100%	200% / 100%	200% / 100%	115%	115%	115%

	Ireland			Italy		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Risk discount rate	6.4%	7.0%	7.0%	6.4%	7.0%	7.0%
Pre-tax investment returns:						
Base government fixed interest	3.7%	4.3%	4.3%	3.7%	4.3%	4.3%
Ordinary shares	6.7%	7.3%	7.3%	6.7%	7.3%	7.3%
Property	5.7%	6.3%	6.3%	5.7%	6.3%	6.3%
Future expense inflation	4.0%	4.0%	4.0%	2.5%	2.5%	2.5%
Tax rate	12.5%	12.5%	12.5%	38.3%	38.3%	39.8%
Required Capital (% EU minimum)	150%	150%	150%	115%	115%	115%

	Netherlands			Poland		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Risk discount rate	6.4%	7.0%	7.0%	9.7%	9.7%	11.7%
Pre-tax investment returns:						
Base government fixed interest	3.7%	4.3%	4.3%	6.0%	6.0%	8.0%
Ordinary shares	6.7%	7.3%	7.3%	9.0%	9.0%	11.0%
Property	5.7%	6.3%	6.3%	n/a	n/a	n/a
Future expense inflation	2.5%	2.5%	2.5%	3.4%	3.4%	5.4%
Tax rate	31.5%*	25.0%	25.0%	19.0%	19.0%	27.0%
Required Capital (% EU minimum)	150%	150%	150%	150%	150%	150%

	Spain		
	2004	**2003**	**2002**
Risk discount rate	6.4%	7.0%	7.0%
Pre-tax investment returns:			
Base government fixed interest	3.7%	4.3%	4.3%
Ordinary shares	6.7%	7.3%	7.3%
Property	5.7%	6.3%	6.3%
Future expense inflation	2.5%	2.5%	2.5%
Tax rate	35.0%	35.0%	35.0%
Required Capital (% EU minimum)	125% / 110%	125% / 110%	125% / 110%

* In the Netherlands, the tax rate assumed in determining the embedded value as at 31 December 2004 has been changed from 25%, which was the average rate of tax assumed by the intermediary division, to the full rate of corporation tax in the Netherlands. This change reflects the calculation refinements now adopted for the intermediary division, described on page 54, and the reduction in corporation tax from 34.5% to 31.5%, which was effective from 1 January 2005. In 2005, profits will be grossed up at the local corporation tax rate of 31.5% in the Netherlands, reflecting the economic basis at the start of the year, increasing both reported pre-tax profits and the corresponding tax charge.

Where there are service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company. Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk. Required capital in the United Kingdom is 200% EU minimum for Norwich Union Annuities Ltd and 100% for other companies. Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.

Other economic assumptions
Required capital relating to with-profit business is assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders. Bonus rates on participating business have been set at levels consistent with the economic assumptions and Aviva's medium-term bonus plans. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

Principal economic assumptions – stochastic calculations

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

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

United Kingdom

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

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

Summary Statistics
The following table sets out the means and standard deviations (StDev) of future returns at 31 December 2004 for the three most significant asset classes.

	Mean[1]	StDev[2]
Equities	7.6%	20.0%
Property	6.6%	15.0%
Government Bonds	4.6%	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 n^{th} 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 internal assessment of historical data. Returns for corporate fixed interest investments in each scenario are equal to the return on Government bonds plus a fixed additional amount, based on current spreads less a margin for credit risk.

Europe and International

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

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

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

Summary Statistics
The following table sets out the means and standard deviations of future euro returns at 31 December 2004 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	2.9%	1.6%	3.5%	3.5%	4.2%	6.8%
Long Government Bonds	3.5%	4.7%	4.1%	3.7%	4.6%	4.1%
Equities	6.2%	19.7%	6.7%	19.4%	7.1%	19.2%

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 n^{th} root of the average accumulation minus 1).

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

Other assumptions

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

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

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

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

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

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2004 and the new business contribution before the effect of required capital for the full year 2004 to:

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

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

Embedded value (net of tax) 31 December 2004	**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	5,614	(375)	400	(225)	240
Europe (excluding UK)					
France	1,819	(110)	120	(60)	55
Ireland	615	(25)	30	(5)	-
Italy	538	(20)	20	15	(30)
Netherlands (including Belgium and Luxembourg)	2,477	(160)	190	190	(290)
Poland	557	(30)	30	(5)	5
Spain	584	(30)	35	(20)	15
Other	213	(5)	5	10	(25)
International	597	(25)	30	(25)	15
	13,014	**(780)**	**860**	**(125)**	**(15)**

Embedded value (net of tax) 31 December 2004	**As reported on page 32 £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	5,614	200	(210)	370	(370)	150
Europe (excluding UK)						
France	1,819	60	(60)	110	(130)	35
Ireland	615	20	(20)	15	(15)	5
Italy	538	15	(15)	10	(10)	10
Netherlands (including Belgium and Luxembourg)	2,477	250	(230)	310	(310)	85
Poland	557	5	(5)	5	(5)	10
Spain	584	-	-	5	(5)	5
Other	213	10	(10)	10	(10)	10
International	597	-	-	5	(5)	20
	13,014	**560**	**(550)**	**840**	**(860)**	**330**

In general, the magnitude of the sensitivities will reflect the size of the embedded values, 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 options and guarantees, as well as the types of investments held. The interest rate sensitivity will vary significantly by territory, depending on the type of business written: for example, where non-profit business is well matched by backing assets, the favourable impact of reducing the risk discount rate is the dominant factor.

Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities, where the guarantee impacts to different extents under the different scenarios. This can be seen in the sensitivity of a 1% movement in the interest rate for the Netherlands, where there is a significant amount of business with investment return guarantees. The reduction of 60 basis points to the assumed pre-tax investment returns at 31 December 2004 has significantly increased 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 Full year 2004	**As reported on page 28 £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	269	(50)	55	(20)	20
Europe (excluding UK)					
France	95	(9)	11	1	(1)
Ireland	19	(5)	5	-	-
Italy	48	(2)	2	1	(2)
Netherlands (including Belgium and Luxembourg)	80	(15)	20	10	(35)
Poland	11	(1)	1	-	-
Spain	143	(10)	11	(3)	2
Other	5	(1)	3	1	1
International	36	(4)	5	(1)	1
	706	**(97)**	**113**	**(11)**	**(14)**

New business contribution Full year 2004	**As reported on page 28 £m**	**1% increase in equity/property returns £m**	**1% decrease in equity/property returns £m**
United Kingdom	269	25	(30)
Europe (excluding UK)			
France	95	3	(4)
Ireland	19	3	(3)
Italy	48	-	-
Netherlands (including Belgium and Luxembourg)	80	22	(18)
Poland	11	-	-
Spain	143	-	-
Other	5	-	-
International	36	-	-
	706	**53**	**(55)**

Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2004 and the new business contribution before the effect of required capital for the full year 2004 to the following changes in non-economic assumptions:

- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 p.a. would represent an expense assumption of £9 p.a.). 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% p.a. would represent a lapse rate of 4.5% p.a.);
- 10% decrease in both mortality and morbidity rates.

In each sensitivity calculation, all other assumptions remain unchanged.

Embedded value (net of tax)	**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**
31 December 2004				
United Kingdom	5,614	140	40	(100)
Europe (excluding UK)				
France	1,819	30	25	30
Ireland	615	15	5	5
Italy	538	5	5	-
Netherlands (including Belgium and Luxembourg)	2,477	70	10	(30)
Poland	557	15	25	15
Spain	584	10	20	10
Other	213	-	-	-
International	597	10	10	10
	13,014	**295**	**140**	**(60)**

New business contribution (gross of tax)	**As reported on page 28 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
Full year 2004				
United Kingdom	269	13	15	15
Europe (excluding UK)				
France	95	4	4	4
Ireland	19	2	1	1
Italy	48	1	1	-
Netherlands (including Belgium and Luxembourg)	80	10	5	3
Poland	11	1	2	2
Spain	143	4	14	8
Other	5	1	3	2
International	36	2	2	3
	706	**38**	**47**	**38**

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.

Summarised consolidated profit and loss account – modified statutory basis
For the year ended 31 December 2004

Page	2004 €m		2004 £m	2003 £m
		Premium income (after reinsurance) and investment sales		
		Continuing operations		
46	29,713	Life premiums, including share of associates' premiums	20,205	19,035
46	2,396	Investment sales	1,629	1,141
47	1,462	Health premiums	994	1,066
	33,571		22,828	21,242
48	12,963	General insurance premiums	8,815	8,524
	46,534	**Total**	**31,643**	**29,766**
		Operating profit		
47	1,743	Modified statutory life profit[1]	1,185	1,122
47	86	Health	58	61
50	63	Fund management	43	10
48	1,950	General insurance	1,326	911
50	(159)	Non-insurance operations[1]	(108)	(48)
50	(262)	Corporate costs	(178)	(160)
50	(684)	Unallocated interest charges	(465)	(406)
	2,737	**Operating profit before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items***	**1,861**	**1,490**
	(177)	Amortisation of goodwill	(120)	(103)
	(185)	Amortisation of acquired additional value of in-force long-term business	(126)	(135)
	(72)	Financial Services Compensation Scheme and other levies	(49)	-
	2,303	Operating profit before tax	1,566	1,252
	192	Short-term fluctuation in investment return	131	212
	(34)	Change in the equalisation provision	(23)	(49)
45	(200)	Net loss on the disposal of subsidiary and associated undertakings	(136)	(6)
44	(73)	Exceptional costs for termination of operations	(50)	(19)
	2,188	**Profit on ordinary activities before tax**	**1,488**	**1,390**
	(522)	Tax on profit on ordinary activities	(355)	(367)
	1,666	**Profit on ordinary activities after tax**	**1,133**	**1,023**
	(112)	Minority interests	(76)	(74)
	1,554	**Profit for the financial year**	**1,057**	**949**
52	(25)	Preference dividends	(17)	(17)
52	(9)	Direct capital instrument appropriation	(6)	-
	1,520	**Profit for the financial year attributable to equity shareholders**	**1,034**	**932**
52	(845)	Ordinary dividends	(575)	(545)
	675	**Retained profit transferred to reserves**	**459**	**387**

* All operating profit is from continuing operations.
1 The results of our UK equity release business have been reclassified from non-insurance to the life insurance profits.

Earnings per share – modified statutory basis
For the year ended 31 December 2004

Page		2004	2003
	Operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax, attributable to equity shareholders*	57.2p	44.0p
52	Profit attributable to equity shareholders	45.8p	41.4p
53	Profit attributable to equity shareholders – diluted	45.4p	41.3p
52	Dividend per share	25.36p	24.15p

* All operating profit is from continuing operations.

Consolidated statement of total recognised gains and losses
For the year ended 31 December 2004

Page		2004 £m	2003 £m
40	Profit for the financial year*	1,057	949
	Foreign exchange gains	28	329
	Total recognised gains arising in the year	**1,085**	**1,278**

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

Reconciliation of movements in consolidated shareholders' funds
For the year ended 31 December 2004

Page		2004 £m	2003 £m
	Shareholders' funds at the beginning of the year	**6,554**	**5,836**
	Total recognised gains arising in the year	1,085	1,278
52	Dividends and appropriations	(598)	(562)
	Movement in shares held by employee trusts	1	-
	Increase in share capital	25	2
	Issue of direct capital instrument	990	-
	Issue costs of direct capital instrument	(9)	-
	Shares issued in lieu of dividends	103	-
	Goodwill written back	169	-
	Shareholders' funds at the end of the year	**8,320**	**6,554**

Summarised consolidated balance sheet – modified statutory basis
As at 31 December 2004

	2004 £m	2003 £m
Assets		
Goodwill	1,135	1,105
Investments		
Land and buildings	637	637
Investments in associated undertakings and participating interests	178	279
Variable yield securities	3,149	2,967
Fixed interest securities	10,750	10,098
Mortgages and loans, net of non-recourse funding	1,387	929
Deposits	1,871	435
Other investments	29	34
	18,001	15,379
Reinsurers' share of technical provisions	2,589	2,926
Reinsurers' share of provision for linked liabilities	852	579
Assets of the long-term business	148,209	136,709
Assets held to cover linked liabilities	51,144	40,665
Other assets	9,889	10,829
Acquired value of in-force long-term business	451	488
Total assets	**232,270**	**208,680**
Liabilities		
Shareholders' funds		
Equity	7,130	6,354
Non-equity	1,190	200
Minority interests	924	811
	9,244	7,365
Subordinated debt	2,823	2,814
Total capital, reserves and subordinated debt	**12,067**	**10,179**
Liabilities of the long-term business	131,099	121,125
Fund for future appropriations	9,218	8,443
Technical provision for linked liabilities	51,996	41,244
General insurance liabilities	18,155	17,515
Borrowings	1,423	1,720
Other creditors and provisions	8,312	8,454
Total liabilities	**232,270**	**208,680**

Consolidated cash flow statement
For the year ended 31 December 2004

The cash flows presented in this statement relate to non-long-term business transactions only. Long-term business profits are included as net cash inflows/(outflows) from operating activities only to the extent that they have been remitted to shareholders by way of dividends from life operations.

	2004 £m	2003 £m
Net cash inflow from operating activities, excluding exceptional items*	2,364	1,202
Exceptional items*	(56)	(522)
Net cash outflow from servicing of finance	(309)	(256)
Corporation tax received/(paid)	63	(179)
Net purchases of tangible fixed assets	(111)	(101)
Acquisitions and disposals of subsidiary and associated undertakings**	59	600
Equity dividends paid	(450)	(523)
Proceeds from issue of subordinated debt	-	1,567
Direct capital instrument (net of issue costs)	981	-
Net cash inflow/(outflow) from other financing activities:		
Issue of share capital	3	2
Net (repayment)/drawdown of loans	(312)	(366)
Net cash flows	**2,232**	**1,424**
Cash flows were invested as follows:		
Increase/(decrease) in cash holdings	(161)	(173)
Net (sales)/purchases of investments	2,468	1,672
Non-trading cash outflow to long-term business operations	(75)	(75)
Net investment of cash flows	**2,232**	**1,424**

The 2003 comparatives reflect the reclassification of our equity release business in the UK.

* Included within exceptional items is £23 million in respect of the disposal of Hill House Hammond and £33 million of other levies. 2003 includes payments to the Berkshire Hathaway Group for reinsurance purchased in December 2000, to secure protection against any adverse impact of the run-off of London Market claims reserves. The final instalment was paid on 2 January 2003.

** The 2003 figure includes £651 million of consideration received on 2 January 2003 in relation to the disposal of the Australia and New Zealand general insurance businesses.

1. Basis of preparation – modified statutory solvency basis

(a) The preliminary announcement for the year to 31 December 2004 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results on the modified statutory basis for 2004 have been taken from the Group's 2004 Annual Report and Accounts. The auditor has reported on the 2004 accounts and the report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Group's 2003 Annual Report and Accounts have been filed with the Registrar of Companies.

(b) The contribution from the Group's share of the partnership with The Royal Bank of Scotland Group (RBSG) is incorporated within the modified statutory life profit. Goodwill amortised in the year in respect of the Group's holding in the associated company, RBS Life Investments Limited, is included within 'Amortisation of goodwill' on page 41.

(c) In November 2000, the Accounting Standards Board issued Financial Reporting Standard 17 (FRS17) "Retirement Benefits", the accounting provisions, which are not required to be adopted by the Group until 1 January 2005. FRS17 requires certain transitional disclosures to be made in the statutory accounts and the table shown in the supplementary analyses on page 55 shows the balance sheet effect of these memorandum disclosures. The Group has continued to account for pension costs in accordance with SSAP24.

(d) Changes in accounting policy

Presentational changes

The results of our UK equity release business have been reclassified from non-insurance operations to the life insurance operations. This has resulted in assets, liabilities and operating profits being reclassified out of non-insurance segments and into life segments. 2003 comparatives have been restated accordingly and the result on consolidated shareholders' funds and consolidated profit for the 2003 financial year is nil.

(e) FRS27 "Life Assurance"

In December 2004, the UK Accounting Standards Board (ASB) issued FRS27 "Life Assurance", which requires certain disclosure to be made in relation to with-profit funds, capital and guarantees and options. Preparation of accounts in accordance with the standard is mandatory for accounting periods ending on or after 23 December 2005, and the Group will make these disclosures in its 2005 financial statements, produced under International Financial Reporting Standards. In accordance with the Memorandum of Understanding signed by Aviva, along with the ASB and other major insurance companies in relation to this standard's application to insurers' 2004 Report and Accounts, the required disclosures are made on pages 10 to 18 of this document.

2. Exchange rates

The euro rates employed in this announcement are an average rate of 1 euro = £0.68 (2003: 1 euro = £0.69) and a closing rate of 1 euro = £0.71 (31 December 2003: 1 euro = £0.70).

3. Acquisitions

(a) Life businesses: France

On 1 October 2004, as part of its bancassurance partnership with Crédit du Nord, the Group acquired 50% of the issued share capital and one share of Antarius, the life insurance company of Crédit du Nord, for an estimated cash consideration of £62 million. The Group's share of Antarius' estimated embedded value and net assets acquired was £51 million, giving rise to provisional goodwill of £11 million. The acquisition is still subject to the completion accounts process during the next 12 months, upon which goodwill estimates will be finalised.

(b) Non-insurance businesses: UK

On 16 August 2004, the Group's general insurance subsidiary, Norwich Union Insurance (NUI) acquired the entire share capital of HPI Holdings Limited (HPI). Total cash consideration including purchase costs was £122 million, comprising £118 million cash and £2 million of loan notes and £2 million of acquisition costs. The net assets acquired were £8 million, giving rise to goodwill of £114 million.

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) by the end of 2004 together with the sale of its commercial business. The associated pre-tax costs of the closure of HHH were £50 million and the exceptional costs relate to termination activities, including redundancy costs and closure provisions.

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

5. Disposals

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

	Note	2004 £m	2003 £m
UK	(a)	(141)	-
France	(b)	5	-
Other minor operations		-	(6)
		(136)	**(6)**

(a) Non-insurance businesses: UK

In July 2004, the Group completed the disposal of its Your Move estate agency and e.surveying business. Total consideration was £42 million and the net assets at the disposal date were £12 million. The loss on disposal was £141 million after deducting the associate costs of disposal and after writing back goodwill of £167 million, previously written off to reserves, as required by FRS10 “Goodwill and Intangible Assets”. The same goodwill amount is also credited directly to the profit and loss account reserve and therefore has a neutral effect on shareholders’ funds.

(b) Non-insurance businesses: France

In June 2004, our French operations, Aviva France, sold its 31.4% holding in Société Foncière Lyonnaise (SFL) a French listed property company for €427 million (£285 million) and after sale expenses recorded a gain of £5 million. These shares were owned by both our French life and non-life operations. Cumulative investment gains in the life company of £22 million have been transferred to a French GAAP statutory provision forming part of the fund for future appropriations under UK GAAP, and will be attributed to policyholders and shareholders as bonuses are declared to policyholders within the next eight years.

(c) Non-adjusting post balance sheet event: Sale of general insurance businesses in Asia

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 two phases. Phase I completed on 28 February 2005 and included all businesses above except for Malaysia, Indonesia, Macau, Marianas, Taiwan, Dah Sing and the Philippines which will be included as part of the completion of Phase II, expected in the second half of 2005.

Subject to the receipt of regulatory approval, the total proceeds for the sale of these businesses were fixed by reference to the net assets of the businesses as at 31 December 2003 and are not adjusted to reflect the results in the period from 1 January 2004 to completion. The Group does not bear any continuing operating risk from 31 December 2003.

Financial Reporting Standard 2 ‘Accounting for subsidiary undertakings’ requires the results of the Asian general insurance business to be consolidated with those of the Group’s ongoing operations until the completion of the transaction. Although the Group has retained no economic interest in the operations of this business beyond 31 December 2003, the post-tax operating profits are incorporated in the Group’s consolidated profit and loss account from 1 January 2004 to the date of completion. This will be offset by a corresponding change to the final profit on sale. Consequently, had the transaction been completed on 31 December 2004, the post-tax profit on sale would have been £129 million and is summarised below:

	£m	US$m
Net assets at 31 December 2003	60	108
Post-tax operating profit to 31 December 2004	13	24
Net assets as at 31 December 2004	73	132
Proceeds	250	450
Less: Net assets	(73)	(132)
Transaction costs	(8)	(14)
Pre-tax profit on sale	169	304

Tax attributable to profit on sale	(40)	(72)
Post-tax profit on sale	**129**	**232**

The Group has hedged its exposure to the sale proceeds of US$450 million through the purchase of foreign currency forward contracts.

Operating profit before tax, amortisation of goodwill and exceptional items for the Asian general insurance businesses included in these results is £21 million comprising of £15 million underwriting profit and £6 million of long-term investment return.

6. Geographical analysis of life and pensions and investment sales – new business and total income

	New business sales				**Premium income (after reinsurance) and investment sales**	
	New single premiums		**New regular premiums**			
		Restated*				
	2004 £m	**2003 £m**	**2004 £m**	**2003 £m**	**2004 £m**	**2003 £m**
Life and pensions sales						
United Kingdom – group**	6,297	5,685	499	511	8,530	8,688
– associates	205	152	17	23	297	254
	6,502	**5,837**	**516**	**534**	**8,827**	**8,942**
Europe (excluding UK)						
France	2,454	1,950	62	46	2,892	2,300
Ireland	203	188	66	62	454	442
Italy	1,529	1,399	45	54	1,806	1,662
Netherlands (including Belgium and Luxembourg)	1,131	850	148	139	1,990	1,722
Poland – Life	40	24	15	17	263	263
– Pensions	20	8	16	15	500	440
Spain	1,566	1,353	91	111	1,795	1,641
Other	336	280	90	73	724	616
International	**660**	**740**	**105**	**113**	**954**	**1,007**
Total life and pension sales (including share of associates)	**14,441**	**12,629**	**1,154**	**1,164**	**20,205**	**19,035**
Investment sales						
United Kingdom	840	664	19	16	859	680
Netherlands	196	204	-	-	196	204
Poland	75	109	2	1	77	110
Other Europe	254	49	-	-	254	49
International	243	98	-	-	243	98
Total investment sales	**1,608**	**1,124**	**21**	**17**	**1,629**	**1,141**
Total long-term savings (including share of associates)	**16,049**	**13,753**	**1,175**	**1,181**	**21,834**	**20,176**

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

* United Kingdom new business sales shown in the table have been restated to include new business sales through Norwich Union Equity Release. Total new single premium mortgage completion sales amounted to £478 million (2003: £501 million).

** Included within premium income (after reinsurance) and investment sales of £8,530 million (2003: £8,688 million) are transfers of institutional business into Morley Pooled Pensions of £334 million (2003: £1,247 million) which, since they are institutional in nature, are excluded from new business sales.

7. Geographical analysis of modified statutory life operating profit

	2004 £m	2003 £m
United Kingdom		
With-profit	107	145
Non-profit*	478	433
Europe (excluding UK)		
France	182	179
Ireland	35	41
Italy	43	30
Netherlands (including Belgium and Luxembourg)	166	107
Poland	84	103
Spain	61	50
Other	(5)	(4)
International	**34**	**38**
Total modified statutory life operating profit	**1,185**	**1,122**

* Included within non profit result is the operating profit of the equity release business, NUER, which is now being classified as a life business. Operating profit for 2004 was nil (2003: £16 million loss) on a modified statutory solvency basis.

8. Geographical analysis of health premiums after reinsurance and operating result

(a) Premiums after reinsurance:

	2004 £m	2003 £m
United Kingdom	280	270
France	147	134
Netherlands	567	662
	994	**1,066**

(b) Operating result:

	Operating profit		Underwriting result	
	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	12	13	8	9
France	8	9	(2)	(2)
Netherlands	38	39	(8)	(20)
	58	**61**	**(2)**	**(13)**

9. Geographical analysis of general insurance premiums after reinsurance and operating result

(a) General insurance premiums after reinsurance:

	2004 £m	2003 £m
United Kingdom	5,434	5,135
Europe (excluding UK)		
France	524	515
Ireland	545	611
Netherlands	719	563
Other	230	226
International		
Canada	1,202	1,208
Other	161	266
	8,815	**8,524**

(b) Operating result:

	Operating profit*		Underwriting result*	
	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	832	676	158	50
Europe (excluding UK)				
France	32	35	(8)	(9)
Ireland	153	91	79	26
Netherlands	71	35	26	(5)
Other	39	32	2	(6)
International				
Canada	152	12	37	(98)
Other	47	30	7	(12)
	1,326	**911**	**301**	**(54)**

* The general insurance operating profit and underwriting result are stated before the change in the equalisation provision of £23 million (2003: £49 million).

(c) General business – investment return information

	Actual investment return		Longer-term investment return	
	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	587	585	674	626
Europe (excluding UK)				
France	33	37	40	44
Ireland	61	58	74	65
Netherlands	69	71	45	40
Other	21	20	37	38
International				
Canada	98	94	115	110
Other	36	36	40	42
Total longer-term investment return			**1,025**	**965**
Total actual investment income	**905**	**901**		
Realised (losses)/gains	(65)	47		
Unrealised gains	287	136		

	1,127	**1,084**	**1,025**	**965**

9. Geographical analysis of general insurance premiums after reinsurance and operating result continued

(d) Reconciliation between general business investment return information and short-term fluctuation in investment return incorporated in the summarised consolidated profit and loss account – modified statutory basis

For the year to 31 December 2004

	Actual investment return £m	**Longer-term investment return £m**	**Short-term fluctuation in investment return £m**
General business	1,127	1,025	102
Health business	22	60	(38)
	1,149	**1,085**	**64**
Life business			67
Total short-term fluctuation in investment return			**131**

(e) Longer-term investment return

The longer-term investment return is calculated separately for each principal general insurance business and certain long-term business operations. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return. The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the year.

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

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

The table below shows the sensitivity of the full year 2004 operating profit to changes in the longer-term rates of return:

Movement in investment return	**By**	**Change in**	**By**
Equities	1% higher/lower	Group operating profit before tax	£32m
Properties	1% higher/lower	Group operating profit before tax	£12m

For 2005, the Group intends to apply the same economic assumptions for equities and properties as those used under EEV principles to calculate the longer-term investment return for its general insurance and health business for both UK GAAP and IFRS accounts.

10. Fund management operating result

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

11. Non-insurance operations

	2004 £m	2003 £m
Hill House Hammond	2	4
Personal finance subsidiaries	(1)	-
Your Move	9	1
Norwich Union Life Services	(76)	(54)
Other	(42)	1
	(108)	**(48)**

Norwich Union Equity Release has been reclassified as a life company and therefore its operating result of nil (2003: £16 million loss) previously included within non-insurance operating profit on an MSSB basis are included with life MSSB operating profit.

12. Corporate costs

	2004 £m	2003 £m
Global finance transformation programme	(85)	(60)
Central costs and sharesave schemes	(93)	(100)
	(178)	**(160)**

13. Unallocated interest

	2004 £m	2003 £m
External		
- subordinated debt	169	101
- other	77	109
Internal	219	196
	465	**406**

14. Tax

The tax charge in the profit and loss account comprises:

(a) Tax on profit/(loss) on ordinary activities:

		2004 £m	2003 £m
Current tax			
UK corporation tax	– current year	22	(60)
	– prior year	124	17
Overseas tax	– current year	(84)	(1)
	– prior year	2	3
Tax attributable to balance on technical account		(345)	(310)
		(281)	**(351)**
Deferred tax			
Origination and reversal of timing differences		(27)	(19)
Changes in tax rates or law		2	(11)
(Decrease)/increase in discount		(49)	14
		(74)	**(16)**
Total tax charged in the profit and loss account		**(355)**	**(367)**

(b) Tax charge analysed between:

	2004 £m	2003 £m
Operating profit before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items		
Continuing operations	(456)	(403)
Profit on other ordinary activities	101	36
	(355)	**(367)**

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

	2004 £m	2003 £m
Profit on ordinary activities before tax	**1,488**	**1,390**
Current tax (charge) at standard UK corporation tax rate of 30% (2003: 30%)	(446)	(417)
Adjustment to tax charge in respect of prior years	87	20
Non-assessable dividends	(48)	5
Non-taxable loss on the sale of subsidiaries and associates	(73)	(10)
Non-taxable amortisation of goodwill	(22)	(5)
Other disallowable expenses	(16)	(33)
Non-utilisation of current year tax losses	6	(10)
Different local basis of tax on overseas profits	87	53
Deferred tax charge arising from movement in unrealised gains and losses	18	20
Other deferred tax movements	38	10
Deferred tax liabilities not recognised	134	38
Other items	(46)	(22)
Current tax charge for the year	**(281)**	**(351)**

15. Dividends

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

	2004 £m	2003 £m
Preference dividends	**17**	**17**

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

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

		2004 £m	2003 £m
Ordinary dividends			
Interim	9.36 pence (2003: 9 pence)	211	203
Final	16.00 pence (2003: 15.15 pence)	364	342
Total ordinary dividends		**575**	**545**

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 8 March 2005.

(c) The direct capital instrument appropriation in the profit and loss account comprise:

	2004 £m	2003 £m
Direct capital instrument	**6**	**-**

16. Earnings per share

(a) Basic earnings per share

	2004			2003		
	Befor e tax £m	Net of tax, minorities and preference dividend £m	Per share p	Before tax £m	Net of tax, minorities and preference dividend £m	Per share p
Operating profit*	1,861	1,291	57.2	1,490	991	44.0
Adjusted for the following items:						
– Amortisation of goodwill	(120)	(120)	(5.3)	(103)	(103)	(4.6)
– Amortisation of acquired additional value of in-force long-term business	(126)	(89)	(3.9)	(135)	(98)	(4.4)
– Financial Services Compensation Scheme and other levies	(49)	(29)	(1.3)	-	-	-
– Exceptional costs for termination of operations	(50)	(40)	(1.8)	(19)	(16)	(0.7)
– Short-term fluctuation in investment return	131	173	7.6	212	198	8.9
– Change in the equalisation provision	(23)	(16)	(0.7)	(49)	(34)	(1.5)
– Loss on the disposal of subsidiary and associated undertakings	(136)	(136)	(6.0)	(6)	(6)	(0.3)
Profit attributable to equity shareholders	**1,488**	**1,034**	**45.8**	**1,390**	**932**	**41.4**

* All operating profit is from continuing activities.

16. Earnings per share continued

Earnings per share has been calculated based on the operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax, attributable to equity shareholders, for continuing and for total operations, as well as on the profit attributable to equity shareholders. The directors believe the former two earnings per share figures provide a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,256 million (2003: 2,251 million) ordinary shares in issue, after deducting shares owned by the employee share trusts as required by FRS14 'Earnings per share'.

The actual number of shares in issue at 31 December 2004 was 2,282 million (31 December 2003: 2,257 million).

(b) Diluted earnings per share:

	2004			2003		
	Total £m	**Weighted average number of shares m**	**Per share p**	**Total £m**	**Weighted average number of shares m**	**Per share p**
Profit attributable to equity shareholders	1,034	2,256	45.8	932	2,251	41.4
Dilutive effect of share awards and options	-	22	(0.4)	-	8	(0.1)
Diluted earnings per share	**1,034**	**2,278**	**45.4**	**932**	**2,259**	**41.3**

Statistical supplement

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 one business service division and one-off project costs of £88 million associated with the pace of regulatory change.

3 Mortality experience across our major businesses continues to be better than our assumptions for protection and annuity business in the UK and protection 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.

Full year 2003 £m

	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	212	39	26	27	29	3	122	(6)	22	474
Profit from existing business										
- expected return	335	104	29	27	146	51	32	17	20	761
- experience variances:										
Maintenance expenses	(8)	1	(3)	(1)	(1)	4	1	(3)	-	(10)
Exceptional expenses[1]	(63)	(12)	-	(1)	(35)	-	(4)	1	(2)	(116)
Mortality/Morbidity[2]	22	14	3	3	(3)	7	2	2	4	54
Lapses[3]	(29)	(1)	(22)	(2)	(11)	5	(3)	2	3	(58)
Other[4]	37	54	11	8	(10)	4	4	(9)	-	99
	(41)	56	(11)	7	(60)	20	-	(7)	5	(31)
- operating assumption changes:										
Maintenance expenses[5]	7	(21)	2	-	1	51	(9)	4	1	36
Exceptional expenses	(7)	(2)	-	-	-	-	-	-	-	(9)
Mortality/Morbidity[6]	22	-	10	-	2	(20)	13	1	(1)	27
Lapses[7]	(46)	-	(10)	(4)	(2)	(3)	1	-	(3)	(67)
Other[8]	25	(4)	-	1	27	(13)	(1)	-	(3)	32
	1	(27)	2	(3)	28	15	4	5	(6)	19
Expected return on shareholders' net worth	90	56	11	12	55	10	7	9	23	273
Life EEV operating return before tax	**597**	**228**	**57**	**70**	**198**	**99**	**165**	**18**	**64**	**1,496**

1 Exceptional expenses in the UK reflect one-off project costs including those associated with the pace of regulatory change. In the Netherlands, they relate to project costs in Delta Lloyd Life and development costs in Belgium.
2 Mortality experience has typically been better than anticipated in many of the group businesses.
3 Lapse experience has been adverse in a number of businesses including on certain savings contracts in the UK.
4 In the UK, other experience profits include exceptional profits arising from better than assumed default experience on corporate bonds. In France, profits relate to the benefit of lower tax charges on dividends from subsidiaries and to a lesser extent, one-off benefits following the utilisation of tax losses.
5 In France, there is a £21 million charge, mainly resulting from updated expense assumptions, following the revisions to the agreement between Aviva and the AFER association. Expense assumptions have been changed in Poland reflecting improvements in efficiency.
6 Changes in the UK reflect expected beneficial mortality experience for protection business.
7 In the UK, lapse assumption changes reflect experience in savings contracts mainly on with-profits and endowment business.
8 Changes in the Netherlands primarily relate to increased annual management fees on unit-linked contracts.

Supplementary analyses

(a) Life new business premiums

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

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

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

	31 December 2004				
	Regular premiums	**Weighted average capitalisation factor**	**Present value of regular premiums**	**Single premiums[1]**	**Present value of new business premiums**
	£m		**£m**	**£m**	**£m**
United Kingdom					
Individual pensions	265	5.2	1,373	1,742	3,115
Group pensions	88	5.0	440	540	980
Annuities	-	-	-	1,278	1,278
Bonds	-	-	-	2,260	2,260
Protection	163	5.3	857	682	1,539
Total life and pensions	**516**	**5.2**	**2,670**	**6,502**	**9,172**
France					
Eurosavings	15	5.0	75	1,745	1,820
Unit-linked savings	30	5.0	150	668	818
Protection business	17	6.1	103	41	144
Total life and pensions	**62**	**5.3**	**328**	**2,454**	**2,782**
Ireland					
Life and savings	18	6.3	114	54	168
Pensions	48	5.1	244	149	393
Total life and pensions	**66**	**5.4**	**358**	**203**	**561**
Italy					
Life and savings	45	6.0	270	1,529	1,799
	45	**6.0**	**270**	**1,529**	**1,799**
Netherlands (including Belgium and Luxembourg)					
Life	96	6.8	651	467	1,118
Pensions	52	7.4	386	664	1,050
Total life and pensions	**148**	**7.0**	**1,037**	**1,131**	**2,168**
Poland					
Life and savings	15	4.4	66	40	106
Pensions	16	7.2	115	20	135
Total life and pensions	**31**	**5.8**	**181**	**60**	**241**
Spain					
Life and savings	52	5.7	297	1,061	1,358
Pensions	39	6.3	247	505	752
Total life and pensions	**91**	**6.0**	**544**	**1,566**	**2,110**
Other Europe					
Life and pensions	90	5.2	468	336	804
International					
Life and pensions	105	3.7	390	660	1,050
Total	**1,154**	**5.4**	**6,246**	**14,441**	**20,687**

1 United Kingdom includes single premiums of £478 million in respect of NUER included in Protection business.

Supplementary analyses (continued)

(b) 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:

	Full year 2004			Full year 2003
	Fund Management £m	Non-Insurance £m	Total £m	Total £m
United Kingdom	54	(397)	(343)	(388)
France	45	(13)	32	27
Other Europe and International	6	(21)	(15)	(21)
	105	**(431)**	**(326)**	**(382)**

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 profit and loss account records the experience profit or loss compared to the assumed profitability, the return on the in-force value arising from the unwind at the relevant risk discount rate and the effect on the in-force value of changes to economic assumptions.

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.

(c) Treatment of pension scheme deficit 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.

	31 December 2004 £m	31 December 2003 £m
Impact of:		
Increasing maintenance and normal project allowances	(124)	(182)
Increase in future service pension scheme contribution rate from 11% to 25%	(126)	(117)
	(250)	(299)
Pension scheme deficit funding	(147)	(137)
	(397)	**(436)**

Under the Modified Statutory basis, pension costs are accounted in NULS in accordance with SSAP24. This results in a pension cost charge to the statutory result of NULS of 11% of pensionable salaries for 2004 (2003: 11%). The funding rate for the annual pension cost was increased to 25% of pensionable salaries with effect from 1 January 2003.

In accordance with SSAP24, only 11% of pensionable salaries are charged to the profit and loss account with the remaining 14% treated as prepayment. Under the EEV methodology, allowance has been made for the entire contribution reducing the embedded value of UK Life and related business at 2004 by £126 million (31 December 2003: £117 million).

In addition, pension deficit funding equivalent in 2004 to a further 13% of pensionable salaries commenced on 1 January 2004. The NULS share of the total UK pension scheme deficit is approximately 42% and this liability is fully provided for in the UK embedded value. In effect, under the EEV methodology the element of the pension fund deficit which relates to the UK life and other related businesses is now incorporated within shareholders' funds at an amount equivalent to the post-tax contributions discounted using the UK Life business risk discount rate. This is equal to £147 million at 31 December 2004 (2003: £137 million), which differs from the FRS17 basis of evaluating pension deficits.

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

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

The Group continues to account for its pension scheme costs in accordance with SSAP24. The following table sets out the impact of adjusting the pension scheme on a FRS17 basis for the adoption of calculating the deficit under the EEV principles.

	Full year 2004 £m	**Full year 2003 £m**
FRS17 pension scheme deficit post tax	(619)	(583)
Element relating to UK life covered business	216	211
Element relating to non-life business	(403)	(372)
Deduct: SSAP24 prepayment	(279)	(251)
Deduction required from restated shareholders' funds to incorporate pension deficit in full as a liability	(682)	(623)
Total shareholders' funds on an EEV basis	14,119	11,705
Total shareholders' funds on an EEV basis including pension liability on FRS17 basis	**13,437**	**11,082**

The element of the FRS17 pension scheme deficit relating to covered business in Ireland and the Netherlands has not been adjusted for in the table above, as the funding arrangements in these territories have not changed.

(d) Pension schemes – MSSB basis

The group continues to account for its pension costs in accordance with SSAP24. The effect on the group's MSSB net assets of substituting the FRS17 figures for the corresponding SSAP24 balance sheet entries would be as follows:

	Net assets	
	2004 £m	**2003 £m**
Total included on the MSSB balance sheet	9,244	7,365
Less: pension net asset on SSAP24 basis	(279)	(251)
Total excluding pension asset	8,965	7,114
Less: pension liability net of deferred tax on FRS17 basis	(619)	(583)
Total net assets on an MSSB basis including pension liability on FRS17 basis	**8,346**	**6,531**

The pension net asset shown above is after deducting £56 million held within technical reserves in respect of future funding.

General insurance – geographical ratio analysis

	Claims ratio		Expense ratio		Combined operating ratio	
	2004 %	**2003 %**	**2004 %**	**2003 %**	**2004 %**	**2003 %**
United Kingdom	64.7%	66.4%	10.0%	10.5%	97%	99%
France	72.2%	70.6%	12.2%	13.6%	101%	102%
Ireland	66.6%	78.5%	10.8%	8.9%	87%	97%
Netherlands	59.9%	60.5%	13.9%	17.4%	95%	101%
Canada	66.6%	78.4%	12.0%	11.7%	97%	108%
	65.2%	**69.3%**	**10.9%**	**11.3%**	**97%**	**100%**

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.

General insurance – class of business analyses

(a) United Kingdom

	Net written premiums		Underwriting result		Combined operating ratio	
	2004 £m	**2003 £m**	**2004 £m**	**2003 £m**	**2004 %**	**2003 %**
Personal						
Motor	1,380	1,345	(14)	(34)	102%	102%
Homeowner	1,041	970	29	5	97%	99%
Creditor	644	588	(2)	5	101%	102%
Other	93	84	13	-	90%	101%
	3,158	2,987	26	(24)	100%	101%
Commercial						
Motor	755	767	23	31	97%	97%
Property	924	859	104	62	88%	91%
Liability	457	409	(22)	(32)	105%	108%
Other	140	113	27	13	80%	89%
	2,276	2,148	132	74	94%	96%
£m	**5,434**	**5,135**	**158**	**50**	**97%**	**99%**

During the year to 31 December 2004, annualised rating increases were as follows: commercial liability: 7%; commercial property: 4%; commercial motor: nil; homeowners: 1%; and personal motor: 2%.

(b) France

	Net written premiums		Underwriting result		Combined operating ratio	
	2004 €m	**2003 €m**	**2004 €m**	**2003 €m**	**2004 %**	**2003 %**
Motor	370	355	(8)	12	103%	97%
Property and other	401	391	(4)	(25)	100%	107%
€m	**771**	**746**	**(12)**	**(13)**	**101%**	**102%**
£m	**524**	**515**	**(8)**	**(9)**	**101%**	**102%**

General insurance – class of business analyses (continued)

(c) Netherlands

	Net written premiums		Underwriting result		Combined operating ratio	
	2004 €m	**2003 €m**	**2004 €m**	**2003 €m**	**2004 %**	**2003 %**
Property	347	327	31	18	90%	93%
Motor	368	314	30	2	95%	98%
Liability	56	55	(10)	(12)	119%	160%
Other	286	120	(13)	(15)	97%	101%
€m	**1,057**	**816**	**38**	**(7)**	**95%**	**101%**
£m	**719**	**563**	**26**	**(5)**	**95%**	**101%**

(d) Canada

	Net written premiums		Underwriting result		Combined operating ratio	
	2004 C$m	**2003 C$m**	**2004 C$m**	**2003 C$m**	**2004 %**	**2003 %**
Automobile	1,747	1,736	5	(262)	100%	115%
Property	822	760	80	24	90%	96%
Liability	249	233	(12)	5	106%	97%
Other	43	38	15	8	65%	74%
C$m	**2,861**	**2,767**	**88**	**(225)**	**97%**	**108%**
£m	**1,202**	**1,208**	**37**	**(98)**	**97%**	**108%**

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 the modified statutory basis. 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 debtholders. As a result, the Group is able to enhance the returns earned on its equity capital.

Capital employed by segment

	2004 £m	Restated* 2003 £m
Long-term savings	13,218	11,969
General insurance and health	4,633	4,481
Other business	735	725
Corporate	755	666
Total capital employed	**19,341**	**17,841**
Financed by		
Equity shareholders’ funds and minority interests	12,929	11,505
Direct capital instrument	990	-
Preference shares	200	200
Subordinated debt	2,823	2,814
External debt	1,412	1,709
Net internal debt	987	1,613
	19,341	**17,841**

* Restated for the effect of implementing European Embedded Value principles and for the reclassification of internal debt.

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

In 2004, the total capital employed in our long-term savings operations increased due to the positive impact of retained earnings and the upward trend in equity markets partially offset by dividends paid to holding companies. The total capital employed in our general insurance businesses also increased due to retained profits partially offset by dividends paid to holding companies.

In addition to its external funding sources, the Group has a number of internal debt arrangements in place. These have allowed assets supporting technical liabilities to be invested into the pool of central assets for use across the Group. They have also enabled the shareholders to deploy cash from some parts of the business to others in order to fund growth. Although intra-group loans in nature these internal debt arrangements are treated 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 we have revised the presentation of internal debt. 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 reduction in the net internal debt reflects, in part, the repayment by the corporate and holding entities of upstream loans and an increase in the tangible assets held by corporate entities arising from a combination of capital raising activity and dividends received from business operations.

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

Group capital structure (continued)

The ratio of the Group's external debt to shareholders' funds and subordinated debt was 8% (31 December 2003: 12%). Fixed charge cover, which measures the extent to which external interest costs, including the subordinated debt interest and preference share dividends, are covered by EEV operating profit, was 9 times (31 December 2003: 9 times).

At 31 December 2004 the market value of the Group's external debt, subordinated debt, preference shares and direct capital instrument was £5,953 million (31 December 2003: £5,455 million), with a weighted average cost of 3.9% (31 December 2003: 3.9%). The group WACC is 7.4% 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 1.4.

Deployment of equity shareholders' funds

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

* Restated for the effect of implementing European Embedded Value principles and for the reclassification of internal debt.

Our exposure to equities has increased from £3.6 billion at 31 December 2003 to £3.8 billion at 31 December 2004 which represents 20% of our capital employed.

Return on capital employed

	2004			Restated* 2003
	Normalised after-tax return £m	Restated* opening capital £m	Return on capital %	Return on capital %
Long-term savings	1,121	11,969	9.4%	10.4%
General insurance and health	899	4,481	20.1%	16.4%
Other business	(6)	725	(0.8)%	(0.7)%
Corporate	(77)	666	(11.6)%	(14.5)%
	1,937	**17,841**	**10.9%**	**10.2%**
Borrowings	(244)	(6,136)	4.0%	4.7%
	1,693	**11,705**	**14.5%**	**13.4%**
Minority interests	(154)	(953)	16.2%	17.9%
Direct capital instrument	(6)	-	-	-
Preference capital	(17)	(200)	8.5%	8.5%
Equity shareholders' funds	**1,516**	**10,552**	**14.4%**	**13.1%**

* Restated for the effect of implementing European Embedded Value principles, and for the reclassification of internal debt.

The return on capital is calculated as the after-tax return on opening equity capital, based on operating profit, including life EEV operating return, before amortisation of goodwill and exceptional items.

Group capital structure (continued)

Shareholders' funds, including minority interests

		2004 Closing shareholders' funds			Restated* 2003 Closing shareholders' funds		
	Note	MSSB net assets (note 1) £m	Internally generated AVIF £m	Embedded value £m	MSSB net assets (note 1) £m	Internally generated AVIF £m	Embedded value £m
Life assurance							
United Kingdom		3,263	2,351	5,614	2,844	2,356	5,200
France		1,088	731	1,819	1,068	491	1,559
Ireland		369	246	615	338	239	577
Italy		466	72	538	386	49	435
Netherlands (including Belgium and Luxembourg)		1,724	753	2,477	1,621	733	2,354
Poland		189	368	557	146	308	454
Spain		289	295	584	266	180	446
Other Europe		150	63	213	174	10	184
International	6	601	(4)	597	568	(26)	542
		8,139	**4,875**	**13,014**	**7,411**	**4,340**	**11,751**
Participating interests	2	204	-	204	218	-	218
		8,343	**4,875**	**13,218**	**7,629**	**4,340**	**11,969**
General insurance and health	3						
United Kingdom		2,240		2,240	2,448		2,448
France		412		412	414		414
Ireland		358		358	333		333
Netherlands		467		467	250		250
Other Europe		160		160	112		112
Canada		702		702	631		631
Other		294		294	293		293
		4,633	**-**	**4,633**	**4,481**	-	**4,481**
Other business		735		735	725		725
Corporate		755		755	666		666
External debt	4	(1,412)		(1,412)	(1,709)		(1,709)
Net Internal debt		(987)		(987)	(1,613)		(1,613)
Subordinated debt		(2,823)		(2,823)	(2,814)		(2,814)
		(3,732)	-	(3,732)	(4,745)	-	(4,745)
Shareholders' funds, including minority interests		**9,244**	**4,875**	**14,119**	**7,365**	**4,340**	**11,705**
Comprising							
Equities		3,834		3,834	3,571		3,571
Debt and fixed income securities		5,317		5,317	5,736		5,736
Property		595		595	584		584
Deposits and other investments		1,845		1,845	1,036		1,036
Intangible assets	5	1,790	4,875	6,665	1,811	4,340	6,151
Other net assets		1,085		1,085	763		763
Borrowings		(5,222)		(5,222)	(6,136)		(6,136)
		9,244	**4,875**	**14,119**	**7,365**	**4,340**	**11,705**

* Restated for the effect of implementing European Embedded Value principles, and for the reclassification of internal debt.

Group capital structure (continued)

Shareholders' funds, including minority interests (continued)

Notes

1. Includes acquired additional value of in-force long-term business of £451 million (31 December 2003: £488 million).
2. The net assets represent the £204 million of goodwill on the RBSG joint venture (31 December 2003: £218 million).
3. The capital employed in the Group's general insurance operations includes £296 million of goodwill (31 December 2003: £392 million).
4. The external borrowings reported in the summary consolidated balance sheet of £1,423 million (31 December 2003: £1,720 million) comprise £11 million (2003: £11 million) of general insurance borrowings (reported within the general insurance and health net assets) and £1,413 million (31 December 2003: £1,709 million) of borrowings by holding companies of the Group not allocated to operating companies (shown as external debt).
5. Comprises £451 million of acquired additional value of in-force long-term business (31 December 2003: £488 million), £1,135 million of goodwill arising on acquisitions (31 December 2003: £1,105 million) and £204 million of goodwill on the RBSG joint venture (31 December 2003: £218 million).
6. AVIF is negative for international business due to the embedded value of the USA life business being below its balance sheet value on a UK GAAP basis. This is due to the cost of locked-in required capital under EEV which is not recognised under UK GAAP.

Group capital structure (continued)

Geographical analysis of return on capital employed

2004

	Note	Normalised return (Note 1)		Restated opening shareholders' funds including minority interests (Note 2)	Return on capital
		Before tax £m	After tax £m	£m	%
Life assurance					
United Kingdom	3	551	385	5,418	7.1%
France		286	185	1,559	11.9%
Ireland		40	35	577	6.1%
Italy		79	49	435	11.3%
Netherlands (including Belgium and Luxembourg)		277	201	2,354	8.5%
Poland		93	75	454	16.5%
Spain		180	117	446	26.2%
Other Europe		22	14	184	7.6%
International		83	60	542	11.1%
		1,611	**1,121**	**11,969**	**9.4%**
General insurance and health					
United Kingdom		711	485	2,448	19.8%
France		40	28	414	6.8%
Ireland		153	134	333	40.2%
Netherlands		109	85	250	34.0%
Other Europe		39	29	112	25.9%
Canada		152	99	631	15.7%
Other		47	39	293	13.3%
		1,251	**899**	**4,481**	**20.1%**
Other business		(8)	(6)	725	(0.8)%
Corporate	5	(178)	(77)	666	(11.6)%
External debt		(77)	(65)	(1,709)	3.8%
Net internal debt	4, 5	(86)	(61)	(1,613)	3.8%
Subordinated debt		(169)	(118)	(2,814)	4.2%
		2,344	**1,693**	**11,705**	**14.5%**

Notes
1. The normalised return is based upon operating profit, including life EEV operating return, before amortisation of goodwill and exceptional items.
2. Restated for the effect of implementing European Embedded Value principles.
3. Shareholders' funds includes £218 million of goodwill on the RBSG joint venture.
4. The return before tax of £(86) million comprises investment return of £133 million and unallocated interest of £(219) million.
5. Restated for the reclassification of internal debt.

Group capital structure (continued)

Geographical analysis of return on capital employed (continued)

2003

		Restated normalised return (Note 1 & 2)		Restated opening shareholders' funds including minority interests (Note 2)	Restated return on capital (Note 2)
	Note	Before tax £m	After tax £m	£m	%
Life assurance					
United Kingdom	3	597	418	4,835	8.6%
France		228	148	1,326	11.2%
Ireland		57	50	493	10.1%
Italy		70	43	334	12.9%
Netherlands (including Belgium and Luxembourg)		198	148	1,755	8.4%
Poland		99	72	398	18.1%
Spain		165	107	339	31.6%
Other Europe		18	10	164	6.1%
International		64	44	372	11.8%
		1,496	**1,040**	**10,016**	**10.4%**
General insurance and health					
United Kingdom		608	416	2,052	20.3%
France		44	33	481	6.9%
Ireland		91	78	236	33.1%
Netherlands		74	55	275	20.0%
Other Europe		32	24	63	38.1%
Canada		12	8	535	1.5%
Other		30	27	275	9.8%
		891	**641**	**3,917**	**16.4%**
Other business		4	(4)	553	(0.7)%
Corporate	5	(160)	(95)	657	(14.5)%
External debt		(109)	(86)	(2,036)	4.2%
Net internal debt	4, 5	(115)	(81)	(1,870)	4.3%
Subordinated debt		(101)	(71)	(1,190)	6.0%
		1,906	**1,344**	**10,047**	**13.4%**

Notes
1. The normalised return is based upon operating profit, including life EEV operating return, before amortisation of goodwill and exceptional items.
2. Restated for the effect of implementing European Embedded Value principles.
3. Shareholders' funds includes £231 million of goodwill on the RBSG joint venture.
4. The return before tax of £(115) million comprises investment return of £81 million and unallocated interest of £(196) million.
5. Restated for the reclassification of internal debt.

Assets under management

	Long-term business 2004 £m	General business and other 2004 £m	Group 2004 £m	Restated* Group 2003 £m
Financial investments				
Shares, other variable yield securities and units in unit trusts	28,430	2,664	31,094	28,294
Strategic investments**	1,707	485	2,192	2,026
Debt and fixed income securities at market value	38,547	10,750	49,297	47,048
Debt and fixed income securities at amortised cost	38,626	-	38,626	34,709
Loans secured by mortgages and other loans, net of non-recourse funding	11,584	1,387	12,971	12,283
Deposits	4,621	1,871	6,492	2,943
Other investments	1,052	29	1,081	1,518
Total financial investments	**124,567**	**17,186**	**141,753**	**128,821**
Investments in joint ventures	1,271	-	1,271	869
Investments in associated undertakings and participating interests	639	178	817	1,043
Land and buildings	8,770	637	9,407	9,430
Total investments	**135,247**	**18,001**	**153,248**	**140,163**
Assets held to cover linked liabilities	51,144	-	51,144	40,665
Other assets included in the balance sheet	14,265	13,613	27,878	27,852
Total MSSB assets included in the balance sheet	**200,656**	**31,614**	**232,270**	**208,680**
Additional value of in-force long-term business	4,875	-	4,875	4,340
Total EV assets included in the balance sheet	**205,531**	**31,614**	**237,145**	**213,020**
Third party funds under management:				
Securitised mortgages (gross of non-recourse funding)			5,010	3,143
Unit trusts, Oeics, Peps and Isas			5,450	4,460
Segregated funds			24,899	19,355
Total assets under management			**272,504**	**239,978**

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

** Strategic investments include the market value of the Group's shareholding in Société Générale, Münchener Rückversicherungs-Gesellschaft, The Royal Bank of Scotland Group and UniCredito Italiano.

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 is as follows.

	Long-term business		General business and other		Market value		Proportion held	
	2004	2003	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m	%	%
Société Générale	242	231	2	2	244	233	1.1%	1.1%
Münchener Rückversicherungs-Gesellschaft	205	232	179	171	384	403	2.5%	2.6%
The Royal Bank of Scotland Group	977	808	49	46	1,026	854	1.8%	1.8%
UniCredito Italiano	283	279	255	257	538	536	2.8%	2.8%
	1,707	**1,550**	**485**	**476**	**2,192**	**2,026**		

General insurance and other investments mix

	United Kingdom £m	Continental Europe £m	International £m	Total 2004 £m
Shares, other variable yield securities and units in unit trusts and strategic investments	1,628	1,125	396	3,149
Debt and fixed income securities at market value	4,746	3,693	2,311	10,750
Land and Buildings	255	349	33	637
Other	2,300	937	228	3,465
Total investments	**8,929**	**6,104**	**2,968**	**18,001**

Appendix B

Restated preliminary opening balance sheet as at 1 January 2004 under International Financial Reporting Standards

Introduction of International Financial Reporting Standards (IFRS)

Introduction

From 2005 all European Union listed groups will be required to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union. Aviva will therefore prepare consolidated accounts in 2005 in accordance with IFRS rather than with UK GAAP. The listing rules in the UK require that the 2005 interim results must also be presented on an IFRS basis. Aviva intends to publish its first IFRS results in August 2005. This will include income statement, balance sheet and cash flow statement comparatives for half year and full year 2004.

In January 2004 The Committee of European Securities Regulators issued guidance regarding the transition to IFRS which encourages companies to provide markets with appropriate and useful information during the transition phase from local accounting standards to IFRS. Aviva believes that it is important to remove some of the uncertainty regarding IFRS and in line with the recommendations in the guidance has chosen to publish early its consolidated summarised balance sheet prepared in accordance with IFRS at the date of transition, namely 1 January 2004, together with a reconciliation of shareholders' equity at this date. The Group's preparations for reporting under IFRS are well advanced, however, Aviva is not yet required to publish full restated 2004 comparatives. This information will be provided as part of the 2005 interim reporting.

Basis of preparation

The Group's preliminary consolidated balance sheet at 1 January 2004 ("the restated IFRS preliminary opening balance sheet") has been prepared in accordance with IFRS issued by the IASB and endorsed by the European Commission effective for 2005 year ends. In addition the Group plans to adopt early the recently issued Amendment to IAS19 Employee Benefits (2004). It is assumed that the amendment will be endorsed by the European Commission so as to be available for adoption in 2005. The IFRS themselves are subject to possible amendment by interpretative guidance from the IASB or other external bodies and are therefore subject to change prior to publication of the Group's first IFRS results in August 2005.

In October 2004 the European Commission voted to partially adopt International Accounting Standard 39 - Financial Instruments: Recognition and Measurement (IAS39). In summary this "carve-out version" of IAS39 removes the use of the fair value option for financial liabilities and relaxes the rules for hedge accounting. It is Aviva's intention to comply as far as possible with the full version of IAS39 issued by the IASB. Recent guidance issued by the UK's Accounting Standards Board, clarifies that UK companies are able to apply the hedge accounting provisions within IAS39 in full, and fair value those liabilities that were permitted to be held at current value under UK Company Law. This would include liabilities arising from unit linked contracts. Aviva has applied the guidance in this case.

The restated IFRS preliminary opening balance sheet does not reflect any changes in respect of any amendments to IAS39 on the fair value option currently being discussed by the IASB. Proposals to restrict the fair value option are being considered by the IASB and are the subject of continuing debate between the IASB, industry and regulators, in which Aviva is actively participating. It is too early to anticipate the outcome of these discussions and therefore its eventual impact on the Group.

Within the restated IFRS preliminary opening balance sheet, those assets held to cover the Group's linked liabilities are no longer disclosed in a single line but have been reported in the various asset classifications. The method of presentation of these assets is currently being debated by the industry and so is subject to change, but in any event we will provide in our full financial statements additional disclosure so that the amounts included in individual asset lines can be separately identified.

The industry is still debating the consolidation of mutual funds, such as OEICs and OPCVMs. Aviva has chosen to consolidate these vehicles but will continue to monitor industry developments.

Financial Reporting Standard 27 - Life Assurance (FRS27) was issued by the UK's Accounting Standards Board (ASB) on 13 December 2004, in the wake of the Penrose enquiry and is mandatory for reporting periods starting on or after 23 December 2005. Aviva along with other major insurance companies and the Association of British Insurers (ABI) has signed a Memorandum of Understanding (MoU) with the ASB relating to FRS27. Under this MoU, Aviva has agreed to provide voluntarily early disclosure of the requirements for 2004 and then to fully adopt the standard from 2005, including within the Group's IFRS financial statements.

Within FRS27 the ASB acknowledged the difficulty of applying the requirements retrospectively and indeed it is the Group's view that it would be impractical to do so. Hence in accordance with IAS8 only the balance sheet at 31 December 2004 will be restated for the impact of FRS27. No adjustments are therefore required, nor have any been made, to the restated preliminary IFRS opening balance sheet below.

A summary of the IFRS accounting policies adopted by the Group in preparing the restated preliminary IFRS opening balance sheet have been included on pages 78 to 85.

The restated preliminary IFRS opening balance sheet has been audited by Ernst & Young. A copy of their opinion can be found in the Report & Accounts on page 127 of that document.

Transitional arrangements upon first time adoption of IFRS

In general, a company is required to determine its IFRS accounting polices and apply these retrospectively to determine its opening balance sheet under IFRS. However, International Financial Reporting Standard 1 – First-Time Adoption of International Financial Reporting Standards (IFRS1) allows a number of exemptions to this general principle upon adoption of IFRS. The Group has taken advantage of the following transitional arrangements:

Business combinations

The Group has elected not to apply retrospectively the provisions of International Financial Reporting Standard 3 – Business Combinations, to business combinations that occurred prior to 1 January 2004. At the date of transition no adjustment was made between UK GAAP and IFRS shareholders' funds for any historical business combination.

Cumulative translation differences

The Group has elected that the cumulative translation differences of foreign operations were deemed to be zero at the transition date to IFRS.

Equity compensation plans

The Group has elected not to apply the provisions of International Financial Reporting Standard 2 – Share-based Payment, to options and awards granted on or before 7 November 2002 which had not vested by 1 January 2005.

Employee benefits

All cumulative actuarial gains and losses on the Group's defined benefit pension schemes have been recognised in equity at the transition date.

Comparatives

The Group has not taken advantage of the exemption within IFRS1 that allows comparative information presented in the first year of adoption of IFRS not to comply with International Accounting Standard 32 – Financial Instruments: Disclosure and Presentation (IAS32), International Accounting Standard 39 – Financial Instruments: Recognition and Measurement (IAS39) and International Financial Reporting Standard 4 – Insurance Contracts (IFRS4).

Estimates

Where estimates had previously been made under UK GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (i.e., judgements affecting the Group's opening balance sheet have not been revisited for the benefit of hindsight).

Summarised preliminary consolidated balance sheet at date of transition to IFRS – 1 January 2004

	UK GAAP (MSSB) as published £m	Adjustments £m	IFRS £m
Assets			
Intangible assets			
Goodwill	1,105	40	1,145
Acquired value of in-force business and other intangible assets	488	-	488
	1,593	40	1,633
Property and equipment	320	563	883
Investment property	9,106	618	9,724
Investments in joint ventures and associates	1,912	69	1,981
Financial investments and loans	129,032	40,480	169,512
Assets held to cover linked liabilities	40,665	(40,665)	-
Reinsurance assets	6,883	328	7,211
Tax assets	215	633	848
Other assets	15,955	(3,580)	12,375
Cash and cash equivalents	2,999	6,524	9,523
Total assets	**208,680**	**5,010**	**213,690**
Equity			
Share capital	764	-	764
Capital reserves	3,859	-	3,859
Shares held by employee trusts	(1)	-	(1)
Revaluation and other reserves	-	568	568
Retained earnings	1,932	(818)	1,114
Equity attributable to shareholders' of Aviva plc	6,554	(250)	6,304
Minority interests	811	(7)	804
Total Equity	**7,365**	**(257)**	**7,108**
Liabilities			
Insurance liabilities	175,304	(61,401)	113,903
Liability for investment contracts	-	57,445	57,445
Unallocated divisible surplus	8,443	1,730	10,173
Pension obligations and other provisions			
Provisions including pension obligations as measured under IAS 19	336	1,469	1,805
Non-transferable investment in life fund	-	(598)	(598)
	336	871	1,207
Tax liabilities	1,276	631	1,907
Borrowings (inc. subordinated debt)	4,722	3,555	8,277
Other liabilities	11,234	830	12,064
Net asset value attributable to unitholders	-	1,606	1,606
Total liabilities	**201,315**	**5,267**	**206,582**
Total equity and liabilities	**208,680**	**5,010**	**213,690**

Analysis of adjustments to the balance sheet at 1 January 2004 as a result of the transition to IFRS

	Investment valuation (Note 1)	Insurance changes (Note 2)	Employee benefits (Note 3)	Goodwill (Note 4)	Dividend recognition (Note 5)	Deferred taxation (Note 6)	Borrowings/ Cash (Note 7)	Other items (Note 8)	Total adjustments
Assets	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Intangible assets:									
Goodwill				40					40
Acquired value of in-force business and other intangible assets									-
Property and equipment								563	563
Investment property								618	618
Investments in joint ventures and associates	7							62	69
Financial investments and loans	1,854						6	38,620	40,480
Assets held to cover linked liabilities								(40,665)	(40,665)
Reinsurance assets		(134)						462	328
Tax assets						617		16	633
Other assets		(6)	(427)				67	(3,214)	(3,580)
Cash and cash equivalents							3,547	2,977	6,524
Total assets	1,861	(140)	(427)	40	-	617	3,620	(561)	5,010
Equity									
Share capital									-
Capital reserves									-
Shares held by employee trusts									-
Revaluation and other reserves	568								568
Retained earnings	(377)	289	(834)	40	344	(351)	-	71	(818)
Equity attributable to shareholders' of Aviva plc	191	289	(834)	40	344	(351)	-	71	(250)
Minority interests								(7)	(7)
Total Equity	191	289	(834)	40	344	(351)	-	64	(257)
Liabilities									
Insurance liabilities	161	(530)				58		(61,090)	(61,401)
Liability for investment contracts								57,445	57,445
Unallocated divisible surplus	1,509	1				(48)		268	1,730
Pension obligations and other provisions			760					111	871
Tax liabilities			(353)			958		26	631
Borrowings (inc. subordinated debt)							3,394	161	3,555
Other liabilities		100			(344)		226	848	830
Net asset value attributable to unitholders								1,606	1,606
Total liabilities	**1,670**	**(429)**	**407**	**-**	**(344)**	**968**	**3,620**	**(625)**	**5,267**
Total equity and liabilities	**1,861**	**(140)**	**(427)**	**40**	**-**	**617**	**3,620**	**(561)**	**5,010**

Notes to the analysis of adjustments to the balance sheet at 1 January 2004 as a result of the transition to IFRS

The UK GAAP balance sheet has been presented in a format consistent with IFRS. The only significant change in heading is that the Fund for Future Appropriations is now called Unallocated Divisible Surplus. The basis for the material adjustments between UK GAAP and IFRS are as follows:

Note 1: Investment valuation

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

	£m
Increase in valuation of debt securities	1,718
Change in valuation of certain mortgages	113
Other sundry adjustments	23
	1,854

The principle changes are discussed further below:

a) Debt securities

Under UK GAAP, equity securities and unit trusts are carried at current value. Debt and other fixed income securities are carried at current value, with the exception of many non-linked long-term business debt securities and fixed income securities, which are carried at amortised cost.

As a result of applying IAS39, the Group now carries all investments in debt and equity securities at fair value. The change in valuation of debt securities from amortised cost to fair value increases the valuation of investments by £1,718 million at 1 January 2004. This change in the valuation of debt securities is largely offset by corresponding movements in the unallocated divisible surplus and to a small extent technical liabilities. The net impact on shareholders' funds at 1 January 2004 is to increase them by £191 million.

b) Commercial mortgages backing certain annuity business

Under IFRS, the Group has chosen to move certain of its commercial mortgage portfolio to an active fair valuation basis in accordance with IAS39, which has increased the value of investments by £113 million. The annuity liabilities which are backed by these assets have been correspondingly revalued, with the result that there is an insignificant impact on shareholders' funds at 1 January 2004.

Revaluation reserve

Under IFRS, changes in the fair value of securities classified as "at fair value through profit or loss" are recognised in the income statement. Changes in the fair value of securities classified as available-for-sale (AFS), except for impairment losses and relevant foreign exchange gains and losses, are recorded as a component of shareholders' equity, net of related deferred taxes. When securities classified as AFS are sold or impaired the accumulated fair value adjustments are transferred out of this reserve to the income statement. Accounting policy Q – Financial Investments, on page 82 explains further how the Group has classified its investments.

Furthermore, owner-occupied properties are carried at their revalued amounts and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings.

Under UK GAAP, fair value movements on all investments, including those classified as AFS securities under IFRS and owner-occupied properties, are recorded in the consolidated profit and loss account.

The above requirements have resulted in a transfer from retained earnings of £568 million into separate revaluation reserves at 1 January 2004.

Note 2: Insurance change

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

	£m
Change in valuation of non-participating investment contracts	(55)
Derecognition of claims equalisation provision	364
Change in the valuation of reinsurance treaties	(48)
Other sundry items	28
	289

The principal changes to the Group's insurance accounting upon transition to IFRS are discussed further below:

a) Product classification

International Financial Reporting Standard 4 - Insurance Contracts (IFRS4) requires all products issued to be classified for accounting purposes into either insurance or investment contracts, depending on whether significant insurance risk exists. In the case of a life contract, insurance risk exists if the amount payable on death differs from the amount payable if the policyholder survives. The Group has deemed insurance risk to be significant if the difference exceeds 5% of the policy value, though the classification would be similar if a 10% test had been used.

Following a detailed review, 61% of life policy reserves on an MSSB basis at 31 December 2003 have been classified as insurance, and 24% have been classified as participating investment contracts (being those investment contracts containing a discretionary participating feature as defined within IFRS4) and both classes will continue to be accounted for under the Group’s existing (UK GAAP) accounting policies. The remaining 15% have been classified as non-participating investment contracts and therefore are required to be accounted for under IAS39 and International Accounting Standard 18 – Revenue (IAS18). Virtually all our general insurance products are classified as insurance.

This product classification change results in technical provisions being allocated between insurance and investment contracts. As described in Note 8, the “other” column includes £57,445 million of liabilities being classified as investment contracts.

b) Non-participating investment contracts

As noted above, the liability for contracts classified as non-participating investment contracts is valued in accordance with IAS39. This generally requires all financial liabilities to be valued at amortised cost unless previous company regulations permitted a fair valuation of liabilities to be used, such as in the case of unit-linked liabilities. The majority of the Group’s contracts classified as non-participating investment contracts are unit-linked contracts and have been valued at fair value. For unit-linked contracts the fair value liability is deemed to equal the current unit fund value, plus positive non-unit reserves if required on a fair value basis. This replaces the reserve held under UK GAAP which equals the unit fund value plus any positive or negative non-unit reserves determined on the local valuation basis, which differs from that required on a fair value basis.

In addition to the change in liability valuation, the accounting for deferred acquisition costs has been revised in accordance with IAS18. This restricts the types of acquisition costs that can be deferred leading to a reduction in deferred acquisition costs as compared to UK GAAP.

The net impact on shareholders’ funds of the above changes is a reduction of £55 million.

In addition to the above, IFRS now requires that any front end fees received on non-participating investment contracts are included within an explicit deferred income reserve within creditors. Under UK GAAP, any deferred acquisition cost asset created would have been net of these fees. This has led to an increase in “Other assets” and “Other liabilities” of £100 million.

c) Equalisation provision

An equalisation provision is recorded in the accounts of individual general insurance companies in the UK and in a limited number of other countries, to eliminate, or reduce, the volatility in incurred claims arising from exceptional levels of claims in certain classes of business. The provision is required by law even though no actual liability exists at the balance sheet date and is included in the UK GAAP consolidated balance sheet. The annual change in the equalisation provision is recorded in the UK GAAP profit and loss account. Under IFRS, no equalisation provision is recorded, as no actual liability exists at the balance sheet date. There is an increase of £364 million in shareholders’ funds as a result of the removal of the equalisation provision.

d) Reinsurance treaties

Following a full review of all our reinsurance contracts, a small number of the Group’s long term reinsurance treaties have been revalued under IFRS, leading to a reduction in the value of reassurance assets of £134 million. The majority of these changes relate to participating contracts and so these value changes affect principally the unallocated divisible surplus rather than shareholders’ funds.

Note 3: Employee benefits

a) Pensions

Under the Group's UK GAAP pension policy, as set out in Statement of Standard Accounting Practice 24, Accounting for Pension Costs (SSAP 24), the cost of providing pension benefits is expensed using actuarial valuation methods which gives a substantially even charge over the expected service lives of employees and results in either a prepayment or an accrual to the extent that this charge does not equate to the cash contributions made into the schemes. Under International Accounting Standard 19, Employee Benefits (IAS19), the projected benefit obligation is matched against the fair value of the underlying assets and other unrecognised actuarial gains and losses in determining the pension expense for the year. Any pension asset or obligation must be recorded in the balance sheet. Aviva does not currently intend to apply the "corridor approach" to valuing pension deficits in the future.

This change in accounting has resulted in the removal of the Group's SSAP24 balances, a net debtor of £251 million, after allowing for deferred tax, at 1 January 2004 and the recognition of a deficit of £583 million, net of deferred tax, valued in accordance with IAS19. This gives an overall impact on shareholders' funds of £834 million at 1 January 2004.

In some countries, the pension schemes have invested in the Group's life funds. IAS19 requires us to consider the liquidity of the schemes' assets and, if these are non-transferable, the relevant scheme surplus or deficit must be stated before taking account of such assets. Because of the medium-term nature of the contract, the Dutch scheme's investment in the Delta Lloyd life fund is considered non-transferable and, under the terms of IAS19, the reported deficit in this scheme increased by £598 million at 1 January 2004 compared to the equivalent deficit under FRS17. The corresponding liability to the scheme has been retained within insurance liabilities and the scheme asset has been offset against the gross deficit for presentation purposes. This has had no effect on shareholders' funds.

There are a number of adjustments impacting the Group's "pension obligations and other provisions" line. However, the most significant adjustment relates to the recognition of the gross pension deficit as illustrated in the table below:

	£m	£m
"Pension obligations and other provisions" as stated under UK GAAP		336
Less: SSAP 24 pension obligation		(78)
Add: Pension deficit measured in accordance with IAS19	1,436	
Less: Non-transferable investment in life funds included in insurance liabilities	(598)	
Pension deficit disclosed under FRS17		838
Adjustments to other provisions arising under IFRS (included in note 8)		111
		1,207

All amounts above are stated gross of deferred tax.

b) Equity Compensation plans

Under UK GAAP, the costs of awards to employees under equity compensation plans, other than the Save As You Earn plans, are recognised immediately if they are not conditional on performance criteria. If the award is conditional upon future performance criteria, the cost is recognised over the period to which the employee's service relates. The minimum cost for the award is the difference between the fair value of the shares at the date of grant less any contribution required from employee or exercise price. The cost is based on a reasonable expectation of the extent that the performance criteria will be met. Any subsequent changes in that expectation are reflected in the income statement as necessary.

Under IFRS2 - Share-based Payment, compensation costs for stock-based compensation plans that were granted after 7 November 2002, but had not yet vested at 1 January 2005, are determined based on the fair value of the share-based compensation at grant date, which is recognised in the income statement over the period of the expected life of the share-based instrument.

This change in accounting has not resulted in any material change to the balance sheet at 1 January 2004.

Note 4: Goodwill

Under International Accounting Standard 36 - Impairment of Assets (IAS36), goodwill is no longer amortised but is tested for impairment, at least annually. Any goodwill previously amortised or, for goodwill arising before 1 January 1998, eliminated against shareholders' funds has not been reinstated. Negative goodwill previously recognised under UK GAAP, has been recognised directly in retained earnings at 1 January 2004, increasing shareholders' funds by £40 million.

Note 5: Dividend recognition

Under UK GAAP, dividends are accrued in the period to which they relate regardless of when they are declared and approved. Under International Accounting Standard 10 - Events after the Balance Sheet Date (IAS10), shareholders' dividends are accrued only when declared and appropriately approved. This has increased shareholders' funds by £344 million.

Note 6: Deferred taxes

Under UK GAAP, provision is made for deferred tax assets and liabilities, using the liability method, arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. No provision is made for tax that might arise on undistributed earnings of subsidiaries unless a binding agreement for distribution exists. Deferred tax is recognised as a liability or asset if the transactions or events that give the entity an obligation to pay more tax in future or a right to pay less tax in future have occurred by the balance sheet date. The Group policy is to discount its deferred tax balances.

Under International Accounting Standard 12 - Income Taxes (IAS12), deferred taxes are provided under the liability method for all relevant temporary differences, being the difference between the carrying amount of an asset or liability in the balance sheet and its value for tax purposes. IAS12 does not require all temporary differences to be provided for, in particular the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that future taxable profit will be utilised against the unused tax losses and credits. Discounting is prohibited under IAS12.

The changes to deferred tax arise from the removal of discounting, changes to the valuation of the Group's assets and liabilities under IFRS and presentational changes to disclosure of tax assets and liabilities. The main net increases in deferred tax at 1 January 2004 that reduce shareholders' funds are:

	£m
Reversal discounting (the total discounting applied to UK GAAP deferred tax liabilities was £151 million, of which £110 million relates to non-life and shareholders' interests)	110
Deferred tax impact of the removal of the equalisation provision	108
Deferred tax impact of other changes to technical provisions, valuation of investments and other sundry adjustments	133
Net decrease to shareholders' funds	**351**

Note 7: Borrowings and cash

IFRS requires a number of presentational changes to borrowings and cash. The most significant change is that the linked presentation can no longer be adopted for the Group's borrowing securitised on certain of its mortgage portfolios. This increases borrowings and investments by £3,143 million. In addition, £3,307 million of the Group's investments meet the definition of cash equivalents and so have been reclassified to "cash and cash equivalents".

Note 8: Other items

The other changes that arise as a result of the transition to IFRS are principally reclassifications and presentational changes. The total effect of the other changes to shareholders' funds is £71 million, which mainly represents the pre-tax impact of consolidating certain entities, such as real estate companies in France, for the first time. The other significant reclassification and presentational changes which have no impact on shareholders' funds are:

- Assets held to cover linked liabilities of £40,665 million are no longer disclosed in a single line but have been reported in the various asset classifications. Of this amount assets of £3,343 million have been netted off technical liabilities, reducing the gross assets and investment contract liabilities of the Group. There is no impact on profit or shareholders' funds as a result of this change.
- Technical provisions are disclosed as either insurance contracts or investment contracts, reflecting the product classification included in Note 2(a). The Group held investment contracts of £57,445 million at 1 January 2004.
- The assets and liabilities of the banking business are no longer disclosed entirely in "other debtors" and "other creditors" but have been reported in the appropriate balance sheet classifications.
- Owner occupied properties have been reclassified from "investment property" to property and equipment. We continue to hold these properties at fair value.
- Though the industry is still debating the treatment of mutual funds, we have chosen to consolidate those vehicles that meet the definition of a subsidiary. This has resulted in an increase in gross assets of £1,606 million, representing the part of the funds owned by third parties. This third party interest is recorded in the line "net assets attributable to unitholders" within liabilities. The consolidation of mutual funds has no impact on shareholders' funds or profit after tax.

Accounting policies

The principal accounting policies adopted in the preparation of the restated preliminary IFRS opening balance sheet are set out below. Full accounting policies for the income statement have not been included and will be published with our interim announcement in August 2005.

(A) Basis of presentation

The restated preliminary IFRS opening balance sheet has been prepared in accordance with International Financial Reporting Standards (IFRS) expected to be applicable at 31 December 2005. The Standards themselves are subject to possible amendment by interpretative guidance from the IASB or other external bodies and are therefore subject to change prior to publication of the Group's first IFRS results in August 2005.

The IASB issued an amendment to IAS19, Employee Benefits, in December 2004. Its requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Group intends to adopt them early. This has no impact on the opening balance sheet presented.

In accordance with the standard for Phase I of insurance contracts (IFRS4), the Group has applied existing accounting practices for insurance and participating investment contracts, modified, as appropriate, to comply with the IFRS framework and applicable standards.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates "the functional currency". The restated IFRS opening balance sheet is stated in sterling, which is the Company's functional and presentation currency.

(B) Use of estimates

The preparation of financial statements requires the Group to make estimates and assumptions that affect items reported in the restated IFRS opening balance sheet. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

(C) Consolidation principles

Subsidiaries

Subsidiaries are those entities (including Special Purpose Entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are excluded from consolidation from the date of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

From 1 January 2004, the date of first time adoption of IFRS, the Group is required to use the purchase method of accounting to account for the acquisition of subsidiaries. Prior to 1 January 2004, certain significant business combinations were accounted for using the "pooling of interests method" (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations have given rise to a merger reserve in the consolidated balance sheet. These transactions have not been restated as permitted by the IFRS1 transitional arrangements.

Associates and joint ventures

Associates are entities over which the Group has significant influence but which it does not control. Generally, it is presumed that the Group has significant influence where it has between 20% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement. In a number of these, the Group's share of the underlying assets and liabilities may be greater than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly-controlled entities are referred to as joint ventures in these IFRS disclosures.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated balance sheet. Equity accounting is discontinued when the Group no longer has significant influence over the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the entity, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

(D) Foreign currency translation

Balance sheets of foreign entities are translated into the Group's presentation currency at the year end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate reserve within equity. At 1 January 2004 this reserve had been deemed to be zero in accordance with IFRS1. The euro exchange rate employed in the translation of the restated IFRS preliminary opening balance sheet is €1 = £0.70.

(E) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts. Some insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in policy A above, insurance contracts and participating investment contracts continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS.

(F) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken at the date when payments are due.

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

(G) Other Investment contract fee revenue

Investment contract policyholders are charged fees for mortality, policy administration, investment management, surrenders or other contract services. These fees are recognised as revenue in the period in which they are assessed unless they relate to services to be provided in future periods. Amounts are considered to be assessed when the policyholder's balance has been adjusted for those fees. If the fees are for services to be provided in future periods, then they are deferred and recognised as the service is provided.

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the term of the policy. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

(H) Other fee and commission income

Other fee and commission income consists primarily of investment fund management fees, distribution fees from mutual funds, commission revenue from the sale of mutual fund shares, and transfer agent fees for shareholder record keeping. Revenue from investment management fees, distribution fees and transfer agent fees is recognised when earned. Reinsurance commissions receivable and other commission income are recognised on the trade date.

(I) Net investment income

Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis.

(J) Insurance and participating investment contract liabilities

Long-term business provisions

Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in November 2003. As stated in the basis of preparation on page 70, no changes are required to the accounting policies adopted for the restated preliminary IFRS opening balance sheet for FRS27.

The long-term business provisions are calculated separately for each life operation, based on local regulatory requirements and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. Within the long-term business provisions, explicit allowance is made for vested bonuses, including those added following the current valuation, but allowances are not generally made for future reversionary or terminal bonuses.

The liability in respect of guaranteed benefits for participating insurance contracts is calculated in accordance with local actuarial principles, using a deterministic approach and a prudent set of valuation assumptions.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

General insurance and health provisions

(i) Outstanding claims provisions

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

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

(iii) Liability adequacy

At each reporting date, the Group carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs and additional value in-force) is insufficient in light of the estimated future cash flows, the Group recognises the deficiency in the income statement by setting up a provision in the consolidated balance sheet.

Other assessments and levies

The Group is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under “Pension Obligations and Other Provisions”, within the balance sheet.

(K) Non-participating investment contract liabilities

Liabilities for non-participating investment contracts are measured at amortised cost unless previous company regulations permitted a fair valuation of liabilities to be used, such as in the case of unit-linked liabilities. The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value.

The fair value liability is in principle established through the use of prospective discounted cash flow techniques. For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required on a fair value basis.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

(L) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the restated IFRS opening balance sheet.

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

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

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in profit and loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(M) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at book value (original cost less amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated.

Goodwill arising on the Group's investments in associates and joint ventures since that date is included within the carrying value of these investments.

Under UK GAAP, goodwill previously written off to shareholders' funds is taken back through the profit and loss account when calculating the profit and loss account in the event of any subsequent disposal of the underlying investment. There is no requirement for this adjustment under IFRS.

Acquired value of in-force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an intangible asset. If this arises through the acquisition of an investment in an associate, the AVIF is held within the carrying amount of that associate. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement.

Other intangible assets

Other intangible assets consist primarily of access to distribution networks. These are amortised over their useful lives using the straight-line method.

(N) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. All other items classed as property and equipment within the balance sheet are carried at historical cost less accumulated depreciation.

Investment properties under construction are included in property and equipment until completion, and are stated at cost less provision for any impairment in their values.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

All borrowing costs are expensed as they are incurred. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and that the renovation replaces an identifiable part of the asset.

(O) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations. Changes in fair values are recorded in the income statement within net investment income.

(P) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(Q) Financial investments

The Group classifies its investments as either financial assets at fair value through profit or loss (FV), available for sale financial assets (AFS), or loans and receivables. The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. In general, the FV category is used, but the AFS category is used where the relevant life liability (including shareholders’ funds) is passively managed and carried at amortised cost.

The FV category has two sub-categories – those that meet the definition as being held for trading and those the Group chooses to designate as at fair value through profit or loss (referred to in this accounting policy as “other than trading”). Fixed maturities, purchased loans and equity securities, which the Group buys with the intention to resell in the near term (typically between three and six months), are classified as trading. All other securities in the FV category are classified as other than trading.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values less transaction costs. Debt securities are initially recorded at their fair value which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate reserve within equity.

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(R) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase, representing their fair value at that date.

Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

(i) a hedge of the fair value of a recognised asset or liability (fair value hedge);

(ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or

(iii) a hedge of a net investment in a foreign operation (net investment hedge).

The Group does not currently have any material fair value or cash flow hedges.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment, both on inception and on an on-going basis, of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item.

Changes in the fair value of derivatives that are designated and qualify as net investment hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment. Upon transition to IFRS this reserve is deemed to be zero.

(S) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

Certain mortgages which back long-term business have been classified at fair value through profit or loss in order to match the movement in those liabilities. Those loans are revalued to fair value at each period end, with movements in valuation being taken to the income statement.

To the extent that a loan is uncollectable, it is written off as impaired. Subsequent recoveries are credited to the income statement.

(T) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for insurance and participating investment contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. For non-participating investment and investment fund management contracts, incremental acquisition costs that are directly attributable to securing an investment management service are also deferred. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General business deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

(U) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

(V) Leases

Leases where a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

There are no material finance leases affecting the Group as either lessor or lessee.

(W) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(X) Employee benefits

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Pension obligations

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

For defined benefit plans, the pension costs are assessed using the projected unit credit method**.** Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds. The resulting pension scheme surplus or deficit appears as an asset or obligation in the consolidated balance sheet. The Group intends to early adopt the December 2004 amendment to IAS19, *Employee Benefits*, with the result that all actuarial gains and losses will be recognised immediately in equity through the Statement of recognised income and expense.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. In some countries, the pension schemes have invested in the Group's life funds, details of which are given on page 76.

Other post-retirement obligations

Some Group companies provide post-retirement healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. None of these schemes is material to the Group. The costs of the Dutch and Canadian schemes are included within pension obligations and other provisions. For such schemes in other countries, provisions are calculated in line with local regulations, with movements being charged to the income statement within staff costs.

Equity compensation plans

The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (the "SAYE plan").

The Group accounts for share equity compensation plans, using the fair value based method of accounting (the "fair value method"). Under the fair value method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected service period of the related employees and credited to the equity compensation reserve, part of shareholders' funds.

Shares purchased by employee share trusts to fund these awards are shown as a deduction from shareholders' funds at their original cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited to this account, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

(Y) Income taxes

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither the accounting profit nor taxable profit or loss at the time of the transaction.

Deferred tax related to fair value re-measurement of available-for-sale investments, owner-occupied properties and other amounts taken directly to equity is credited or charged to equity and is recognised in the balance sheet as a deferred tax asset or liability.

(Z) Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

(AA) Share capital and treasury shares

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Equity instruments

A financial instrument is treated as equity if:

a) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
b) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtains rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity.

(AB) Fiduciary activities

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from the IFRS financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

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. The Scheme replaced the former Dividend Reinvestment Plan. Shareholders who have not already joined the Scheme but wish to do so should contact Lloyds TSB Registrars at the address shown and request a mandate form. The mandate form will need to be received by Lloyds TSB Registrars no later than 25 April 2005 in order to be effective for the 2005 final dividend.

Dividend payments direct to your bank account
As an alternative to having dividends paid by cheque, shareholders can, if they wish, have them credited directly into their bank or building society account on the dividend payment date. For overseas shareholders, Transcontinental Account Payment Service (TAPS) is available, which allows shareholders in many countries to have dividends credited direct to their bank accounts in local currencies. To obtain further details and a mandate form please contact the Company's registrar at the address shown.

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 shown.

E-Communications

To receive communications electronically:
Log on to www.aviva.com/shareholders and register for shareholder e-communications. Shareholders will be able to access details of their Aviva shareholding online, elect to receive the Report and Accounts and other shareholder documentation electronically, update their address details online and elect to have their dividends paid directly into their bank or building society account.
To vote online at the AGM:
Please refer to the explanatory notes on the AGM voting form which details the steps to vote online.

Share price
Shareholders can access the current share price of Aviva ordinary shares at www.aviva.com or alternatively can call 0906 843 2197*.

Aviva plc
Registered Office:
St Helen's, 1 Undershaft, London EC3P 3DQ
Telephone +44 (0)20 7283 2000
www.aviva.com
Registered in England No. 2468686

Share dealing facilities
The Company has arranged the following services that can be used to buy or sell Aviva shares. Alternatively, if shareholders hold a share certificate they can also use any bank, building society or stockbroker offering share dealing facilities. If shareholders are in any doubt about buying or selling their shares they should seek professional financial advice.

Share dealing facilities for UK shareholders/share account members
To buy and sell shares over the telephone or internet shareholders can contact Shareview Dealing, arranged through Lloyds TSB Registrars. For telephone purchases or sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday and for internet purchases or sales log on to www.shareview.co.uk/dealing

To buy or sell shares over the telephone, shareholders can contact Barclays Stockbrokers on 0870 549 3002 (if they hold a share certificate) or 0870 549 3001 (if they hold a share account statement).

NatWest Stockbrokers provide a Share Dealing Service at certain branches for Aviva Share Account holders only. For more information contact NatWest Stockbrokers on 0845 122 0689.

Share dealing facilities for overseas shareholders
To sell Aviva shares over the telephone, shareholders can contact Barclays Stockbrokers on +44 (0)141 352 3959 who will be able to sell the shares and send shareholders a sterling cheque for the proceeds.

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 for the proceeds.

ShareGift
The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares whose value makes it uneconomical to sell them. Details of the scheme are available from ShareGift at www.sharegift.org or can be obtained from the Company's registrar.

Shareholders with disabilities
Alternative versions of this publication (including Braille, large print and audio-tape) are available on request from the Company's registrar.

* Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute.

Shareholder information

Full Report and Accounts
A copy of the full Report and Accounts is available free of charge from the Aviva internet site at www.aviva.com or from the Company's registrar, Lloyds TSB Registrars.

Group financial calendar for 2005	
26 April	Annual General Meeting
28 April	Announcement of first quarter long-term savings new business figures
11 August	Announcement of unaudited six months' interim results
27 October	Announcement of third quarter long-term savings new business figures
Ordinary shares	
16 March	Ex-dividend date
18 March	Record date
23 March	Scrip dividend price available
17 May	Dividend payment date
Preference shares	
31 March	First dividend payment for 8 3/8% cumulative irredeemable preference shares
30 June	First dividend payment for 8 3/8% cumulative irredeemable preference shares
30 Sept	Second dividend payment for 8 3/4% cumulative irredeemable preference shares
31 Dec	Second dividend payment for 8 3/8% cumulative irredeemable preference shares

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
Telephone 0870 600 3952

Corporate and single company Peps:
Barclays Stockbrokers Limited
Tay House, 300 Bath Street
Glasgow G2 4LH
Telephone 0870 514 3263

Individual Savings Accounts (Isas):
Lloyds TSB Registrars (Isa Manager)
The Causeway, Worthing
West Sussex BN99 6DA
Telephone 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