



Annual General Meeting 2004

Frequently Asked Questions

In the letter which accompanied the Notice of Meeting, directors asked shareholders whether they would like to ask any questions prior to the Annual General Meeting, particularly the many shareholders who were unable to attend. A postage paid reply card was attached to the Proxy Form for this purpose. This pamphlet sets out the answers to the most frequently asked questions. Shareholders whose questions are not included below will receive a personal answer.

Q1 Why do the directors receive salary increases and bonuses when the returns to Norwich Union Life policyholders have been so poor? Shouldn't directors get less remuneration when performance is poor? Instead of increasing dividends to shareholders why doesn't the Company use some of its profits to improve bonus payments on endowment policies?

A The Company's remuneration policy seeks to provide remuneration packages which attract and retain high calibre employees and encourage and reward superior performance. The directors' remuneration is set by reference to a variety of factors, including market practices for companies of similar size, type and standing. It also takes into account the current economic and prevailing operating conditions and the skills and management capabilities which the Group must secure in order to attain its objectives. The directors are incentivised by reference to those elements of the Company's performance which they can directly influence through their management as measured against predetermined performance targets.

The Company's operational performance was significantly above market expectations in 2003 and better than many of its peers – it increased its pre-tax operating profit by 6%, on a local currency basis, and proposes to increase dividends to shareholders by 5% – against the background of very challenging market conditions.

The investments of Norwich Union Life's policyholders are ring fenced from the assets belonging to shareholders. The return on those investments, paid in the form of bonuses, reflects the performance of the policyholders' funds, not the operational performance of the Company as a whole. The results of the Company, which as stated above performed well in 2003, are distinct from and do not influence the bonuses declared to policyholders.

Bonuses declared by Norwich Union Life on its with-profits life assurance products are based on the investment returns achieved on policyholders' savings in with-profits funds. Those savings are invested to provide investment growth and security. Investment returns, particularly those exposed to the UK equity market, have fallen substantially over recent years, reflecting a falling stock market, low interest rates and a low inflation environment. Unfortunately, policyholders' investments are not immune to this prevailing economic environment. The with-profit funds aim to even out the variations in performance over the investment period using the financial strength of the funds to "smooth" the returns. This has enabled bonus payments to be maintained at a higher level than the actual investment return on such policies would have otherwise produced.

It would not be appropriate to link an executive's remuneration directly to the performance of policyholders' funds, which are affected by factors beyond his or her control. Shareholders would not expect executive remuneration to rise purely because of strong stock market performance and equally it would not be fair to ask an executive to take a pay cut on the sole basis that the stock market has performed poorly overall.

It should also be noted the Aviva Group comprises of a much wider range of businesses than just Norwich Union Life. It includes life assurance companies throughout the world, particularly Europe, and general insurance operations which produced a significant part of the Group's profits in 2003.

Q2 I read in the Press that Mr Harvey received a £1.1 million top up to his pension in 2003. How can this be justified?

A Mr Harvey, and the other executive directors, are members of the Company's defined benefit pension scheme, along with some 11,800 other staff in the United Kingdom. At retirement, scheme members receive pensions which are based on a formula which takes into account the members' years of service and their final salary. During 2003 Mr Harvey served a further year and his basic salary increased broadly in line with that of other staff. As a consequence of the retirement pension formula, his pension entitlement increased at the end of 2003. The amount of £1.1 million is the resulting increase in the actuarial liability, it is not an amount which has been paid to Mr Harvey nor is it a special "top up" that was applied in 2003.

Q3 I note that the directors are seeking authority to offer a scrip dividend plan and, if approved, this will replace the current Dividend Reinvestment Plan. What is the difference between a scrip dividend plan (a "SCRIP") and a dividend reinvestment plan (a "DRIP")?

A In a DRIP shares are not allotted from unissued share capital, but are instead purchased in the market and allocated at the prevailing market price on the dividend payment date.

In a SCRIP, new shares are allotted from unissued share capital and the "price" at which shares are allocated is set before the payment date, usually over the five days commencing on the ex-dividend date.

DRIPs and SCRIPs differ in two other respects so far as participants are concerned:

- there is a difference in their taxation treatment. DRIPs are taxed in the same way as cash dividends, and shareholders are deemed to have paid income tax on the total amount of their dividend, not the amount used to acquire shares. In a SCRIP the relevant figure is the total cash equivalent value of the new shares received and it is on this total that that income tax ("notional tax") is deemed to have been paid. It is also the figure which is used for calculating capital gains tax when the shares are ultimately sold.
- there is a difference in the costs. Whereas a scrip dividend is entirely free of stamp duty and dealing costs, participants in a DRIP must pay 0.5% stamp duty (at current rates) and 0.5% commission (at current rates) on the value of the shares acquired.

If a SCRIP is introduced the Board will write to all shareholders providing full details of the plan, its implications, and provide those shareholders who wish to participate an opportunity to do so.

Q4 What is the Company doing to help those policyholders whose endowment policy will not cover their mortgage repayments at maturity?

A

Norwich Union introduced a mortgage endowment “promise” effective from 31 December 1999. This applies to all policies that were fully with-profits and, based upon projected returns of 6% per annum (chosen because it was the mid-rate of the three rates which the Financial Services Authority requires companies to use to project likely returns on mortgage endowment policies), showed a possible shortfall (between the likely value of the policy at maturity and the amount required to redeem the mortgage) at that date. Policyholders whose policies were part with-profits had a one off option to convert these policies into fully with-profits policies to benefit from the same promise.

Providing Norwich Union Life earns 6%, after tax, between 31 December 1999 and a policy's maturity date, then the promise will be sufficient to make up any shortfall. If returns are higher than 6%, but there is still a shortfall then any shortfall will still be covered. If earnings are lower than 6%, then the payment will be made with the balance of the shortfall being borne by the policyholder.

The promise was made subject to the condition that premiums must continue to be paid and that the policy is not being materially altered.

To give further reassurance to policyholders, Norwich Union has added that, should it believe that it would be unable to meet the cost of the promise, then it would give at least three years' advance notice.

We are continuing to write to policyholders on a regular basis with updates explaining how their policy is expected to perform against the target return.

Q5 Why is the Company seeking authority to pay political donations?

A

Firstly, shareholders should note that it is the policy of the Company not to make donations to political parties and the directors have no intention of changing this policy.

However, the Political Parties, Elections and Referendums Act 2000 imposed restrictions on companies making donations to “EU political organisations” or incurring “EU political expenditure” without shareholders' consent. Because the definitions used in the Act such as, “EU political expenditure” are broad, it is possible that what the Company would consider to be normal business activities could be caught by the definition of “EU political expenditure”. For example, the Company believes that allowing trade union representatives to attend to their union activities during their working day, for which they are paid, is considered by management to be an essential part of maintaining healthy employment relations. However, depending upon the exact circumstances it has been argued that this could be “EU political expenditure” requiring shareholders' approval. There are other similar examples. The legislation has not yet been tested at law and therefore in order to avoid any inadvertent infringement of the legislation the Board is seeking renewal of the authority to incur such expenditure up to a limit of £100,000 per annum for the next four years.

Whilst shareholders have granted this authority in the past two years the Board does not believe the Company has incurred any such expenditure.

Q6 In returning my proxy voting form in the post anyone can read my personal details. Why can't you supply an envelope?

A In 2002 the Company enclosed a reply-paid envelope with the proxy form so that shareholders could use it to return the form. In the region of 50,000 proxy forms were returned. At that time the Company had approximately one million (now approximately 875,000) shareholders and therefore approximately 950,000 envelopes were not used and presumably were thrown away. After careful consideration the Company took the view that the financial and environmental cost of such wastage could not be justified.

The Company did look at redesigning the proxy form to allow it to be folded prior to its return in a way which would cover the shareholder's name and address etc. However, the number of resolutions this year and the need to include an additional column for "votes withheld" meant that the form could not be folded without there being a fold line across the form itself. The instructions on the form are recorded through a scanner and a fold can interfere with this process.

Being mindful of the shareholders' confidentiality it was decided that the most effective alternative would be to provide shareholders with a Freepost address so that those who were concerned could return the proxy form at no cost, other than that of providing an envelope. It was also recognised that there are a growing number of shareholders who have access to the internet who use the opportunity to vote "on-line" and therefore do not need to return their proxy form.

Q7 Why doesn't the Company offer discounts to shareholders on its insurance products?

A The Company has offered various discount schemes in the past – as Commercial Union and General Accident – but the size of the shareholder base (now approximately 875,000) following the mergers has made it impracticable administratively to operate a blanket discount scheme. Discount schemes are also a challenge economically, given that many product lines are already very competitively priced.

Nevertheless, the Company continues to look at ways of efficiently and economically offering discounts on certain products so that shareholders can benefit further from their relationship with the Company.

Q8 Jobs being relocated in India. Why is the Company doing this?**A**

As you would expect, Norwich Union thought long and hard before making its decision to relocate some aspects of its general insurance activities to India. The Company was not the first to make this move; neither will it be the last.

The marketplace in which the Company operates is highly competitive; customers increasingly demand value for money products as well as excellent service, and the Company has recognised that relocating some of its operations can help. Typically, a call centre operation is 40% cheaper to run in India than it is in the United Kingdom, primarily because wages and other fixed costs are substantially lower. There are two million graduates in India who want to work for Western companies like Norwich Union, a pool of talent which would be difficult to find in the United Kingdom.

The call centre and claims processing units which have been set up will further improve speed and quality of customer service. In particular, the Company can take advantage of the time difference to increase the flexibility of its operations.

Aviva is a global company, but its presence in the United Kingdom remains strong, focused on three major centres of Norwich, York and Perth. The Group currently employs approximately 33,000 people in this country.

Norwich Union has sought to keep job losses in the United Kingdom to a minimum. The Company has in place a country wide redeployment process to match people with roles. Where people are affected the Company provides a comprehensive package of support to ensure those who do leave the Company have the best possible support as they seek new opportunities.

The insurance industry is changing rapidly and requires us to be adaptable and flexible. The Company believes that, by taking action to remain competitive, it will secure a long-term future for the majority of its staff, and ensure that it can continue to provide value for money products to its customers with high quality service attached.

Q9 The Board is too large. Why do we need so many non-executive directors?

A

In order to manage the Company it is desirable for a number of the senior managers, including the Group Chief Executive, to sit on the Board as executive directors. These directors are full time employees and have operational responsibility for the business. At present the Company has three executive directors and a fourth, the Group Finance Director, will join the Board in May.

As the Company is listed on the London Stock Exchange at least half the members of its Board should be independent non-executive directors in order to comply with the relevant code of best practice. In addition to their responsibilities to help set the Company's strategy these directors appoint, and monitor the performance of, the executive directors and determine their remuneration. The non-executive directors also monitor the Company's controls. It is therefore necessary to have a number of such directors in order to create a Board which has the appropriate range of skills, knowledge and experience so that between them they can discharge their responsibilities. Under the rules of the relevant code of best practice, the Chairman is not deemed to be independent for this purpose.

On the basis that the Aviva Board will have four executive directors it will require a minimum of four non-executive directors in order to comply with this requirement. If a chairman is added, this creates a minimum of nine directors. In addition to the above, the Board is required to rotate directors in order to bring on fresh skills and therefore at any one time there will be directors who have been recently appointed to replace directors who will be retiring in due course.

Corporate governance guidelines therefore have an impact on the minimum number of directors required and, with a complex international company such as Aviva, it is important for the Board to be of sufficient size to ensure that it has the broad range of skills, experience and diversity necessary to manage such a business.

Q10 Why are the same auditors appointed each year – doesn't this lead to complacency? Why do you not rotate the auditors annually?

A

Ernst & Young was appointed auditor of Aviva plc in 2001 following the merger of Norwich Union plc and CGU plc. Ernst & Young had been the auditor of Norwich Union plc prior to the merger and the auditor of CGU plc had been PricewaterhouseCoopers. A full competitive tender process was undertaken in 2000 of the two audit firms and Ernst & Young were appointed. The audit partner was "rotated" in 2002 to a partner who had not previously been closely associated with the Norwich Union audit.

With a complex international group such as Aviva the cost of changing the auditor across the whole Group worldwide would be an expensive, lengthy process and it would take some time for the new auditor to understand the business and, how it operates and, to assess and understand the risks and the effectiveness of the Company's controls. What is important is the integrity of the audit staff and the maintenance of strong governance procedures to ensure that the key personnel are rotated regularly in a way that does not result in the loss of valuable knowledge of how the Group operates. The Audit Committee (which comprises four non-executive directors) reviews formally the independence, objectivity and effectiveness of the auditor on an annual basis.

A full tender process for the auditors will be undertaken by the Board from time to time but, for the reasons given above, it would not be practical to do this on annual basis.

Aviva plc

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