

**Registered in England No: 1059606**

**MORLEY POOLED PENSIONS LIMITED**  
**ANNUAL REPORT & ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**



## **Directors and Officers**

### **Directors**

N D Alford  
K L Garrett-Cox  
K Jones  
A D Morrison  
D K Watson

### **Secretary**

Aviva Company Secretarial Services Limited

### **Auditor**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

Regulated by the Financial Services Authority

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## Directors' Report

The directors present their annual report and audited financial statements for Morley Pooled Pensions Limited (the Company) for the year ended 31 December 2004.

### Principal activity

The principal activity of the Company is the transaction of unit linked pension business, in the United Kingdom. The directors consider that this will continue unchanged into the foreseeable future.

In January 2004 the client administration function was transferred to Aviva Fund Services, Luxembourg and in November 2004 the pricing and fund accounting operations were outsourced to JP Morgan Investor Services, London.

### Operations and new business

	2004 £m	2003 £m
New single premiums	644.0	1,607.3
Balance on the long term business technical account	2.4	1.5

Full details of the results are given in the profit and loss accounts set out on pages 7 and 8.

### Dividends

No interim dividend was paid during the year. The directors have proposed a final dividend of £1.7m. (2003: £1.4m).

### Directors

The names of the present directors of the Company appear on page 1.

K L Garrett-Cox was appointed a director of the Company on 31 March 2004.

G H Holtham resigned as a director of the Company on 24 March 2004.

C J Sewell resigned as a director of the Company on 31 December 2004.

N D Alford, K Jones, A D Morrison, and D K Watson served as directors of the Company throughout the year.

### Directors' interests

The table below shows the interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown on page 4. All the disclosed interests are beneficial.

	At 1 January 2004 (or appointment if later)	At 31 December 2004
N D Alford	-	551
K L Garrett-Cox	-	156
K Jones	760	1,325
A D Morrison	-	551
C J Sewell	23,913	30,985
D K Watson	574	574

## Directors' Report

### Incentive plans

Details of the directors who held office at the end of the financial year, and hold or held options to subscribe for ordinary shares of Aviva plc or hold or held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans, are set out below.

#### (i) Share options

	At 1 January 2004 (or appointment date if later)	Options granted during year	Options exercised or cancelled during year	At 31 December 2004
<b>N D Alford</b>				
Savings related options	2,356	-	-	2,356
<b>K L Garrett-Cox</b>				
Savings related options	-	2,213	-	2,213
<b>A D Morrison</b>				
Savings related options	3,276	-	-	3,276
<b>C J Sewell</b>				
Savings related options	4,096	-	-	4,096

- (1) "Savings related options" are options granted under the Inland Revenue-approved SAYE Share Option Scheme. Options granted from 1998 to 2004 are normally exercisable during the six months period following either the third, fifth or seventh anniversary of the relevant savings contract.
- (2) During the year no directors exercised any share options and therefore no gains on such were made.

#### (ii) Share awards

	At 1 January 2004 (or appointment date if later)	Awards granted during year	Awards vested during year	Awards lapsed during year	At 31 December 2004
<b>C J Sewell</b>					
Aviva Long Term Incentive Plan	41,507	17,274	1,638	5,914	51,229
Aviva Deferred Bonus Plan	45,138	20,106	9,062	-	56,182

- (1) *The Aviva Long Term Incentive Plan*, awards under the Plan are made on an annual basis and the 2004 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.
- (2) *The Aviva Deferred Bonus Plan*, awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under Aviva plc's Annual Bonus in 2004 and also the matching awards granted on a one for one basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

## Directors' Report

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### Creditor payment policy and practice

Under a management agreement, Morley Fund Management Limited, a fellow subsidiary, supplies and makes a charge for the provision of all goods and services to the Company. Accordingly, the relevant disclosures in relation to creditor payment policy and practice are included in the directors' report of Morley Fund Management Limited.

### Resolutions

On 14 June 2001, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, financial statements and auditors' reports before the members in a general meeting and the obligation to appoint auditors annually.

### Auditors

Ernst & Young LLP will be re-appointed as the Company's auditors in accordance with the elective resolution passed by the Company under section 386 of the Companies Act 1985.

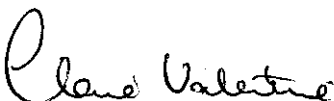
### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the result for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board

  
Aviva Company Secretarial Services Limited  
Secretary

22<sup>nd</sup> March 2005

**Auditors' Report**

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**Independent auditors' report to the members of Morley Pooled Pensions Limited**

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Balance Sheet, reconciliation in the movement in shareholders' funds, and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

**Basis of audit opinion**

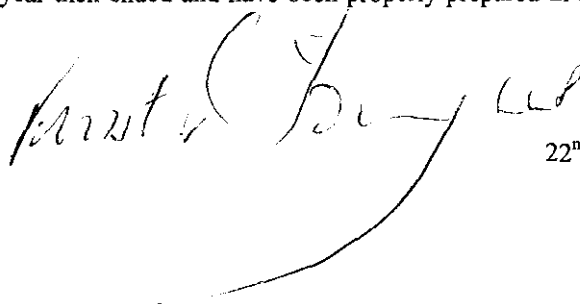
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London



22<sup>nd</sup> March 2005

**Profit and loss account**

for the year ended 31 December 2004

**Technical account - long term business**

	Note	2004 £m	2003 £m
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	644.0	1,607.3
<b>Investment income</b>	3	260.0	152.9
<b>Unrealised gains on investments</b>		183.9	490.5
<b>Other technical income</b>	4	1.8	1.2
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(725.1)	(570.4)
Re-insurers' share		0.5	0.5
		<u>(724.6)</u>	<u>(569.9)</u>
<b>Change in other technical provisions, net of reinsurance</b>		(348.6)	(1,558.7)
<b>Net operating expenses</b>	5	(2.2)	(1.8)
<b>Investment expenses and charges</b>	6	(8.0)	(117.0)
<b>Tax attributable to long term business</b>	9a	(3.9)	(3.0)
<b>Balance on the technical account for long term business</b>		<u>2.4</u>	<u>1.5</u>

The notes on pages 11 to 18 are an integral part of these financial statements.



**Profit and loss account**  
for the year ended 31 December 2004

**Non-technical account**

	Note	2004 £m	2003 £m
Balance on the long term business technical account		2.4	1.5
Tax credit attributable to balance on the long term business technical account	9a	<u>1.0</u>	<u>0.2</u>
		3.4	1.7
Investment income	3	<u>0.4</u>	<u>0.3</u>
Operating profit on ordinary activities before tax	7	3.8	2.0
Tax on profit on ordinary activities	9a	<u>(1.1)</u>	<u>(0.1)</u>
Profit for the financial year after tax	14	2.7	1.9
Dividends	10,14	(1.7)	(1.4)
Retained profit for the financial year		<u>1.0</u>	<u>0.5</u>

The Company has no recognised gains and losses other than those included in the results above. Accordingly, a statement of total recognised gains and losses is not given.

There is no difference between the results for the year as described in the profit and loss account and the result on an unmodified historical cost basis. Accordingly a note of historical cost profit and loss for the year is not given.

A statement of movement in reserves can be found in note 14.

The notes on pages 11 to 18 are an integral part of these financial statements.

**Reconciliation of movements in shareholders' funds**  
for the year ended 31 December 2004

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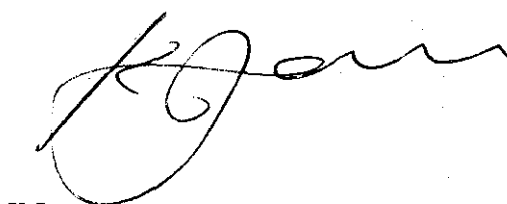
	2004 £m	2003 £m
Profit for the financial year	2.7	1.9
Dividends	<u>(1.7)</u>	<u>(1.4)</u>
Net increase in shareholders' funds	1.0	0.5
Opening shareholders' funds	8.3	7.8
Closing shareholders' funds	<u>9.3</u>	<u>8.3</u>

**Balance Sheet**

as at 31 December 2004

	Note	2004 £m	2003 £m
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	11	7.0	-
<b>Assets held to cover linked liabilities</b>	12	4,820.9	4,472.5
<b>Reinsurers' share of technical provisions</b>			
Long term business provision		8.4	7.8
<b>Debtors</b>			
Other debtors		2.4	0.5
<b>Other assets</b>			
Cash at bank and in hand		5.3	12.1
<b>Total assets</b>		<u>4,844.0</u>	<u>4,492.9</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Share capital	13	6.0	6.0
Profit and loss account	14	3.3	2.3
Shareholders' funds attributable to equity interests		<u>9.3</u>	<u>8.3</u>
<b>Technical provisions</b>			
Long term business provision		<u>8.4</u>	<u>7.8</u>
<b>Technical provisions for linked liabilities</b>		<u>4,821.1</u>	<u>4,472.5</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		0.5	0.5
Other creditors including taxation and social security	16	4.7	3.8
		<u>5.2</u>	<u>4.3</u>
<b>Total liabilities</b>		<u>4,844.0</u>	<u>4,492.9</u>

The financial statements on pages 7 to 18 were approved by the board on 22<sup>nd</sup> March 2005 and were signed on its behalf by



K Jones  
Director

## Notes to the financial statements

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### 1 Accounting policies

#### Basis of preparation

The accounts have been prepared in accordance with section 255 of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the ABI SORP) in November 2003. The accounting policies adopted reflect United Kingdom financial reporting standards and statement of standard accounting practice applicable at 31 December 2004, as considered appropriate for an insurance company. The profit and loss account for the year reflects all income, expenditure, and investment gains and losses, except certain items which are taken directly to reserves after tax.

The Company has adopted the modified statutory solvency basis of accounting for long term insurance business.

#### Premiums

Premiums in respect of investment linked policies are accounted for in the period in which the liability is established.

#### Claims

Claims arising from death or maturity are included in the technical account for long term business when the insured event is notified or becomes due. Surrenders are charged in the period when payment is made.

Claims payable are stated gross of any related internal and external claims handling costs.

#### Investment return

Investment return comprises investment income, including realised investment gains and losses, and movements in unrealised investment gains and losses, net of investment expenses and charges. Investment return on investments attributable to the long term business is reported in the technical account for long term business. Investment return on assets not directly attributable to the long term business is included in the non-technical account.

Investment income is recognised on an accruals basis. Dividend income is recognised when the related investment is declared ex-dividend.

Net realised gains and losses represent the difference between the net sale proceeds of an investment and the purchase price. Net realised gains and losses are included within the technical account for long term business if these are attributable to assets in the long term business fund. All other net realised gains and losses are included in the non-technical account.

The movement in net unrealised gains and losses represents the difference between the valuation of investments at the balance sheet date and the valuation at the last balance sheet date, or purchase price if purchased during the year, after adjustment for any previously recognised unrealised gains and losses on investments disposed of in the year.

#### Taxation and deferred taxation

The taxation charge in the technical account is based on the method of assessing taxation for long term funds applicable in the relevant country of operation. Any part of the balance on the technical account that is computed on an after tax basis is grossed up at the effective rate of taxation in the non-technical account.

The taxation charge in the non-technical account is based on the taxable profits for the year.

These accounts have been prepared in accordance with FRS19 (Deferred Tax). However, this has had no impact on the financial statements.

## Notes to the financial statements

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### 1 Accounting policies (continued)

#### Investments

Investments are stated at their current values at the end of the year. Current values, for this purpose, are: stock exchange mid-market values for listed securities; mid price for unit trusts, and market value for OEICS; average trading prices for unlisted securities where a market exists; and directors' valuations for other unlisted securities, mortgages and loans.

Properties are revalued annually at open market value in accordance with the guidance note on the valuation of assets issued by the Royal Institution of Chartered Surveyors, as determined by the Group's professionally qualified external valuers. No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view.

#### Technical provisions

The provisions held for linked business represent the unit liabilities. In addition an expense provision has been established against future shortfalls of asset management charges against expenses for certain policies. At 31 December 2004 the provision was £0.2m (2003: £0.1m.)

The long-term business provision is calculated for the life fund, based on actuarial principles. The provisions held for linked business are the unit liabilities together with a non-unit provision. Further details of the methodology and the principal assumptions used are given in note 20.

#### Foreign currencies

Transactions denominated in currencies other than sterling are translated at the exchange rate at the date of transaction. Assets and liabilities in currencies other than sterling are translated at the year end rate of exchange. The resulting exchange gains and losses are dealt with in the profit and loss account.

## Notes to the financial statements

### 2 Premiums

#### Gross premiums written

	2004 £m	2003 £m
Single premiums under group contracts	<u>644.0</u>	<u>1,607.3</u>
Premiums from investment linked contracts – direct	641.6	1,605.8
Gross premiums written which relate to reinsurances accepted	<u>2.4</u>	<u>1.5</u>
	<u>644.0</u>	<u>1,607.3</u>

Gross premiums relate to unit linked pension business and are derived principally from contracts written in the United Kingdom.

In classifying new business premiums, the following basis of recognition has been adopted:

All premiums are treated as single premiums. Incremental increases on existing policies are classified as new business premiums. Rebates from the Department of Work and Pensions are classified as new single premiums.

Funds at retirement under individual pension contracts left with the Company and transfers from group to individual contracts are classified as new business single premiums. These are included in the financial statements both in claims incurred and as single premiums within gross premiums written.

Gross premiums written by destination are not materially different from gross premiums written by source.

MPPL accepts pooled funds business as reinsurance inwards from other pooled funds businesses and has a small amount of business in force. A floating charge over the residual assets is offered as part of the reinsurance treaty.

## Notes to the financial statements

## 3 Investment income

	Technical account		Non-technical account	
	2004	2003	2004	2003
	£m	£m	£m	£m
Income from land and buildings	23.7	23.0	-	-
Income from other investments	155.4	129.9	0.4	0.3
Net gain on the realisation of investments	80.9	-	-	-
	<u>260.0</u>	<u>152.9</u>	<u>0.4</u>	<u>0.3</u>

## 4 Other technical income

	2004	2003
	£m	£m
Sundry income	<u>1.8</u>	<u>1.2</u>

This relates to income such as securities commissions and stock lending.

## 5 Net operating expenses

	2004	2003
	£m	£m
Administrative expenses	<u>2.2</u>	<u>1.8</u>

Included above is a management charge in respect of administrative services made by Morley Fund Management Limited, a fellow subsidiary, of £0.5m (2003: £0.4m).

## 6 Investment expenses and charges

	Technical account	
	2004	2003
	£m	£m
Net (loss) on the realisation of investments	-	(110.7)
Investment management expenses, including interest	<u>(8.0)</u>	<u>(6.3)</u>
	<u>(8.0)</u>	<u>(117.0)</u>

## 7 Operating profit on ordinary activities before tax

	2004	2003
	£'000	£'000
Operating profit on ordinary activities before tax is stated after charging:		
Remuneration of auditors:		
Audit	25	13
Other services	<u>10</u>	<u>7</u>
	<u>35</u>	<u>20</u>

## Notes to the financial statements

### 8 Directors and employees

#### Directors' emoluments

As detailed in note 5, a management charge in respect of administration services has been made by Morley Fund Management Limited, which includes an element in respect of directors' time spent in managing the Company.

Emoluments, share options exercised and retirement benefits accruing in respect of the directors, who are also directors of Morley Fund Management Limited, are provided in the financial statements of that company.

#### Employees

Details of UK employees who provide services to the Company are included in the financial statements of Morley Fund Management Employment Services.

### 9a Taxation

	Technical account		Non-technical account	
	2004	2003	2004	2003
	£m	£m	£m	£m
UK Corporation tax				
- Current year	1.0	0.5	0.1	0.1
- (Over) provision in prior years	-	(0.3)	-	(0.2)
	<u>1.0</u>	<u>0.2</u>	<u>0.1</u>	<u>(0.1)</u>
Overseas taxation	2.9	2.7	-	-
Other	-	0.1	-	-
	<u>3.9</u>	<u>3.0</u>	<u>0.1</u>	<u>(0.1)</u>
Taxation attributable to shareholders' profits on long term business	-	-	1.0	0.2
	<u>3.9</u>	<u>3.0</u>	<u>1.1</u>	<u>0.1</u>

Corporation tax in the technical account has been calculated at 30% (2003: 30%).

### 9b Factors affecting current tax charge for the year

The tax assessed in the non-technical account in 2003 differs from the standard UK Corporation tax rate, because of the following factors.

	2004	2003
	£m	£m
Profit on ordinary activities before tax	<u>3.8</u>	<u>2.0</u>
Current tax charge at standard UK Corporation tax rate of 30% (2003: 30%)	1.1	0.6
Over provision in prior years	-	(0.5)
	<u>1.1</u>	<u>0.1</u>



## Notes to the financial statements

## 10 Dividends

	2004 £m	2003 £m
Proposed final dividend	<u>1.7</u>	<u>1.4</u>

## 11 Other financial investments

	Carrying value		Cost	
	2004 £m	2003 £m	2004 £m	2003 £m
Debt securities and other fixed income securities	<u>7.0</u>	<u>-</u>	<u>7.0</u>	<u>-</u>

## 12 Assets held to cover linked liabilities

	2004 £m	2003 £m
Carrying value	<u>4,820.9</u>	<u>4,472.5</u>
Purchase price	<u>4,409.9</u>	<u>4,232.0</u>

## 13 Share capital

	2004 £m	2003 £m
<b>Authorised:</b>		
6,000,000 ordinary shares of £1 each	<u>6.0</u>	<u>6.0</u>
<b>Allotted, called up and fully paid:</b>		
6,000,000 ordinary shares of £1 each	<u>6.0</u>	<u>6.0</u>

## 14 Reserves – profit and loss account

	2004 £m	2003 £m
At 1 January	2.3	1.8
Profit for the year	2.7	1.9
Dividends proposed	<u>(1.7)</u>	<u>(1.4)</u>
At 31 December	<u>3.3</u>	<u>2.3</u>

All of the profit and loss account balance is regarded as realised profit available to pay dividends as at 31 December 2004.

## Notes to the financial statements

### 15 Deferred Taxation

There are no deferred taxation balances (2003: £nil).

### 16 Other creditors including taxation and social security

	2004 £m	2003 £m
Taxation payable	1.1	0.6
Group relief	0.9	1.8
Dividends proposed	1.7	1.4
Tax recovered due to unit-linked funds	1.0	-
	<u>4.7</u>	<u>3.8</u>

### 17 Contingent liabilities and commitments

There were no contingent liabilities or commitments at the balance sheet date.

### 18 Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement, as it is a wholly owned subsidiary undertaking of Aviva plc whose consolidated financial statements are publicly available.

### 19 Related party transactions

Advantage has been taken of the exemption available not to disclose intra-group related party transactions in respect of 90% subsidiaries.

There were no material related party transactions with directors.

### 20 Long Term Business Provision

#### (a) Methodology & Company Practice

The provisions held for linked business are the unit liabilities together with a small non-unit provision.

The provision held for linked business is the bid value of units which is equal to the surrender value available to policyholders.

The provision for non unit liabilities allows for potential future losses on certain contracts where the asset management fee earned may be insufficient to meet fixed administrative expenses.

#### (b) Assumptions

No assumptions are required for a provision based only on the bid value of units at the valuation date.

The prospective non-unit reserve allows for potential losses on contracts where the asset management fee earned may be insufficient to meet fixed administrative expenses, and is calculated by projecting the future non-unit cashflows. The valuation discount rate and earned investment assumptions are set with regard to the general level of long-term interest rates as measured by gilt yields.

## Notes to the financial statements

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### 21 Parent undertaking and ultimate parent undertaking

The immediate parent undertaking is Morley Investment Holdings Limited, a Company registered in England and Wales.

The ultimate parent undertaking is Aviva plc, a Company registered in England and Wales. Its group financial statements are available on application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ. No other group financial statements include the results of the Company.