MORLEY POOLED PENSIONS LIMITED
Directors' report and financial statements

For the year ended 31 December 2006

Registered in England
Number 1059606

Directors' report and financial statements

Contents

Morley Pooled Pensions Limited

Directors and Officers

Directors
N D Alford *Executive*
K L Garrett-Cox *Executive* (resigned 28 February 2007)
K Jones *Executive* (resigned 31 December 2006)
A D Morrison *Executive* (resigned 6 March 2006)
J L Tanner *Executive*
D K Watson *Executive*

Secretary
Aviva Company Secretarial Services Limited
St Helen's
1 Undershaft
London
EC3P 3DQ

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

Regulator
Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Registered office
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Directors' report

The Directors present their report together with the financial statements of Morley Pooled Pensions Limited ('the Company') for the year ended 31 December 2006 and the auditors' report thereon.

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.

Directors
The names of the present Directors of the Company, all of whom served throughout the year, appear on page 3. On 31 December 2006, K Jones resigned as a Director. After the year-end, on 28 February 2007, K L Garrett-Cox resigned as a director.

Results
The results for the year are shown in the Income Statement on page 8.

Dividends
The Directors do not recommend the payment of a final dividend for the year (2005: £nil). In 2006, an interim dividend of £2.0m was paid (2005: £4.7m). The total dividend per share paid in the year was £0.33 (2005: £0.78).

Operations and business review
The position of the Company at the year-end is shown in the Balance Sheet on page 9, with trading results shown in the Income Statement on page 8. The main factors affecting these primary statements in the year were:

Financial position:

- A £70.2m decrease in new funds received in respect of investment contracts to £573.9m, and an overall decrease in funds under management of £62.1 million or 1.7%.
- The mix of unit-linked funds has changed, with more invested in property and less in equities.
- Investment income attributable to the unit-linked funds was down on 2005, mainly reflecting movements in the markets in which our clients were invested.
- Consistent with a decrease in revenues, expenses decreased by 57%.
- Profit after tax was £2.1 million, consistent with 2005.

Post balance sheet events
There have been no material events between 31 December 2006 and the date of this report.

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 below. All the disclosed interests are beneficial.

	At 1 January 2006	At 31 December 2006
N D Alford	1,024	1,393
K L Garrett-Cox	864	1,429
K Jones	1,829	2,228
J L Tanner	95	660
D K Watson	1,092	1,467

Incentive plans

The table below details those Directors who held office at the end of the financial year, and hold/held options to subscribe for ordinary shares of Aviva plc or hold/held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans.

Share options:	At 1 January 2006	Options granted during year	Options exercised or cancelled during year	At 31 December 2006
N D Alford				
Savings related options(1)	1,904	-	-	1,904
K L Garrett-Cox				
Savings related options(1)	2,213	-	-	2,213
J L Tanner				
Savings related options(1)	3,482	-	-	3,482

(1) *"Savings related options"* are options granted under the HM Revenue and Customs-approved Save As You Earn (SAYE) share option scheme. Options are normally exercisable during the six-month period following either the third, fifth or seventh anniversary of the relevant savings contract.

Indemnity to the Directors

Aviva plc, the Company's ultimate parent, has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report.

Risk management

The Company's financial risk management objectives and policies are discussed in note 18 to the accounts.

Employees

All employees are employed by a fellow subsidiary undertaking, MFM Employment Services Limited. Disclosures relating to employees may be found in accounts of that Company.

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

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for maintaining proper accounting records which can be disclosed with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company, and for the prevention and detection of fraud and other irregularities.

Directors' statement as to disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' report are listed on page 3 of this report. Each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, which the Company's auditors are unaware; and
- having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Claire Valentine

Aviva Company Secretarial Services Limited
Secretary
27 March 2007

Independent auditors' report to the shareholders of Morley Pooled Pensions Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

30 ~~27~~ March 2007

Income statement

	Note	For the year ended 31 December 2006 £'m	2005 £'m
Income			
Fee and commission income	1(F)	10.6	10.7
Net investment income	1(G), 2	307.9	717.5
Other income		0.8	1.7
		319.3	729.9
Expenses			
Claims paid		0.5	0.1
Less: reinsurer's share		(0.5)	(0.1)
Income attributed to investment contracts		(303.6)	(712.3)
Fee and commission expense	3	(7.7)	(8.5)
Other operating expenses	4	(2.1)	(2.1)
		(313.4)	(722.9)
Profit before tax		5.9	7.0
Tax expense	1(P), 7	(3.8)	(5.0)
Profit for the year		2.1	2.0

The Company has no recognised gains or losses other than those included in the above results. Accordingly, a Statement of Recognised Income and Expense is not given.

The total dividend per share paid in the year is £0.33 (2005: £0.78).

The accounting policies on pages 11 to 15 and notes on pages 16 to 25 are an integral part of these financial statements.

Morley Pooled Pensions Limited

Balance sheet

	Note	2006	2005
			As at 31 December
		£'m	£'m
ASSETS			
Investment property	1(J), 8	1,040.8	741.7
Financial investments	1(L), 9	2,343.7	2,648.3
Reinsurance assets	1(I), 10	9.4	8.5
Receivables and other financial assets	11	55.8	71.6
Cash and cash equivalents	1(N)	137.2	187.1
Total assets		**3,586.9**	**3,657.2**
EQUITY			
Issued share capital	13	6.0	6.0
Retained earnings		2.4	2.3
Total equity		8.4	8.3
LIABILITIES			
Insurance liabilities	1(D), 10	9.4	8.5
Liability for investment contracts	1(H), 14	3,548.8	3,610.9
Current tax liabilities	1(P)	1.0	0.9
Payables and other financial liabilities	15	19.3	28.6
Total liabilities		3,578.5	3,648.9
Total equity and liabilities		**3,586.9**	**3,657.2**

Approved by the Board on 27 March 2007

David Watson

D K Watson
Director

The accounting policies on pages 11 to 15 and notes on pages 16 to 25 are an integral part of these financial statements.

Statement of changes in equity

	For the years ended 31 December 2005 and 2006		
	Ordinary share capital	Retained earnings	Total Equity
	£'m	£'m	£'m
Balance at 1 January 2005	6.0	5.0	11.0
Net profit for the year	-	2.0	2.0
Dividends	-	(4.7)	(4.7)
Total movements in the year	-	(2.7)	(2.7)
Balance at 31 December 2005	6.0	2.3	8.3
Net profit for the year		2.1	2.1
Dividends		(2.0)	(2.0)
Total movements in the year	-	0.1	0.1
Balance at 31 December 2006	6.0	2.4	8.4

Cash flow statement

For the year ended 31 December	Note	Total 2006	Total 2005
		£'m	£'m
Cash flows from operating activities			
Cash generated from operations	17(a)	(44.2)	1.5
Tax paid		(3.7)	(5.2)
Net cash from operating activities		(47.9)	(3.7)
Cash flows from financing activities			
Ordinary dividends paid		(2.0)	(4.7)
Net cash used in financing activities		(2.0)	(4.7)
Net decrease in cash and cash equivalents		(49.9)	(8.4)
Cash and cash equivalents at 1 January	17(b)	187.1	195.5
Cash and cash equivalents at 31 December	17(b)	137.2	187.1

The accounting policies on pages 11 to 15 and notes on pages 16 to 25 are an integral part of these financial statements.

1. Accounting policies

The principal accounting policies adopted in the preparation of the Company's financial statements are set out below.

(A) Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and endorsed by the European Union and applicable at 31 December 2006.

In accordance with Phase I IFRS 4, *Insurance contracts*, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

The amendment to *IAS 39 Amendments – Financial Instruments: Recognition and Measurement* restricts the use of the option previously in place to designate any financial asset or financial liability to be measured at fair value through the income statement and does not have an impact on the Company.

During the course of the year, the IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued a number of new accounting standards, amendments to existing standards and interpretations. The Directors do not anticipate that the adoption of these standards will materially impact the Company's financial statements. They will, however, give rise to additional disclosures.

Both *IFRS 7 Financial Instruments: Disclosures* and *IAS 1 Presentation of Financial Statements* are effective for periods beginning on or after 1 January 2007. IFRS 7 requires disclosure that enables users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The Company has decided to adopt IFRS 7 early and reflect its impact in these financial statements. IAS 1 will require the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The amendments have not been early adopted, but would only affect the capital disclosures within the financial statements, with no corresponding impact on financial results.

The financial statements are stated in sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling ("£m").

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ materially from those estimates.

(C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities which are held at fair value through profit and loss (see Policy L below), are reported as part of the fair value gain or loss.

(D) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments 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 contracts.

As noted in Policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the British Insurers in December 2005. However, in certain businesses, the accounting policies and accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements.

(E) Investment contracts

The pooled pensions business consists of investment contracts without a discretionary participating feature (non-participating investment contracts). Deposits collected under such contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability. Non-participating investment contracts have no associated premium income.

(F) Fee income

Investment contract policyholders are charged fees for policy administration, investment management and other contract services. These fees are recognised as revenue in the period to which they relate.

(G) Net investment income

Investment income consists of dividends and interest for the year, movements in amortised cost on debt securities, realised and unrealised gains and losses on investments held at fair value (as defined in Policy L below). 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.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(H) Non-participating investment contract liabilities

Non-participating investment contracts are unit-linked contracts and are carried at fair value. The fair value of the liability is equal to the current unit fund value, plus additional non-unit reserves if required on a fair value basis.

(I) Reinsurance

The Company has a small amount of annuities in payment from legacy activity, which is fully reinsured by Norwich Union Annuity Limited, a fellow subsidiary of Aviva Plc. Norwich Union Annuity Limited manages the assets, liabilities, and administers annuity payments.

(J) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company. 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 Company with appropriate recent experience. Changes in fair values are recorded in the income statement within net investment income.

(K) 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.

(L) Financial investments

The Company classifies its investments as financial assets held at fair value through the income statement. This category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as such, holding them at fair value through the income statement (referred to in this accounting policy as "other than trading"). Derivative instruments are classified as "trading". All other securities are classified as "other than trading".

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs. Debt securities are initially recorded at amortised cost, with amortisation credited or charged to the income statement. They are subsequently carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise.

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.

Impairment

The Company reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (i.e. improvement in the debtor's credit rating), and are generally not recognised in respect of equity instruments.

(M) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures and other financial instruments that derive their value mainly from underlying financial and 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. 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.

For a variety of reasons, certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

Derivative contracts may be traded on an exchange or over-the-counter ('OTC'). Exchange-traded derivatives are standardised and include certain futures contracts. OTC derivative contracts are individually negotiated between contracting parties. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

The notional or contractual amount associated with derivative financial instruments, are not recorded as assets or liabilities in the balance sheet, as they do not represent the potential gain or loss associated with such transactions.

(N) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on 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.

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet. Cash on deposit with a longer maturity is included in other financial investments.

(O) Provisions and contingent liabilities

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated, or if they are possible, but not probable.

(P) Income taxes

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

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

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

(Q) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

(R) Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised in equity in the period in which they are approved.

2. Net investment income

	2006	2005
	£'m	£'m
Net investment income		
Rental income from investment properties	39.0	29.9
Interest and similar income from investments designated as other than trading	61.3	99.4
Income from other investments	35.9	51.3
Realised gains and losses	263.4	383.9
Unrealised gains and losses	(91.7)	153.0
	307.9	717.5

3. Fee and commission expense

	2006	2005
	£'m	£'m
Investment charges and administrative expenses	7.7	8.5

These expenses are payable to Morley Fund Management Limited and Aviva Fund Services SA. Further details are shown in note 19 on related parties.

Included within administration expenses are charges for the remuneration of the auditors in respect of the statutory audit £30,500 (2005: £29,100).

4. Other operating expenses

	2006	2005
	£'m	£'m
Other operating expenses	2.1	2.1

Included above are expenses paid directly by the funds such as transaction charges, safe custody and stock lending fees.

5. Segment information

The Company operates predominately in one geographical segment and one business segment, being the transaction of unit linked pensions throughout the United Kingdom, as such a segment note has not been prepared.

6. Directors' emoluments

Directors are remunerated by MFM Employment Services Limited in respect of their services to the Morley Group as a whole. The emoluments of these Directors are recharged to Morley Fund Management Limited, which in turn makes a charge for the provision of staff to the Company (refer administrative expenses in note 3). While this includes an element in respect of Directors' emoluments, it is not practical to calculate the exact charge borne by the Company.

7. Tax

(a) Tax charged to the income statement

(i) The total tax charged comprises:

	2006	2005
	£'m	£'m
Current tax:		
For this year	3.5	5.0
Prior year adjustments	0.3	-
Total current tax	3.8	5.0
Total tax charged to income statement (note 7b)	3.8	5.0

	2006	2005
(ii) The tax charge can be analysed as follows:		
United Kingdom tax	1.4	1.1
Overseas tax	2.4	3.9
	3.8	5.0

(b) Tax reconciliation

The tax assessed in the non-technical account is higher than the standard UK corporation tax rate, because of the following factors:

	2006	2005
	£'m	£'m
Profit before tax	5.9	7.0
Tax calculated at standard UK corporation tax rate of 30% (2005: 30%)	1.8	2.1
Adjustment to tax charge in respect of prior years	0.3	0.0
Adjustments arising from tax attributable for UK life insurance policy holders	1.7	2.9
Total tax charged to income statement (note 7a)	3.8	5.0

(c) Tax liabilities

Current tax liabilities are expected to be settled within one year (2005: within one year).

8. Investment property

	Freehold	Leasehold	Total
	£'m	£'m	£'m
Carrying value			
At 1 January 2005	382.6	94.6	477.2
Additions	198.7	10.3	209.0
Capitalised expenditure on existing properties	6.8	1.0	7.8
Fair value gains	57.4	4.5	61.9
Disposals	(14.2)	-	(14.2)
Reclassification	2.6	(2.6)	0.0
At 31 December 2005	633.9	107.8	741.7
Additions	216.7	21.6	238.3
Capitalised expenditure on existing properties	23.5	2.9	26.4
Fair value gains	73.6	15.2	88.8
Disposals	(48.3)	(6.1)	(54.4)
At 31 December 2006	899.4	141.4	1,040.8

The carrying amount of investment property where realisation is restricted is nil (2005: nil).

Investment properties are stated at their fair values as assessed by qualified external valuers as at 31st December 2006. DTZ Debenham Tie Leung is the Property Funds' principal valuer. All valuers are Chartered Surveyors, being Members of the Royal Institution of Chartered Surveyors. Each property was valued on the basis of open market value and valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

The fair value of investment properties leased to third parties under operating leases was as follows:

	2006	2005
	£'m	£'m
Freeholds	899.4	633.9
Long leaseholds - over 50 years	141.4	107.8
	1,040.8	741.7

9. Financial investments

(a) Financial investments comprise:

	2006	2005
At fair value through profit or loss	**£'m**	**£'m**
Other than trading		
Debt securities		
UK government	461.8	479.4
Non - UK government	51.0	103.4
Corporate - UK	342.9	306.8
Corporate - Non - UK	307.3	189.6
Other	-	5.0
	1,163.0	1,084.2
Equity securities		
Corporate - UK	415.5	602.4
Corporate - Non - UK	612.8	776.3
	1,028.3	1,378.7
Other investments		
Unit trusts	150.4	184.3
Trading		
Derivative financial assets	2.0	1.1
Total financial investment assets	**2,343.7**	**2,648.3**
Derivative financial liabilities (note 15)	-	(1.1)
Net financial investments	2,343.7	2,647.2

(b) Stock lending

The unit-linked funds managed by the Company have stocklending arrangements in accordance with established market conventions. In the United Kingdom, investments are lent to locally-domiciled counterparties and governed by agreements written under English law. Other investments are specifically deposited under local laws in various countries, as security to holders of the policies issued there.

The carrying amounts of financial assets received and pledged as collateral under stocklending arrangements at 31 December 2006 are £329.2 million (2005: £529.8 million). None of the collateral held has been sold on or re-lent (2005: £nil), although the terms of the stocklending agreements permit it.

10. Reinsurance assets and insurance liabilities

The following is a summary of the reinsurance assets and related insurance liabilities as at 31 December.

	2006			2005		
	Insurance liabilities	Reinsurance assets	Net	Insurance liabilities	Reinsurance assets	Net
	£'m	£'m	£'m	£'m	£'m	£'m
Long-term business contracts						
Annuity contracts	9.4	(9.4)	-	8.5	(8.5)	-

Liabilities are measured at amortised cost. The value of the reinsurance assets and insurance liabilities has moved in line with the related annuity contracts, the value of which has changed as a result of changing economic assumptions.

11. Receivables and other financial assets

	2006	2005
	£'m	£'m
Accrued income and receivables	55.8	71.6
	55.8	71.6
Expected to be recovered in less than one year	54.1	70.0
Expected to be recovered in more than one year	1.7	1.6
	55.8	71.6

Concentrations of credit risk with respect to receivables are limited due to the size and spread of individual exposures. No further credit risk provision is therefore required.

12. Assets held to cover linked liabilities

Unit-linked products have been classified as investment contracts. The assets backing these unit-linked liabilities are included within the relevant balances in the balance sheet, and form part of the liability for investment contracts disclosed in note 14.

The carrying values of assets backing these unit-linked liabilities are as follows:

	2006	2005
	£'m	£'m
Investment properties	1,040.8	741.7
Debt securities	1,156.4	1,077.4
Equity securities	1,028.3	1,378.7
Other investments	152.4	185.4
Other net assets	37.7	44.7
Cash and cash equivalents	133.0	182.8
	3,548.6	3,610.7
The associated liabilities are:		
Unit-linked contracts classified as investment contracts	(3,548.6)	(3,610.7)
	(3,548.6)	(3,610.7)

The cost of the assets held to cover linked liabilities was £3,267.5 m (2005: £3,061.2m). The assets in the unit-linked funds are the subject of floating charges, given in line with industry standard terms in respect of reinsurance business invested in the funds. These charges give the reinsured policyholders parity with, but not an advantage to, the direct investors in the funds.

13. Ordinary share capital

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

	2006	2005
	£'m	£'m
The authorised share capital of the Company at 31 December was: - 6,000,000 (2005: 6,000,000) ordinary shares of £1 each	6.0	6.0
The allotted, called up and fully paid share capital of the Company at 31 December was: - 6,000,000 (2005: 6,000,000) ordinary shares of £1 each	6.0	6.0

14. Liability for investment contracts

The liability for investment contracts, all of which were unit-linked, comprised:

	2006	2005
	£'m	£'m
Carrying amount at 1 January	3,610.9	4,816.2
Reserves in respect of net new business	(357.2)	(1,914.8)
Net investment income (includes tax charge)	305.7	718.4
Charges	(10.8)	(9.1)
Carrying amount at 31 December	3,548.6	3,610.7
Provision for non-unit liabilities	0.2	0.2
Total liability for investment contracts	3,548.8	3,610.9

(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, which is 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, taking into account the Company's ability to take action to mitigate the situation within the period of one year.

15. Payables and other financial liabilities

	2006	2005
	£'m	£'m
Amounts owed to fellow subsidiaries	0.9	0.4
UK corporation tax – Group relief	1.0	1.9
Other payables	17.4	25.2
Other financial liabilities (note 9)	-	1.1
Total	19.3	28.6
Expected to be settled in less than one year	19.3	27.5
Expected to be settled in more than one year	-	1.1
	19.3	28.6

16. Contingent liabilities and commitments

At the year-end there were contractual commitments for future maintenance and repairs on the investment properties held to cover linked liabilities of £38.6m (2005: £8.2m). There were no other contingent liabilities or commitments at the balance date.

17. Additional cash flow information

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2006	2005
	£'m	£'m
Profit before tax	5.9	7.0
Net realised gain on financial investments	(260.9)	(379.4)
Net realised gain on investment properties	(2.5)	(4.5)
Net fair value on investment properties	(120.3)	(61.9)
Net fair value on financial investments	212.0	(91.1)
Changes in working capital:		
Decrease in receivables and other financial assets	15.8	97.8
Decrease in payables and other financial liabilities	(9.3)	(116.5)
Changes in insurance-related balances:		
Decrease in reinsurance assets	(1.1)	(0.1)
Decrease in liability for investment contracts	(62.1)	(1,205.5)
Increase in insurance liability	1.1	0.1
Net (purchases)/ sales of operating assets:		
Investment property	(176.3)	(198.0)
Financial investments	353.5	1,953.6
Cash generated from operations	(44.2)	1.5

Purchases and sales of investment property and financial investments are included within operating cash flows, as the cash flows are associated with the origination of investment contracts net of payments of related claims.

(b) Cash and cash equivalents in the Cash flow statement at 31 December comprised:

	2006	2005
	£'m	£'m
Cash at bank and in hand	14.9	2.8
Cash equivalents	122.3	184.3
	137.2	187.1

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

18. Risk management

(a) The Morley Group's approach to risk and capital management

Details of the Morley Group's governance framework are contained in the financial statements of Morley Fund Management Limited.

(b) Management of financial and non-financial risks

(i) Asset/liability management

The policy of the Company is to match insurance and investment contract liabilities exactly, by way of reinsurance and unit-linked assets respectively. The Company is not exposed to significant liquidity risk and has a strong liquidity position. Through the application of a 'Liquidity Policy' it seeks to maintain sufficient financial resources to meet its obligations as they fall due.

(ii) Market risk and sensitivities

Market risk is the risk of adverse impact due to changes in fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices. The value of the investment contract liability is directly linked to the value of the related assets and thus, the risk for the Company relates solely to the impact on fee income, which is not hedged. Shareholder assets and liabilities are held in sterling to minimise foreign currency exchange risk. The Company is not exposed to significant interest rate risk.

Morley uses sensitivity test-based analysis, including an Internal Capital Assessment, to understand the impact of volatile markets on expected earnings for decision-making and planning purposes. The impact of a fall in securities or property values at a point in time is limited to the impact on revenue, which is accrued based on those values and which is partially off-set by amounts payable by the Company for investment management. The Directors consider that a 10% fall in markets at the year-end would not have a material impact on the financial position of the Company.

(iii) Credit risk

The nature of the Company's business (unit-linked) means that it is not exposed to significant credit risk as the risk is borne by the policyholders.

The gilt held by the Company had a rating AAA (2005: AAA).

(iv) Operational risk

Operational risk would arise as a result of inadequate or failed internal processes, people or systems; or from external events. Details of the Morley Group's approach to operational risk are set out in the financial statements of Morley Fund Management Limited, which manages and administers the pooled funds on behalf of the Company.

19. Related party transactions

(a) The Company provides pooled pension investments to certain segregated clients of a fellow subsidiary, Morley Fund Management Limited, which results in the Company receiving a portion of the fee charged to those clients. No separate management fee is charged to Morley Fund Management Limited. The Company also provides services to one of the Aviva group pension schemes, for which a fee is charged. Morley Fund Management Limited provides investment management services to the Company in respect of all unit-linked assets, for which a fee is charged.

(b) Services provided to related parties	2006		2005	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£'m	£'m	£'m	£'m
Segregated fee income from fellow subsidiary	1.4	0.1	1.2	0.1
Aviva Staff Pension Scheme	0.5	0.1	2.6	0.1
	1.9	0.2	3.8	0.2

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

(c) Services provided by related parties	2006		2005	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£'m	£'m	£'m	£'m
Investment management fee charged by fellow subsidiary	5.2	0.4	6.2	0.4
Costs incurred by fellow subsidiary and recharged	2.5	0.2	2.3	0.2
	7.7	0.6	8.5	0.6

In addition, the liability for annuity contracts is reinsured with a fellow subsidiary. There was no expense for this service and the receivable at the year-end was £9.4m (2005: £8.5m).

The related parties' payables are not secured and no guarantees were received in respect thereof. The payables will be settled in accordance with normal credit terms.

(d) Key Management Compensation

Members of the Board of Directors are listed on page 3 of these financial statements. There are no amounts receivable from, or payments due to members of the Board.

The Directors are considered to be the key management for the Company. Details of their remuneration arrangements are contained in note 6 above.

(e) Parent Entity

The immediate holding company is Morley Fund Management Group Limited, which changed its name during the year from Morley Investment Holdings Limited.

(f) Ultimate Controlling Entity

The ultimate controlling entity is Aviva plc. Aviva plc's Group accounts are available on application to the:

Group Company Secretary
Aviva plc
St Helen's
1 Undershaft, London
EC3P 3DQ.