

Company Number: 2180202

**Undershaft (No.1) Limited**  
(formerly CGNU Holdings (Australia) Limited)

**Annual Report and Accounts 2005**



# **Undershaft (No.1) Limited**

## **Report and accounts for the year ended 31 December 2005**

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# **Undershaft (No.1) Limited**

## **Directors' report**

The directors present their report and accounts for the Company for the year ended 31 December 2005.

## **Principal activity**

The principal activity of the Company during the year continued to be that of a holding company for the Aviva Group's long-term business operations in Australia. The directors consider that the Company's activities will continue unchanged for the foreseeable future.

## **Change of name**

Following shareholder approval, the Company changed its name from CGNU Holdings (Australia) Limited to Undershaft (No.1) Limited on 12 July 2006.

## **Ultimate holding company**

The ultimate holding company is Aviva plc.

## **Results**

The Company results for the year are shown in the income statement on page 6.

## **Dividend**

The directors are not proposing a final ordinary dividend for 2005 (2004: *£nil*). An interim dividend for 2006 of £115,000,000 was declared on 7 July 2006 (2005 *£nil*).

## **Directors**

The current directors, and those in office during the year, are as follows:

Aviva Company Secretarial Services Limited  
Aviva Director Services Limited

There were no contracts of significance in existence during or at the end of the year in which a director of the Company was materially interested.

## **Directors' interests**

None of the directors who held office at 31 December 2005 had any beneficial interests in the Company's shares or the shares of any other company within the Group.

## **Directors' liabilities**

Aviva plc, the ultimate parent company, has granted an indemnity to one or more of its directors against liability in respect of any 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. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

# **Undershaft (No.1) Limited**

## **Directors' report (continued)**

### **Resolutions**

On 20 May 2001, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, accounts and auditors' reports before the members in general meeting and the obligation to appoint an auditor annually.

### **Auditor and the disclosure of information to the auditor**

So far as each director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps that he is obliged to take as a director in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

In accordance with section 385 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the reappointment of Ernst & Young LLP as the auditor of the Company.

By order of the Board



Aviva Company Secretarial Services Limited  
Secretary

10 October 2006

Registered Office:  
St Helen's, 1 Undershaft, London, EC3P 3DQ

# **Undershaft (No.1) Limited**

## **Statement of directors' responsibilities**

The directors are required to prepare financial statements 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 financial statements in accordance with IFRS requires the directors to:

- select suitable accounting policies and ensure 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 financial statements.

The directors are responsible for maintaining proper accounting records which are intended to disclose 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 its assets, and for the prevention and detection of fraud and other irregularities.

# Undershaft (No.1) Limited

## Independent auditor's report to the shareholders of Undershaft (No.1) Limited

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense, the Reconciliation of Movement in Shareholders' Equity, and the related notes 1 to 15. 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 auditor

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as 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 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 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 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP

Registered Auditor

London

*11 October* 2006

# Undershaft (No.1) Limited

## Income statement

For the year ended 31 December 2005

|                                | Notes    | 2005<br>£'000   | 2004<br>£'000  |
|--------------------------------|----------|-----------------|----------------|
| <b>Income</b>                  |          |                 |                |
| Investment income              | 1(f) & 4 | 22,677          | 95             |
| Other income                   |          | 813             | -              |
|                                |          | <u>23,490</u>   | <u>95</u>      |
| <b>Expenses</b>                |          |                 |                |
| Foreign exchange (loss) / gain |          | (147)           | 361            |
| Finance costs                  | 5        | (25,781)        | (2,814)        |
| <b>Loss before tax</b>         |          | <u>(2,438)</u>  | <u>(2,358)</u> |
| Tax (expense) / credit         | 1(h) & 8 | (26,279)        | 142            |
| <b>Loss for the year</b>       |          | <u>(28,717)</u> | <u>(2,216)</u> |

## Statement of recognised income and expense

For the year ended 31 December 2005

|   | Note | 2005<br>£'000   | 2004<br>£'000  |
|---|------|-----------------|----------------|
| Fair value gain on investment in subsidiary             | 9    | 46,380          | 66,510         |
| Loss for the year                                       |      | <u>(28,717)</u> | <u>(2,216)</u> |
| <b>Total recognised income and expense for the year</b> |      | <u>17,663</u>   | <u>64,294</u>  |

## Reconciliation of movement in shareholders' equity

For the year ended 31 December 2005

|  | 2005<br>£'000  | 2004<br>£'000  |
|--|----------------|----------------|
| <b>Balance at 1 January</b>                      | <u>776,446</u> | <u>712,152</u> |
| Total recognised income and expense for the year | 17,663         | 64,294         |
| <b>Balance at 31 December</b>                    | <u>794,109</u> | <u>776,446</u> |

The notes on pages 8 to 18 are an integral part of these financial statements. The auditor's report is on page 5.

# Undershaft (No.1) Limited

## Balance sheet

At 31 December 2005

|                                     | Notes    | 2005<br>£'000  | 2004<br>£'000  |
|-------------------------------------|----------|----------------|----------------|
| <b>ASSETS</b>                       |          |                |                |
| <b>Non-current assets</b>           |          |                |                |
| Investment in subsidiary            | 1(c) & 9 | 374,200        | 327,820        |
| <b>Current assets</b>               |          |                |                |
| Amounts owed by Group companies     | 13       | 559,068        | 526,280        |
| Current tax assets                  | 1(h)     | 4,924          | -              |
|                                     |          | 563,992        | 526,280        |
| <b>TOTAL ASSETS</b>                 |          | <b>938,192</b> | <b>854,100</b> |
| <b>EQUITY</b>                       |          |                |                |
| <b>Capital and reserves</b>         |          |                |                |
| Ordinary share capital              | 10       | 575,460        | 575,460        |
| Investment valuation reserve        | 11       | 117,973        | 71,593         |
| Retained earnings                   | 11       | 100,676        | 129,393        |
| <b>TOTAL EQUITY</b>                 |          | <b>794,109</b> | <b>776,446</b> |
| <b>LIABILITIES</b>                  |          |                |                |
| <b>Non-current liabilities</b>      |          |                |                |
| Other creditors                     | 8(a)     | 22,724         | -              |
| <b>Current liabilities</b>          |          |                |                |
| Amounts owed to Group companies     | 13       | 79,899         | 76,841         |
| Deferred tax liabilities            | 8 (c)    | 3,000          | -              |
| Current tax liabilities             | 1(h)     | 38,460         | -              |
| Other creditors                     |          | -              | 813            |
|                                     |          | 121,359        | 77,654         |
| <b>TOTAL LIABILITIES</b>            |          | <b>144,083</b> | <b>77,654</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b> |          | <b>938,192</b> | <b>854,100</b> |

Approved by the Board on 10 October 2006

Aviva Director Services Limited

Director *K.C.*

## Cash Flow Statement

For the year ended 31 December 2005

The Company has not had any cash transactions during the current or prior years and therefore no cash flow statement is presented.

The notes on pages 8 to 18 are an integral part of these financial statements. The auditor's report is on page 5.



# Undershaft (No.1) Limited

## Notes to the Financial Statements

### 1. Accounting policies

Undershaft (No.1) Limited (the "Company"), a private company incorporated and domiciled in the United Kingdom ("UK"), is a holding company for the Aviva Group's long-term business operations in Australia. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's accounts.

#### (a) Basis of presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). This is the Company's first set of full year results prepared in accordance with IFRS applicable at 31 December 2005. Its previously reported 2004 financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004. The principal effects of the adoption of IFRS have been reflected within note 2 on the first time adoption of IFRS.

#### (b) Use of estimates

The preparation of the financial statements require 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 from those estimates, possibly significantly.

#### (c) Investment in subsidiary

Subsidiaries are those entities (including Special Purpose Entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits.

In the balance sheet, subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by the Aviva Group's market capitalisation. They are classified as available for sale financial assets, with changes in their fair value being recorded in a separate investment valuation reserve within equity, except where the directors consider any shortfall to be an impairment. Provisions for impairment are taken to the income statement.

#### (d) Consolidated financial statements

The Company has taken advantage of the exemption under section 228 of the Companies Act not to prepare consolidated financial statements, as it is a wholly-owned subsidiary of Aviva plc.

#### (e) Foreign currency translation

Translation differences on monetary financial assets and liabilities are included in foreign exchange gains and losses in the income statement.

#### (f) Investment income

Investment income consists of dividends and interest receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Dividends received from the subsidiary company is recognised when approved by their shareholders.

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.

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 1. Accounting policies (continued)

#### (g) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of 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.

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated.

#### (h) 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 tax 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.

### 2. First time adoption of International Financial Reporting Standards

#### (i) Reconciliation of equity reported under UK GAAP to equity reported under IFRS

|  | As at<br>1 January 2004<br>£'000 | As at<br>31 December 2004<br>£'000 |
|--|----------------------------------|------------------------------------|
| Equity as reported under UK GAAP                             | 638,642                          | 751,961                            |
| Adjusted for:  |                                  |                                    |
| Revaluation of investment in subsidiary<br>(see (iii) below) | 73,510                           | 24,485                             |
| Equity as reported under IFRS                                | <u>712,152</u>                   | <u>776,446</u>                     |

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 2. First time adoption of International Financial Reporting Standards (continued)

#### (ii) Reconciliation of profit and loss reported under UK GAAP to profit and loss reported under IFRS

|   | For the year ended<br>31 December 2004 |
|---|--|
|   | <u>£'000</u>                           |
| Profit for the year as reported under UK GAAP   | 57,784                                 |
| Adjusted for:   |  |
| Reversal of impairment of investment in subsidiary recognised under UK GAAP (see (iii) below) | (60,000)                               |
| Loss for the year as reported under IFRS  | <u>(2,216)</u>                         |

#### (iii) Adjustments between UK GAAP and IFRS

The basis for the material adjustments between UK GAAP and IFRS is as follows:

##### *Investment in subsidiary*

Under UK GAAP, subsidiaries are stated at current value which, for that purpose, was embedded value for life operations and net asset value for other entities. As a result of applying IAS 39, subsidiaries are stated at their fair values. This uplift in valuation increased shareholders' funds by £73,510,000 at 1 January 2004 and by £24,485,000 at 31 December 2004. Profit for the year ended 31 December 2004 was reduced by £60,000,000 as a result of not recognising an impairment reversal in the value of the subsidiary recognised under UK GAAP.

### 3. Exchange rates

Assets and liabilities have been translated at the following year end rates:-

|                   | 2005   | 2004   |
|-------------------|--------|--------|
| Australian Dollar | 2.3403 | 2.4491 |

### 4. Investment income

#### *Investment income comprises:*

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Dividend income from subsidiary                | 22,568        | -             |
| Interest receivable from other Group companies | 109           | 95            |
|  | <u>22,677</u> | <u>95</u>     |

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 5. Finance costs

*Finance costs comprise:*

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Interest payable to parent company (see note 13) | 3,057         | 2,814         |
| Other interest payable (see note 8(a))           | 22,724        | -             |
|  | <u>25,781</u> | <u>2,814</u>  |

### 6. Auditor's remuneration

Auditor's remuneration for the current and prior year has been borne by Aviva plc.

### 7. Directors and employees

No charge is made to the Company for the services of the corporate directors.

The Company has no employees.

### 8. Tax

*(a) Tax (charged) / credited to the income statement comprises:*

|  | 2005<br>£'000   | 2004<br>£'000 |
|--|-----------------|---------------|
| Current tax  |                 |               |
| UK corporation tax on the taxable profit for the year  | 4,924           | 708           |
| Prior year adjustments                                 | (28,203)        | (566)         |
| Total current tax                                      | <u>(23,279)</u> | <u>142</u>    |
| Deferred tax   |                 |               |
| Origination and reversal of timing differences         | (3,000)         | -             |
| Total deferred tax                                     | <u>(3,000)</u>  | <u>-</u>      |
| Total tax (charged) / credited to the income statement | <u>(26,279)</u> | <u>142</u>    |

The prior year adjustment includes a £38,702,000 charge in respect of the 2000 reorganisation of Aviva's Australian businesses, following receipt in 2005 of a tax assessment from the Australian Tax Office. The Company is disputing this assessment. A provision for interest on late payment of this tax assessment of £22,724,000 has been charged within finance costs and is included in other creditors in the balance sheet. In addition, the Company recognised credits of £10,499,000 in respect of prior year overprovisions and foreign tax credits eligible for surrender to Group companies.

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 8. Tax (continued)

#### (b) Tax reconciliation

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

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Loss in the income statement   | (2,438)       | (2,358)       |
| Tax calculated at standard UK corporation tax rate<br>of 30% (2004: 30%) | 732           | 707           |
| Adjustment to tax charge in respect of prior years (see (a) above)       | (28,203)      | (566)         |
| Movement in unrealised gains / (losses)                                  | 243           | -             |
| Other items  | 949           | 1             |
| Total tax (charged) / credited to the income statement                   | (26,279)      | 142           |

#### (c) Deferred tax

##### (i) The deferred tax liability arises on the following items

|                             | 2005<br>£'000 | 2004<br>£'000 |
|-----------------------------|---------------|---------------|
| Other temporary differences | (3,000)       | -             |
| Deferred tax liability      | (3,000)       | -             |

##### (ii) The movement in the deferred tax liability was as follows

|                           | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------|---------------|---------------|
| Liability at 1 January    | -             | -             |
| Amounts charged to profit | (3,000)       | -             |
| Liability at 31 December  | (3,000)       | -             |

Deferred income tax liabilities have been established for temporary differences associated with investments in subsidiaries (including tax payable on remittance of overseas retained earnings).

Deferred income tax liabilities of £2,000,000 (2004: Nil) have not been established for temporary differences associated with investments in subsidiaries (including tax payable on remittance of overseas retained earnings) because the Company can control the timing of the reversal of these differences and it is probable that they will not reverse in the foreseeable future. Such unremitted earnings totalled £18,000,000 at 31 December 2005 (2004: Nil).

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 9. Investment in subsidiary

(a) Movement in the Company's investment in subsidiary is as follows:

|                                  | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------|---------------|---------------|
| Fair value                       |               |               |
| At 1 January                     | 327,820       | 261,310       |
| Movement in fair value (note 11) | 46,380        | 66,510        |
| At 31 December                   | 374,200       | 327,820       |

(b) Details of the wholly-owned subsidiary held directly at 31 December 2005 are as follows:

| <u>Name</u>                      | <u>Class of share</u> | <u>Country of incorporation</u> | <u>Nature of business</u> |
|----------------------------------|-----------------------|---------------------------------|---------------------------|
| Aviva Australia Holdings Limited | Ordinary shares       | Australia                       | Insurance holding Company |

(c) Details of significant wholly-owned operating subsidiaries of Aviva Australia Holdings Limited as at 31 December 2005 are as follows:

| <u>Name</u>                          | <u>Class of share</u> | <u>Country of incorporation</u> | <u>Nature of business</u> |
|--------------------------------------|-----------------------|---------------------------------|---------------------------|
| Norwich Union Life Australia Limited | Ordinary shares       | Australia                       | Life insurance            |
| Navigator Australia Limited          | Ordinary shares       | Australia                       | Fund management           |

### 10. Ordinary share capital and share premium

The ordinary share capital of the Company at 31 December was:

|  | 2005<br>£'000 | 2004<br>£'000 |
|--|---------------|---------------|
| Authorised   |               |               |
| 575,459,764 (2004: 575,459,764) ordinary shares of £1 each | 575,460       | 575,460       |
| Allotted, called up and fully paid                         |               |               |
| 575,459,764 (2004: 575,459,764) ordinary shares of £1 each | 575,460       | 575,460       |

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 11. Reserves

|                                    | Investment<br>valuation<br>reserve | Retained<br>earnings | Total          |
|------------------------------------|------------------------------------|----------------------|----------------|
|                                    | £'000                              | £'000                | £'000          |
| <b>Balance at 1 January 2004</b>   | <b>5,083</b>                       | <b>131,609</b>       | <b>136,692</b> |
| Arising in the year:               |                                    |                      |                |
| Loss for the year                  | -                                  | (2,216)              | (2,216)        |
| Fair value gain (note 9)           | 66,510                             | -                    | 66,510         |
| <b>Balance at 31 December 2004</b> | <b>71,593</b>                      | <b>129,393</b>       | <b>200,986</b> |
| Arising in the year:               |                                    |                      |                |
| Loss for the year                  | -                                  | (28,717)             | (28,717)       |
| Fair value gain (note 9)           | 46,380                             | -                    | 46,380         |
| <b>At 31 December 2005</b>         | <b>117,973</b>                     | <b>100,676</b>       | <b>218,649</b> |

### 12. Risk management policies

#### The Company's approach to risk and capital management

##### *Governance framework*

The primary objective of the Company's risk financial management is to protect it from events or unforeseen circumstances that might hinder the sustainable achievement of the Company's objectives and financial performance, including failure to exploit opportunities as they arise.

The director's recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives, and can only provide reasonable assurance against misstatement or loss. The Company forms part of the Aviva plc Group where the framework has been established for identifying, evaluating and managing the significant financial and non-financial risks faced. The directors of the Company are satisfied that their adherence to this Group framework provides an adequate means of managing risk in the Company. These are documented below.

#### Management of financial and non-financial risks

##### *Market risk*

Market risk is the risk of adverse impact due to changes in fair values of financial instruments from fluctuation in foreign currency exchange rates, interest rates and equity prices.

Currency risk arises from an Australian \$4,690,000 (2004: Australian \$4,444,000) inter-company loan and interest receivable balance. The effect of a 1% change in the Au\$ / £ rate would be to charge or credit the income statement with \$46,900 (2004: \$44,440).

Cash flow interest rate risk arises from the inter-company loans payable and receivable (see related party transactions note 13). The effect of a 100 basis point increase in interest rates would be an increase in net interest expense of £672,000 (2004: increase of £671,000).

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 12. Risk management policies (continued)

The business of the Company is managing its investment in a subsidiary operation which is stated at fair value. The fair value is exposed to potential fluctuations in equity prices as it is estimated using applicable valuation models underpinned by the Aviva Group's market capitalisation.

#### *Credit risk*

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changing perceptions of the credit worthiness of such counterparties.

The Company's significant financial assets comprise amounts due from its parent, Aviva plc, and fellow Group companies, and as such the credit risk arising from counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the financial assets, and the fact that the loans are settled, and not traded the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of such counterparties.

#### *Liquidity risk*

The Company seeks to maintain sufficient financial resources available to meet its obligations as they fall due.



# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 12. Risk management policies (continued)

#### Management of financial and non-financial risks (continued)

##### *Maturity periods and interest rate risk*

The fair value or net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. Exposure to interest rate risk is managed through the monitoring of several risk measures.

##### *Operational risk*

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include all risks to which the Company is exposed. Hence operational risks include, for example, information technology, information security, project management, tax, legal, fraud and compliance risks.

The line management in the Company has primary responsibility for the effective identification, management, monitoring and reporting of risks to the Company executive management team. The Company executive management team is responsible for satisfying itself that material risks are being mitigated and reported to an acceptable level.

Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria.

### 13. Related party transactions

Apart from inter-company dividends receivable and payable, the only related party transactions are loans to and from related parties. The maturity analysis of the related party loans is as follows:

| Receivables |                      | Contractual repricing or maturity dates |           |           |           |           |              |       | Effective interest rate % |
|-------------|----------------------|---|-----------|-----------|-----------|-----------|--------------|-------|---------------------------|
|             | Denominated currency | Within 1 year                           | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years | Total |                           |
|             |                      | £'000                                   | £'000     | £'000     | £'000     | £'000     | £'000        | £'000 |                           |
| 2005        | £                    | 1,713                                   | -         | -         | -         | -         | -            | 1,713 | 6.2%                      |
| 2004        | £                    | 1,815                                   | -         | -         | -         | -         | -            | 1,815 | 6.2%                      |

| Payables |                      | Contractual repricing or maturity dates |           |           |           |           |              |        | Effective interest rate % |
|----------|----------------------|---|-----------|-----------|-----------|-----------|--------------|--------|---------------------------|
|          | Denominated currency | Within 1 year                           | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years | Total  |                           |
|          |                      | £'000                                   | £'000     | £'000     | £'000     | £'000     | £'000        | £'000  |                           |
| 2005     | £                    | 68,921                                  | -         | -         | -         | -         | -            | 68,921 | 4.6%                      |
| 2004     | £                    | 68,921                                  | -         | -         | -         | -         | -            | 68,921 | 4.1%                      |

# Undershaft (No.1) Limited

## Notes to the Financial Statements (continued)

### 13. Related party transactions (continued)

The service provided to related parties in the year is in respect to dividend income from Aviva Holdings Australia Limited of £22,568,000 (2004: *£nil*) and interest income of £109,000 (2004: *£95,000*) on a loan to Morley Investment Holdings Limited. The services provided by related parties in the year related to inter-company interest of £3,057,000 (2004: *£2,814,000*) payable on a loan from Aviva plc.

#### Services provided to related parties

|                       | 2005                                 |                                    | 2004                                 |                                    |
|-----------------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
|                       | Income<br>earned in<br>year<br>£'000 | Receivable<br>at year end<br>£'000 | Income<br>earned<br>in year<br>£'000 | Receivable<br>at year end<br>£'000 |
| Parent company        | -                                    | 497,832                            | -                                    | 497,833                            |
| Other Group companies | 22,677                               | 61,236                             | 95                                   | 28,447                             |
|                       | <u>22,677</u>                        | <u>559,068</u>                     | <u>95</u>                            | <u>526,280</u>                     |

#### Services provided by related parties

|                | 2005                                    |                                 | 2004                                    |                                 |
|----------------|---|---------------------------------|---|---------------------------------|
|                | Expense<br>incurred in<br>year<br>£'000 | Payable at<br>year end<br>£'000 | Expense<br>incurred in<br>year<br>£'000 | Payable at<br>year end<br>£'000 |
| Parent company | 3,057                                   | 79,899                          | 2,814                                   | 76,841                          |
|                | <u>3,057</u>                            | <u>79,899</u>                   | <u>2,814</u>                            | <u>76,841</u>                   |

#### Compensation of key management

The Company bears no costs in relation to key management personnel, and all such costs are borne by Aviva plc.

### 14. Parent company details

The immediate parent company as at 31 December 2005 was Aviva plc. On 31 July 2006 the company was sold to Aviva International Holdings Limited.

The ultimate parent company is Aviva plc. Its group financial statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ.

# **Undershaft (No.1) Limited**

## **15. Post Balance Sheet Events**

### **Dividend**

On 7 July 2006 the company declared an interim dividend for 2006 of £115,000,000 payable to Aviva plc to be settled by inter-company balance.