

Aviva Central Services UK Limited

Registered in England and Wales No. 03259447

Annual Report and Financial Statements 2013

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Directors and officers

Directors

C J Abrahams (appointed 1 February 2013)
N B M Amin (appointed 3 December 2013)
D Barral (resigned 1 February 2013)
C Holmes (appointed 14 May 2014)
D J R McMillan (resigned 1 February 2013)
C E Riley (appointed 1 February 2013, resigned 27 September 2013)
D F S Rogers (appointed 1 February 2013)
C J Thornton (resigned 8 March 2013)
J R Woodford (appointed 27 September 2013, resigned 14 May 2014)

Officer – Company Secretary

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

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered Office

8 Surrey Street
Norwich
NR1 3NG

Company Number

Registered in England and Wales no. 03259447

Other Information

Aviva Central Services UK Limited (the Company) is a member of the Aviva plc group of companies (the Group).

Strategic report

This strategic report is addressed to, and written for, the members of Aviva Central Services UK Limited (the Company) with the aim of providing a fair review of the business development, performance during the year, and position at the current time. In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business.

Principal activities

The principal activity of the Company is the provision of physical infrastructure and associated support services to other companies within the Aviva plc group of companies (the Group).

Financial position and performance

The financial position of the Company at 31 December 2013 is shown in the Statement of Financial Position on page 18, with the trading results shown in the Income Statement on page 15 and the Statement of Cash Flows on page 19.

Turnover has increased during 2013 in line with the increase in cost base. The Company's recharges are determined by the underlying activity to which they relate.

The results for the year is consistent between 2012 and 2013 at £Nil. There is a loss after tax of £6 million (2012: £68 million profit) due to a tax charge of £6 million within the year (2012: tax credit £68 million).

The loss after tax for the year of £6 million in 2013 has increased the Company's equity deficit to £47 million (2012: £41 million deficit).

Future outlook

High level strategies are determined by the Board of Aviva plc and these are shown in the Aviva plc Report and Accounts and Preliminary Announcement for year ended 31 December 2013. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 23 to the financial statements.

The principal risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include credit and liquidity risk, as well as operational risk.

Credit risk

The net asset value of the Company's financial resources is exposed to the potential default on the loans to its parent company Aviva Group Holdings Limited (AGH) and short term receivables due from fellow group companies. The credit risk arising from AGH or the fellow group companies is considered remote.

Liquidity risk

The Company has net liabilities of £47 million (2012: £41 million). It has a letter of support from AGH, the parent company and a wholly owned subsidiary of the ultimate controlling entity, Aviva plc. The letter states that, in the event that the Company is unable to meet its obligations, AGH will provide financial support for a twelve month period from the date of these financial statements.

Operational risk

The Company's income, other than interest of £4 million (2012: £4 million), is entirely derived from the provision of physical infrastructure and associated support services to other companies within the Aviva Group. As such, the Company is exposed to operational risks which might cause interruption or adversely impact the provision of these services, for example as a result of failed internal processes, people and systems, or external events. The Company aims to reduce these risks as far as is commercially sensible.

Strategic report continued

Key performance indicators

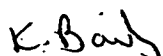
The performance of the business can be assessed through the use of key performance indicators (KPIs). The most relevant KPIs that communicate the financial performance are as follows:

- increase/(decrease) in turnover
- increase/(decrease) in cost of sales

A summary of the KPIs is set out below

	2013	2012
Increase in turnover	7%	7%
Increase in cost of sales	9%	5%

By order of the Board



KATHRYN BAILEY

For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

18 JULY

2014

Directors' report

The directors present their Annual Report and audited financial statements for Aviva Central Services UK Limited (the Company) for the year ended 31 December 2013.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

C J Abrahams (appointed 1 February 2013)
N B M Amin (appointed 3 December 2013)
D Barral (resigned 1 February 2013)
C Holmes (appointed 14 May 2014)
D J R McMillan (resigned 1 February 2013)
C E Riley (appointed 1 February 2013, resigned 27 September 2013)
D F S Rogers (appointed 1 February 2013)
C J Thornton (resigned 8 March 2013)
J R Woodford (appointed 27 September 2013, resigned 14 May 2014)

Company Number

Registered in England and Wales no. 03259447

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, the financial statements include notes on the Company's management of its major risks including market, credit and liquidity risk (note 23).

The Company has net liabilities of £47 million (2012: £41 million). It has a letter of support from AGH, the parent company and a wholly owned subsidiary of the ultimate controlling entity, Aviva plc. The letter states that, in the event that the Company is unable to meet its obligations, AGH will provide financial support for a twelve month period from the date of these financial statements. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Dividends

No interim ordinary dividends on the Company's ordinary shares was declared and paid during 2013 (2012: £Nil). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2013 (2012: £Nil).

Events since the Statement of Financial Position date

There are no events since Statement of Financial Position date to report.

Financial instruments

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 23 to the financial statements.

Employees

The Company has no employees. All employees are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Investors Employment Services Limited. Disclosures relating to employees may be found in the Annual Report and financial statements of these companies respectively.

Independent auditors

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of Section 487 of the Companies Act 2006.

Directors' report continued

Disclosure of information to the Auditors

Each person who was a director of the Company on the date that this report was approved confirms that:

- (a) so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and
- (b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Qualifying Indemnity Provisions

Aviva plc, the Company's ultimate parent, granted in 2004 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 (which continue to apply in relation to any provision made before 1 October 2007). This indemnity is a "qualifying third party indemnity" 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 by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Statement of directors' responsibilities

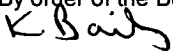
The directors are responsible for preparing the strategic report, directors' report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union (EU) 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



KATHRYN BAILY

Aviva Company Secretarial Services Limited
Company Secretary

18 JULY 2014

Independent auditors report to the members of Aviva Central Services UK Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by the Company, comprise:

- the Statement of Financial Position as at 31 December 2013;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Independent auditors report to the members of Aviva Central Services UK Limited continued

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Lee Clarke (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 July

2014

Accounting policies

The Company is a private limited company incorporated and domiciled in the United Kingdom (UK). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in consolidated financial statements for the Aviva Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity.

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRSs as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2013. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The Company has net liabilities of £47 million (2012: £41 million). It has a letter of support from AGH, the parent company and a wholly owned subsidiary of the ultimate controlling entity, Aviva plc. The letter states that, in the event that the Company is unable to meet its obligations, AGH will provide financial support for a twelve month period from the date of these financial statements. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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

New standards, interpretations and amendments to published standards that have been adopted by the Company.

The Company has adopted the following new standards or amendments to standards which became effective for financial years beginning on or after 1 January 2013.

Effective for annual periods beginning on or after 1 January 2013

(i) Amendment to IFRS 7, Financial Instruments – Disclosures

The amendment includes enhanced disclosures to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements in the Statement of Financial Position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard has been applied retrospectively but has no impact on the Company's loss for the current or prior period, the equity reported or disclosures shown.

(ii) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and structured entities. The adoption of IFRS 12 has resulted in significant additional disclosures in respect of these interests. The standard has been applied retrospectively, with disclosure of comparative period in line with the transitional provision of the standard. There is no impact on the Company's profit or loss for the current or prior period or on the equity reported.

(iii) IFRS 13, Fair Value Measurement

IFRS 13 establishes a single standard for all fair value measurements. The standard does not change the scope of fair value measurement, but provides further guidance on how fair value should be determined. The changes have no significant impact on the Company's application of fair value measurements and have no impact on the profit or loss for the current or prior period or on equity reported. IFRS 13 also requires enhanced disclosures about fair value measurement, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. IFRS 13 is adopted and applied prospectively.

(iv) IAS 1, Presentation of Financial Statements (Amended)

The amendment to IAS 1 requires the grouping of items presented in other comprehensive income according to whether they will subsequently be reclassified (or recycled) to the Income Statement in the future. The standard has been applied retrospectively but has no impact on the Company's loss for the current or prior period, the equity reported or disclosures shown.

(v) Improvements to IFRSs 2009-2011

Improvements to IFRS 2009-2011 details amendments to five IFRSs, including IAS 1, Presentation of Financial Statements, IAS 32, Financial Instruments – Presentation and IAS 34, Interim Financial Reporting. The amendments clarify existing guidance and do not give rise to a change in existing accounting practice. There are no implications for the Company.

Accounting policies continued

(A) Basis of preparation continued

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company.

The following new standards, amendments to existing standards and interpretations have been issued, are effective for accounting period beginning on or after the following date and have not been adopted early by the Company:

Effective for annual periods beginning on or after 1 January 2014

(i) *Amendment to IAS 32, Financial Instruments – Presentation*

The amendment to IAS 32 clarifies the requirements for offsetting financial assets and financial liabilities on the Statement of Financial Position. The impact of the adoption of the amendment has yet to be fully assessed but is not expected to have significant implications for the Company financial statements. The amendment has been endorsed by the EU.

(ii) *IFRS 9, Financial Instruments*

IFRS 9 will replace IAS 39, Financial Instruments – Recognition and Measurement. Under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be at fair value. A debt instrument is measured at amortised cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit and loss (FVTPL). For financial liabilities designated as at fair value, a change in the fair value attributable to changes in the liability's credit risk is recognised in other comprehensive income unless it gives rise to an accounting mismatch in profit or loss.

We have not yet completed our assessment of the impact of the adoption of IFRS 9 on the Company which, to a large extent, will need to take account of the finalisation of the standard and the interaction of the requirements of IFRS 9 with the International Accounting Standards Board's (IASB) on going insurance contracts accounting project. The standard has been deferred and has not yet been endorsed by the EU.

(iii) *Improvements to IFRSs 2010-2012 and 2011-2013*

These improvements to IFRSs consist of amendments to nine IFRSs. The amendments clarify existing guidance and do not give rise to significant changes in existing accounting practice. The improvements have not yet fully assessed but are not expected to have significant implications, for the Company's financial statements. The amendments have yet to be endorsed by the EU.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the Income Statement, Statement of Financial Position, other primary statements and notes to the financial statements.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

The table below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Deferred income taxes	L
Provisions and contingent liabilities	N

(C) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value added tax, rebates and discounts.

- (i) Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (ii) Interest income is recognised using the effective interest method.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Revenue received in advance is recorded as deferred income in the statement of financial position and recognised in the income statement over the period that the revenue is earned.

Accounting policies continued

(D) Finance costs

All borrowing costs are expensed as they are incurred.

(E) Intangible assets

Intangible assets consist of software costs. These are amortised over their useful lives of between five and ten years, using the straight-line method. The amortisation charge for the period is included in the income statement under 'cost of sales'. An impairment review is carried out where there is an indication that intangible assets are impaired. Where the carrying amount exceeds the recoverable amount, an impairment is recognised (see policy F).

(F) Impairment of non-financial assets

Equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(G) Equipment

Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives as follows:

Computer equipment	Three to five years
Other assets	Three to five years

Gains and losses on disposal of equipment are determined by reference to their carrying amount.

Repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(H) Investments in subsidiaries

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 Statement of Financial Position subsidiaries are stated at their net asset value which equates to fair value. 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.

Where the cumulative changes recognised in the Statement of Other Comprehensive Income represent an unrealised loss, the investments are reviewed annually to test whether impairment exists. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the unrealised loss recorded in the Statement of Other Comprehensive Income is reclassified and charged to the Income Statement.

(I) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(J) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the amount of the provision is recognised in the Income Statement.

Accounting policies continued

(K) Leases

Leases include hire purchase contracts that have characteristics similar to operating or finance leases.

(i) Finance leases

Leases, in which a significant portion of the risks and rewards of ownership is passed to the Company, are classified as finance leases. Assets held under finance leases are capitalised in the statement of financial position and are depreciated over their useful lives, as described in Policy F above. The capital elements of future obligations under the leases are included as liabilities in the statement of financial position. The interest element of the rental obligations is charged to the income statement over the period of the leases and represents a sum of the digits proportion of the balance of capital repayments outstanding.

(ii) Operating leases

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

(L) 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 components of other comprehensive income and equity, 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. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, owner-occupied properties and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

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

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

Deferred tax is not provided on revaluations of investments in subsidiaries as under current tax legislation no tax is expected to arise on their disposal.

(M) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the Statement of Cash Flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the Statement of Financial Position.

(N) 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 more probable than not 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.

Restructuring provisions comprise lease termination penalties. Provisions are not recognised for future operating losses. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Accounting policies continued

(O) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

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

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or 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 Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(Q) 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:

- 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
- 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 when they have been approved by shareholders.

Income Statement

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Turnover	C & 1	1,070	1,002
Cost of sales	2	(1,072)	(986)
Gross (loss) / profit		(2)	16
Administrative expenses	9	(1)	(17)
Operating Loss		(3)	(1)
Finance income	C & 3	4	4
Finance costs	D & 4	(1)	(3)
Net finance income		3	1
Result for the year before tax		-	-
Tax (charge) / credit	L & 8	(6)	68
(Loss) / profit for the year after tax attributable to owners of the company		(6)	68

The accounting policies (identified alphabetically) on pages 10 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2013

	2013	2012
	£m	£m
(Loss) / profit for the year	(6)	68
Total comprehensive income for the year	(6)	68

The accounting policies (identified alphabetically) on pages 10 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2013

	Ordinary share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2012	50	3	(162)	(109)
Profit for the year	-	-	68	68
Total comprehensive income for the year	-	-	68	68
Balance at 31 December 2012	50	3	(94)	(41)
Loss for the year	-	-	(6)	(6)
Total comprehensive income for the year	-	-	(6)	(6)
Balance at 31 December 2013	50	3	(100)	(47)

The accounting policies (identified alphabetically) on pages 10 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2013

	Note	2013 £m	2012 £m
Assets			
Intangible assets	E & 9	43	55
Investment in subsidiary	H & 10	-	-
Equipment	G & 12	14	21
Receivables	J & 13	312	372
Deferred tax asset	L & 15	66	71
Cash and cash equivalents	M & 22	82	-
Total assets		517	519
Equity			
Ordinary share capital	Q & 16	50	50
Other reserves	17	3	3
Retained earnings	18	(100)	(94)
Total equity		(47)	(41)
Liabilities			
Provisions	N & 14	84	35
Current tax liabilities	L & 15	7	9
Payables and other financial liabilities	O & 19	155	201
Other liabilities	20	318	315
Total liabilities		564	560
Total equity and liabilities		517	519

The financial statements were approved by the Board of Directors on 18 July 2014 and signed on its behalf by


David Rogers
Director

The accounting policies (identified alphabetically) on pages 10 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from/(used in) operations	22(a)	146	(62)
Net cash generated from/(used in) operating activities		146	(62)
Cash flows from investing activities			
Purchases of property and equipment	12	(4)	(9)
Purchase of intangible assets	9	(2)	(25)
Repayment of loan from parent	13	10	9
Interest received		2	2
Net cash generated from/(used in) investing activities		6	(23)
Cash flows from financing activities			
Capital element of finance leases		-	(4)
Net cash used in financing activities		-	(4)
Net increase/(decrease) in cash and cash equivalents		152	(89)
Cash and cash equivalents at 1 January		(90)	(1)
Cash and cash equivalents at 31 December	M & 22(b)	62	(90)

The accounting policies (identified alphabetically) on pages 10 to 14 and notes (identified numerically) on pages 20 to 36 are an integral part of these financial statements.

Notes to the financial statements

1. Turnover

The Company's activities consists solely of the provision of physical infrastructure and associated support services to other companies within the Group. Refer to note 24 for further information on income earned during the year.

2. Cost of sales

The following items have been charged in arriving at cost of sales:

	Note	2013 £m	2012 £m
Amortisation of intangible assets	9	13	11
Impairment of intangible assets	9	1	17
Depreciation of equipment:			
Owned assets	12	8	12
Under finance leases and hire purchase contracts	12	3	5
Onerous lease provision charge for the year	14	-	2
Restructuring provision charge for the year	14	37	11
Operating lease rentals payable:			
Equipment		10	8
Property		76	80

3. Finance income

Finance income comprises:

	Note	2013 £m	2012 £m
Bank interest receivable		1	1
Unwind of discount on deferred consideration		2	2
Interest on loans to Group companies	24(i)	1	1
		<u>4</u>	<u>4</u>

4. Finance costs

Finance costs comprise:

	Note	2013 £m	2012 £m
Unwind of discount on provisions	14	<u>(1)</u>	<u>(3)</u>

5. Employees

The Company has no employees. Aviva Employment Services Limited and Aviva Investors Employment Services Limited, fellow Group companies, are the employing companies for staff of the Aviva plc group in the UK. Disclosures relating to employees may be found in the Annual Report and financial statements of these companies respectively.

Notes to the financial statements continued

6. Directors

Messrs Amin, Holmes, McMillan, Riley, Rogers and Woodford were all remunerated by Aviva Employment Services Limited, a fellow subsidiary of Aviva Plc for their services to the Aviva Group as a whole. They were not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their roles across the Aviva Group.

Mr Abraham's remuneration is disclosed within the aggregate of key management compensation in the annual report and financial statements of Aviva Insurance Limited and Aviva Life Holdings UK Limited.

Messrs Barral and Thornton's remuneration is disclosed within the directors' note and aggregate of key management compensation in the annual report and financial statements of Aviva Life Holdings UK Limited, Aviva Life and Pensions UK Limited and Aviva Annuity UK Limited.

Messrs Amin and McMillan's remuneration is disclosed within the aggregate of key management compensation in the annual report and financial statements of Aviva plc.

7. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its principal auditors, PricewaterhouseCoopers LLP is shown below.

	2013 £'000	2012 £'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	54	47

There were no non-audit fees paid to the Company's auditors during the year (2012: £Nil). All fees have been borne by Aviva plc.

8. Tax

(a) Tax (charged)/credited to the Income Statement

(i) Tax (charge)/credit comprises:

	2013 £m	2012 £m
Current tax		
For this year	(7)	(8)
Adjustments in respect of prior years	6	5
Total current tax	(1)	(3)
Deferred tax		
Origination and reversal of temporary differences	5	71
Changes in tax rates or tax laws	(10)	-
Total deferred tax	(5)	71
Total tax (charged)/credited to the Income Statement	(6)	68

(ii) Deferred tax credited to the Income Statement represents movements on the following items:

	2013 £m	2012 £m
Accelerated capital allowances	(5)	71
Total deferred tax credited to income statement	(5)	71

(b) Tax credited/(charged) to other comprehensive income

There was no tax credited or charged to other comprehensive income in either 2013 or 2012.

Notes to the financial statements continued

8. Tax continued

(c) Tax reconciliation

The tax on the Company's result before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	2013 £m	2012 £m
Result for the year before tax		-	-
Tax calculated at standard UK corporation tax rate of 23.25% (2012: 24.5%)		-	-
Adjustment to tax in respect of prior years		7	5
Disallowable expenses		(2)	(1)
Deferred tax assets recognised/(derecognised)		(1)	67
Impact of change in rate of tax		(10)	-
Other		-	(3)
Total tax (charged)/credited to the Income Statement	8(a)(i)	(6)	68

The UK corporation tax rate reduced to 23% from 1 April 2013. Legislation was substantively enacted in July 2013 to reduce the main rate of UK corporation tax to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015. The 20% rate has been used in the calculation of the Company's deferred tax assets and liabilities for the year.

9. Intangible assets

	Note	2013 £m	2012 £m
Gross amount			
At 1 January		73	68
Additions		2	25
Impairment losses charged to expenses	2	(1)	(20)
At 31 December		74	73
Accumulated amortisation			
At 1 January		(18)	(10)
Amortisation for the year	2	(13)	(11)
Impairment losses charged to expenses	2	-	3
At 31 December		(31)	(18)
Carrying value at 31 December		43	55

The intangible assets represent the capitalisation of software costs.

Impairment costs represent those costs relating to systems now considered to be redundant.

Notes to the financial statements continued

10. Investment in subsidiary

The investment in shares of a subsidiary, which is registered in England and Wales, comprises:

Company	Type of business	Class of share	Proportion held
Aviva Employment Services Limited	Employment of the majority of Aviva plc Group's UK based staff.	Ordinary	100%

The Company's subsidiary, Aviva Employment Services Limited (AES), is the employing company for most of the Aviva staff in the UK. It bears all staff-related costs, including contributions to the Aviva Staff Pension Scheme and RAC Pension Scheme (the Schemes). All staff related costs (excluding the RAC Pension Scheme) are recharged to the operating divisions of the Aviva Group as part of an overall charge for payroll-related items. The level of recharges for pension and other costs to each business is reviewed annually.

The fair value of the company's investment in subsidiary is based on net asset value, excluding assets and liabilities in respect of the subsidiary's pension schemes. As AES is in a net liability position, the investment in subsidiary has been written down to £Nil (2012: £Nil).

The Company's parent company, Aviva Group Holdings Limited (AGH), is not charged for any payroll-related items by AES. However, as the parent company for all the operating businesses, it can either direct the UK businesses to make payments to AES or make the payments itself out of dividends from the businesses or capital/borrowings from Aviva plc.

The investment in subsidiary is recorded as a Level 3 investment in the fair value hierarchy (see note 11(b)).

11. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

For financial assets and liabilities carried at fair value, the Company has categorised the measurement basis into a 'fair value hierarchy' as follows:

Quoted market prices in active markets (Level 1)

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets.

Modelled with significant observable market inputs (Level 2)

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar (i.e. not identical) assets and liabilities in active markets;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); and
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, listed debt or equity securities in a market that is inactive, and investments in subsidiaries valued using applicable models underpinned by Aviva plc's market capitalisation. Valuations, whether sourced from internal models or third parties, incorporate credit risk by adjusting the spread above the yield curve for government treasury securities for the appropriate amount of credit risk for each issuer, based on observed market transactions. To the extent observed market spreads are either not used in valuing a security, or do not fully reflect liquidity risk, our valuation methodology, whether sourced from internal models or third parties, reflects a liquidity premium.

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the quotes are generally validated by the broker by using internal models with observable inputs. When the price obtained from the broker and internal model are similar, we look to the inputs used in our internal model to understand the observability of the inputs used by the broker. In circumstances where internal models are not used to validate broker prices, and the observability of inputs used by brokers is unavailable, the investment is classified as Level 3. Broker quotes are usually non-binding.

Notes to the financial statements continued

11. Fair value methodology continued

Modelled with significant unobservable market inputs (Level 3)

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples include investments in subsidiaries valued at net assets value.

Third party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

Investments in subsidiaries recorded at fair value recorded at the fair value of the underlying subsidiary, are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible.

(b) Fair value hierarchy

The only financial assets and liabilities of the Company recorded at fair value in the Statement of Financial Position is its investment in subsidiary valued at £Nil (2012: £Nil).

(c) Further information on Level 3 financial instruments

The only financial assets and liabilities of the Company recorded at fair value in the Statement of Financial Position is the investment in subsidiary (note 10) which is reported as Level 3 in the fair value hierarchy (2012: Level 3). There were no transfers into or out of Level 3 in 2013 or 2012.

The unobservable inputs to the fair value relate to assumptions made to individual subsidiaries net assets or embedded values, all of which are underpinned by quoted market valuations of comparable listed entities. For these level 3 investments, a change in the external financial market inputs within the valuation model to a reasonable alternative of +/-5% would result in a change in the fair value of investment in subsidiaries in the range of a £Nil positive impact (2012: £Nil) and a £Nil million adverse impact (2012: £Nil).

Notes to the financial statements continued

12. Equipment

	Note	Computer Equipment £m	Other assets £m	Total £m
Cost or valuation				
At 1 January 2012		435	18	453
Additions		9	-	9
Disposals		(1)	-	(1)
At 31 December 2012		443	18	461
Additions		3	1	4
Disposals		-	-	-
At 31 December 2013		446	19	465
Depreciation				
At 1 January 2012		(408)	(16)	(424)
Charge for the year	2	(16)	(1)	(17)
Disposals		1	-	1
At 31 December 2012		(423)	(17)	(440)
Charge for the year	2	(10)	(1)	(11)
Disposals		-	-	-
At 31 December 2013		(433)	(18)	(451)
Carrying amount				
At 31 December 2012		20	1	21
At 31 December 2013		13	1	14

Assets held under finance leases at 31 December included in the figures above:

	Computer Equipment £m	Total £m
Gross amount	109	109
Accumulated depreciation	(106)	(106)
Carrying amount at 31 December 2012	3	3
Gross amount	109	109
Accumulated depreciation	(109)	(109)
Carrying amount at 31 December 2013	-	-

Notes to the financial statements continued

13. Receivables

	Note	2013 £m	2012 £m
Trade receivables		4	7
Loans due from parent	24(a)(i)	28	38
Amounts due from subsidiaries	24(a)(ii)	-	44
Amounts due from fellow Group companies	24(a)(ii)	159	150
Prepayments and accrued income		67	66
Other receivables		54	67
Total at 31 December		312	372
Expected to be recovered within one year		237	280
Expected to be recovered in more than one year		75	92
Total at 31 December		312	372

All receivables are carried at amortised cost, which approximates to fair value.

Other receivables include deferred consideration of £46 million (2012: £44 million) on disposal in 2009 of the Company's data centre which is expected to be recovered in more than one year after the statement of financial position date.

14. Provisions

(a) Carrying value

	2013 £m	2012 £m
Onerous lease provisions	36	24
Restructuring provision	48	11
Total at 31 December	84	35
Expected to be recovered within one year	27	5
Expected to be recovered in more than one year	57	30
Total at 31 December	84	35

(b) Movements in the year

	Note	Onerous lease provisions £m	Restructuring provision £m	Total £m
At 1 January 2012		33	-	33
Change in the discounted amount arising from passage of time	4	3	-	3
Charge for the year	2	2	11	13
Utilised during the year		(14)	-	(14)
At 31 December 2012		24	11	35
Change in the discounted amount arising from passage of time	4	1	-	1
Charge for the year	2	-	37	37
Utilised during the year		(6)	-	(6)
Transfer from other group companies		3	5	8
Transfer between onerous lease and restructuring provision		5	(5)	-
Transfer from other liabilities		9	-	9
At 31 December 2013		36	48	84

Notes to the financial statements continued

14 Provisions continued

(b) Movements in the year continued

Onerous lease and restructuring provisions relate to operating lease agreements for property, where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The restructuring provision will transfer to the onerous lease provision upon exit of the property.

During 2013 £8 million of onerous lease provisions were transferred from other group companies including provisions relating to properties from Aviva Insurance Limited. These provisions were transferred at their fair value for consideration of an intercompany receivable.

15. Tax assets and liabilities

(a) Current tax

	2013 £m	2012 £m
<i>Tax liability</i>		
Expected to be payable in more than one year	(7)	(9)
Tax liability recognised in Statement of Financial Position	(7)	(9)

(b) Group relief

Liabilities for prior year's tax to be settled by group relief of £3 million (2012: £8 million) are included within payables (note 19) and the related party transactions (note 24) and are payable in less than one year.

(c) Deferred tax

(i) The balance at year end comprises:

	2013 £m	2012 £m
Accelerated capital allowances	66	71
Total deferred tax asset	66	71

(ii) The movement in the deferred tax asset comprises:

		2013 £m	2012 £m
At 1 January		71	-
Amounts credited to the Income Statement	8(a)(ii)	(5)	71
At 31 December		66	71

The Company has unrecognised temporary timing differences of £46 million including capital losses of £31 million (2012: £51 million including capital losses of £31 million) to carry forward indefinitely against future taxable income and gains.

Notes to the financial statements continued

16. Ordinary share capital

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

	2013 £m	2012 £m
Allotted, called up and fully paid		
50,001,000 (2012: 50,001,000) ordinary shares of £1 each	50	50

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital with effect from 1 October 2009. Whilst there is no longer any limitation on the number of shares that the Company may issue, the directors will still be limited as to the number of shares they can allot because authority to allot continues to be required under the Companies Act 2006.

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

17. Other reserves

	2013 £m	2012 £m
Capital reserve	3	3

Capital reserve represents a non-refundable cash contribution from Aviva Group Holdings Limited made during the year ended 31 December 1997.

18. Retained earnings

	£m	£m
At 1 January	(94)	(162)
(Loss) / profit for the year	(6)	68
At 31 December	(100)	(94)

Total retained earnings as at 31 December 2013 and 2012 is distributable.

19. Payables and other financial liabilities

		2013 £m	2012 £m
	Note		
Trade payables		11	9
Amounts due to parent	24(a)(ii)	78	90
Amounts due to subsidiaries	24(a)(ii)	2	-
Amounts due to fellow Group companies	24(a)(ii)	37	4
Bank overdraft		20	90
Group relief	15(b)	3	8
Other payables		4	-
Total at 31 December		155	201

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

Payables and other financial liabilities is expected to be payable within one year of the Statement of Financial Position date.

Notes to the financial statements continued

20. Other liabilities

	2013 £m	2012 £m
Accruals	318	315
Total at 31 December	318	315
Expected to be paid in less than one year	287	272
Expected to be paid in more than one year	31	43
Total at 31 December	318	315

21. Commitments

(a) Operating lease commitments

The Company has obligations under operating leases for property and equipment. Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 £m	2012 £m
Within one year	52	53
Later than one year and not later than five years	181	174
Later than five years	387	416
Total at 31 December	620	643
The total of future minimum sublease payments expected to be received under non-cancellable subleases	3	14

(b) Other financial commitments

The Company has commitments in respect of software licences as shown below, which have not been provided for but will be recognised in the income statement through the life of the agreements. The agreements are due to expire in no later than four years.

	2013 £m	2012 £m
Amounts contracted for but not provided for in the financial statements	21	25

Notes to the financial statements continued

22. Statement of cash flows

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

	Note	2013 £m	2012 £m
Result for the year before tax		-	-
Adjustments for:			
Amortisation of intangible assets	9	13	11
Impairment of intangible assets	9	1	17
Depreciation of equipment	12	11	17
Interest receivable	3	(4)	(4)
Finance costs	4	1	3
		22	44
Changes in working capital:			
Decrease in receivables		52	44
Decrease in inventory		-	1
Increase/(decrease) in provisions		48	(1)
Increase/(decrease) in payables		24	(150)
		124	(106)
Cash generated from/(used in) operations		146	(62)

Decrease in receivables is stated after eliminating deferred consideration arising on disposal of the Company's data centres totalling £2 million (2012: £2 million).

Increase in payables is stated after eliminating £3 million (2012: £8 million) of corporation tax liability settled or to be settled by group relief.

(b) Cash and cash equivalents in the Statement of Cash Flows at 31 December comprise:

	Note	2013 £m	2012 £m
Cash and cash equivalents		82	-
Bank overdrafts	19	(20)	(90)
Total at 31 December		62	(90)

23. Risk management

The Aviva Group operates a risk management framework that forms an integral part of the management and Board processes and decision making framework across the Group, including the Company. The primary objectives of risk management in the Aviva Group are to:

- embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these;
- allocate capital where it will make the highest returns on a risk-adjusted basis; and
- meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise.

The Aviva Group's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

Notes to the financial statements continued

23. Risk management continued

For the purposes of risk identification and measurement, and aligned to the Aviva Group's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance, general insurance, asset management and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products we deliver to our customers and the service to our customers and distributors, which can be categorised as risks to our brand and reputation.

To promote a consistent and rigorous approach to risk management across all businesses, we have a set of formal risk policies and business standards, which set out the risk strategy, appetite, framework and minimum requirements for the Aviva Group's worldwide operations. On a semi-annual basis the business chief executive officers and chief risk officers sign-off compliance with these policies and standards.

A regular top-down key risk identification and assessment process is carried out in the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews and is replicated at the business unit level. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in our measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. We carry out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

Roles and responsibilities for risk management in the Aviva Group, including the Company, are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Group. Line management in the business are accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR process and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Aviva Group is maintained on a regular basis through its Risk Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and franchise value at Group and in the business units. Economic capital risk appetites are also set for each risk type. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. The oversight of risk and risk management at the Group level is supported by the Asset and Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk & Reputation Committee (ORRC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.

The risks to the Company's subsidiaries are managed through the risk management framework described above. Sections (a) to (e) below are limited to the specific risks of the Company.

(a) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectation related to these risks.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default and rating transition.

The Aviva Group manages its credit risk at business unit and Group level. All business units are required to implement credit risk management processes (including limits frameworks), operate specific risk management committees, and ensure detailed reporting and monitoring of their exposures against pre-established risk criteria. At Group level, we manage and monitor all exposures across our business units on a consolidated basis, and operate a group limit framework that must be adhered to by all.

Risk mitigation techniques are used where and when deemed appropriate. These are utilised where possible to remove residual unwanted risks, as well as to bring or keep exposure limits within appetite, and include methods such as collateralisation.

The Company's primary financial assets are primarily amounts due from fellow Group companies. In addition, the Company has a letter of financial support from its parent company, Aviva Group Holdings Limited (AGH), see note 23(c). The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations, including AGH honouring its letter of financial support, is considered remote.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade.

Notes to the financial statements continued

23. Risk management continued

(a) Credit risk continued

The following table provides information regarding the aggregated credit risk exposure of the Company, excluding intragroup transactions. "Non-rated" assets are assets not rated by external ratings agencies.

	2013						
	Credit rating						Carrying value in the financial statements £m
	AAA	AA	A	BB	BBB	Speculative grade	
	%	%	%	%	%	Non-rated %	
Trade and other receivables	-	-	-	-	79%	-	21%
							58
	2012						
	Credit rating						Carrying value in the financial statements £m
	AAA	AA	A	BB	BBB	Speculative grade	
	%	%	%	%	%	Non-rated %	
Trade and other receivables	-	-	-	-	59%	-	41%
							74

The carrying amount of assets included in the Statement of Financial Position represents the maximum credit exposure.

The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. As at 31 December 2013 and 2012 no receivables were impaired or overdue.

Receivables and other financial assets include loans and amounts due from other Group companies of £187 million (2012: £232 million).

The management of credit risk is overseen by the Aviva Group's Asset and Liability Committee (ALCO).

(b) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, equity prices, foreign currency exchange rates, and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The management of market risk is undertaken at business unit and at Aviva Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Risk is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

For each of the major components of market risk, described in more detail below, additional policies and business standards are in place to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

Interest rate risk	Interest rate risk arises primarily from the Company's loan to its parent undertaking, AGH, exposing it to interest rate risk. The interest received on the loan is linked to LIBOR and so a change in LIBOR would impact the level of interest income earned by the Company.
Equity price risk	The Company is subject to equity price risk due to changes in the market values of its investment in Aviva Employment Services Limited (AES), a subsidiary company. The investment in AES valued at £Nil (2012: £Nil), is included at fair value based on its net asset value as at the balance sheet date. AES holds the UK pension schemes and as such its net asset value is exposed to fluctuations in interest rates, equity prices and property prices, in addition to longevity risk.

The management of market risk is overseen by the Aviva Group's Asset and Liability Committee (ALCO).

Notes to the financial statements continued

23. Risk management continued

(c) Liquidity risk

Liquidity risk is the risk of the Company not being able to make payments as they become due because there are insufficient assets in cash form.

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. In extreme circumstances, the Company would approach the Aviva Group for additional short-term borrowing whilst the Company liquidated other assets. The Aviva Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further.

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets, which are available to fund the repayment of liabilities as they crystallise:

					2013
		On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
	Note				
Receivables and other financial assets	13	237	55	20	312
Cash and cash equivalents	22	82	-	-	82
		<u>319</u>	<u>55</u>	<u>20</u>	<u>394</u>
					2012
		On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
	Note				
Receivables and other financial assets	13	280	72	20	372
Cash and cash equivalents	22	-	-	-	-
		<u>280</u>	<u>72</u>	<u>20</u>	<u>372</u>

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

The following table shows the Company's financial liabilities analysed by duration:

					2013
		On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
	Note				
Payables and other financial liabilities	19	155	-	-	155
		<u>155</u>	<u>-</u>	<u>-</u>	<u>155</u>
					2012
		On demand or within 1 year £m	1-5 years £m	Greater than 5 years £m	Total £m
	Note				
Payables and other financial liabilities	19	201	-	-	201
		<u>201</u>	<u>-</u>	<u>-</u>	<u>201</u>

Notes to the financial statements continued

23. Risk management continued

(c) Liquidity risk continued

Current liabilities, including current provisions, tax and other liabilities, exceed current assets by £150 million (2012: £198 million). The Company has a letter of support from Aviva Group Holdings Limited (AGH), a parent company and a wholly owned direct subsidiary of the ultimate controlling entity, Aviva plc. The letter states that, in the event the Company is unable to meet its obligations, AGH will provide financial support for a twelve month period from the date of these financial statements. The Company is confident of the ability of Aviva Group Holdings Limited to meet, if required, its commitment to provide financial support, as in its most recent audited financial statements dated 31 December 2012 Aviva Group Holdings Limited had net assets of £14,211 million.

(d) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment.

We have limited appetite for operational risk and aim to reduce these risks as far as is commercially sensible.

Business units are primarily responsible for identifying and managing operational risks within their businesses, within the Aviva group-wide operational risk framework including the risk and control self-assessment process. Businesses must be satisfied that all material risks falling outside our risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. Businesses use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events; taking appropriate action to address actual control breakdowns and promote internal learning.

(e) Capital management

The Company's capital risk is determined with reference to the requirements of the Company's stakeholders. In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the payment of interest due on loans and the requirements of other stakeholders, having taken into account financial support available from its parent undertaking. The sources of capital used by the Company are equity shareholders' funds. At 31 December 2013 the Company had £47 million deficit (2012: £41 million deficit) of total capital employed.

24. Related party transactions

(a) The Company had the following related party transactions

The Company has the following transactions with related parties which include parent companies, subsidiaries and fellow group companies in the normal course of business.

(i) Loans receivable

Loans due from parent

On 1 June 2009 the Company provided an unsecured loan facility of £71 million to its parent, Aviva Group Holdings Limited. The facility accrues interest at 100 base points above 1 month LIBOR with settlement to be received at maturity in November 2016. As at the Statement of Financial Position date, the total amount drawn down on the facility was £28 million (2012: £38 million).

The maturity analysis of the related party loans receivable is as follows:

	2013	2012
	£m	£m
1-5 years	28	38
	28	38
Effective interest rate	1.77%	1.89%

The interest received on these loans shown in the Income Statement is £1 million (2012: £1 million). Refer note 3.

Notes to the financial statements continued

24. Related party transactions continued

(a) The Company had the following related party transactions continued

(ii) Other transactions

Services provided and expenses recharged to related parties

	2013		2012	
	Income earned in the year £m	Receivable at year end £m	Income earned in the year £m	Receivable at year end £m
Subsidiary	-	-	-	44
Fellow Group companies	1,063	159	990	150
Group employee pension schemes	4	-	5	-
	1,067	159	995	194

Income earned relates to the provision of physical infrastructure and associated support services.

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.

During 2013 £8 million of onerous lease provisions were transferred from other group companies including provisions relating to properties from Aviva Insurance Limited. These provisions were transferred at their fair value for consideration of an intercompany receivable.

Services provided and expenses recharged by related parties

	2013		2012	
	Expenses incurred in the year £m	Payable at year end £m	Expenses incurred in the year £m	Payable at year end £m
Parent	-	78	-	90
Subsidiary	227	2	315	-
Fellow Group companies	-	37	-	4
	227	117	315	94

Expenses incurred relates to provision of staff from Aviva Employment Services Limited.

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

(ii) Other transactions continued

Group relief

Transactions with Group companies for settlement of corporation tax assets and liabilities by group relief are described in note 15.

(b) Key management compensation

Key management are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company. The majority of such costs are borne by Aviva Insurance Limited and are not recharged to the Company.

(c) Immediate parent entity

The immediate parent entity is Aviva Group Holdings Limited, a private limited company incorporated and domiciled in England and Wales.

Notes to the financial statements continued

24. Related party transactions continued

(d) Ultimate parent entity

The ultimate parent entity and controlling party is Aviva plc, a public limited company incorporated and domiciled in the England and Wales, which is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc consolidated financial statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.