AVIVA EMPLOYMENT SERVICES LIMITED — 3280551
ANNUAL REPORT AND FINANCIAL STATEMENTS 2008

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Aviva Employment Services Limited

Contents

Aviva Employment Services Limited

Directors and officer

Directors

J D Ainley
M S Hodges
E G Jones
I M Mayer
A J Moss
A Sahay
P G Scott

Officer - Company Secretary

Aviva Company Secretarial Services Limited

Auditor

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

Registered office

St Helen's
1 Undershaft
London
EC30 3DQ

Company number

Registered in England and Wales: No. 3280551

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

Aviva Employment Services Limited

Directors' report

For the year ended 31 December 2008

The directors present their annual report and financial statements for the Company for the year ended 31 December 2008.

Directors

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

J D Ainley
M S Hodges
E G Jones (appointed on 24 March 2009)
I M Mayer
A J Moss (appointed on 24 March 2009)
A Sahay
P G Scott (appointed on 24 March 2009)

Principal activity

The principal activity of the Company is that of the employing company for staff of the Aviva plc group in the United Kingdom ("UK").

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. In addition the financial statements include notes on its capital structure (note 13) and management of its major risks including market, credit, liquidity and operational risk (note 12).

The Company and its ultimate holding company Aviva plc have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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 accounts.

Business review

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance during the financial period and position both at the end of the financial period and 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.

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements. The directors consider that the Company's principal activity will continue unchanged into the foreseeable future.

Financial key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

- increase / (decrease) in turnover
- profit before tax as a percentage of turnover

Aviva Employment Services Limited

Directors' report (continued)

Business review (continued)

Financial key performance indicators (continued)

A summary of the KPIs is set out below:

Measure	2008	2007
Increase / (decrease) in turnover	20%	(13)%
Profit before tax as a percentage of turnover	33%	14%

Financial position and performance

The financial position of the Company at 31 December 2008 is shown in the balance sheet on page 13, with the results shown in the income statement on page 11 and the cash flow statement on page 15.

Profit before tax increased from £168 million in 2007 to £460 million in 2008. This is due to several factors as summarised by the KPIs and also detailed below.

In 2008, the Company made deficit funding payments to the Aviva Staff Pension Scheme of £369 million (2007: £83 million). Accordingly, the Company charged other Group companies to cover this funding contributing to the gross profit of £356 million (2007: £92 million).

In 2008, actuarial losses of £711 million (2007: £582 million gains) were taken to equity. Significant items include actual losses on pension scheme assets in excess of the expected return totalling £1,425 million (2007: £63 million). This was partially offset by actuarial gains of £635 million (2007: £697 million) relating to changes in assumptions, mainly due to the increase in the net discount rate of 0.9%. The actuarial losses were reduced by the £85 million (2007: gains reduced by £70 million) relating to the 12 % share borne by Group with-profit companies.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies is set out in note 12 to the financial statements.

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated include, but are not limited to:

- UK domestic economic business conditions; and
- the impact of inflation and deflation.

Financial instruments

The business of the Company includes 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 12 to the financial statements.

Dividends

No interim dividend for the year was paid (2007: £ nil). The directors do not recommend the payment of a final dividend (2007: £ nil).

Auditor

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

Aviva Employment Services Limited

Directors' report (continued)

Employees

The Aviva Group, of which the Company is a part, is committed to continuing communication and dialogue with employees. News about the Group is provided through a variety of channels, but primarily through the intranet and face-to-face briefings.

Employees have opportunities to voice their opinions and ask questions through intranet sites, Q&A telecon sessions, opinion surveys and the Group's climate survey which is open to all employees. Face-to-face briefings and team meetings are actively encouraged and are held in all business units across the Group. The Group's businesses have established employee consultative forums.

The Company encourages and promotes employee development. Support includes the building of relevant competencies, encouraging staff to gain appropriate professional qualifications and assistance with wider personal development.

The Aviva Group's operations in the UK have established employee career and recognition frameworks, which draw together the formal competencies, target setting and review systems and link them to appropriate rewards and benefits.

The Aviva Group operates the Aviva All Employee Share Ownership Plan as a way for employees to participate further in the Group's success through share ownership. The Aviva Group operates two elements of the plan. The partnership element allows eligible employees to purchase Aviva shares at the prevailing market price from pre-tax income. The second element enables staff to receive free shares, at the Board's discretion, based broadly on the performance of the Group's operations in the UK. The Aviva Group also operates a savings related share option scheme, which provides employees with an opportunity to save over a fixed period and acquire share options at a discount to the prevailing market price.

The Group respects all fundamental human rights and will be guided in the conduct of its business by the provisions of the United Nations Universal Declaration of Human Rights and the International Labour Organisation core labour standards. Aviva also supports the United Nations Global Compact Principles. Aviva Group companies are committed to providing equal opportunities to all employees irrespective of their gender, sexual orientation, marital status, race, nationality, ethnic origin, disability, age, religion or union membership. Aviva is an inclusive employer and values diversity in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

The health and safety of staff is a priority and is reviewed at regular intervals. Each business unit has an appointed health and safety representative whose role is to bring to the attention of senior management any areas of concern that should be addressed within the health and safety programme. Information on health and safety matters is communicated to staff through the normal communication channels.

Aviva Employment Services Limited

Directors' report (continued)

Directors' liabilities

Aviva plc, the Company's ultimate parent company, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity was granted in 2004 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 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.

Disclosure of information to the auditor

Each person who was a director of the Company on the date that this report was approved, confirms that so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. 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 auditor is aware of that information.

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, the Companies Act 2006 (where applicable) and 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 verify they are applied consistently in preparing the financial statements on the 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 can be disclosed with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

By order of the Board

14 July 2009

Aviva Company Secretarial Services Limited
Company Secretary

Aviva Employment Services Limited

Independent auditor's report

To the members of Aviva Employment Services Limited

We have audited the Company's financial statements for the year ended 31 December 2008, which comprise the Accounting Policies, the Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet, the Reconciliation of Movements in Shareholder's Equity, the Cash Flow Statement, and the related notes 1 to 14. 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 auditor's 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' responsibilities for preparing the financial statements in accordance with the applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

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

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

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

Basis of audit opinion

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

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

Aviva Employment Services Limited

Independent auditor's report (continued)

To the members of Aviva Employment Services Limited

Opinion

In our opinion :

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

16 July 2009

Aviva Employment Services Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain. The principal activity of the Company is to act as the employing company for staff of the Aviva plc group in the UK.

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

(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) and endorsed by the European Union. The date of transition to IFRS was 1 January 2004.

During 2007 and 2008, the IASB issued IFRIC interpretation 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and made amendments to IAS 39 and IFRS 7, entitled *Reclassification of Financial Instruments*. These are all applicable at 31 December 2008. Where relevant, the accounting policies have been updated for each of the changes, although none has had any material impact on the Company's financial reporting.

During 2007, 2008 and 2009, the IASB also issued IAS 1, *Presentation of Financial Statements: A Revised Presentation*, and amendments to IFRS 1, *First Time Adoption of IFRS*, IFRS 2, *Share-based Payment*, IAS 1, IAS 23, *Borrowing Costs*, IAS 27, *Consolidated and Separate Financial Statements*, IAS 32, *Financial Instruments: Presentation*, and the results of its annual improvements project. It also issued revised versions of IFRS 1 and IFRS 3, *Business Combinations*, as well as further amendments to IFRS 7, IAS 27, IAS 39 none of which has yet been endorsed by the EU. These are not applicable for the current accounting period and, on adoption, they will not have any material impact on the Group's financial reporting.

IFRIC interpretation 13, *Customer Loyalty Programmes*, was issued during 2007 but is not applicable for the current accounting period. In addition, IFRIC interpretation 15, *Agreements for the Construction of Real Estate*, interpretation 16, *Hedges of a Net Investment in a Foreign Operation*, interpretation 17, *Distributions of Non-cash Assets to Owners*, and interpretation 18, *Transfers of assets from customers*, as well as an amendment to interpretation 9, *Reassesment of embedded derivatives*, were issued during 2008 and 2009. They have not yet been endorsed by the EU but none of them is applicable for the current accounting period. On adoption, none of these interpretations will have any impact on the Company's financial reporting.

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

(B) Use of estimates

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

(C) Revenue recognition

Revenue, which excludes VAT, represents income from the provision of staff to UK companies within the Aviva plc Group, which is recognised in the accounting period in which the services are rendered.

Accounting policies (continued)

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

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either:
    - (a) has transferred substantially all the risks and rewards of the asset; or
    - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(E) 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 normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit.

(F) 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 amount of the provision is recognised in the income statement.

(G) Income taxes

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

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

The principal temporary differences arise from provisions for pensions and other post-retirement benefits. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Accounting policies (continued)

(G) Income taxes (continued)

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 related to amounts taken directly to equity is recognised in the balance sheet as a deferred tax asset or liability.

(H) Employee benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Pension obligations

The Group operates a defined benefit and defined contribution plan in the UK, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of qualified actuaries. Contributions to the main Aviva scheme are initially borne by the Company and are then wholly recharged to the operating divisions of the Aviva Group.

For the defined benefit plan, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds. The resulting pension scheme surplus or deficit appears as an asset or obligation in the balance sheet. All actuarial gains and losses are recognised immediately in equity through the statement of recognised income and expense.

Costs charged to the income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the schemes' administration expenses), past service cost (resulting from changes to benefits with respect to previous years' service), and gains or losses on curtailment (when the employer materially reduces the number of employees covered by the scheme) or on settlements (when a scheme's obligations are transferred outside the Group). In addition, the difference between the expected return on scheme assets, less investment expenses, and the interest cost of unwinding the discount on the scheme liabilities (to reflect the benefits being one period closer to being paid out) is credited to investment income. All actuarial gains and losses, being the difference between the actual and expected returns on scheme assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, are recognised immediately in equity through the statement of recognised income and expense.

For the defined contribution plan, the Company pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Company, as employer, has no further payment obligations. The Company's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

(I) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example for environmental restoration, restructuring costs and legal claims, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Aviva Employment Services Limited

Income statement

For the year ended 31 December 2008

	Note	2008	2007
		£m	£m
Revenue		1,389	1,160
Cost of sales	1	(1,033)	(1,068)
Gross profit		356	92
Net investment income on pension scheme	8(c)(iii)	104	76
Profit before tax		460	168
Tax expense	4(a)	(34)	(32)
Profit for the year		426	136

The accounting policies on pages 8 to 10 and notes on pages 16 to 31 are an integral part of these financial statements. The auditor's report is on pages 6 and 7.

Aviva Employment Services Limited

Statement of recognised income and expense
For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Actuarial (losses) / gains on pension schemes	8(c)(iii)	(711)	582
Share of actuarial losses / (gains) borne by with-profit companies		85	(70)
Other movements borne by with-profit companies		(7)	(5)
Aggregate tax effect on actuarial (gains) / losses	4(b)	(14)	(171)
Net (losses) / gains recognised directly in equity		(647)	336
Profit for the year		426	136
Total recognised income and expense for the year		(221)	472

The accounting policies on pages 8 to 10 and notes on pages 16 to 31 are an integral part of these financial statements. The auditor's report is on pages 6 and 7.

Aviva Employment Services Limited

Balance sheet
As at 31 December 2008

	Note	2008 £m	2007 £m
ASSETS			
Non-current assets			
Assets for current tax	6(a)	-	13
Trade and other receivables	5	30	8
		30	21
Current assets			
Trade and other receivables	5	18	56
Cash and cash equivalents	11(b)	50	8
		68	64
LIABILITIES			
Current liabilities			
Trade and other payables	7	(29)	(37)
Provisions	9	(4)	-
		(33)	(37)
Net current assets		35	27
Non-current liabilities			
Liability for current tax	6(a)	(50)	-
Deferred tax	6(b)	-	(2)
Retirement benefit obligations	8(c)(v)	(253)	(63)
		(303)	(65)
Net liabilities		(238)	(17)
EQUITY			
Ordinary share capital	10	-	-
Retained earnings		(238)	(17)
Total equity		(238)	(17)

The accounting policies on pages 8 to 10 and notes on pages 16 to 31 are an integral part of these financial statements. The auditor's report is on pages 6 and 7.

Approved by the Board on 14 JULY 2009

R. J. [signature]

Director

Aviva Employment Services Limited

Reconciliation of movements in shareholder's equity
For the year ended 31 December 2008

	Ordinary share capital £m	Retained earnings £m	Total equity £m
Balance at 1 January 2007	-	(489)	(489)
Total recognised income and expense for the year	-	472	472
Total movements for the year	-	472	472
Balance at 31 December 2007	-	(17)	(17)
Total recognised income and expense for the year	-	(221)	(221)
Total movements for the year	-	(221)	(221)
Balance at 31 December 2008	-	(238)	(238)

The accounting policies on pages 8 to 10 and notes on pages 16 to 31 are an integral part of these financial statements. The auditor's report is on pages 6 and 7.

Aviva Employment Services Limited

Cash flow statement

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Net cash inflow from / (outflow to) operating activities	11(a)	42	(13)
Net cash from / (used in) operating activities		42	(13)
Net increase / (decrease) in cash and cash equivalents		42	(13)
Cash and cash equivalents at 1 January		8	21
Cash and cash equivalents at 31 December	11(b)	50	8

The accounting policies on pages 8 to 10 and notes on pages 16 to 31 are an integral part of these financial statements.
The auditor's report is on pages 6 and 7.

Aviva Employment Services Limited

Notes to the financial statements

1. Employee information

The average number of persons employed by the Company during the year was:	2008	2007
	Number	Number
United Kingdom	26,826	29,626

Total staff costs are:	2008	2007
	£m	£m
Wages and salaries	662	695
Social security costs	75	81
Post-retirement obligations		
Defined benefit scheme (note 8(b))	91	114
Defined contribution scheme (note 8(b))	40	39
Profit sharing and incentive plans	61	86
Termination benefits	46	46
Total staff costs	975	1,061

These costs are charged within:

	2008	2007
Cost of sales	£m	£m
Staff costs	975	1,061
With-profit companies share of deficit adjustment	58	7
	1,033	1,068

2. Directors

M S Hodges, A J Moss and P G Scott are directors of the Company's ultimate parent company, Aviva plc, and their emoluments are disclosed in that company's financial statements.

J D Ainley, E G Jones, I M Mayer and A Sahay are remunerated by the Company. Their emoluments are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the Aviva Group.

3. Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements is shown below. The Company is exempt from disclosing other fees payable to its auditor in respect of other work by virtue of regulation 4(1)(b) of The Companies (Disclosure of Auditor Remuneration) Regulations 2005, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (note 14(c)).

	2008	2007
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	24	24

Aviva Employment Services Limited

Notes to the financial statements (continued)

4. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2008	2007
Current tax:	£m	£m
For this year	49	(13)
Prior year adjustments	1	(5)
Total current tax charge / (credit)	50	(18)
Deferred tax:		
Origination and reversal of timing differences	(16)	50
Total deferred tax (credit) / charge	(16)	50
Total tax charged to the income statement	34	32

(ii) Deferred tax charged to the income statement represents movements on the following items:

	2008	2007
	£m	£m
Provisions and other timing differences	(16)	(5)
Pensions and other post-retirement obligations	-	55
Total deferred tax (credited) / charged to income statement	(16)	50

(b) Tax charged / (credited) to equity	2008	2007
	£m	£m
Provisions and other timing differences	23	(23)
Pensions and other post-retirement obligations	(9)	194
	14	171

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in the UK as follows:

	2008	2007
	£m	£m
Profit before tax	460	168
Tax calculated at standard UK corporation tax rate of 28.5% (2007: 30%)	131	50
Adjustments to tax charge in respect of prior years	1	(5)
Disallowable expenses	-	1
Share schemes	(7)	(14)
Deferred tax assets not recognised	(91)	-
Total tax charged for the year (note 4 (a))	34	32

Aviva Employment Services Limited

Notes to the financial statements (continued)

5. Trade and other receivables

	2008 £m	2007 £m
Amount due from related parties (note 14(a)(i))	43	62
Other receivables	5	2
	48	64
Expected to be recovered within one year	18	56
Expected to be recovered in more than one year	30	8
	48	64

6. Tax assets and liabilities

(a) General

Assets and liabilities for current year tax of £nil and £50 million (2007: £13 million and £nil) are recoverable or payable in more than one year respectively.

Assets for prior years' tax settled by group relief of £13 million (2007: £17 million) recoverable within one year, are included within trade and other receivables (note 5) and are disclosed as a Related party transaction (note 14).

(b) Deferred tax

	2008 £m	2007 £m
(i) The net deferred tax (liability) / asset arises on the following items:		
Provisions and other timing differences	(9)	(2)
Pensions and other post retirement obligations	9	-
Net deferred tax (liability) / asset	-	(2)

(ii) The movement in the net deferred tax (liability) / asset is as follows:

	2008 £m	2007 £m
Net (liability) / asset at 1 January	(2)	219
Amounts (credited) / charged to profit (note 4(a))	16	(50)
Amounts charged to equity (note 4(b))	(14)	(171)
Net asset / (liability) at 31 December	-	(2)

The Company has unrecognised temporary differences of £441 million (2007: £113 million) to carry forward indefinitely against future taxable income.

Aviva Employment Services Limited

Notes to the financial statements (continued)

7. Trade and other payables

	2008	2007
	£m	£m
Other payables including other taxes and social security	28	35
Other creditors	1	-
Accruals	-	2
Total	29	37
Expected to be settled within one year	29	37

Aviva Employment Services Limited

Notes to the financial statements (continued)

8. Retirement benefit obligations

(a) Introduction

In the UK, the Group operates two main pension schemes, the Aviva Staff Pension Scheme ("the ASPS") and the smaller RAC (2003) Pension Scheme. Staff whose costs are recharged by the Company are members of the ASPS and receive benefits on either a defined benefit basis or a defined contribution basis. New entrants join the defined contribution section of the ASPS, as the defined benefit section is closed to new employees. The assets of the ASPS are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees.

For funding purposes, the ASPS valuation as at 31 March 2009 will be completed later this year, with the obligations calculated using the projected unit credit method.

As the employing company for most of the Group staff in the UK, the pension costs are initially borne by the Company and are then recharged to the operating divisions of the 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 Company's contributions to the defined benefit section of the ASPS throughout 2008 were 39% of employees' pensionable salaries, together with the cost of redundancies during the year, and additional deficit funding payments totalling £369 million.

As this section of the ASPS is closed to new entrants and the contribution rate is determined using the projected unit credit method, it is expected that the percentage cost of providing future service benefits will continue to increase as the membership ages, leading to higher pension costs, and as the number of members falls, leading to a higher charge per member. The Company's contribution rate for 2009 has therefore been increased to 41% of pensionable salaries (expected to be £96 million), together with £51 million of deficit funding, pending finalisation of the March 2009 valuation. Active members of this section of the ASPS contribute 5% of their pensionable salaries, increasing to either 6% or 7.5% from 1 July 2009.

The Company's contribution rates for members of the defined contribution section throughout 2008 were 8% of pensionable salaries, together with further contributions up to 4% where members contribute, and the cost of the death-in-service benefits. The Company's contribution rates for members of the defined contribution section throughout 2008 were 8% of pensionable salaries, together with further contributions up to 4% where members contribute, and the cost of the death-in-service benefits. With effect from 1 July 2009, members of this section must contribute at least 1% of their pensionable salaries and, depending on the percentage chosen, the Company's contribution will increase up to a maximum 14%

In 2006, the Group's UK life business carried out an investigation into the allocation of costs in respect of funding the ASPS, to identify the deficit that arose in respect of accruals prior to the introduction of the current management services agreements ("MSA") and to propose a split between individual product companies based on an allocation of the deficit into pre- and post-MSA amounts. The results of this review were agreed by the relevant company boards and accepted by the UK regulator. Consequently, with effect from 1 January 2006, the Group's UK with-profit product companies are liable for a share, currently 12%, of the additional payments for deficit funding referred to above.This has resulted in movements through the statement of recognised income and expense of £78 million in 2008 (2007: £75 million) to reflect actuarial movements in the deficit during the year, increasing the amount recoverable from the with-profit product companies at the end of the year to £30 million.

In the absence of any contractual arrangements to allocate the net defined benefit cost for the ASPS, measured in accordance with IAS 19, to individual businesses, it is the Group's policy to allocate this cost fully to the Company. Disclosures under IAS 19 for the ASPS are provided in the following pages.

8. Retirement benefit obligations (continued)

(b) Credits to the income statement

The total pension costs of the ASPS and the amount credited in the Company were :	2008	2007
	£m	£m
Defined benefit section (see (c) (iii) below)	96	119
Less: Contributions borne by other Group companies	(5)	(5)
Defined contribution section	40	39
Total pension costs	131	153
Less: Amounts recharged to operating businesses	(491)	(245)
Net credit to the income statement	(360)	(92)

(c) Details of the defined benefit section of the ASPS

The details for the defined benefit section of the ASPS are shown below. Although this scheme provides both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

(i) Assumptions on scheme liabilities

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions of the countries in which the relevant businesses are situated, and changes in these assumptions can materially affect the measurement of the pension obligations.

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the ASPS at 31 December 2008. This updating was made by the scheme actuary. Scheme assets are stated at their fair values at 31 December 2008.

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	2008	2007
	%	%
Inflation rate	2.9	3.4
General salary increases	4.7	5.2
Pension increases	3.1	3.4
Deferred pension increases	3.1	3.4
Discount rate	6.2	5.8

Aviva Employment Services Limited

Notes to the financial statements (continued)

8. Retirement benefit obligations (continued)

(c) Details of the defined benefit section of the ASPS (continued)

(i) Assumptions on scheme liabilities (continued)

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. The discount rate is based on current average yields of high quality debt instruments (AA-rated corporate bonds), taking account of the maturities of the defined benefit obligations. A 1% increase in this rate (and therefore the net discount rate) would reduce the liabilities by £1.1 billion and the service cost for the year by £21 million.

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the ASPS, particularly given the maturity of these obligations in this scheme. The mortality tables, average life expectancy and pension duration used at 31 December 2008 for scheme members are as follows:

Mortality table	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
PA92U09MC with a one year age rating deduction and an allowance for future improvements	60	89.3 (29.3)	92.2 (32.2)	91.7 (31.7)	93.8 (33.8)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. These assumptions include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table and incorporate the rate of future improvement equal to 1.5% p.a. for males and 1.0% p.a. for females. The effect on the ASPS of assuming all members were one year younger would increase the scheme's liabilities by £146 million and the service cost for the year by £2 million.

The scheme liabilities have an average duration of 20 years.

(ii) Assumption on scheme assets

The expected rates of return on the scheme's assets are:

	2009	2008
	%	%
Equities	6.3	9.2
Bonds	5.2	5.3
Property	4.8	7.7
Other	3.2	5.8

The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns for equities and properties have been aligned with the rates used for the longer-term investment return assumptions. The figures for the total expected return on scheme assets in the following section are stated after deducting investment expenses.

Notes to the financial statements (continued)

8. Retirement benefit obligations (continued)

(c) Details of the defined benefit section of the ASPS (continued)

(iii) Pension expense

The total pension expense for the scheme comprises:

Recognised in the income statement	2008 £m	2007 £m
Current service cost	(91)	(104)
Loss on curtailments	(5)	(15)
Charge to net operating expenses	(96)	(119)
Expected return on scheme assets	526	454
Interest charge on scheme liabilities	(422)	(378)
Credit to investment income	104	76
Total credit / (charge) to income	8	(43)

Recognised in the statement of recognised income and expense	2008 £m	2007 £m
Expected return on scheme assets	(526)	(454)
Actual return on scheme assets	(899)	391
Actuarial (losses) on scheme assets	(1,425)	(63)
Experience gains / (losses) arising on scheme liabilities	79	(27)
Changes in assumptions underlying the present value of the scheme liabilities	635	697
Loss on scheme transfers	-	(25)
Actuarial (losses) / gains recognised in the statement of recognised income and expense.	(711)	582

The cumulative amount of actuarial gains and losses on the pension schemes recognised in the statement of recognised income and expense since 1 January 2004 (the date of transition to IFRS) is a loss of £754 million at 31 December 2008 (2007: loss of £43 million).

Aviva Employment Services Limited

Notes to the financial statements (continued)

8. Retirement benefit obligations (continued)

(c) Details of the defined benefit section of the ASPS (continued)

(iv) Experience gains and losses

A five year history of experience gains and losses of the scheme are as follows:

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Fair value of the scheme assets at the end of the year	6,531	7,150	6,586	5,839	4,902
Present value of the scheme liabilities at the end of the year	(6,784)	(7,213)	(7,416)	(6,918)	(5,590)
Deficit in the scheme	(253)	(63)	(830)	(1,079)	(688)
Difference between the expected and actual return on the scheme assets					
Amount of (gains) / losses	1,425	63	(209)	(621)	(155)
Percentage of the scheme assets at the end of the year	21.8%	0.9%	3.2%	10.6%	3.2%
Experience (gains) / losses on scheme liabilities (including changes in assumptions)					
Amount of (gains) / losses	(79)	27	(32)	78	(79)
Percentage of the present value of scheme liabilities	1.2%	0.4%	0.4%	1.1%	1.4%

Aviva Employment Services Limited

Notes to the financial statements (continued)

8. Retirement benefit obligations (continued)

(c) Details of the defined benefit section of the ASPS (continued)

(v) The assets and liabilities of the ASPS, attributable to defined benefit members, at 31 December 2008 ar

	2008 £m	2007 £m
Equities	2,680	3,697
Bonds	3,095	2,760
Property	330	561
Other	426	132
Total fair value of assets	6,531	7,150
Present value of the scheme liabilities	(6,784)	(7,213)
Deficit in the scheme	(253)	(63)

(vi) Movements in the scheme's deficit comprise:

			2008
	Scheme assets	Scheme liabilities	Pension deficit
	£m	£m	£m
Deficit in the scheme at 1 January	7,150	(7,213)	(63)
Employer contributions	513	-	513
Employee contributions	13	(13)	-
Benefits paid	(246)	246	-
Current and past service cost	-	(91)	(91)
Loss on curtailment	-	(5)	(5)
Interest credit /(charge)	526	(422)	104
Actuarial (losses) / gains	(1,425)	714	(711)
Deficit in the scheme at 31 December	6,531	(6,784)	(253)

			2007
	Scheme assets	Scheme liabilities	Pension deficit
	£m	£m	£m
Deficit in the scheme at 1 January	6,586	(7,416)	(830)
Employer contributions	228	-	228
Employee contributions	14	(14)	-
Benefits paid	(234)	234	-
Current and past service cost	-	(104)	(104)
Loss on curtailment	-	(15)	(15)
Interest credit /(charge)	454	(378)	76
Actuarial (losses) / gains	(63)	670	607
Transfers	165	(190)	(25)
Deficit in the scheme at 31 December	7,150	(7,213)	(63)

The change in the scheme's deficit during 2008 is mainly attributable to the fall in equity and property investment values, partly offset by favourable changes in assumptions underlying the present value of the scheme's liabilities and further deficit contribution payments made by the Company.

Aviva Employment Services Limited

Notes to the financial statements (continued)

9. Provisions

	Provision for holiday pay
	£m
At 1 January 2008	-
Additional provisions	4
At 31 December 2008	4
Expected to be settled within one year	4

10. Ordinary share capital

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

	2008	2007
	£	£
Authorised		
1,000 (2007: 1,000) ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
2 (2007: 2) ordinary shares of £1 each	2	2

Aviva Employment Services Limited

Notes to the financial statements (continued)

11. Cash flow statement

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

	2008	Restated 2007
	£m	£m
Profit before tax	460	168
Adjustments for:		
Pension service cost and loss on curtailments	96	119
Net investment income on pension scheme	(104)	(76)
Changes in working capital:		
(Increase) / decrease in trade and other receivables	51	(28)
Increase / (decrease) in provisions	4	-
Increase / (decrease) in trade and other payables	(8)	15
Pension contributions paid less contribution from with-profit companies	(457)	(211)
Net cash inflow from / (outflow to) operating activities	42	(13)

"(Increase)/decrease in trade and other receivables" is stated after eliminating £13 million (2007: £17 million) of corporation tax liability settled or to be settled by group relief and £22 million (2007: £92 million) relating to the change in the with-profit companies' share of the pension deficit.

Comparative amounts for 2007 have been reanalysed to show the adjustments for non-cash movements in the profit before tax relating to pensions and to show the pension contributions paid net of contributions from with-profit companies. "(Increase)/decrease in trade and other receivables" has been adjusted to eliminate a non-cash movement of £92 million relating to the change in the with-profit companies' share of the pension deficit. The net cash outflow to operating activities for 2007 is unchanged.

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

	2008	2007
	£m	£m
Cash at bank and in hand	50	8

12. Risk management policies

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. This framework is operated by a group of companies, "UKGI" (including the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited), within the Aviva plc group ("the Group"), that are engaged in writing general insurance business and in various non-insurance activities in the UK. The risks faced by the Company can be categorised as follows:

- financial risks, which cover market, credit and liquidity risks; and
- operational risks, which are mainly focused on people, systems and processes.

In addition, the Company is exposed to risks associated with pension schemes, which are dealt with in the notes.

The risk management framework provides the means to identify, assess, measure, manage and monitor all of the different types of risk faced by UKGI to provide a single picture of the threats and uncertainties faced and opportunities that exist.

UKGI sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UKGI is willing to accept). UKGI assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders. Where risks are outside of appetite, actions are agreed to mitigate the exposure.

UKGI's risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable assurance against material financial misstatement or loss. New risks, which have not been identified as emerging risks, or risks currently deemed as immaterial may also impair the future achievement of business objectives.

UKGI recognises the critical importance of maintaining an efficient and effective risk management framework. To this end, UKGI has an established governance framework, which has the following key elements:

- defined terms of reference for the legal entity Boards and the associated executive management and other committees within UKGI;
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management; and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations. The policies also set out the roles and responsibilities of businesses, regions, policy owners, and the risk oversight committees.

UKGI has developed economic capital models that support the measurement, comparison and further understanding of its risks. The results of the modelling are incorporated into key decision-making processes. These models show the relative impact to economic capital from the risks faced. In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite.

(a) Financial risk management

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

Aviva Employment Services Limited

Notes to the financial statements (continued)

12. Risk management policies (continued)

(a) Financial risk management

(i) Market risk (continued)

UKGI manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets.

The Company is exposed to movements in the value of the pension scheme's assets and liabilities from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates. Further details of the assets and liabilities of the pension scheme are set out in note 8.

(ii) 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.

UKGI's management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's. Exposure levels are reported to and reviewed by the UKGI Investment Committee.

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 speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty concerned.

At 31 December 2008, Cash and cash equivalents of £50 million (2007: £8 million) were held with one counterparty that was AA rated (2007: AA rated).

At 31 December 2008, trade and other receivables are £48 million (2007: £64 million). Of this amount, £43 million (2007: £62 million) is due from related parties, details of which are set out in note 14.

(iii) Liquidity risk

The Company has a letter of support from Aviva Group Holdings Limited ("AGHL"), a parent company and a wholly owned subsidiary of the ultimate controlling entity, Aviva plc. The letter states that, in the event the Company is unable to meet its obligations, AGHL will ensure those obligations are met as they fall due.

(b) Operational risk management

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include taxation, reputation and regulatory risks, such as compliance. Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided.

UKGI is responsible for identifying and managing operational risks in line with minimum standards of control set out in Group policies. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are considered against financial, operational and reputational criteria.

Business management teams must be satisfied that all material risks falling outside the Group's risk appetite are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact level are monitored locally.

Aviva Employment Services Limited

Notes to the financial statements (continued)

12. Risk management policies (continued)

(b) Operational risk management (continued)

The UKGI risk management and governance function is responsible for implementing the Group risk management methodologies and frameworks to assist line management in this work. It also provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans. As a result, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level.

13. Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile and market requirements of the business. This note describes the way the Company manages capital and shows where this is employed.

(a) General

IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis.

(b) Capital management

In managing its capital, the Company seeks to:

(i) maintain financial strength;
(ii) retain financial flexibility by maintaining strong liquidity; and
(iii) allocate capital efficiently and repatriate excess capital where appropriate.

The Company considers not only the traditional sources of capital funding, but alternative sources when assessing its deployment and usage of capital.

(c) Measure of capital

The Company is required to report its results on an IFRS basis.

(d) Capital structure

	IFRS net liabilities 2008 £m	IFRS net liabilities 2007 £m
Provision of shared services	(238)	(17)
Total capital employed	(238)	(17)
Financed by		
Equity shareholder's funds	(238)	(17)

Aviva Employment Services Limited

Notes to the financial statements (continued)

14. Related party transactions

(a) The Company acts as the employing company for staff in the Aviva plc Group in the UK.

(i) Services provided to related parties

	2008		2007	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	280	-	305	-
Other Group companies	1,109	43	855	62
	1,389	43	1,160	62

(ii) Services provided by related parties

	2008		2007	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£m	£m	£m	£m
Group employee pension schemes	131	-	153	-

(iii) Key management compensation

The Company's key management personnel served as directors of other Group companies throughout 2008. Details of key management compensation have therefore been disclosed in those companies' financial statements.

(b) Immediate parent company

The Company's immediate parent company is Aviva Central Services UK Limited (formerly Norwich Union Central Services Limited), registered in England and Wales.

(c) Ultimate controlling entity

The ultimate controlling entity is Aviva plc. Its Annual Report and Accounts are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ.