



CGU Insurance plc
Annual report and accounts
2004



SC 0004116

Directors' report

The directors submit their Report and Accounts for CGU Insurance plc (CGUI), together with the consolidated accounts of the CGUI Group of companies, for the year ended 31 December 2004.

Under the Memorandum of Understanding (MoU) signed by Aviva with the ASB in relation to Financial Reporting Standard (FRS27) "Life assurance", all the requisite disclosures have been made in the Report and Accounts of Aviva plc. As required by the MoU, details of the material financial guarantees and options written in the overseas businesses of the CGUI Group, are given as supplementary information on page 39.

Principal activity

CGUI is the holding company of the CGUI group of companies. The Company and the Group transact all classes of general insurance and life assurance (other than industrial life) through subsidiaries, associates and branches in the United Kingdom, Continental Europe, North America, Asia and other countries throughout the world. The Group also invests in securities, properties, mortgages and loans and carries on the business of trading in property. Details of material acquisitions and disposals made by the Group during the year are contained on pages 21 to 23.

Holding company

The ultimate holding company is Aviva plc.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have 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.

Results

The Group results for the year are shown in the consolidated profit and loss account on pages 3 to 5.

Dividend

The directors did not declare an interim dividend (2003: nil) and recommend a final dividend of £1,044 million for the year (2003: £754 million).

Share capital

On 29 November 2004 the Company allotted 451.2 million ordinary shares which were issued to CGU International Insurance plc (CGUII) for a consideration of £112.8 million. The Company increased its authorised share capital on 17 December 2004, from £2,400 million to £3,000 million, by the creation of 2,400 million ordinary shares of 25 pence each. On the same day the Company issued a further 3,333,664,609 ordinary shares for a consideration of £833.4 million.

Directors

Richard Harvey
Andrew Moss (appointed 29 July 2004)
Philip Scott
Patrick Snowball
Philip Twyman (resigned 31 March 2004)

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

Directors' interests

The directors who held office at 31 December 2004 are also all directors of the Company's ultimate holding company, Aviva plc, and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (S1 1985/802) are not required to disclose their share interests in Aviva plc in the Company's accounts. Their interests can be found in the Report and accounts of Aviva plc. None of the directors who held office at 31 December 2004 had any interest in the Company's shares.

Creditor payment policy and practice

It is the Company's and the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

In respect of the Aviva Group's activities in the United Kingdom, the amounts due to trade creditors at 31 December 2004 represented approximately 21 days of average daily purchases through the year (2003: 29 days).

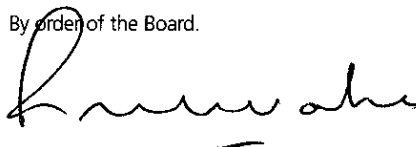
Employees

All employees are employed by a fellow subsidiary undertaking, Aviva Employment Services Limited. Disclosures relating to employees may be found in the Group consolidated accounts of Aviva plc.

Auditor

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

By order of the Board.



Richard Whitaker
Company Secretary

30 March 2005

Registered Office: Pitheavlis,
Perth, Scotland PH2 0NH
Registered in Scotland No. 2116

Statement of directors' responsibilities

The directors are required to ensure that accounts are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985, and which give a true and fair view of the state of affairs of the Company and the Group as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies have to be used and applied consistently in preparing accounts, using reasonable and prudent judgements and estimates on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

Applicable accounting and financial reporting standards also have to be followed, with any material departures being disclosed and explained.

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also ultimately responsible for the systems of internal control maintained by the Group for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of CGU Insurance plc

We have audited the Group's accounts for the year ended 31 December 2004 which comprise the Consolidated profit and loss account, Pro forma reconciliation of Group operating profit to profit on ordinary activities before tax, Consolidated statement of total recognised gains and losses, Reconciliation of movements in consolidated shareholders' funds, Consolidated Group balance sheet, Company balance sheet, Accounting policies and the related notes 1 to 41. These accounts have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of directors' responsibilities above.

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

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

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

Basis of audit opinion

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

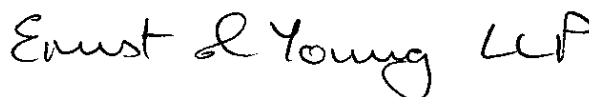
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

Equalisation provision

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 2004 and the effect of the movement in the provision during the year on the general business technical result and profit on ordinary activities before tax, are disclosed in accounting policy T and note 31 to the accounts.

Opinion

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



Ernst & Young LLP

Registered Auditor

London

30 March 2005

Consolidated profit and loss account

Technical account – long-term business

For the year ended 31 December 2004

	2004 £m	2003 £m
Gross premiums written (5a)	9,927	8,762
Outward reinsurance premiums (F)	(145)	(174)
Written and earned premiums, net of reinsurance (B & 5a)	9,782	8,588
Investment income (G & 6a)	3,340	2,999
Unrealised gains on investments (G & 6a)	1,166	1,403
Claims paid	(5,891)	(5,470)
Gross amount	149	270
Reinsurers' share	(5,742)	(5,200)
Change in the provision for claims		
Gross amount	(28)	(6)
Reinsurers' share	3	(5)
	(25)	(11)
Claims incurred, net of reinsurance (C)	(5,767)	(5,211)
Change in long-term business provision (Q)		
Gross amount	(3,924)	(3,289)
Reinsurers' share	(56)	(131)
	(3,980)	(3,420)
Change in technical provision for linked business, net of reinsurance (Q)	(2,702)	(2,687)
Changes in other technical provisions, net of reinsurance	(6,682)	(6,107)
Net operating expenses (8)	(806)	(807)
Investment expenses and charges (6a)	(146)	(141)
Other technical charges (P & 19)	(74)	(50)
Tax attributable to long-term business (J & 12b)	(208)	(75)
Allocated investment return transferred to the non-technical account (G & 6b)	(38)	(12)
Transfers to the fund for future appropriations (S)	(336)	(367)
Other charges	(1,608)	(1,452)
Balance on the long-term business technical account (H)	231	220
Balance on the long-term business technical account	231	220
Tax credit attributable to balance on the long-term business technical account (J & 12a)	97	85
Profit from long-term business operations before tax	328	305

The table below provides a reconciliation between the analysis on page 6 and the profit from long-term business operations above.

	2004 £m	2003 £m
Long-term business operating profit before amortisation of acquired additional value of in-force long-term business (3a)	445	372
Amortisation of acquired additional value of in-force long-term business (included within other technical charges) (P & 19)	(117)	(67)
Profit from long-term business operations before tax	328	305

All profit is from continuing operations.

Consolidated profit and loss account

Technical account – general business

For the year ended 31 December 2004

	2004 £m	2003 £m
Gross premiums written (5a)	6,029	5,727
Outward reinsurance premiums (F)	(483)	(391)
Net premiums written (B & 5a)	5,546	5,336
Change in the provision for unearned premiums		
Gross amount	(255)	(221)
Reinsurers' share	55	19
	(200)	(202)
Earned premiums, net of reinsurance	5,346	5,134
Allocated investment return transferred from the non-technical account (G & 6b)	528	537
Claims paid		
Gross amount	(3,262)	(3,548)
Reinsurers' share	162	287
	(3,100)	(3,261)
Change in the provision for claims		
Gross amount	(288)	(617)
Reinsurers' share	(175)	70
	(463)	(547)
Claims incurred, net of reinsurance (C)	(3,563)	(3,808)
Changes in other technical provisions, net of reinsurance	–	1
Net operating expenses (8)	(1,501)	(1,420)
Other charges	(1,501)	(1,419)
General insurance operating result	810	444
Change in the equalisation provision (T & 31)	(20)	(16)
Balance on the general business technical account	790	428

The table below provides a reconciliation between the analysis on page 6 and the balance on the general business technical account above.

	Underwriting result		Allocation of longer term investment return		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Operating profit						
General insurance (3a)	298	(71)	472	467	770	396
Health (3a)	(10)	(22)	56	70	46	48
Profit before exceptional items	288	(93)	528	537	816	444
Financial Services Compensation Scheme levy					(6)	–
Change in the equalisation provision (31)					(20)	(16)
Balance on the general business technical account					790	428

All profit is from continuing operations.

Consolidated profit and loss account

Non-technical account

For the year ended 31 December 2004

	2004 £m	2003 £m
Balance on the long-term business technical account	231	220
Tax credit attributable to balance on the long-term business technical account (J & 12a)	97	85
Profit from long-term business operations before tax	328	305
Balance on the general business technical account	790	428
Investment income (G & 6a)		
Share of result of associated undertakings	5	6
Other	426	441
	431	447
Unrealised gains on investments (G & 6a)	156	210
Allocated investment return transferred from the long-term business technical account (G & 6b)	38	12
Investment expenses and charges (6a)	(8)	(27)
Allocated investment return transferred to the general business technical account (G & 6b)	(528)	(537)
Other income/(charges), including value adjustments		
Profit from fund management (3a)	17	14
Loss from other operations (3a)	(7)	(13)
Other charges:		
– corporate costs (9)	(14)	(3)
– amortisation of goodwill (14)	(99)	(71)
Net loss on the disposal of subsidiary and associated undertakings (13c)	(150)	–
Exceptional costs for termination of operations (13d)	–	(19)
	(253)	(92)
Profit on ordinary activities before tax	954	746
Tax on profit on ordinary activities (J & 12a)	(355)	(54)
Profit on ordinary activities after tax (A)	599	692
Minority interests	(39)	(36)
Profit for the financial year	560	656
Ordinary dividends	(1,044)	(754)
Retained loss transferred from reserves (26)	(484)	(98)

All profit is from continuing operations.

Pro forma reconciliation of Group operating profit to profit on ordinary activities before tax

For the year ended 31 December 2004

	2004 £m	2003 £m
Operating profit before tax based on longer term investment return before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items:		
Long-term business (3a)	445	372
Health business (3a)	46	48
Fund management (3a)	17	14
General insurance (3a)	770	396
Non-insurance operations (3a)*	(2)	(7)
Corporate costs (9)	(14)	(3)
Unallocated interest charges (6a)	25	(9)
	1,287	811
Amortisation of goodwill (14)	(99)	(71)
Amortisation of acquired additional value of in-force long-term business (19)	(117)	(67)
Financial Services Compensation Scheme levy	(6)	–
Operating profit before tax based on longer term investment return after amortisation of goodwill and amortisation of acquired additional value of in-force long-term business (3b)	1,065	673
Short-term fluctuation in investment return		
– long-term business (6b)	38	12
– non-long-term business (6b)	21	96
	59	108
Change in the equalisation provision (31)	(20)	(16)
Net loss on the disposal of subsidiary undertakings (13c)	(150)	–
Exceptional costs for termination of operations (13d)	–	(19)
Profit on ordinary activities before tax	954	746

All profit is from continuing operations.

*Included within non-insurance operations are £5 million (2003: £6 million) from the Group's share of operating profit of its associates.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2004

	2004 £m	2003 £m
Profit for the financial year	560	656
Foreign exchange gains (U & 26)	35	244
Total recognised gains arising in the year	595	900

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 2004

	2004 £m	2003 £m
Shareholders' funds at 1 January	6,323	5,657
Total recognised gains arising in the year	595	900
Dividends	(1,044)	(754)
Increase in share capital (25b)	946	520
Goodwill written back (K, 13c & 26)	167	–
Shareholders' funds at 31 December	6,987	6,323

Consolidated Group balance sheet

At 31 December 2004

Assets	2004 £m	2003 £m
Goodwill (K & 14)		
Positive goodwill	904	970
Negative goodwill	(37)	(40)
	867	930
Investments (L)		
Land and buildings (15)	2,284	2,256
Investments in associated undertakings and other participating interests (O & 16a)	133	364
Other financial investments (17a)	68,416	58,940
Less: Non-recourse funding (17a)	(3,718)	(2,237)
	64,698	56,703
Acquired additional value of in-force long-term business (P & 19)	480	529
Deposits with ceding undertakings	985	101
	68,580	59,953
Assets held to cover linked liabilities (20)	20,162	15,761
Reinsurers' share of technical provisions		
Provision for unearned premiums (B)	307	258
Long-term business provision (Q)	1,205	999
Claims outstanding (C)	715	938
Technical provision for linked liabilities (Q & 20)	282	146
	2,509	2,341
Debtors		
Debtors arising out of direct insurance operations (21)	1,967	1,895
Debtors arising out of reinsurance operations	306	306
Other debtors (22)	6,207	7,597
	8,480	9,798
Other assets		
Tangible assets (R)	93	126
Cash at bank and in hand	1,218	1,197
	1,311	1,323
Prepayments and accrued income		
Accrued interest and rent	848	917
Deferred acquisition costs (D & 23)	949	868
Other prepayments and accrued income	428	449
	2,225	2,234
Total assets	104,134	92,340

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 14 to 38 are an integral part of these accounts. The auditors' report is on page 2.

Liabilities	2004 £m	2003 £m
Capital and reserves		
Ordinary share capital (25b)	2,785	1,839
Share premium account (25b)	3,049	3,049
Profit and loss account (A & 26)	1,153	1,435
Shareholders' funds	6,987	6,323
Equity minority interests	581	512
Non-equity minority interests	6	–
Total capital and reserves	7,574	6,835
Other liabilities		
Fund for future appropriations (S)	807	465
Technical provisions		
Provision for unearned premiums (B)	2,695	2,439
Long-term business provision (Q & 29)	55,179	49,433
Claims outstanding (C)	7,516	7,222
Equalisation provision (T & 31)	198	177
Other technical provisions	69	68
	65,657	59,339
Technical provision for linked liabilities (Q & 20)	20,444	15,907
Provisions for other risks and charges (32)	322	291
Deposits received from reinsurers	902	847
Creditors		
Creditors arising out of direct insurance operations	1,066	1,107
Creditors arising out of reinsurance operations	251	256
Long-term business borrowings		
Debenture loans (33b)	33	–
Amounts due to credit institutions (33c)	4	21
Non-long-term business borrowings		
Debenture loans (33b)	133	138
Amounts due to credit institutions (33c)	52	33
Commercial paper (33d)	11	18
Other creditors including tax and social security (34)	6,375	6,651
	7,925	8,224
Accruals and deferred income (35)	503	432
Total other liabilities	96,560	85,505
Total liabilities	104,134	92,340

Approved by the Board on 30 March 2005

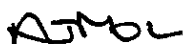

Andrew Moss
 Group Finance Director

Company balance sheet

At 31 December 2004

	2004 £m	Restated 2003 £m
Assets		
Investments (L)		
Land and buildings (15)	34	48
Subsidiary undertakings (N & 13e)	10,185	8,607
Other financial investments (17d)	551	530
Deposits with ceding undertakings	1	1
	10,771	9,186
Reinsurers' share of technical provisions		
Provision for unearned premiums (B)	273	222
Claims outstanding (C)	202	294
	475	516
Debtors		
Debtors arising out of direct insurance operations (21)	367	175
Debtors arising out of reinsurance operations	119	103
Other debtors (22)	425	1,070
	911	1,348
Other assets		
Tangible assets (R)	1	1
Cash at bank and in hand	540	38
	541	39
Prepayments and accrued income		
Accrued interest and rent	11	14
Deferred acquisition costs (D & 23)	190	117
	201	131
Total assets	12,899	11,220
Liabilities		
Capital and reserves		
Ordinary share capital (25)	2,785	1,839
Share premium account (25b)	3,049	3,049
Revaluation reserve (A & 27)	2,415	2,422
Profit and loss account: (27)		
Distributable	112	90
Non-distributable	160	139
	272	229
Shareholders' funds	8,521	7,539
Other liabilities		
Technical provisions		
Provision for unearned premiums (B)	974	742
Claims outstanding (C)	1,654	1,609
Equalisation provision (T)	87	86
	2,715	2,437
Provisions for other risks and charges		
	-	10
Creditors		
Creditors arising out of direct insurance operations	53	33
Creditors arising out of reinsurance operations	86	65
Other creditors including taxation and social security (34)	1,396	1,059
	1,535	1,157
Accruals and deferred income (35)	128	77
Total other liabilities	4,378	3,681
Total liabilities	12,899	11,220

Approved by the Board on 30 March 2005



Andrew Moss
Group Finance Director

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 14 to 38 are an integral part of these accounts. The auditors' report is on page 2.

Accounting policies

A – Basis of accounts

The accounts have been prepared in accordance with the special provisions relating to insurance companies of Section 255A of, and Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP") issued in November 2003. The accounting policies adopted reflect UK financial reporting standards and statements of standard accounting practice applicable at 31 December 2004, as considered appropriate for an insurance company.

The profit and loss account for the year reflects all income, expenditure, and investment gains and losses, except certain items which are taken directly to reserves after tax. The items taken directly to reserves include exchange gains and losses on the net investment in foreign enterprises (except for certain items dealt with in the fund for future appropriations). The general business technical result is determined on an annual basis.

B – Premiums

Long-term business premiums are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is debited to premiums.

General business premiums written reflect business inception during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are computed principally on either the daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

C – Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of a bonus declaration.

General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

General business outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date. Provisions for certain claims are discounted using rates having regard to the returns generated by the assets supporting the liabilities. Any estimate represents a determination within a range of possible outcomes. Further details of estimating techniques are given in note 30a.

D – Deferred acquisition costs

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of margins in revenues from the related policies. General business deferred acquisition costs are amortised over the period in which the related premiums are earned.

E – Unexpired risks

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions.

F – Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business. As the volume of reinsurance assumed is not material to the Group, no separate disclosure of this business has been made in the relevant notes to these accounts. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the profit and loss account immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated profit and loss account and balance sheet as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the balance sheet and are included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

Accounting policies

continued

G – Investment income and unrealised investment gains or losses

Investment income consists of dividends, interest and rents receivable for the year, together with realised investment gains and losses. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis. Realised investment gains and losses represent the difference between the net sales proceeds and the cost of acquisition. Unrealised investment gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year.

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates a longer term return on investments supporting its non-long-term business and shareholders' funds in its long-term business. As permitted by the ABI SORP, total investment income, including realised and unrealised gains, is therefore analysed between that calculated using a longer term return and short-term fluctuations from this. Further details of this analysis and the assumptions used are given in note 6b.

Long-term business investment income and unrealised gains and losses are included in the long-term business technical account and, where applicable, a transfer is made to the non-technical account to ensure that the return remaining in the long-term technical account attributable to shareholders reflects the longer term investment return.

Non-long-term business investment income and unrealised gains and losses are taken to the non-technical account. The longer term return on the investments owned by general business operations is then transferred from the non-technical account to the general business technical account. Profits and losses arising on investment transactions with the long-term funds are included in realised investment gains.

H – Long-term business result and fund valuations

Transfers from the long-term business technical account to the non-technical account in respect of shareholders' profits are determined as a result of annual actuarial valuations, which are based on local practice, subject to transfers to or from the fund for future appropriations.

I – Pension costs and other post-retirement benefits

The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally 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.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the profit and loss account in the year to which they relate and are included in staff costs. In some countries, the pension schemes have invested in the Group's life funds.

Some Group companies provide post-retirement healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. None of these schemes is material to the Group and contributions are charged to the profit and loss account in the year to which they relate.

In November 2000, the Accounting Standards Board issued Financial Reporting Standard (FRS17) "Retirement Benefits", the accounting provisions of which are not required to be adopted by the Group until 2005. However, the FRS requires certain disclosures to be made in the notes to the accounts, as shown in note 36e.

J – Tax

The shareholder tax charge in the non-technical account 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 on ordinary activities and amounts charged or credited to reserves as appropriate. In the long-term business technical account, the charge is based on the method of assessing tax for long-term funds applicable in the relevant country of operation.

The balance on the long-term business technical account is computed net of the total tax attributable to that business. In order to present the profit on long-term business operations on a pre-tax basis, this net figure is grossed up at the long-term effective rate of tax borne by shareholders in respect of the underlying business. This shareholder tax add-back is included in the tax charge on the profit on ordinary activities in the non-technical account.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and pattern of expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities.

No provision is made for tax that might arise if profits retained by overseas subsidiaries and associated undertakings were remitted to the UK, unless a binding agreement exists for the relevant undertaking to distribute those earnings in future.

K – Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is carried on the balance sheet as a separate intangible asset. Goodwill arising on the acquisition of associated undertakings is included within their carrying value. All goodwill is amortised on a straight-line basis over its useful economic life, and its carrying value is reviewed regularly for indications of impairment. On subsequent disposal of the underlying investment, any goodwill not yet amortised will be taken to the profit and loss account when calculating the profit or loss on disposal.

Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill previously written off to reserves will be taken back through the profit and loss account when calculating the profit or loss on any disposal of the underlying investment.

L – Investments

Investments are stated at their current values at the end of the year, with the exception of certain non-linked long-term business debt securities and fixed income securities which are shown at amortised cost, as this basis more closely corresponds with the valuation of the relevant long-term liabilities. Current values, for this purpose, are: stock exchange mid-market values for listed securities; average trading prices for unlisted securities where a market exists; and directors' valuations for other unlisted securities, and for mortgages and loans.

All properties are valued annually by qualified external valuers or members of staff, at market value. No depreciation is provided on properties held for own use since such depreciation is immaterial. No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view of the Group's financial position or results for the financial year.

M – Derivative instruments

The Group uses derivative instruments, including forward foreign exchange contracts, interest rate swaps, futures and options for hedging purposes. Derivative instruments are accounted for as follows:

- Forward foreign exchange contracts. The interest rate differential is included in investment income, while the effect of the currency movements on these contracts is treated as an exchange difference;
- Cross-currency swaps related to the Aviva Group's borrowings. These are held at their market value and are included in investment debtors or creditors as appropriate;
- Interest rate swaps. The interest payable and receivable is included within investment expenses or investment income as appropriate;
- Futures contracts and purchased options. These are included at market value and shown under the category of investments to which the contracts relate. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

N – Consolidation of subsidiary undertakings

The results of all material subsidiary undertakings are consolidated using audited accounts prepared to 31 December. Subsidiary undertakings acquired during the year are consolidated from the date of acquisition. In the Company balance sheet, subsidiary undertakings are stated at current value which, for this purpose, is embedded value for life operations and net asset value for other entities.

O – Participating interests and associated undertakings

Participating interests are investments in which the Group has a long-term equity holding of over 20% and not more than 50%. Where the interests are beneficial and significant influence is exercised, such interests are classified as associated undertakings. The appropriate proportion of the profit or loss on ordinary activities before tax of associated undertakings is shown separately in the non-technical account, except where these investments are held by the long-term businesses, in which case the profit is included within investment income in the long-term business technical account. The appropriate proportion of the shareholders' funds of associated undertakings is included in the consolidated balance sheet.

P – Additional value of in-force long-term business

The additional value of in-force long-term business arising on acquisitions is recognised in the Group's balance sheet and is amortised through the profit and loss account over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of acquired additional in-force long-term business is reviewed annually for any impairment in value and any reductions are charged to the long-term business technical account.

Q – Long-term business provision and technical provision for linked liabilities

The long-term business provision is calculated separately for each life operation, based on local regulatory requirements and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. Further details of the methodology and the principal assumptions used are given in note 29.

Within the long-term business provision, explicit allowance is made for vested bonuses, including those added following the current valuation. The allowance for future bonuses depends on the methodology and is explained in note 29. The provisions held for linked business and unithised with-profits business are the unit liabilities together with certain non-unit provisions.

R – Tangible assets

Computer equipment, motor vehicles and other tangible assets are capitalised at cost and depreciation is charged to the profit and loss account, within expenses on a straight-line basis, over their estimated useful lives of between three and five years. All tangible assets are tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are included within the cumulative depreciation amounts disclosed.

S – Fund for future appropriations

In certain participating long-term business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held in the fund for future appropriations. Transfers between this fund and the long-term business technical account represent changes in the unallocated amounts between balance sheet dates.

T – Equalisation provision

Provision is made in the Group accounts for the equalisation provisions established, where required, in the accounts of individual insurance companies in the UK and in a limited number of countries overseas. The provision is required by law even though no actual liability exists at the balance sheet date.

U – Exchange rates

The results of foreign enterprises are translated into sterling at average exchange rates while their assets and liabilities are translated at year end rates. The resulting exchange differences arising within long-term businesses are included within the long-term business technical account and form part of the transfer to the fund for future appropriations, while those arising within other businesses are taken directly to reserves.

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions. Foreign currency assets and liabilities held at the year end are translated at year end rates of exchange. The resulting exchange gains or losses are included in the profit and loss account.

V – Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

There are no material finance leases affecting the Group as either lessor or lessee.

Notes to the accounts

1 – Exchange rates

The euro rates employed in this report are an average rate of €1 = £0.68 (2003: €1 = £0.69) and a closing rate of €1 = £0.71 (2003: €1 = £0.70).

2 – Presentation changes

As explained in note 13e, the Company's shares in its subsidiaries are stated at current value which for the life operations is their embedded value.

This is now calculated using European Embedded Value (EEV) principles, which is a change from the Achieved Profit basis used previously.

This change of basis has resulted in a £8 million decrease in value of the life subsidiaries at 31 December 2003. The Company's balance sheet at that date, and relevant notes, have been restated for this change.

3 – Segmental information

The Group's reportable business segments are long-term business, health business, fund management, general insurance business and non-insurance operations. The main geographical segments are the United Kingdom, Europe (excluding the United Kingdom) and International.

(a) Operating profit by business

(i) Operating profit in respect of long-term business before amortisation of acquired additional value of in-force long-term business

	Operating profit	
	2004 £m	2003 £m
Europe (excluding UK)	439	361
International	6	11
	445	372

(ii) Underwriting result and operating profit in respect of health business

	Underwriting result		Operating profit	
	2004 £m	2003 £m	2004 £m	2003 £m
Europe (excluding UK)	(10)	(22)	46	48
	(10)	(22)	46	48

(iii) Operating profit in respect of fund management

	Operating profit	
	2004 £m	2003 £m
Europe (excluding UK)	17	15
International	–	(1)
	17	14

(iv) Underwriting result and operating profit in respect of general insurance business excluding health business, before exceptional items

	Underwriting result		Operating profit	
	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	156	34	282	168
Europe (excluding UK)	99	8	294	194
International	43	(113)	194	34
	298	(71)	770	396

(v) Operating profit in respect of non-insurance operations

	Operating profit	
	2004 £m	2003 £m
United Kingdom	1	–
Europe (excluding UK)	(3)	(7)
International	–	–
	(2)	(7)
Deduct share of operating profit from associates	(5)	(6)
Total Group operating profit in respect of non-insurance operations	(7)	(13)

3 – Segmental information continued**(b) Operating profit before tax**

	2004 £m	2003 £m
United Kingdom	273	169
Europe (excluding UK)	578	484
International	203	32
Continuing operations	1,054	685
Corporate costs (note 9)	(14)	(3)
Unallocated interest charges (note 6a)	25	(9)
Operating profit before tax	1,065	673

(c) Net assets by business and geographical segment

	Long-term business		General insurance and health business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	–	–	394	440	394	440
Europe (excluding UK)	3,383	3,512	1,388	1,103	4,771	4,615
International	302	331	952	876	1,254	1,207
	3,685	3,843	2,734	2,419	6,419	6,262
Other assets and liabilities					1,155	573
Total					7,574	6,835

4 – Long-term savings new business premiums

An analysis of life and savings new business premiums written is provided below.

	New single premiums		New regular premiums		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Life and pensions:						
Europe (excluding UK)	6,974	5,832	430	422	7,404	6,254
International*	471	549	61	74	532	623
Total life and pensions (including share of associate)	7,445	6,381	491	496	7,936	6,877
Investment sales:						
Europe (excluding UK)	196	204	–	–	196	204
Total investment sales	196	204	–	–	196	204
Total long-term savings (including share of associate)	7,641	6,585	491	496	8,132	7,081

*The figures for International include the Group's 26% share of our associate company in India (Aviva Life Insurance Company India Pvt. Limited).

Single premiums are those relating to products issued by the Group, which provide for the payment of one premium only. Regular premiums are those where there is a contractual obligation to pay on an ongoing basis.

5 – Premiums written and sales of investment products**(a) (i) Total premiums written and investment sales**

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
Long-term business premiums (note 5a(ii))	9,927	8,762	9,782	8,588
Sales of investment products (note 4)	196	204	196	204
Health business premiums (note 5a(iii))	714	799	714	796
General insurance business premiums (note 5a(iv))	5,315	4,928	4,832	4,540
	6,029	5,727	5,546	5,336
Total premiums written and investment sales	16,152	14,693	15,524	14,128

Notes to the accounts

continued

5 – Premiums written and sales of investment products continued

(ii) Long-term business premium income by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
Europe (excluding UK)	9,262	8,029	9,129	7,868
International	671	735	659	722
Total long-term business premiums, including share of associate	9,933	8,764	9,788	8,590
Less: share of premiums from associate				
International	(6)	(2)	(6)	(2)
Total Group long-term business premium	9,927	8,762	9,782	8,588

(iii) Health business premium income by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
Europe (excluding UK)	714	799	714	796
Total health business premiums	714	799	714	796

(iv) General insurance business premium income (excluding health business premiums), by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2004 £m	2003 £m	2004 £m	2003 £m
United Kingdom	1,804	1,490	1,554	1,271
Europe (excluding UK)	2,169	2,070	2,003	1,896
International	1,342	1,368	1,275	1,373
Total general insurance business premiums (excluding health business)	5,315	4,928	4,832	4,540

(v) Premium income by destination does not differ materially from premium income by geographical origin, as most risks are located in the countries where the policies were written.

(b) The analysis of general insurance business premiums written before reinsurance is:

	2004 £m	2003 £m
Property	2,019	1,690
Motor	1,854	1,915
Liability	769	688
Creditor	362	268
Other	311	367
General business premiums (note 5a(iv))	5,315	4,928
Health business (note 5a(iii))	714	799
Total general insurance business and health business premiums written before reinsurance	6,029	5,727

6 – Analysis of investment return**(a)** The total investment return before tax comprises:

	Long-term business		Non-long-term business	
	2004 £m	2003 £m	2004 £m	2003 £m
Share of result of associated undertakings	1	(2)	5	6
Income from land and buildings	106	116	23	21
Income from other investments	2,961	2,917	405	404
Realised investment gains/(losses)	272	(32)	(2)	16
Investment income	3,340	2,999	431	447
Expenses and charges, including allocated interest charges	(146)	(141)	(33)	(18)
Unallocated interest charges:				
External	–	–	(10)	(22)
Payable to other Aviva Group companies	–	–	(139)	(147)
Receivable from other Aviva Group companies	–	–	174	160
	(146)	(141)	(8)	(27)
Investment return before unrealised gains	3,194	2,858	423	420
Unrealised investment gains	1,166	1,403	156	210
Total investment return before tax	4,360	4,261	579	630

(b) Longer term investment return

(i) The longer term investment return, net of expenses, allocated to the general business technical account and transferred from the long-term business technical account was £528 million (2003: £537 million) and £38 million (2003: £12 million), respectively.

(ii) The longer term investment return and short-term fluctuation are as follows:

	Shareholders' interest in long-term business		Non-long-term business	
	2004 £m	2003 £m	2004 £m	2003 £m
Total investment return before tax	9	21	579	630
Less: share of result of associated undertakings	–	–	(5)	(6)
(Deduct)/add: unallocated interest charges	–	–	(25)	9
	9	21	549	633
Longer term investment return	(29)	9	528	537
Short-term fluctuation in investment return	38	12	21	96
	9	21	549	633

(iii) The longer term return is calculated separately for each principal general insurance business unit and certain long-term business operations. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer term rate of investment return. The longer term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer term return for other investments is the actual income receivable for the year.

(iv) The principal assumptions underlying the calculation of the longer term investment return are:

	Longer term rates of return Equities		Longer term rates of return Properties	
	2004	2003	2004	2003
United Kingdom	8.1%	8.1%	6.6%	6.6%
France	7.5%	7.5%	6.5%	6.5%
Ireland	8.7%	8.7%	6.7%	6.7%
Netherlands	8.4%	8.4%	6.5%	6.5%
Canada	9.3%	9.3%	7.3%	7.3%

Notes to the accounts

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7 – Long-term business bonuses

The following amounts have been included in the long-term business technical account in respect of policyholder bonuses:

	2004 £m	2003 £m
Bonuses allocated in anticipation of a bonus declaration, included in claims paid	1	1
Reversionary and similar policyholder bonuses, included in the movement in the long-term business provision	1,323	1,329
	1,324	1,330

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a separate liability, referred to as the fund for future appropriations.

8 – Net operating expenses

Net operating expenses in the technical accounts comprise:

	Long-term business		General business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Acquisition costs	583	537	1,293	1,166	1,876	1,703
Changes in deferred acquisition costs	2	21	(64)	(53)	(62)	(32)
Administrative expenses	243	284	320	340	563	624
	828	842	1,549	1,453	2,377	2,295
Reinsurance commissions receivable	(22)	(35)	(48)	(33)	(70)	(68)
	806	807	1,501	1,420	2,307	2,227

9 – Corporate costs

	2004 £m	2003 £m
Global finance transformation programme	13	5
Central costs and sharesave schemes	1	(2)
	14	3

10 – Directors' emoluments

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc. The emoluments of these directors are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the Aviva Group and it is not practical to calculate the exact charge borne by the Company.

11 – Auditors' remuneration

The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to its principal auditor, Ernst & Young LLP, in respect of the audit of these accounts is shown below, together with fees payable in respect of other work.

	2004 £m	2003 £m
Audit services		
Statutory audit	2.6	2.9
Audit-related regulatory and supplementary reporting	1.4	0.7
	4.0	3.6
Further assurance services	–	0.5
Other services	1.5	0.7
	5.5	4.8

In addition to the above amounts payable to the principal auditors, fees for audit services of £2.0 million (2003: £2.2 million) were payable to other firms. The total fees payable for audit services were therefore £6.0 million (2003: £5.8 million).

Further assurance services included advice on accounting and regulatory matters, reporting on internal controls and corporate governance matters, and due diligence work.

The auditors' remuneration in respect of the parent company was £0.3 million (2003: £0.3 million).

12 – Tax**(a) Tax on profit on ordinary activities**

Tax (charged)/credited in the non-technical account comprises:

	2004 £m	2003 £m
Current tax		
UK corporation tax	(132)	(85)
Overseas tax	(107)	(14)
Prior year adjustments		
United Kingdom	33	143
Overseas	1	3
	34	146
Tax attributable to balance on long-term business technical account	(97)	(85)
Total current tax charged (note 12c)	(302)	(38)

Deferred tax

Origination and reversal of timing differences	(47)	30
Changes in tax rates or law	(4)	(7)
Decrease in discount	(2)	(39)
Total deferred tax charged (note 12e(ii))	(53)	(16)
Total tax charged in the non-technical account	(355)	(54)

The total tax charged in the non-technical account relates to the following:

Parent company and subsidiary undertakings	(355)	(56)
Associated undertakings	–	2
Total tax charged in the non-technical account	(355)	(54)

(b) Long-term business

Tax (charged)/credited in the long-term business technical account comprises:

	2004 £m	2003 £m
Current tax		
Overseas tax	(87)	(49)
Prior year adjustments		
Overseas	(70)	5
Total current tax charged	(157)	(44)
Deferred tax		
Origination and reversal of timing differences	(234)	38
Increase/(decrease) in discount	183	(69)
Total deferred tax charged (note 12e(ii))	(51)	(31)
Total tax charged in the long-term business technical account	(208)	(75)

(c) Factors affecting current tax charge for the year

The tax assessed in the non-technical account is higher (2003: lower) than the standard UK corporation tax rate, because of the following factors:

	Non-long-term business	
	2004 £m	2003 £m
Profit on ordinary activities before tax	954	746
Current tax charge at standard UK corporation tax rate of 30% (2003: 30%)	(286)	(224)
Adjustment to tax charge in respect of prior years	34	146
Non-assessable dividends	(37)	(4)
Non-taxable loss on sale of subsidiaries and associates	(34)	–
Non-taxable amortisation of goodwill	(28)	6
Utilisation/(non-utilisation) of tax losses	14	(42)
Other disallowable expenses	7	(1)
Different local basis of tax on overseas profits	41	42
Other deferred tax movements	22	39
Deferred tax assets not recognised	(20)	5
Other items	(15)	(5)
Current tax charge for the year (note 12a)	(302)	(38)

Notes to the accounts

continued

12 – Tax continued

(d) Factors that may affect future tax charges

The deferred tax assets, which have not been recognised due to the uncertainty of their recoverability in the foreseeable future, comprise:

	Long-term business		Non-long-term business		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Unrealised losses on investments	–	–	–	5	–	5
Provisions and other timing differences	7	8	22	16	29	24
Losses	2	–	106	85	108	85
	9	8	128	106	137	114

The deferred tax assets above are principally in respect of corporate entities and would be recoverable in the event that these entities generate taxable profits in the future.

In addition, the Group has capital losses which may be available to offset future capital gains.

(e) Balance sheet

(i) The discounted net (provision)/asset for deferred tax, comprises:

	Long-term business		Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Unrealised gains on investments	(358)	(58)	(122)	(99)	(12)	(15)
Deferred acquisition costs	(53)	(63)	(66)	(2)	–	–
Provisions and other timing differences	190	145	76	19	–	–
Losses	3	1	79	111	12	15
Undiscounted net (provision)/asset for deferred tax	(218)	25	(33)	29	–	–
Discount	149	2	14	15	–	–
Discounted net (provision)/asset for deferred tax	(69)	27	(19)	44	–	–

(ii) Movements in the deferred tax balances are analysed as follows:

	Long-term business		Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Net asset/(provision) at 1 January	27	(181)	44	161	–	(3)
Amounts (charged)/credited to the profit and loss account (note 12a & 12b)	(51)	(31)	(53)	(16)	–	3
Other items	(45)	239	(10)	(101)	–	–
Net (provision)/asset at 31 December	(69)	27	(19)	44	–	–

(iii) The net (provision)/asset for deferred tax is disclosed in the accounts as follows:

	Long-term business		Non-long-term business	
	2004 £m	2003 £m	2004 £m	2003 £m
Amount included in provisions for other risks and charges (note 32)	(70)	(70)	(78)	(27)
Amount included in other debtors (note 22)	1	97	59	71
Net (provision)/asset at 31 December	(69)	27	(19)	44

(iv) Deferred tax assets arise in certain overseas subsidiaries in respect of tax timing differences. The subsidiaries are expected to generate sufficient future taxable profits to use the assets created.

13 – Subsidiary undertakings**(a) Acquisitions**

During the year ended 31 December 2004, the Group acquired the following company:

	Country of incorporation	Percentage acquired	Month of acquisition
Antarius	France	50%	October

On 1 October 2004, as part of its bancassurance partnership with Crédit du Nord, the Group acquired 50% and one share of the issued share capital of Antarius, the life insurance company for Crédit du Nord clients, for a cash consideration of £62 million. The Group's share of Antarius embedded value and net assets acquired was £51 million, giving rise to provisional goodwill of £11 million. The acquisition is still subject to the completion of the accounts process during the next 12 months, upon which goodwill estimates will be finalised.

(b) Goodwill on acquisitions

The identifiable assets and liabilities acquired of Antarius were as set out below:

	Book value £m	Accounting policy alignments £m	Fair value adjustments Other significant adjustments £m	Fair value £m
Assets				
Total investments	685	–	36	721
Additional value of in-force long-term business	–	–	18	18
Other assets	2,070	–	–	2,070
Total assets	2,755	–	54	2,809
Liabilities				
Technical provisions	2,636	4	–	2,640
Other creditors and provisions	51	–	17	68
Total liabilities	2,687	4	17	2,708
Total shareholders' funds	68	(4)	37	101
Less: Minority interests				(50)
Shareholders' funds acquired				51
Goodwill arising on acquisition				11
Total consideration				62
The total consideration comprised:				
Cash (including contingent cash amounts and costs of acquisition)				62
				62

In addition to the goodwill arising on the above acquisition, the Group also made a number of smaller acquisitions giving rise to an additional goodwill amount of £34 million. Total goodwill arising in the year was £45 million (note 14).

(c) Disposals

The net loss on the disposal of subsidiary undertakings comprises:

	2004 £m	2003 £m
Non-insurance businesses:		
UK (see (ii) below)	(167)	–
France (note 16b(i))	5	–
Ireland	3	–
Other small operations	9	–
	(150)	–

Non adjusting post balance sheet event: Sale of general insurance businesses in Asia

(i) On 7 September 2004, the Aviva Group announced the disposal of its Asian general insurance businesses to Mitsui Sumitomo Insurance (MSI) for a total of US\$450 million in cash, of which US\$150 million relates to businesses within the CGUI Group. The sale was subject to obtaining regulatory clearance and approval from other shareholders in the Asian businesses.

Under the terms of the agreement, MSI will acquire all of Aviva's general insurance businesses in Asia. These comprise the general insurance business of Aviva Limited and the general insurance assets of Aviva Asia Pte Limited in Singapore; Aviva Insurance Berhad in Malaysia (including its branch in Brunei); Aviva Insurance (Thai) Company Limited in Thailand; PT Aviva Insurance in Indonesia; Dah Sing General Insurance Company Limited in Hong Kong; and Aviva's branch operations in Hong Kong, the Philippines, Marianas, Macau and Taiwan. The transaction will be achieved through share purchase of Aviva's interests in joint venture operations, business purchase and asset purchase in Singapore, and transfer of Aviva's general insurance branch operations in Hong Kong, the Philippines, Marianas, Macau and Taiwan.

The transaction was expected to complete in two phases. Phase I completed on 28 February 2005 and included all businesses above except for Malaysia, Indonesia, Macau, Marianas, Taiwan, Dah Sing and the Philippines, which will be included as part of the completion of Phase II, expected in the second half of 2005.

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13 – Subsidiary undertakings continued

(c) Disposals continued

Subject to the receipt of regulatory approval, the total proceeds for the sale of these businesses were fixed by reference to the net assets of the businesses as at 31 December 2003 and are not adjusted to reflect the results in the period from 1 January 2004 to completion. The Group does not bear any continuing operating risk from 31 December 2003.

Financial Reporting Standard 2 "Accounting for subsidiary undertakings" requires the results of the Asian general insurance business to be consolidated with those of the Group's ongoing operations until the completion of the transaction. Although the Group has retained no economic interest in the operations of this business beyond 31 December 2003, the post-tax operating profits are incorporated in the Group's consolidated profit and loss account from 1 January 2004 to the date of completion. This will be offset by a corresponding change to the final profit on sale calculated at 31 December 2003.

Consequently, had the transaction been completed on 31 December 2004, the post tax profit on sale applicable to the Group would have been £20 million and is summarised below:

	£m	US\$m
Net assets at 31 December 2003	52	93
Post tax operating profit to 31 December 2004	6	11
Net assets at 31 December 2004	58	104
Proceeds	83	150
Less: net assets	(58)	(104)
Less: transaction costs	(3)	(5)
Pre tax profit on sale	22	41
Tax attributable to profit on sale	(2)	(4)
Post tax profit on sale	20	37

The Group has hedged its exposure to US\$31 million of the sale proceeds through the purchase of internal foreign currency forward contracts with its parent company CGUI.

The operating profit before tax, amortisation of goodwill and exceptional items for the Asian general insurance businesses within the Group was £6 million, comprising £4 million underwriting profits and £2 million of long-term investment return.

(ii) In July 2004, the Aviva Group completed the disposal of its Your Move estate agency and e.surveying business. The majority of this business had originally been acquired by companies within the CGUI Group, at which time goodwill of £167 million was written off to reserves. Although the relevant companies had since been transferred outside the CGUI Group, the goodwill write off remained in this group and so has now been charged in its profit and loss account as a loss on disposal, as required by FRS10 "Goodwill and intangible assets". The same goodwill amount is also credited directly to the profit and loss account reserve and therefore has a neutral effect on shareholders' funds.

(d) Exceptional costs for termination of operations

During 2003, the Group incurred costs on the closure of its general insurance operations in Belgium. These exceptional costs related to termination activities, including redundancy costs and closure provisions.

(e) Subsidiary undertakings appearing in the Company balance sheet comprise:

	2004 £m	Restated 2003 £m
Shares at current value (note 13f)	9,385	8,979
Amounts receivable (including dividends proposed)	1,851	775
	11,236	9,754
Amounts payable (after deducting dividends proposed)	(1,051)	(1,147)
	10,185	8,607

13 – Subsidiary undertakings continued

(f) Movements in the Company's shares in subsidiary undertakings are set out below:

	2004 £m
Cost:	
At 1 January	6,431
Additions	879
Disposals	(15)
Transfers to subsidiary undertakings	(113)
At 31 December	7,182
Unrealised gains:	
At 1 January, restated	2,548
Movement in provision for impairment, charged to profit and loss account	(338)
Movement in the year (note 27)	(7)
At 31 December	2,203
Current value at 31 December 2004	9,385
Current value at 31 December 2003, restated	8,979

Shares in subsidiary undertakings are stated at current value, which for this purpose is European Embedded Value for life operations or net asset value for other entities, computed in accordance with the Company's accounting policies. The resulting gain over book value has been credited to the Company's revaluation reserve (see note 27). The directors are satisfied that the aggregate value of all investments is not less than the aggregate amount at which they are stated in the balance sheet.

Additions and intercompany transfers

During the year, the Company acquired Norwich Union Overseas Holdings Limited (NUOH) and HPI Group Holdings Limited from its parent company, CGU International Insurance plc, for £113 million and £104 million respectively. It subsequently transferred its shareholding in NUOH to its subsidiary, Scottish Insurance Corporation Limited (SIC), for £113 million.

The Company also increased its shareholding in its subsidiaries, SIC and CGU Bonus Limited, by £580 million and £80 million respectively. Other minor increases in investments totalled £2 million.

Disposals

During the year, the preference shares in Hibernian General Insurance Limited held by the Company were redeemed at their face value together with accrued interest.

(g) Principal subsidiary undertakings

Principal subsidiary undertakings at 31 December 2004 are listed on page 40.

One of the Group's subsidiaries, Delta Lloyd NV, is subject to the provisions of Dutch corporate law and particularly the Dutch "structure company" regime. Under this regime, Delta Lloyd has appointed a Supervisory Board which has a duty to have regard to the interests of a wide variety of stakeholders. The Supervisory Board includes two Aviva Group representatives and is responsible for advising and supervising Delta Lloyd's Executive Board. The shareholder is one of the most important stakeholders to whom the Supervisory Board has a duty. The relationship between the Supervisory Board and its shareholder reflects this and this strengthens the position of Delta Lloyd Group as a major part of the Aviva Group.

14 – Goodwill

The carrying value of goodwill on subsidiary undertakings relates to investments held by the non-long-term business operations and comprises the following:

	Positive goodwill £m	Negative goodwill £m	Total 2004 £m	Total 2003 £m
Cost:				
At 1 January	1,239	(53)	1,186	1,038
Additions (note 13b)	45	–	45	132
Foreign exchange rate movements	4	–	4	16
At 31 December	1,288	(53)	1,235	1,186
Amortisation:				
At 1 January	269	(13)	256	180
Charge in the year	102	(3)	99	71
Additions	9	–	9	–
Foreign exchange rate movements	4	–	4	5
At 31 December	384	(16)	368	256
Carrying value at 31 December	904	(37)	867	930

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14 – Goodwill continued

Positive and negative goodwill is being amortised on a straight-line basis over its useful economic life. Useful economic lives have been determined in respect of each acquisition to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets. No useful economic lives are in excess of 20 years. As explained in accounting policy K on page 12, goodwill arising in 1997 and prior years was eliminated directly against reserves.

15 – Land and buildings

(a) The carrying value of land and buildings comprises:

	Long-term business		Non-long-term business		Group	
	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m
Freeholds	1,783	1,767	419	408	2,202	2,175
Long leaseholds – over 50 years	66	66	1	–	67	66
Short leaseholds – under 50 years	15	15	–	–	15	15
	1,864	1,848	420	408	2,284	2,256

	Company	
	Non-long-term business	
	2004	2003
	£m	£m
Freeholds	34	48

The cost of land and buildings at 31 December 2004 was £1,725 million (2003: £1,796 million) for the Group and £35 million (2003: £57 million) for the Company. The carrying value of land and buildings occupied by the Group and the Company for its own activities was £231 million (2003: £259 million) and £3 million (2003: £23 million), respectively.

The valuation of properties has been undertaken by qualified external valuers or by local qualified staff of the Group in overseas operations. All properties are valued at open market value.

(b) The Group had no material operating lease commitments.

16 – Investments in associated undertakings and other participating interests

(a) Investments in participating interests included in the consolidated balance sheet comprise:

	Long-term business		Non-long-term business		Group	
	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m
Investments in associated undertakings (note 16b)	31	125	69	168	100	293
Other participating interests	–	39	33	32	33	71
	31	164	102	200	133	364

The cost of the above investments was £88 million and £36 million respectively (2003: £289 million and £71 million respectively). None of the other participating interests is listed on a recognised investment exchange.

(b) Associated undertakings

(i) Movements in the Group's investments in associated undertakings comprise:

	Long-term business	Non-long-term business	Total
	£m	£m	£m
Share of result for the year after tax	1	5	6
Foreign exchange rate movements	(5)	(6)	(11)
Unrealised investment gains after tax	8	8	16
Dividends received	(7)	(8)	(15)
Increase in net assets	35	52	87
Disposals	(126)	(150)	(276)
Movements in investments in associated undertakings	(94)	(99)	(193)
Balance at 1 January	125	168	293
Balance at 31 December	31	69	100

16 – Investments in associated undertakings and other participating interests continued

In June 2004, our French operation, Aviva France, sold its 31.4% holding in Société Foncière Lyonnaise (SFL) a French listed property company for €427 million (£285 million) and, after sale expenses, recorded a gain of £5 million. These shares were owned by both our French life and non-life operations. Cumulative investment gains in the life company of £22 million have been transferred to a French GAAP statutory provision forming part of the fund for future appropriations under UK GAAP, and will be attributed to policyholders and shareholders as bonuses are declared to policyholders within the next eight years.

(ii) The principal associated undertakings included above are:

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
Aviva Life Insurance Company India Pvt. Limited	Insurance	Ordinary Rs1 shares	26.0%	India
ProCapital S.A.	Online brokerage	Ordinary €1 shares	43.5%	France

All investments in associated undertakings are held by subsidiary undertakings and are included in the accounts using year ended 31 December 2004 figures. None of the associated undertakings is listed.

(c) In France, the Group has invested in a number of specialised investment companies. These invest mainly in equities, bonds and properties, and distribute most of their income. The Group's interests in these companies are included in these accounts within other financial investments or land and buildings as appropriate.

17 – Other financial investments

(a) The tables below show the carrying value and cost of these financial investments as at the dates indicated. All investments are held at current value unless otherwise indicated.

2004	Carrying value			Cost		
	Long-term business £m	Non-long-term business £m	Total 2004 £m	Long-term business £m	Non-long-term business £m	Total 2004 £m
Shares and other variable yield securities and units in unit trusts	7,330	2,000	9,330	6,732	1,794	8,526
Debt securities and other fixed income securities:						
At current value	3,892	6,778	10,670	3,717	6,686	10,403
At amortised cost	37,325	–	37,325	36,604	–	36,604
Participation in investment pools	57	–	57	57	–	57
Loans secured by mortgages:						
Own mortgages	1,240	696	1,936	1,240	232	1,472
Securitised mortgages (note 18)	2,281	1,437	3,718	2,281	1,437	3,718
Less: Non-recourse funding (note 18)	(2,281)	(1,437)	(3,718)	(2,281)	(1,437)	(3,718)
	–	–	–	–	–	–
Other loans:						
Loans secured on policies	969	–	969	969	–	969
Other loans	269	38	307	269	37	306
Deposits with credit institutions	2,759	749	3,508	2,759	749	3,508
Other investments	568	28	596	564	28	592
Total other financial investments	54,409	10,289	64,698	52,911	9,526	62,437

2003	Carrying value			Cost		
	Long-term business £m	Non-long-term business £m	Total 2003 £m	Long-term business £m	Non-long-term business £m	Total 2003 £m
Shares and other variable yield securities and units in unit trusts	6,284	1,879	8,163	6,541	1,769	8,310
Debt securities and other fixed income securities:						
At current value	3,325	5,955	9,280	3,324	5,887	9,211
At amortised cost	33,463	–	33,463	32,587	–	32,587
Participation in investment pools	7	–	7	7	–	7
Loans secured by mortgages:						
Own mortgages	1,506	183	1,689	1,506	203	1,709
Securitised mortgages (note 18)	2,237	–	2,237	2,237	–	2,237
Less: Non-recourse funding (note 18)	(2,237)	–	(2,237)	(2,237)	–	(2,237)
	–	–	–	–	–	–
Other loans:						
Loans secured on policies	979	–	979	979	–	979
Other loans	267	46	313	267	43	310
Deposits with credit institutions	1,961	203	2,164	1,961	203	2,164
Other investments	612	33	645	611	32	643
Total other financial investments	48,404	8,299	56,703	47,783	8,137	55,920

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17 – Other financial investments continued

(b) Listed investments included in the carrying value above are:

	2004 £m	2003 £m
Shares and other variable yield securities and units in unit trusts	4,789	5,090
Debt securities and other fixed income securities	41,484	38,421

(c) The long-term debt securities and other fixed income securities, which are shown at amortised cost, are analysed below:

	2004 £m	2003 £m
Cost	36,604	32,587
Cumulative amortisation	721	876
Amortised cost	37,325	33,463
Market value	39,800	35,201

The redemption value of investments held at the year end was £1,538 million more (2003: £934 million more) than the amortised cost.

(d) The Company's financial investments comprise:

	2004 £m	2003 £m
Shares and other variable yield securities and units in unit trusts	359	337
Debt securities and other fixed income securities	192	193
	551	530

All investments above are shown at current value. The cost of financial investments above was £490 million (2003: £482 million).

(e) In addition to the investments in participating interests detailed in note 16a, the Group holds investments exceeding 20% of a class of the equity capital in a number of other companies. These investments do not represent a material part of the assets or investment income of the Group. These include the Group's shareholding in Delta Lloyd Investment Fund NV where 20.1% (2003: 13.0%) is held directly and a further 11.7% (2003: 20.8%) is held in segregated policyholder funds. As this company invests mainly in equities and all dividends received are passed on to the shareholders, the Group's interest has been shown in other financial investments in these accounts.

(f) Included within other financial investments are shareholdings held on a long-term basis as follows:

	Market value of shareholding								Country of Incorporation
	Long-term business		Non-long-term business		Total		Proportion held		
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m	2004	2003	
Société Générale	204	202	2	2	206	204	0.9%	0.9%	France
Münchener Rückversicherungs- Gesellschaft	44	61	152	156	196	217	1.4%	1.4%	Germany
UniCredito Italiano	7	8	228	115	235	123	1.2%	0.7%	Italy
	255	271	382	273	637	544			

Société Générale and UniCredito Italiano are banking companies while Münchener Rückversicherungs-Gesellschaft is a reinsurance company.

(g) At 31 December 2004, the Group held equity index futures, forwards and options to buy a notional total of £110 million (2003: £84 million) and to sell a notional total of £27 million (2003: £98 million) for long-term business operations. These contracts have a net positive fair value of £3 million (2003: £7 million). No adjustment has been made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

(h) The Group has entered into stocklending arrangements in the UK and overseas during the year in accordance with established market conventions. In the United Kingdom, investments are lent to locally-domiciled counterparties and governed by agreements written under English law. Other investments are specifically deposited under local laws in various countries overseas as security to holders of policies issued there.

Included within other financial investments are £46 million (2003: £50 million) of debt securities and other fixed income securities which have been sold under stock repurchase arrangements. The obligations arising under these arrangements are included in other creditors (see note 34).

18 – Securitised mortgages and related assets

Other financial investments include loans secured by mortgages, subject to non-recourse finance arrangements, in two Dutch subsidiaries. Details of the relevant transactions are as follows:

In two Dutch subsidiaries, Delta Lloyd Levensverzekering NV (DLL), and Amstelhuys NV (AMS), the principal benefits of certain portfolios of mortgage loans have been transferred to a number of special purpose securitisation companies, namely Arena 2000-1 BV, Arena 2001-1 BV, Arena 2002-1 BV, Arena 2003-1 BV, Arena 2004-1 BV, Arena 2004-II BV and DARTS Finance BV (the securitisation companies), which were funded primarily through the issue of fixed rate notes. No gains or losses were recognised on these transfers.

All the shares in the securitisation companies are held by independent trustees, respectively Stichting Security Trustee Arena 2000-1, Stichting Security Trustee Arena 2001-1, Stichting Security Trustee Arena 2002-1, Stichting Security Trustee Arena 2003-1, Stichting Security Trustee Arena 2004-1, Stichting Security Trustee Arena 2004-II and Stichting Trustee DARTS Finance 1. DLL and AMS do not own, directly or indirectly, any of the share capital of the securitisation companies or their parent companies. DLL and AMS have no right, nor any obligation, to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where they are in breach of warranty.

At 31 December 2004, DLL and AMS held £48 million (2003: £23 million) of fixed rate notes in the securitisation companies, which are repayable at various dates between 2037 and 2062. These are included in debt securities and other fixed income securities within other financial investments in the consolidated balance sheet at their market value of £49 million (2003: £24 million).

DLL and AMS received interest of £1 million in 2004 (2003: £2 million) on the loan notes they hold in the securitisation companies. They also receive fees from the securitisation companies for the administration of the loans and payments under the terms of interest rate swaps written between DLL, AMS and these companies to hedge their respective exposures to movements in interest rates arising from these transactions. In each case, the effect of the swaps is that the securitisation companies convert all or part of the interest flows receivable from customers in respect of the securitised mortgage loans into fixed interest flows which are designed substantially to match the interest payable to the noteholders. Included in investment income is £29 million (2003: £25 million) relating to these swaps.

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the noteholders and do not intend to provide such support. Additionally, the notes were issued on the basis that noteholders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that noteholders have no recourse whatsoever to other companies in the CGUI Group.

Total mortgage assets and non-recourse funding in the above quasi-subsidaries at 31 December 2004 were £3,718 million (2003: £2,237 million) and £3,718 million (2003: £2,237 million), respectively. As permitted by FRSS "Reporting the substance of transactions", these balances are accounted for in the consolidated Group balance sheet using a linked presentation. Interest receivable and payable on the above items in 2004 totalled £150 million (2003: £131 million) and £111 million (2003: £117 million) respectively. Apart from the administration fees payable to other CGUI undertakings, described above, there are no other material profit and loss items in these companies.

19 – Acquired additional value of in-force long-term business

Movements in the acquired additional value of in-force long-term business comprise:

	2004 £m	2003 £m
Balance at 1 January	529	521
Foreign exchange rate movements	2	22
Additional in-force long-term business acquired in subsidiaries	23	36
Amortisation charge for the year	(74)	(50)
Movements arising in the year	(49)	8
Balance at 31 December	480	529

The additional in-force long-term business acquired of £23 million includes £18 million for Antarius and the remainder is in respect of smaller acquisitions.

The amortisation charge for the year appears under the heading "Other technical charges" in the long-term business technical account on page 3. This is grossed up for attributable tax in the reconciliations on pages 3 and 6.

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20 – Assets held to cover linked liabilities

(a) A reconciliation of assets to linked liabilities is as follows:

	2004 £m	2003 £m
Assets held to cover linked liabilities	20,162	15,761
Reinsurers' share of technical provision	282	146
Technical provision for linked liabilities	20,444	15,907

(b) The cost of assets held to cover linked liabilities is £19,995 million (2003: £15,760 million).

21 – Debtors arising out of direct insurance operations

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts owed by policyholders	1,025	1,180	272	149
Amounts owed by intermediaries	942	715	95	26
Debtors arising out of direct insurance operations	1,967	1,895	367	175

22 – Other debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Banking assets (note 24a)	3,565	4,106	–	–
Amounts due from holding companies	1,624	1,990	394	999
Deferred tax asset (note 12e(iii))	60	168	–	–
Other	958	1,333	31	71
Other debtors	6,207	7,597	425	1,070

23 – Deferred acquisition costs

The asset in the consolidated balance sheet comprises:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Costs in respect of long-term business	405	408	–	–
Costs in respect of general business	544	460	190	117
	949	868	190	117

24 – Banking activities

(a) Banking assets (see note 22), excluding intra-group balances, comprise:

	2004 £m	2003 £m
Investments	1,198	1,141
Loans and advances to banks	125	136
Loans and advances to customers	2,028	2,563
	3,351	3,840
Short-term deposits and cash	–	42
Other assets	214	224
	3,565	4,106

(b) Banking liabilities (see note 34), excluding intra-group balances, comprise:

	2004 £m	2003 £m
Deposits by banks	272	130
Bank customer accounts	2,600	2,790
Other liabilities	298	965
	3,170	3,885

25 – Ordinary share capital

(a) The authorised share capital of the Company at 31 December 2004 was:

	2004 £m	2003 £m
12,000,000,000 (2003: 9,600,000,000) ordinary shares of 25 pence each	3,000	2,400

The allotted, called up and fully paid share capital of the Company at 31 December 2004 was:

	2004 £m	2003 £m
11,139,186,617 (2003: 7,354,322,008) ordinary shares of 25 pence each	2,785	1,839

(b) Movements in the year comprise:

	Number of shares	Share capital £m	Share premium £m
At 1 January 2004	7,354,322,008	1,839	3,049
New shares issued	3,784,864,609	946	–
At 31 December 2004	11,139,186,617	2,785	3,049

During the year, 3,784,864,609 ordinary shares of 25 pence each, having an aggregate nominal value of £946 million, were allotted to CGUll for a consideration of £946 million, as explained in the directors' report on page 1.

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26 – Group reserves

	Profit and loss account £m
At 1 January 2004	1,435
Transfer to non-technical account	(484)
Foreign exchange rate movements	35
Goodwill on disposals, previously written off (see note 13c (ii))	167
At 31 December 2004	1,153

As explained in accounting policy K on page 12, goodwill arising on acquisitions since 1 January 1998 is carried on the balance sheet and amortised over its useful economic life. The cumulative amounts of positive and negative goodwill charged or credited to the consolidated profit and loss account, attributable to subsidiary undertakings acquired from 1 January 1968 to 31 December 1997 and not subsequently sold, are £728 million and £1 million respectively. Similar information relating to subsidiary undertakings acquired before 1968 is not readily available.

The cumulative amount in the profit and loss account reserve relating to net unrealised gains is £330 million (2003: £121 million).

27 – Company reserves

Movements in the Company's reserves comprise:

	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 January 2004, as previously reported	2,430	229	2,659
Change in valuation basis for subsidiaries (note 2)	(8)	–	(8)
At 1 January 2004, as restated	2,422	229	2,651
Profit for the year attributable to equity shareholders, including dividends received or receivable from subsidiary undertakings	–	1,087	1,087
Dividends	–	(1,044)	(1,044)
Unrealised loss (note 13f)	(7)	–	(7)
At 31 December 2004	2,415	272	2,687

The cumulative amount in the profit and loss account includes non-distributable gains of £160 million (2003: £139 million).

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these accounts.

28 – Long-term business

(a) The Group underwrites long-term business in a number of countries as follows:

(i) In France, where the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.

(ii) In the Netherlands, where the balance of profits, after providing appropriate returns for policyholders, accrues for the benefit of the shareholders. The bases for determining returns for policyholders are complex, but are consistent with methods and criteria followed generally in the Netherlands. In addition, a substantial number of policies provide benefits which are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees.

(iii) In other overseas operations, using methods similar to those described above.

(b) The directors have been advised by the Group's reporting actuary that the assets of each of the long-term operations were at least sufficient to meet their respective liabilities at 31 December 2004.

29 – Long-term business provision**(a) Methodology**

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency. Explicit provision is made for vested bonuses (including those vesting following the most recent fund valuation), but no such provision is made for future regular or terminal bonuses. However, this method makes implicit allowance for future regular or terminal bonuses already earned, by margins in the valuation discount rate used.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience. Explicit provision is made for vested bonuses and explicit allowance may also be made for future regular bonuses, but not terminal bonuses.

(b) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, mainly using the net premium method, modified where necessary to reflect the requirements of the Companies Act.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates.

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in the long-term business provision, as detailed in note 7.

The principal assumptions in France and the Netherlands are:

(i) France

The majority of provisions arise from a single premium savings product and are based on the accumulated fund value, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. The net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables. There have been no changes in the assumptions since 2003.

	Valuation discount rate	Mortality tables used
	2004 and 2003	2004 and 2003
Life assurances	2.5% to 4.5%	PM60-64, TD73-77, TD 88/90
Annuities	2.5% to 4.5%	TPRV (prospective table)

(ii) Netherlands

Provisions are generally calculated using the net premium valuation method, in accordance with local regulation, where the valuation assumptions generally depend on the date of issue of the contract, with additional provisions where experience indicates this is required. There have been no changes in the assumptions since 2003.

	Valuation discount rate	Mortality tables used
	2004 and 2003	2004 and 2003
Life assurances	3.0% or 4.0%	GBM 61-65, 76-80, 80-85 GBMV 85-90, 90-95
Annuities in deferment and in payment	3.0% or 4.0%	GBMV 76-80, 80-85, 85-90, 90-95, Coll 1993 and DIL 98 plus further allowance for future mortality improvement

(iii) In all countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

Notes to the accounts

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30 – Provisions for outstanding claims

(a) The ultimate cost of general business outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average costs per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available. Large claims are usually separately assessed, either by being measured at case estimate face value or separately projected in order to reflect their future development. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

(b) Claims on certain classes of business are discounted as follows:

Class	Rate		Mean term of liabilities	
	2004	2003	2004	2003
Netherlands Permanent health and injury	3.27%	3.25%	10 years	11 years

Net of reinsurers' share, the outstanding claims provisions before discounting were £6,867 million (2003: £6,339 million). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries.

31 – Equalisation provision

An equalisation provision has been established in the Group and Company accounts as explained in accounting policy T on page 13. This had the effect of reducing Group and Company shareholders' funds by £198 million at the year end (2003: £177 million). The change in the equalisation provision during the year comprised a reduction of £20 million (2003: £16 million) in the balance on the general business technical account and the profit on ordinary activities before tax.

32 – Provisions for other risks and charges

Movements in the Group's provisions for other risks and charges were:

	Pensions and similar obligations £m	Deferred tax (note 12e(ii)) £m	Other £m	Total £m
At 1 January 2004	60	97	134	291
Foreign exchange rate movements on opening provisions	–	4	1	5
Movement during the year:				
Additional provisions made in the year			34	
Amounts utilised			(40)	
Total movement	(15)	47	(6)	26
At 31 December 2004	45	148	129	322

"Other" provisions comprise many small provisions throughout the Group for obligations such as the costs of compensation, litigation, staff entitlements and reorganisation.

33 – Borrowings

(a) The analysis by business segment is:

	Debenture loans		Amounts owed to credit institutions		Commercial paper		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Long-term business	33	–	4	21	–	–	37	21
General business	4	–	11	11	–	–	15	11
Other	129	138	41	22	11	18	181	178
Non-long-term business	133	138	52	33	11	18	196	189
	166	138	56	54	11	18	233	210

"Other" comprises borrowings by holding companies within the Group that are not allocated to operating companies.

(b) Debenture loans

	Long-term business		Other	
	2004 £m	2003 £m	2004 £m	2003 £m
2.5% perpetual subordinated loan notes	–	–	122	121
Other loans	33	–	11	17
	33	–	133	138
Repayable as follows:				
One year or less	–	–	4	–
Between one and two years	–	–	–	5
Between two and five years	–	–	–	–
After five years	33	–	129	133
	33	–	133	138
The interest charge for the year on the above loans was:	1	–	4	11

The 2.5% perpetual subordinated loan notes were issued by a Dutch subsidiary undertaking to finance the acquisition of NUTS OHRA Beheer BV in 1999. They are convertible into ordinary shares in Delta Lloyd NV, should there be a public offering of those shares. These loan notes have a face value of €489.9 million but, because they are considered to be perpetual, their carrying value is €172.4 million, calculated in 1999 and based on the future cash flows in perpetuity discounted back at a market rate of interest. The rate of interest paid on the notes is being gradually increased to a maximum of 2.76% in 2009.

Other loans comprise borrowings in Canada, France, the Netherlands and Spain, none of which is considered material for further disclosure.

(c) Amounts due to credit institutions

	Long-term business		General business		Other	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans	4	21	11	11	41	22
Repayable as follows:						
One year or less	–	16	11	11	–	1
Between one and two years	4	5	–	–	–	1
Between two and five years	–	–	–	–	–	4
After five years	–	–	–	–	41	16
	4	21	11	11	41	22
The interest charge for the year on the above was:	–	1	1	1	1	1

(d) Commercial paper

	2004 £m	2003 £m
Average rate 4% (2003: 4%)	11	18
The interest charge for the year on the above borrowings was:	2	3

The commercial paper is all repayable within one year.

Notes to the accounts

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34 – Other creditors including tax and social security

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Banking liabilities (note 24b)	3,170	3,885	–	–
Proposed final dividend	1,044	754	1,044	754
Amounts due to fellow subsidiary undertakings	29	407	165	165
UK and overseas tax	698	298	88	23
Bank overdrafts	198	144	31	8
Other	1,236	1,163	68	109
Other creditors including tax and social security	6,375	6,651	1,396	1,059

Bank overdrafts arise substantially from unpresented cheques and amount to £123 million (2003: £109 million) in long-term business operations and £75 million (2003: £35 million) in general business and other operations. The "other" totals for the Group include the obligation to repay £46 million (2003: £50 million) received under stock repurchase arrangements entered into in the Netherlands and Spain.

35 – Accruals and deferred income

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Deferred reinsurance commissions	26	9	19	1
Other accruals and deferred income	477	423	109	76
Accruals and deferred income	503	432	128	77

36 – Pension and other post-retirement benefit costs

(a) The Aviva Group operates a large number of pension schemes around the world, whose members receive benefits on either a defined benefit basis or a defined contribution basis. The only material defined benefit schemes are in the UK, the Netherlands, Canada and Ireland and, of these, the UK scheme is by far the largest. The assets of the main UK, Irish and Canadian schemes are held in separate trustee-administered funds and, in the Netherlands, the main scheme is held in a separate foundation which invests in the life funds of the Group. An actuarial report has been submitted for each of the defined benefit schemes within the last three years, using appropriate methods for the respective countries on local funding bases. The substantial falls in stock markets worldwide from 2000 to 2002 have affected the funding position of the schemes. In the UK scheme, the employing companies have agreed to pay additional contributions.

(b) The CGUI Group has continued to account for pensions in accordance with SSAP24 and the disclosures given in section (c) below are those required by that accounting standard. FRS17 "Retirement Benefits" was issued in November 2000 and differs from SSAP24 in a number of ways. These are principally in the choice of assumptions, and that the difference between the market value of assets and liabilities is immediately recognised in the balance sheet under FRS17, whereas changes in assets and liabilities are recognised on a smoothed basis under SSAP24.

The accounting provisions of FRS17 were not expected to be mandatory for the Aviva Group until the year ending 31 December 2003 but, in the transitional period, certain disclosures were required in the notes to the accounts. In November 2002, the Accounting Standards Board issued an amendment to FRS17 which extended the transitional period through to, in the Aviva Group's case, the year ending 31 December 2005. The transitional disclosures, to the extent not given in Section (c), are set out in Section (e) below.

(c) In the UK, the Aviva Group operates one main pension scheme, the Aviva Staff Pension Scheme. New entrants join the defined contribution section of the scheme, as the defined benefit section is generally closed to most new employees.

The scheme was valued as at an effective date of 1 April 2002, on a market value basis using the Projected Unit Method. The main financial assumptions used were a pension increase rate of 2.5%, a salary increase rate of 4.25% and an interest rate of 6.4%. The scheme had an asset value of £4,639 million, projected accrued liabilities of £4,010 million and a funding level of 116%. The employer cost of future service benefits in respect of defined benefit members for 2004 was 19.7% of pensionable salaries which, after allowing for interest on the prepayment held in the balance sheet and the additional surplus since, led to a net pension cost for the year to 31 December 2004 of 7.2% of pensionable salaries. The pension cost was then increased to allow for the amounts credited to members' accounts under the defined contribution section of the scheme.

The employing companies' contributions to the defined benefit section of the scheme throughout 2004 were 25% of employees' pensionable salaries, together with the cost of redundancies during the year and an additional payment of £50 million. The contribution rates for members of the defined contribution section were 8% of pensionable salaries, together with further contributions of up to 4% where members contribute, and the cost of the death-in-service benefits. The employers' contribution rate for 2005 for members of the defined benefit section has been agreed as 29% of pensionable salaries together with an additional payment of £51.5 million, while the contribution rates for members of the defined contribution section are the same as for 2004. As the defined benefit section of the scheme is generally closed to new entrants and the contribution rate is determined using the project unit method, it is expected that the percentage cost of providing future service benefits under this section will gradually increase as the membership ages.

36 – Pension and other post-retirement benefit costs continued

In the Netherlands, Canada and Ireland, regular actuarial valuations of the main schemes are made in accordance with local funding and/or accounting standards. Total pension costs for the schemes in these countries have been taken as equal to the locally determined accounting costs or contributions paid to the plans as, at a CGUI Group level, these are not considered to be materially different from charges calculated under a detailed application of SSAP24.

The CGUI Group also operates a variety of smaller pension arrangements in these and other countries, where costs have also been based on those calculated locally.

(d) In the UK, the majority of pension costs are initially borne by Aviva Employment Services Limited and are then recharged to the operating divisions of the Aviva Group. These are then allocated, as part of a total administration charge, to each legal entity in the relevant division. It is not practical to calculate the exact charge for pension costs borne by the Company or its subsidiaries.

The pension costs of the CGUI Group's overseas schemes were:

	2004 £m	2003 £m
Overseas defined benefit schemes	40	33
Overseas defined contribution schemes	15	8
	55	41

There were no significant contributions outstanding or prepaid as at either 31 December 2004 or 2003.

(e) FRS17 defined benefit plan disclosures*(i) UK schemes*

The Company is one of a number of UK companies being charged for its employees participating in the scheme, and its contributions are affected by the financial position of the scheme. As it is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, the Company will be accounting for its pension expense on a defined contribution basis in accordance with paragraph 9 of FRS17.

(ii) Irish schemes

Some of the Irish companies in the Aviva Group are also within the CGUI Group, whilst others are owned by fellow Aviva subsidiaries. Their employees participate in several defined benefit schemes and the companies' contributions are affected by the financial positions of those schemes. As the Irish companies within the CGUI Group are unable to identify their share of the underlying scheme assets and liabilities on a consistent and reasonable basis, they will be accounting for their pension expense on a defined contribution basis in accordance with paragraph 9 of FRS17.

(iii) Dutch and Canadian schemes

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuations, updated to take account of the requirements of FRS17 in order to assess the liabilities of the major schemes at 31 December 2004. The updating was made by actuaries in each country, with overall co-ordination by external consultants, Watson Wyatt. The actuary making the calculation in Canada was independent of the Group. Scheme assets are stated at their market values at 31 December 2004. The details for the main defined benefit schemes are shown below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions. The figures for both schemes include those to meet other post-retirement obligations to staff in these countries.

	Netherlands		Canada	
	2004	2003	2004	2003
Date of most recent actuarial valuation	31.12.03	31.12.02	31.12.03	31.12.02

The main financial assumptions used to calculate scheme liabilities under FRS17 are:

Inflation rate	1.5%	2.5%	2.5%	2.5%
General salary increases	1.5%*	3.5%	3.75%	3.0%
Pension increases	1.5%	2.5%	1.25%	1.25%
Deferred pension increases	1.5%	2.5%	0%	0%
Discount rate	4.5%	5.25%	5.5%	5.5%

* Age-related scale increases plus 1.5%

Notes to the accounts

continued

36 – Pension and other post-retirement benefit costs continued

(iv) The expected rate of return on the schemes' assets are:

	Netherlands		Canada	
	2005	2004	2005	2004
Equities	7.25%	8.25%	8.25%	8.25%
Bonds	4.0%	4.7%	5.0%	5.25%
Property	5.5%	n/a	n/a	n/a
Other	4.0%	4.7%	n/a	n/a

The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisors and take into account both current market expectations of future returns, where available, and historical returns. These rates have been developed specifically for reporting under FRS17 and therefore differ from the rates used in the European Embedded Value (EEV) and Longer Term Investment Return (LTIR) calculations elsewhere in this report.

(v) The pension expense for these schemes on an FRS17 basis comprises:

	2004 £m	2003 £m
Current service cost	42	33
Past service cost	–	–
Charge to net operating expense	42	33
Expected return on pension scheme assets	(47)	(40)
Interest on pension scheme liabilities	51	45
Charge to investment income	4	5
Total charge that would be made to profit on ordinary activities before tax in respect of these schemes under FRS17	46	38
Expected return on pension scheme assets less actual return	(43)	(84)
Experience losses arising on scheme liabilities	67	93
Changes in assumptions underlying the present value of the scheme liabilities	(21)	37
Loss on acquisitions and scheme transfers	–	5
Actuarial loss that would be recognised in the statement of total recognised gains and losses under FRS17	3	51

(vi) The following disclosures of experience gains and losses will be built up over time to give a five year history:

	2004		2003		2002	
	£m	%	£m	%	£m	%
Difference between the expected and actual return on scheme assets						
Amount	(43)		(84)		70	
Percentage of the scheme assets at the end of the year		4.7%		10.3%		11.2
Experience losses on scheme liabilities						
Amount	67		93		2	
Percentage of the present value of scheme liabilities		6.4%		10.0%		0.3
Total amount that would be recognised in the statement of total recognised gains and losses under FRS17						
Amount	3	0.3%	51		137	
Percentage of the present value of scheme liabilities				5.5%		19.9

36 – Pension and other post-retirement benefit costs continued

(vii) The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2004 were:

	Netherlands		Canada		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Equities	179	192	100	84	279	276
Bonds	403	369	68	79	471	448
Property	31	–	–	–	31	–
Other	142	88	–	–	142	88
Total market value of assets	755	649	168	163	923	812
Present value of scheme liabilities	(838)	(749)	(202)	(180)	(1,040)	(929)
Deficit in the scheme	(83)	(100)	(34)	(17)	(117)	(117)
Related deferred tax asset	25	34	12	6	37	40
Net pension liability	(58)	(66)	(22)	(11)	(80)	(77)

(viii) Movements in the pension schemes' deficits on a FRS17 basis comprise:

	2004 £m	Total 2003 £m
Deficits in the schemes at 1 January	(117)	(63)
Contributions paid into the schemes	50	41
Charge to net operating expenses	(42)	(33)
Charge to investment income	(4)	(5)
Actuarial losses	(3)	(51)
Foreign exchange rate movements	(1)	(6)
Deficit in the schemes at 31 December	(117)	(117)

The change in the net pension deficit calculated under FRS17 is mainly attributable to changes in assumptions underlying the present value of the schemes' liabilities, partially offset by an increase in the market value of their assets.

(ix) The effect on the Group's net assets and retained profits at 31 December 2004, in respect of these business units only, of substituting the FRS17 figures for the corresponding SSAP24 balance sheet entries would be as follows:

	Net assets		Profit and loss account reserve	
	2004 £m	2003 £m	2004 £m	2003 £m
Totals included in the Group accounts	7,574	6,835	1,153	1,435
Less: pension asset on SSAP24 basis	(50)	(40)	(50)	(40)
Totals excluding pension asset	7,524	6,795	1,103	1,395
Less: pension liability on FRS17 basis	(80)	(77)	(80)	(77)
Totals including pension liability on FRS17 basis	7,444	6,718	1,023	1,318

37 – Cash flow statement

As the Company is a wholly-owned subsidiary within the Aviva Group, the cash flows of the Company are included in the consolidated Group cash flow statement of Aviva plc. Consequently, the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

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38 – Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 29 gives details of the assumptions used in determining the long-term business provision which are designed to allow for prudence and the appropriate emergence of surpluses to pay future bonuses. Note 30 gives details of the estimation techniques used in determining the general business outstanding claims provision. Both are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed for long-term business, or assumptions over general business claims inflation may alter in the future, there is uncertainty in respect of this liability.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the CGUI Group receive general insurance liability claims, and become involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including the UK, United States, and Canada. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, the Group's exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Group.

(c) Other

The Company and several of its subsidiaries have guaranteed the overdrafts and borrowings of certain subsidiary and associated undertakings in the Aviva Group. In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

In addition, in line with standard business practice, various Group companies have given certain guarantees, indemnities and warranties in connection with its disposals in recent years of subsidiary and associated undertakings to parties outside the Aviva Group. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

39 – Capital commitments

In carrying on the business of investment, the Group has entered into future commitments, including property developments, after 31 December 2004. These amounts are not reflected in the consolidated Group balance sheet on pages 8 and 9. The Group has in hand a number of property developments which, under contracts already signed, will require expenditure of £25 million (2003: nil).

40 – Related party transactions

As consolidated accounts for Aviva plc are publicly available, the Company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with related parties who are 90% or more owned within the same group.

41 – Holding company details

The immediate holding company is CGU International Insurance plc.

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

Additional information on guarantees and options

Under the Memorandum of Understanding ("MoU") signed by Aviva with the ASB in relation to Financial Reporting Standard (FRS) 27 "Life assurance", all the requisite disclosures have been made in the Report and Accounts of Aviva plc. As required by the MoU, the following disclosures set out details of the material financial guarantees and options written in the overseas businesses of the CGU Group, and relate to the statutory provision held within the Group's technical liabilities.

France

Guaranteed surrender values and guaranteed minimum bonuses – Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios plus income and releases from realised gains on equity type investments. Policy liabilities equal guaranteed surrender values. Local statutory accounting envisages the establishment of a liability, "Provision pour Aléas Financiers" (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at the end of 2004.

The most significant of these contracts is the AFER Euro fund which has total liabilities of £21 billion at 31 December 2004. The guaranteed bonus on this contract equals 65% of the average of the last two years' declared bonus rates (or 60% of the TME index rates if higher) and was 3.69% for 2004 in comparison to an accounting income from the fund of 5.25% after charges.

Non-AFER contracts with guaranteed surrender values had liabilities of £6 billion at 31 December 2004 and guaranteed annual bonus rates are between 0% and 4.5% (except for some larger guarantees of up to 7.0% on some older contracts which account for less than 2.4% of these liabilities). For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2004.

Guaranteed death and maturity benefit – In France the Group has also sold unit linked policies where the death and maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's balance sheet at the end of 2004 for this guarantee is £17 million. The reserve for guaranteed death and maturity benefits is determined using a realistic reserving basis under which the cost of guarantees is calculated using a standard option pricing formula. At the end of 2004 total sums at risk for these contracts were £182 million in comparison to total unit linked funds of £6 billion. The average age of policyholders was approximately 53. The cost of guarantees is sensitive to stock market levels and interest rates. It is estimated that this cost would increase by £18 million if yields were to increase by 1% per annum and equity markets were to decline by 10% from end 2004 levels. These figures do not take into account that Aviva has the ability to review the charges for this option.

Netherlands

Guaranteed minimum return at maturity – In the Netherlands it is market practice to guarantee a minimum return at maturity on traditional savings and pensions contracts. Guarantees on older lines of business are 4% per annum, while for business written since 1 September 1999 the guarantee is 3% per annum. In accordance with market practice, it is expected that guarantees will be financed from unrealised gains on assets. On group pensions business, it is often possible to recapture guarantee costs through adjustments to surrender values or to premium rates.

Under Dutch regulation, liability testing is carried out to determine if additional liabilities are required for portfolio guarantees. No such reserves were required at the end of 2004. The total liabilities for traditional business at end 2004 are £8 billion analysed as £4,512 million for individual business at end 2004 (being £1,104 million and £3,408 million for 3% and 4% guarantees respectively) and £3,965 million for group pensions business (being £263 million and £3,702 million for 3% and 4% guarantees respectively). Although interest rates were below 4% at end 2004, no adequacy reserves were required. A further fall in interest rates below 3% would require adequacy reserves to be set up to prevent liabilities from becoming inadequately covered.

Although Delta Lloyd has certain unit linked contracts which provide a guaranteed minimum return at maturity from 4% pa to 2% pa. Provisions consist of unit values plus an additional provision for the guarantee. A stochastic approach has been used to assess the appropriate level of provision for this guarantee, which was £118 million at 31 December 2004. An additional provision of £27 million in respect of investment return guarantees on Group segregated fund business is held. It is estimated that the provision would increase by £234 million if yields were to reduce by 1% per annum and by £49 million if equity markets were to decline by 10% from end 2004 levels.

Spain and Italy

Guaranteed investment returns and guaranteed surrender values – The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy, where traditional profit sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At end 2004, total liabilities for Spanish business were £2 billion with a further provision of £13 million for guarantees. Total liabilities for Italian business were £4 billion with a further provision of £49 million for guarantees. Liabilities are most sensitive to changes in the level of interest rates; it is estimated that provisions for guarantees would need to increase by £56 million in Spain and £14 million in Italy if interest rates fell by 1% from end 2004 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.68% and no lapses or premium discontinuances.

CGU Insurance group of companies

Ultimate Parent Company

Aviva plc

Immediate Parent Company

CGU International Insurance plc

Subsidiaries

The principal subsidiaries of the Company are listed below by country of incorporation. All are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, fund management or services in connection therewith, unless otherwise stated.

UK

CGU Bonus Limited

HPI Group Holdings Limited

Scottish General Insurance Company Limited

Belgium

Bank Nagelmackers 1747 NV (*Banking*) (99.6%)

Delta Lloyd Life NV

Canada

Aviva Canada Inc and its principal operating subsidiary:

Aviva Insurance Company of Canada

Czech Republic

Aviva zivotni pojist'ovna a.s.

France

Aviva Participations SA and its principal subsidiaries:

Aviva Assurances SA

Aviva Courtage SA

Aviva Direct SA

Aviva France SA

Aviva Gestion d'Actifs

Aviva Vie SA

Eurofil SA

Société d'Epargne Viagère SA (75.0%)

Union Financière de France Banque (*Banking*) (76.3%)

Germany

Delta Lloyd Deutschland AG and its principal subsidiaries:

Berlinische Lebensversicherung AG (99.5%)

Hungary

Aviva Eletbiztosito Rt.

Ireland

Hibernian Group plc and its principal subsidiary:

Hibernian General Insurance Limited

Italy

Aviva Italia Holding SpA and its principal subsidiaries:

Aviva Vita SpA (25.5%)

Commercial Union Assicurazioni SpA (50.0%)

Commercial Union Life SpA (50.0%)

Commercial Union Previdenza Compagnia di Assicurazioni e Riassicurazioni SpA (50.0%)

Commercial Union Vita SpA (51.0%)

Eurovita Assicurazioni SpA (40.5%)

Commercial Union Italia SpA

Luxembourg

Commercial Union International Life SA

Netherlands

Delta Lloyd NV and its principal subsidiaries:

Delta Lloyd ABN AMRO Verzekeringen Holdings BV (51.0%)

Delta Lloyd Asset Management NV

Delta Lloyd Bankengroep NV (*Banking*)

Delta Lloyd Levensverzekering NV

Delta Lloyd Schadeverzekering NV

Delta Lloyd Zorgverzekering NV

OHRA Schadeverzekeringen NV

OHRA Levensverzekeringen NV

Singapore

Aviva Limited

Spain

Aseguradora Valenciana, SA de Seguros y Reaseguros (50.0%)

Aviva Vida y Pensiones, SA de Seguros y Reaseguros

Bia Galicia de Seguros y Reaseguros (50.0%)

Caja Espana Vida, Compania de Seguros y Reaseguros (50.0%)

General Vida Sociedad de Agencia de Seguros (25.0%)

Unicorp Vida, Compania de Seguros y Reaseguros SA (50.0%)

Turkey

Aviva Hayat ve Emeklilik

Aviva Sigorta AS (98.6%)

United States

Aviva USA Corporation and its principal operating subsidiary:

Aviva Life Insurance Company

Associates

In addition to the principal subsidiaries listed above, the Group has ongoing interests in the following operations that are classified as associates. Further details of those operations that were most significant in 2004 are set out in note 16 on page 25.

France

ProCapital SA (43.5%)

India

Aviva Life Insurance Company India Pvt. Limited (26.0%)