

Company Number : 115938

The Welsh Insurance Corporation Limited

Report and accounts for the year ended 31 December 2004



The Welsh Insurance Corporation Limited

Report and accounts for the year ended 31 December 2004

Contents

Page

| | |
|---|---|
| 2 | Directors' report |
| 4 | Statement of directors' responsibilities |
| 5 | Independent auditors' report |
| 6 | Profit and loss account |
| 6 | Reconciliation of movements in equity shareholders' funds |
| 7 | Balance sheet |
| 8 | Notes to the accounts |

The Welsh Insurance Corporation Limited

Directors' report

The directors submit their report and accounts for the Company for the year ended 31 December 2004.

Principal activity

The Company was previously authorised to write general insurance business. Following the cancellation of its insurance licence in November 2003, the Company transferred all its listed investments at market value to CGU Insurance plc, the Company's immediate parent company. The directors are considering the future of the Company.

Ultimate holding company

The ultimate holding company is Aviva plc.

Results and dividend

The results for the year are on pages 6. The directors paid an interim dividend of £300,000,000 on 3 December 2004 but do not recommend the payment of a final dividend. The total dividends for the year amounted to £300,000,000 (2003: £nil.).

Directors

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

R J Harvey
P G Scott
P J R Snowball
P J Twyman (resigned 31 March 2004)
A J Moss (appointed 29 July 2004)

There were no contracts of significance in existence at any time during 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 (SI 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 beneficial interest in the Company's shares.

Resolutions

On 15 October 1999, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, financial statements and auditors' reports before the members in general meeting and the obligation to appoint auditors annually.

The Welsh Insurance Corporation Limited

Directors' report (continued)

Auditors

Ernst & Young LLP will be re-appointed as the Company's auditors in accordance with the elective resolution passed by the Company under section 386 of the Companies Act 1985.

By order of the Board

A handwritten signature in black ink, consisting of a large, stylized initial 'A' followed by a long, sweeping horizontal line that tapers to the right.

Authorised Signatory
Aviva Company Secretarial Services Limited
Secretary

26 October 2005

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

The Welsh Insurance Corporation Limited

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 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 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 disclose with reasonable accuracy at any time the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and ensuring that controls are in place for the prevention and detection of fraud and other irregularities.

The Welsh Insurance Corporation Limited

Independent auditors' report to the members of The Welsh Insurance Corporation Limited

We have audited the Company's accounts for the year ended 31 December 2004 which comprise the Profit and loss account, Reconciliation of movements in equity shareholders' funds, Balance sheet, and the related notes 1 to 12. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of directors' responsibilities on page 4.

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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the 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 Company 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 financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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.

Opinion

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

Ernst & Young LP
Ernst & Young LLP
Registered Auditor
London

31 October 2005

The Welsh Insurance Corporation Limited

Profit and loss account

For the year ended 31 December 2004

| | Note | 2004 £'000 | 2003 £'000 |
|---|---------|-----------------|---------------|
| Investment income | 1b & 2 | 1,249 | 8,164 |
| Investment expenses and charges | 2 | 231 | (663) |
| Unrealised losses on investments | 1b & 2 | (14,809) | (2,975) |
| Foreign exchange gains | | 46 | - |
| (Loss)/profit on ordinary activities | | (13,283) | 4,526 |
| Tax on (loss)/profit on ordinary activities | 1c & 3a | 15,784 | 37,359 |
| Profit for the financial year | | 2,501 | 41,885 |

The Company has no recognised gains or losses other than those included in the results above. Accordingly, a statement of recognised gains and losses is not presented.

Reconciliation of movements in equity shareholders' funds

For the year ended 31 December 2004

| | 2004 £'000 | 2003 £'000 |
|-------------------------------|----------------|----------------|
| Balance at 1 January | 618,902 | 577,017 |
| Profit for the financial year | 2,501 | 41,885 |
| Dividends paid | (300,000) | - |
| Balance at 31 December | 321,403 | 618,902 |

The notes on pages 8 to 11 are an integral part of these accounts. The auditors' report is on page 5.

The Welsh Insurance Corporation Limited

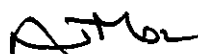
Balance sheet

At 31 December 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|----------|----------------|----------------|
| Fixed assets | | | |
| Investments | 1(d) & 6 | 1,800 | 149,175 |
| Current assets | | 345,274 | 509,564 |
| Amount due from holding companies | | 318,611 | 485,346 |
| Amounts due from group undertakings | | 24,782 | 22,760 |
| Overseas tax recoverable | | 274 | 248 |
| Other debtors | | 49 | 13 |
| Prepayments and accrued interest | | 19 | 19 |
| Cash at bank | | 1,539 | 1,178 |
| Creditors: Amounts falling due within one year | | (25,671) | (25,321) |
| Other creditors including tax and social security | 9 | (25,653) | (25,013) |
| Accruals and deferred income | | (18) | (308) |
| Net current assets | | 319,603 | 484,243 |
| Provision for liabilities and charges | | | |
| Deferred tax | 3(c) | - | (14,516) |
| Net assets | | <u>321,403</u> | <u>618,902</u> |
| Represented by: | | | |
| Capital and reserves | | | |
| Called up share capital | 7 | 242,551 | 242,551 |
| Share premium account | 8 | 20,754 | 20,754 |
| Profit and loss account | 8 | 58,098 | 355,597 |
| Distributable | | 58,098 | 340,788 |
| Non-distributable | | - | 14,809 |
| Equity shareholders' funds | | <u>321,403</u> | <u>618,902</u> |

Approved by the board on 26 October 2005

Director



The notes on pages 8 to 11 are an integral part of these accounts. The auditors' report is on page 5.

The Welsh Insurance Corporation Limited

Notes to the accounts

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's accounts.

a) Basis of accounts

These accounts have been prepared under the historical cost convention, except for the Company's investment in its subsidiary undertaking which is shown at net asset value. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2004.

The accounts for previous periods were prepared in accordance with Section 255A, and the special provisions relating to insurance companies of Schedule 9A to the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP"). However, since the Company has not transacted any insurance business in either the current or previous period, their insurance-specific basis is not now considered appropriate.

b) Investment income and unrealised gains and losses

Investment income comprises interest and dividends receivable for the year, together with realised investment gains and losses. Realised investment gains and losses represent the difference between the net sale proceeds and the cost of the 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.

c) Tax

The tax credit in the profit and loss 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.

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.

d) Investments

Investments are stated at their current values at the end of the year. Current values, for this purpose, comprise stock exchange mid-market values for listed securities, adjusted for forward contracts.

e) Exchange rates

Transactions denominated in foreign currencies are translated at the exchange rate at the date of transaction. 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.

The Welsh Insurance Corporation Limited

Notes to the accounts (continued)

2. Analysis of investment return

| The total investment return before tax comprises: | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Income from other investments | 1,681 | 9,884 |
| Realised investment losses | (432) | (1,720) |
| Investment income | 1,249 | 8,164 |
| Expenses and charges, including allocated interest charges | 231 | (663) |
| Investment return before unrealised losses | 1,480 | 7,501 |
| Movement in unrealised investment gains | (14,809) | (2,975) |
| Total investment return before tax | (13,329) | 4,526 |

Included in the 2004 investment expenses and charges, is a reversal of management fees accrual

3. Taxation

(a) Tax on profit on ordinary activities

Tax credited in the profit and loss account comprises:

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Current tax: | | |
| UK corporation tax – current year | 540 | 2,380 |
| Prior year adjustments | (1,808) | (27,755) |
| | (1,268) | (25,375) |
| Deferred tax: | | |
| Origination and reversal of timing differences | (16,716) | (9,402) |
| Decrease in discount | 2,200 | 1,000 |
| Prior year adjustment | - | (3,582) |
| Total deferred tax | (14,516) | (11,984) |
| Total tax credit in the profit and loss account | (15,784) | (37,359) |

(b) Factors affecting current tax charge for the year

The tax assessed in the profit and loss account is lower than the standard UK corporation tax rate, because of the following factors:

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| (Loss)/profit on ordinary activities before tax | (13,283) | 4,526 |
| Current tax charge at standard UK corporation tax rate of 30% (2003:30%) | (3,985) | 1,358 |
| Adjustment to tax charge in respect of prior years | (1,808) | (27,755) |
| Other disallowable expenses | (14) | 90 |
| Other deferred tax movements | 4,443 | 9,402 |
| Credit recognised for capital losses | - | (8,244) |
| Other items | 96 | (226) |
| Current tax credit in the profit and loss account | (1,268) | (25,375) |

The Welsh Insurance Corporation Limited

Notes to the accounts (continued)

3. Taxation (continued)

(c) Balance sheet

- (i) The discounted provision for deferred tax, included within the provision for other risks and charges, comprises:

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Unrealised gains on investments | - | 16,716 |
| Undiscounted provision for deferred tax | - | 16,716 |
| Discount | - | (2,200) |
| Discounted provision for deferred tax | - | 14,516 |

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

| | 2004 £'000 | 2003 £'000 |
|-------------------------------------|---------------|---------------|
| Provision at 1 January | 14,516 | 26,500 |
| Credited to profit and loss account | (14,516) | (11,984) |
| Provision at 31 December | - | 14,516 |

4. Directors' emoluments

None of the directors received any emoluments in respect of his services as a director of the Company during the year (2003: £nil).

5. Auditors' remuneration

Auditors' remuneration has been borne by Aviva plc in both the current and prior year.

6. Investments

- (a) These financial investments comprise:

| | Carrying value 2004 £'000 | Cost 2004 £'000 | Carrying value 2003 £'000 | Cost 2003 £'000 |
|---|------------------------------------|-----------------------|------------------------------------|-----------------------|
| Shares and other variable yield securities (all listed) | - | - | 148,575 | 133,766 |
| Deposits with credit institutions | 1,800 | 1,800 | 600 | 600 |
| | <u>1,800</u> | <u>1,800</u> | <u>149,175</u> | <u>134,366</u> |

- (b) Included in shares and other variable yield securities at 31 December 2003 is the Company's 0.95 % investment in the ordinary shares of Rückversicherungs-Gesellschaft AG ("Munich Re"), a reinsurance company incorporated in Germany. These shares were sold to Norwich Union Overseas Holdings Limited on 3 December 2004 for £133,334,000.

The Welsh Insurance Corporation Limited

Notes to the accounts (continued)

7. Ordinary share capital

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Authorised share capital 263,305,152 ordinary shares of £1 each | 263,305 | 263,305 |
| Allotted, called up and fully paid share capital 242,551,164 ordinary shares of £1 each | 242,551 | 242,551 |

8. Reserves

| | Share premium account £'000 | Profit and loss account £'000 | Total £'000 |
|-------------------------------|-----------------------------------|-------------------------------------|----------------|
| At 1 January 2004 | 20,754 | 355,597 | 376,351 |
| Profit for the financial year | - | 2,501 | 2,501 |
| Dividends for the year | - | (300,000) | (300,000) |
| At 31 December 2004 | 20,754 | 58,098 | 78,852 |

The cumulative amount in the profit and loss account includes non-distributable gains of nil (2003: £14,809,000).

9. Other creditors including tax and social security

| | 2004 £'000 | 2003 £'000 |
|--------------------------------------|---------------|---------------|
| Corporation tax payable | 716 | 2,156 |
| Amounts due to other group companies | 15,665 | 15,732 |
| Group relief | 9,272 | 7,125 |
| | 25,653 | 25,013 |

10. 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.

11. 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.

12. Holding company details

The immediate holding company is CGU Insurance plc. Its group accounts are available to the public, on payment of the appropriate fee, from Companies Registration Office, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

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.