



Leadership in financial services

Annual report and accounts 2000

Profile

CGNU is the world's sixth-largest insurance group, the largest insurer in the UK and one of the top five life companies in Europe. Its main activities are long-term savings, fund management and general insurance. It has worldwide premium income and investment sales of £27 billion from ongoing business and £220 billion in assets under management. The Group has 70,000 employees and more than 15 million customers.

Strategy

To grow long-term savings business aggressively and profitably

To build a world-class fund management business

To take a focused approach to general insurance with disciplined underwriting and efficient claims handling

To build top five positions in key markets

To withdraw from lines of business or markets which do not offer the potential for market-leading positions or superior returns

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Highlights of the year

£1,407m

Operating profit before tax
from ongoing business*

>Worldwide long-term savings
new business sales up 24%**
to £13.5 billion

>Increasing distribution strength
through alliances with banks
in Europe

>Actively developing new
e-enabled applications; 2001 will
see the launch of our UK online
wealth management service

>Rapid and successful
integration progress – on
track to achieve our target of
£275 million annual cost
savings by end 2001

>Agreement for the sale of US
general insurance business and
exit from UK London Market
business at a cost of £1.3 billion
after tax

£13.5bn

Worldwide long-term savings
new business sales

38p

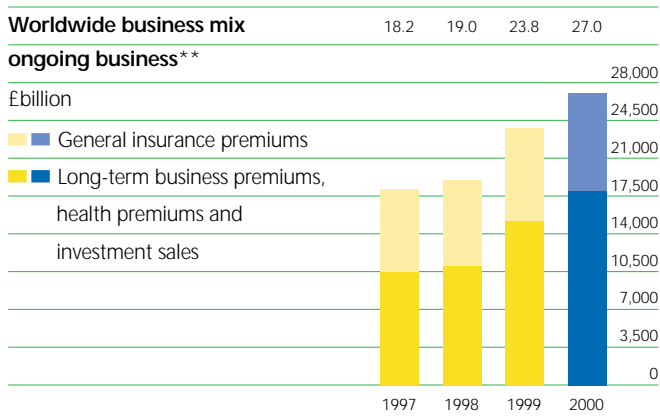
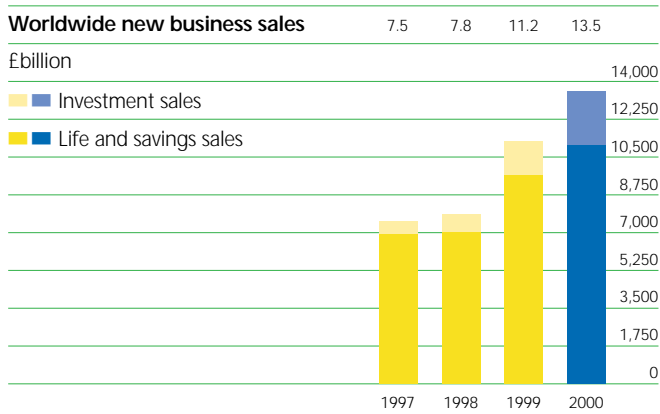
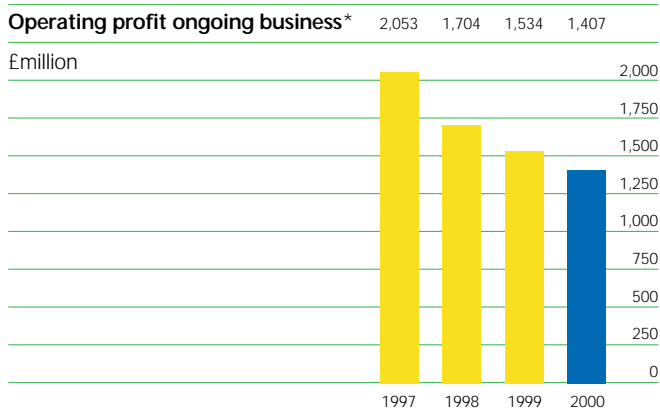
Full year dividend per share

£13.6bn

Shareholders' funds

*Includes life achieved operating profit, is stated before amortisation of goodwill and exceptional items and excludes operating profit from businesses discontinued (UK London Market) and to be discontinued (US general insurance)
**At constant rates of exchange

Chairman's statement



CGNU is the UK's leading insurance company following the merger of CGU and Norwich Union in May 2000, with a top five position in the European market as a whole and a listing in the FTSE life assurance sector.

The economic climate during the past 12 months has been largely favourable. We have been able to benefit from this while channelling our energies into the integration process. The results in 2000 showed strong and profitable organic growth in our long-term savings business and we gained market share in the UK, France, the Netherlands and Spain. In general insurance, we improved our margins, although the overall performance was adversely affected by late storm claims from France and floods in the UK.

Our Group results for 2000, incorporating operating profit from ongoing business of £1,407 million, have been seriously affected by the loss to be incurred on the sale of our US general insurance operations. This has been a disappointment. However, your Board is convinced that our decision to exit the general insurance market in the US was the correct one.

We propose a final dividend of 23.75 pence, which brings the total for the year to 38 pence. As previously announced, this maintains the level of dividend for former CGU shareholders while increasing that of former Norwich Union shareholders by 30%.

Our share price has increased considerably since the announcement of the merger, thus confirming the rationale of the transaction. The total shareholder return achieved during 2000 was 13.8%.

Our reputation is based on care for the service we provide, quality in the range of products we offer and reliability in ensuring that our financial position at any time can meet our obligations. We believe that this differentiates us in the marketplace, and our commitment to playing a leading role in raising standards across the industry continues.

Bob Scott, who has been an excellent Group Chief Executive, retires in April. Bob has served the Group with great distinction. He is on top of the issues and is a brilliant, hard-driving manager who has executed our integration flawlessly.

*Includes life achieved operating profit as stated before the change in risk margin, amortisation of goodwill and exceptional items and excludes operating profit from businesses discontinued (UK London Market) and to be discontinued (US general insurance)

**Excluding US general insurance and UK London Market



Our Group Finance Director, Peter Foster, is also retiring after 37 years with the Company. He has mastered the rapid growth of our Group and has been particularly responsible for developing our reporting system in line with tough new demands. Lyndon Bolton, who leaves in April, has served as a non-executive director for 19 years and we have benefited from his wisdom. Alan Perelman, non-executive director, and Peter Ward, executive director, have both left the Board. We have much appreciated their contributions.

Richard Harvey will be our Group Chief Executive from 24 April 2001. I am looking forward to working with Richard, who has a wealth of expertise, an open mind and the right drive. Norwich Union has brought a younger generation of managers to the Group; these complement CGU's more experienced management team, where Tony Wyand and Philip Twyman have very important roles. Mike Biggs will be our Group Finance Director from 31 March 2001 and will be responsible for developing further our financial and capital efficiency. Patrick Snowball will take over full responsibility for UK general insurance, joining the Board from 31 March 2001. Philip Scott continues to head UK long-term savings – the Group's largest and most profitable business.

Our Board has set new standards for corporate governance to monitor developments in our Company. Apart from Audit, Nominations and Remuneration Committees, we have established an Information Technology Strategy Committee and a Chairman's Committee, to deal with succession planning and development of talent.

Our employees are hard-working and have shown excellent resilience at a time when there was a risk of merger fatigue. We are proud of the calibre of our people. Their quality is a precondition for producing superior results and we thank them for their efforts.

We enter 2001 with the business reshaped, the integration process on course and the financial benefits coming through as planned. We are all determined to use our new leading position to increase shareholder value. We look forward to another year of vigorous and profitable growth.

A handwritten signature in black ink, which appears to read 'Pehr G Gyllenhammar'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Pehr G Gyllenhammar Chairman

Group at a glance

Long-term savings

Our credentials

The long-term savings business is a focus of the Group and its principal source of growth. It meets the growing need on the part of ageing and increasingly wealthy populations for pensions, savings and healthcare products. As well as leading in its home market, it has strong positions in France, the Netherlands and Ireland, is growing fast in Spain and Italy, and is pioneering new markets in central and eastern Europe, building on a track record of success in Poland.

Operating profit before tax from ongoing business, including life achieved profit

£1,569m

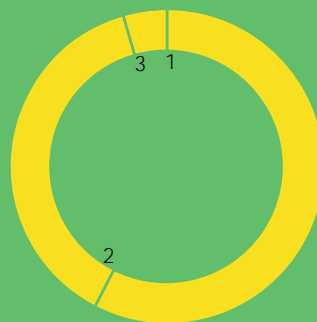
New business sales and premiums from ongoing business

>£11,023 million of life and savings new business sales

>£14,848 million net premiums written

>£483 million of new business contribution

Geographical analysis of premium and investment sales from ongoing business



1 – UK £8,548m
2 – Europe (excluding UK) £5,629m
3 – International £671m

Aims and priorities

>To capitalise on the growing market for long-term savings as governments encourage greater private provision for pensions, savings and healthcare products

>To capitalise on CGNU's size and economies of scale to deliver high-quality, low-cost pensions and savings products

>To use multiple means of distribution, including intermediaries, tied agents, salaried sales forces, bancassurance and direct sales

>To use e-technology to lower costs, improve service and reach more customers

>To develop new, e-enabled services such as wealth management

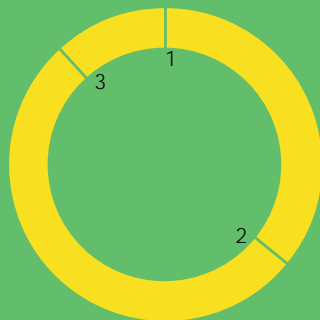
Fund management

With £220 billion in assets under management around the world, CGNU is one of the top 10 fund managers in Europe and the second-largest UK-based fund manager. The fund management business invests the Group's funds held for policyholders as well as seeking third-party mandates and developing and selling retail investment products. Its main operations are in the UK, France and the Netherlands.

£61m

>£2,501 million of new retail investment sales

>£220 billion of assets under management



1 – UK £897m
2 – Europe (excluding UK) £1,309m
3 – International £295m

>To provide the investment expertise that will safeguard our customers' wealth over the long term

>To share techniques and expertise around the world and to operate increasingly as a global fund manager

>To exploit CGNU's scale to attract the best investment talent and to generate superior returns

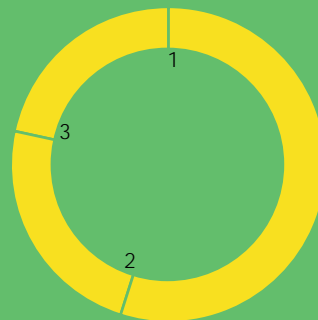
>To meet the growing demand for equity-related retail products such as mutual funds and unit trusts

General insurance

The general insurance business focuses on personal lines (typically home and motor cover) and the insurance needs of small businesses. It aims to lead in its chosen markets and to combine value-for-money with excellent customer service. CGNU is the leading general insurer in the UK, Canada, Ireland and New Zealand and is one of the top five in the Netherlands and Australia.

£412m

>£8,990 million net premiums written



1 – UK £4,937m
2 – Europe (excluding UK) £2,112m
3 – International £1,941m

>To take a disciplined approach to risks, premium rating, underwriting and claims management

>To develop a full range of distribution channels covering intermediaries, partners and direct sales

>To use e-technology to lower costs, improve service and reach more customers

>To withdraw from large-scale, inherently volatile commercial insurance and to focus on personal lines and small commercial business

>To withdraw from lines of business or markets which do not offer the potential for market-leading positions or superior returns

Group Chief Executive's review

Bob Scott
Group Chief Executive



The merger put CGNU in the world premier league. It made us the number one long-term savings and general insurance company in the UK and the second-largest UK-based fund manager. In Europe as a whole, we are among the top five life insurers and top 10 fund managers. With £27 billion in premium income and investment sales from ongoing business, we are now the sixth-largest insurance group in the world.

We have established positions in France, the Netherlands, Ireland and Poland, and a growing presence in Spain and Italy. We also have start-up operations in eastern Europe, where our Polish experience has given us particular expertise, especially in developing a large direct sales force. We are unique among UK financial institutions in having such a significant presence in continental Europe.

Our new balance of strength – leading in the UK, strong and growing in continental Europe – fits the industry pattern whereby most of the European giants are seeking to build from strong domestic positions. In an increasingly competitive market, our scale and efficiency in the UK provide a powerful base for addressing the enormous opportunities in Europe and around the world.

The merger

When the merger took effect last May, we set ourselves an 18-month period in which to complete it. We have met every milestone – including the massive task of launching the combined business in the UK in October – and we remain on track to achieve our targeted cost savings of £275 million a year.

One reason we have been able to move so fast is that in May we were absolutely clear on our post-merger strategy. To become a leading European-based financial services group, we agreed to focus on long-term savings as the engine of growth. We knew we needed to develop a world-class fund management business and to raise the quality of our general insurance earnings by concentrating on the less volatile, more controllable areas of risk. We also agreed that the only way to generate value for our shareholders was to be a market leader in our chosen sectors – and that, where this was not realistic, we should withdraw.

Worldwide business mix from ongoing business* (operating profit)

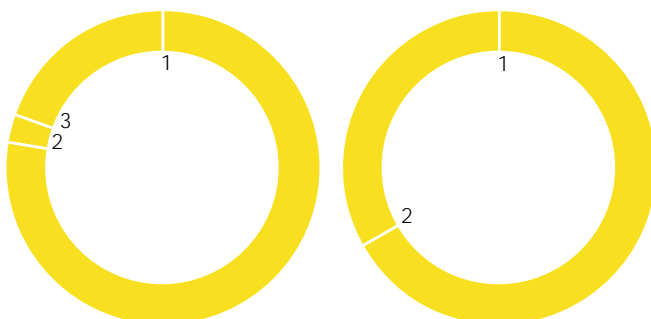
- 1 – Life (achieved profit): £1,569m
- 2 – Fund management: £61m
- 3 – General insurance: £412m

*Excluding US general insurance and UK London Market

Premium income after reinsurance and investment sales from ongoing business*

- 1 – Long-term business premiums, health premiums and investment sales: £18,036m
- 2 – General insurance premiums*: £8,990m

*Excluding US general insurance and UK London Market



Our integration and cost reduction programme is on track. Annualised savings at the end of the year amounted to £111 million.

We are growing strongly in long-term savings and fund management and taking tough action to improve the quality of our general insurance earnings.

We are very pleased to report that we are well underway towards delivering our merger objectives. Significant progress has been made and we had already delivered annualised savings of £111 million by the end of 2000. We have undertaken significant corporate activity in expanding our long-term savings distribution capability in the UK and in continental Europe. Additionally, we have repositioned our general insurance business by exiting from US general insurance and London Market business and by selling those businesses which were unlikely to achieve leading positions.

Results

The Group's pre-tax operating profit from ongoing business was £1,407 million (1999: £1,534 million). This is after charging a strategic investment of £133 million in our online wealth management service and £285 million (1999: £69 million) of exceptional weather-related costs arising from late storm claims in France and floods in the UK. Excluding these items, operating profit would have increased by 17% at constant rates of exchange.

Our long-term savings business achieved record new business sales, up 24% at constant rates of exchange to £13.5 billion. Life achieved operating profit rose 14% at constant rates of exchange to £1,569 million. These figures derive mainly from our success in the UK. It was also an excellent year for our long-term savings business in France.

In 2000, we achieved record retail investment sales. We maintained a good investment performance, with particular successes in Cat-standard individual savings accounts (Isas) in the UK and mutual funds in the Netherlands. Operating profit was £61 million (1999: £66 million), after a £21 million investment in the development of our UK retail investment business.

Operating profit from the general insurance ongoing business was £412 million (1999: £459 million). Although our results showed an underlying improvement, they were adversely affected by exceptional weather-related costs in France and the UK. We are continuing to take the necessary steps to improve profitability in our general insurance businesses, towards the Group's target

combined operating ratio of 102% by the end of 2001. Some parts of the business are there already (excluding the effect of the autumn floods, UK personal lines business achieved a combined operating ratio of 100% in the year), so we know this objective is within our grasp.

Long-term savings

One prediction that can be made with certainty is that elderly people will make up a growing percentage of the population in the future.

At the end of the 20th century, 17% of the UK population was aged over 65. By 2040, the figure will be 25% and the number of people over 80 will have risen by 81%. At present, in the UK, there are three working people for every pensioner. In 30 years' time, there will be just two.

The same trend is even more pronounced in other parts of Europe. By 2040, the proportion of pensioners in France, Italy and the Netherlands will double and retired people will make up half the total population.

These demographic changes will create a flourishing market for Europe's long-term savings companies. That is why CGNU's main focus is on growing long-term savings and why continental Europe offers excellent prospects for growth. With good products, economies of scale and rapidly developing channels of distribution, CGNU is a leader in meeting the growing need for personal financial provision.

Our life funds are immensely strong, particularly in the UK, where our scale and efficiency make us a natural leader in sectors such as stakeholder pensions. Our worldwide new business sales growth of 24% at constant rates of exchange in 2000 indicates the positive reaction to the merger on the part of our customers and intermediaries, and the strength of many of our businesses.

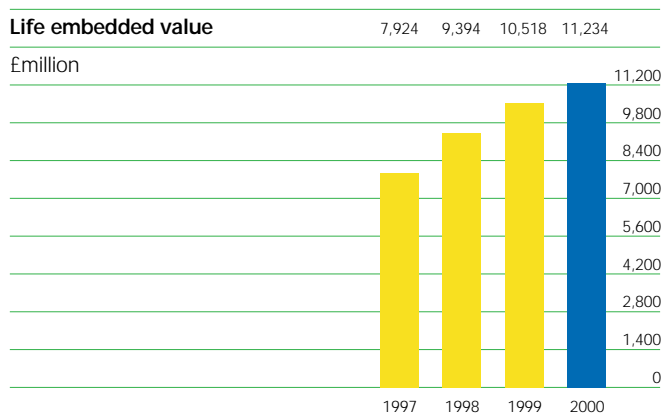
The UK is still principally an intermediary market, and we continue to look to independent financial advisers to provide the majority of our business. But, as we continue to grow the long-term savings business, our bancassurance partnership with Royal Bank of Scotland and NatWest builds significantly on our distribution capability. A further agreement with Tesco will see our products distributed under one of the UK's best-known brands.

£275m

Annualised savings target

£13.5bn

Worldwide new business sales



In other parts of Europe where bancassurance is an important means of distribution, we have new partnerships with Bancaja of Spain and, in Italy, with Banca Popolare di Lodi, Banca delle Marche and UniCredito Italiano.

The extended marketing reach that these arrangements offer is likely to accelerate our sales. Combined with our existing routes to market, they make us truly multi-channelled – which has always been our strategy.

Fund management

To grow our long-term savings business, we need good fund management capabilities. In a sector where size matters, the merger has given us a substantial investment business that can generate superior returns on our own assets and better serve third party investors and the millions of retail customers looking for good investment products. It also provides new opportunities to operate globally and to transfer expertise from one market to another.

A particular success has been equity-linked investments. Although these products have a long history in the UK, continental investors have historically tended to prefer fixed-interest savings. Now, with low interest rates and less certain provision from the state, there is a growing appetite for equity-based products. In 2000, our unit-linked sales in France grew strongly, while equity-backed mutual fund sales in the Netherlands increased to £1 billion, a rise of 381%.

General insurance

Following industry consolidation, general insurance has the potential to produce better returns than in the past. But to realise that potential we need to focus on the most profitable and stable lines of business that produce higher risk-adjusted returns – personal and small commercial lines – and on those markets where CGNU has the scale and presence to produce real value for shareholders.

All our businesses have been reviewing their portfolios, weeding out the unacceptable risks and adopting a more rigorous approach to underwriting – including, in most cases, putting up premium rates. We have also taken some tough decisions and withdrawn from markets and lines of business that did not fit our strategy.

The biggest disposal, which will be completed during 2001, is the general insurance business in the US. This business ranked 15th in its market and the investment needed to take it into the top five was more than we felt was warranted. The business also presented unknown future risks in terms of environmental claims and litigation relating to asbestos, tobacco and defective construction. Although the exit cost us £1 billion after tax, it gives us a clean break and the chance to concentrate on markets where CGNU has a substantial presence.

As part of the focus on personal and small commercial lines, we also withdrew from the London Market with its inherently volatile marine and energy business. This cost the Group £314 million after tax.

In South Africa, Germany and Japan, we decided that our general insurance businesses were too small to generate satisfactory returns and sold them. In New Zealand, we had two very strong general insurance businesses following the merger, and decided that the best way to generate value was to sell one of them rather than merge the two.

Technology and wealth management

All our businesses are developing their use of e-technology. The main thrust is to improve what we already do, using online techniques to reduce costs, improve the exchange of information and offer a better service to intermediaries and customers.

While this is where the immediate benefits lie, we continue to explore the internet as a means of distribution. Different markets are progressing at different rates. Customers in the UK, for example, can now buy a motor policy or an Isa online. In the Netherlands, 30% of Ohra's mutual fund sales are via the internet.

Looking to the future, we see two important trends: the emergence of wealth management as a distinct market sector; and more customers wanting to exploit the power of the internet to manage their financial affairs. To meet these developments, we will have invested £250 million by the end of 2001 in a new online wealth management service in the UK called norwichunion.com. To be launched later in 2001, this unique service will offer a

comprehensive range of financial planning tools and an integrated portfolio of competitive products, including share dealing, a fund supermarket and banking.

Another important part of our e-initiatives is our highly successful Navigator product. Developed in Australia, this allows customers to make their own investment decisions within a package of funds and to monitor performance and adjust their portfolios online. The same techniques are now being transferred to Europe and we are investigating opportunities in Asia.

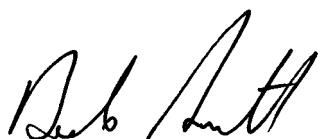
Environment and community

CGNU recognises its obligation to behave responsibly in all aspects of its operations around the world. We endeavour to manage our business activities in a manner that contributes to environmental conservation and improvement. We are also actively involved in many aspects of local life in the communities in which we operate. In 2000, we spent a total of nearly £19 million worldwide on sponsorships, community initiatives and charitable giving.

Longer-term growth

In the emerging markets of central and eastern Europe, we see large populations with increasing wealth and the demographic pressures that generate demand for long-term savings and investments. Following our success in Poland, we have expanded into the Czech Republic and Romania. Our new long-term savings business in Turkey is performing well and offers real opportunities for growth. Looking further ahead, we continue to explore openings in south-east Asia and China.

The Group has made significant progress in refocusing the business in line with the objectives set out at the time of the merger, while maintaining positive momentum in its day-to-day operations. We enter 2001 with vigorous growth underway and expect to use a widening range of distribution methods to support further expansion. We are well positioned for future growth and increased shareholder returns.



Bob Scott Group Chief Executive

To generate maximum value, we are concentrating on markets where we can achieve leadership positions.

We are committed to developing internet and e-commerce applications across our businesses.

Having reshaped the business, we are well positioned for future growth and greater shareholder returns.

Operating review

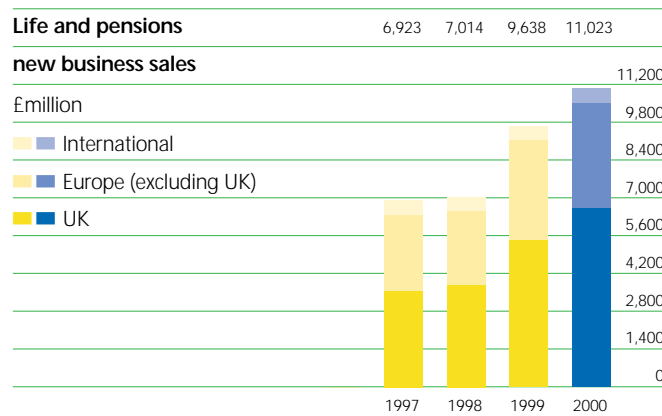
The following pages look at CGNU's business operations in more detail and at how the strategy is being applied.

France

CGNU's success owes much to its multi-distribution strategy. In France, for example, channels to market comprise tied agents, brokers, the AFER savings association, a salaried sales force and direct operations.

Long-term savings

Life achieved operating profit before tax	2000 £m	1999 £m
UK	938	837
France	204	131
Ireland	68	53
Netherlands	174	168
Poland	95	117
Spain	42	13
Other Europe	19	32
International	29	56
Total	1,569	1,407



UK

The merger brought together the sixth and 10th-ranked long-term savings businesses in the UK which, during the rest of 2000, grew to become the clear market leader. The combined business was launched under the new Norwich Union brand in October with a 10% market share.

Norwich Union is also strong in with-profit policies, which make up over half our UK savings business. In a market that increasingly looks for quality and financial strength, our with-profit record and strong UK life funds are important advantages. The strength of the with-profit funds is underpinned by our UK “orphan” assets, which amount to about £4 billion and are used to support strong business development that benefits policyholders and shareholders alike. We are committed to ensuring customers fully understand the financial products they buy and are providing more information this year than ever before on investment performance and how we arrive at with-profit bonus rates.

Norwich Union receives more business from independent financial advisers (IFAs) than any other UK provider. It continues to strengthen its IFA links, notably through e-technology, and saw a 25% increase during the year in the amount of new business contributed by IFAs.

The year also brought new distribution partners to add to the 21 building societies that already sell Norwich Union’s products. We agreed to purchase approximately 50% of the life companies of the Royal Bank of Scotland and NatWest. Combined, the two banks have 10 million personal customers and the largest presence among small and medium-sized businesses in the UK. This represents a significant widening of our reach. Under a similar agreement, our products are now sold under the Tesco brand through the company’s stores and website.

With its economies of scale, Norwich Union is set to take the lead in stakeholder pensions when these are introduced in April 2001. We were the first company to apply as a stakeholder pensions provider and one of the first four to be formally registered. We have also announced that charges on our existing personal pensions will not exceed the stakeholder maximum of 1% a year from 6 April 2001.



1 – The new Norwich Union brand has been heavily advertised in the UK with the message *Together we're stronger*.

Some 12 million Britons already access the internet from home, and there is evidence that growing numbers of people are taking control of their finances this way. Our new online wealth management service, norwichunion.com, will attract this audience by helping them to make their money work smarter. This unique service, due to launch later in 2001, will offer a range of financial management tools and an integrated portfolio of competitive customer propositions, including share dealing, a fund supermarket and banking. Customers can pre-register now at www.norwichunion.com.

France

Total annual household savings in France continue to grow by over 20%, with much of the increase invested in life insurance. This expansion is set to continue, albeit at a more moderate pace, particularly as the tax regime remains broadly favourable. With stock markets performing well, the most rapid growth has been in unit-linked, multi-fund products.

Our French long-term savings company, Abeille vie, has two particular strengths – the savings products from AFER (the largest savings association in France), and its own unit-linked business. Helped by new products and strong performances from all Abeille vie's distribution networks, sales of unit-linked policies increased strongly. The extranets linking Abeille vie to its brokers were improved and the Service Plus call centre won a France Telecom award for its friendliness and efficiency. Our direct operation, Norwich Union Direct, unveiled a new internet site.

Netherlands

Although legislative changes will make life products in the Netherlands less tax-efficient from 2001, we expect the demand for pensions and mutual fund policies to remain strong, where we are well placed to benefit. The 1999 merger between Delta Lloyd and Nuts Ohra created a leading long-term savings business in the Netherlands with two strong brands, economies of scale, attractive products and a range of distribution channels. Following the merger, Delta Lloyd Nuts Ohra has top positions in direct and intermediary distribution, ranking second and third in the Dutch market respectively.



2 – October saw the unveiling of more than 50 new products in the UK. Marketed by a retrained sales force, the range is now the largest of any UK life insurer.

3 – Delta Lloyd is the third biggest intermediary writer in the Netherlands, with a 6% share of the long-term savings market.

An outstanding success in the Netherlands has been in mutual funds, where the business – mainly through Ohra – recorded sales of over £1 billion, about 20% of the market. Ohra also became the first Dutch insurer to use voice recognition to enable customers to call in and place investment instructions automatically.

The Dutch operation as a whole is investing £24 million in e-technology over the next three years. Delta Lloyd's extranet, or "digital domain", now extends to 1,200 intermediaries and will soon allow online transactions as well as the exchange of information. Service to intermediaries was further improved by integrating the marketing and sales of the life, general insurance and health businesses.

Other achievements by the Delta Lloyd Nuts Ohra group in the year included securing the Fokker pension fund and taking further steps to replicate the company's success in Belgium and Germany. Ohra's direct marketing and investment strengths, for example, will underpin the launch of mutual funds in Germany in 2001.

Spain

In Spain, a new bancassurance agreement with Bancaja makes CGNU one of the country's top 10 long-term savings providers, with access to 2.4 million potential customers.

Italy

Renewed distribution links with UniCredito Italiano and the extension of our existing partnerships with Banca Popolare di Lodi and Banca delle Marche add further coverage in Italy, where bancassurance is the main means of distribution. The number of branches distributing CGNU products in Italy will have risen from 500 at the end of 1999 to over 2,000 by the end of 2001.

Ireland

In Ireland, the relaunch of Hibernian brought together Norwich Union Life, CGU Life and Hibernian Life under a single strong brand that now ranks fourth in its sector.

Poland and other Europe

CU Polska is Poland's leading private provider of pensions. It has 30% of the market, and in 2000 attracted over 100,000 new customers.

UK

A preview of our online wealth management service, to be launched later in 2001, can be found at www.norwichunion.com. This will offer customers financial planning tools and services including share dealing, a fund supermarket and banking.

CU Polska's life business (number two in the market) maintained a market share of 20% with strong potential for future growth.

Following the merger, the Group had two pensions and two life businesses in Poland, and had to sell one of each to satisfy the regulators. The two Norwich Union operations, which had been set up only two years earlier, were sold in November for £133 million, realising substantial value for shareholders.

Knowledge gained in Poland is being applied in other eastern European markets. During 2000 we launched a new life business in Romania and agreed to buy the ninth-largest pension fund in the Czech Republic.

Australia

The Australian financial services market continues to expand, backed by mandatory and rising retirement contributions in spite of new tax legislation. Norwich Union Australia is working to keep its pricing competitive and is capitalising on the success of the Navigator and Super Solutions products.

United States

Our US long-term savings business is well advanced in its use of e-technology and has distribution agreements with several leading banks. A new bancassurance partnership with the country's sixth-largest bank, Wells Fargo, gives us access to 2,600 branches and offers further opportunity for growth.

Canada

We concluded that combining the two small life businesses of CGU and Norwich Union would not meet the objective of achieving a leadership position in Canada. We are in the process of selling these operations.

Other international

India represents a significant market for long-term savings business. Subject to regulatory approval, CGNU intends to establish a life business with a local partner in 2001.

Similarly in China, where we currently operate two investment funds, we plan to establish a life joint venture with a local partner, provided the government approves our licence application.



1 – New bancassurance agreements in the UK, Italy, Spain and the US have extended CGNU's reach into the marketplace.

2 – In the emerging Turkish market, CGNU doubled its annual premium sales in 2000, capturing 8% of the life market, and aims to enter the pensions market as soon as legislation allows.

General insurance

The merger made CGNU the clear leader in UK general insurance, operating under the Norwich Union brand and with 20% of the market. While the UK accounts for over half the Group's general insurance premiums, CGNU also leads the market in Canada, Ireland and New Zealand, and is one of the top five insurers in the Netherlands and Australia.

Greater size presents opportunities for reducing costs and raising the quality of earnings. The Group's strategy is therefore to be a leader in selected general insurance markets or to withdraw – and to make the business less volatile by moving away from large commercial risks and focusing on personal and small commercial lines. Other priorities are to further improve the service to customers and to adopt a rigorous approach to underwriting and claims management.

UK

The combined general insurance business began operating on 2 October 2000, just four months after the merger was approved. We remain on track to complete one of the largest mergers the UK financial services industry has ever seen by creating the UK's leading general insurance company. Currently, Norwich Union insures one in five UK households, one in five motor vehicles and 700,000 businesses.

Our vision is to be a fully integrated, multi-distribution insurance company. Part of our commitment to exceeding customer expectations is to provide our products through a variety of distribution channels, whether via the internet, through a bank or building society, or a high street broker. At the same time we are using our strength, size and skills to deliver economies of scale and a sustained competitive advantage. This will ensure that we continue to enhance the earnings of CGNU.

We have withdrawn from global risks and London Market business to concentrate on leadership in personal lines and the insurance needs of small businesses. Within this more tightly defined business, we are confident of achieving higher risk-adjusted returns by taking a rigorous approach to the risks we

General insurance operating profit before tax – ongoing business*	2000 £m	1999 £m
UK	296	290
France	(115)	(8)
Ireland	21	15
Netherlands	(4)	7
Other Europe	20	22
Australia and New Zealand	82	15
Canada	78	93
Other international	34	25
Total – ongoing business*	412	459

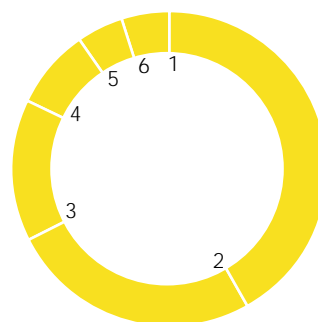
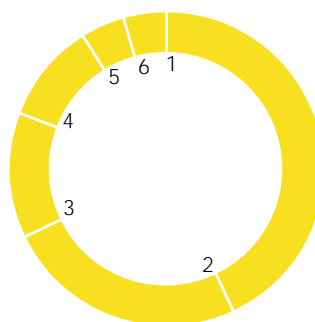
UK net written premiums by class of business**

2000

- 1 – Motor: £2,123m
- 2 – Homeowner: £1,228m
- 3 – Property: £636m
- 4 – Creditor: £508m
- 5 – Liability: £223m
- 6 – Other: £219m

1999

- 1 – Motor: £1,936m
- 2 – Homeowner: £1,196m
- 3 – Property: £674m
- 4 – Creditor: £380m
- 5 – Liability: £221m
- 6 – Other: £228m



*Excluding US general insurance and UK London Market
**Excluding UK London Market



UK

Norwich Union is already seeing results from its focus on motor, home and small commercial insurance. These lines are less volatile than large commercial risks and, coupled with our scale, make it easier to generate higher-quality earnings.

accept, the rates we charge and how we handle claims. The merged business has enabled us to bring together the best products from CGU and Norwich Union, pooling our technology and innovative thinking.

Our claims service illustrates our commitment to exceed customers' expectations. Over the past five years, we have progressively developed Total Incident Management (TIM). The objective of TIM is to "get the customer back to normal" as quickly as possible. When a customer makes a claim, Norwich Union will take control by arranging the use of preferred suppliers on behalf of the customer. We are able to agree rates and service standards with the suppliers to ensure that the customer gets prompt service and Norwich Union gets value for money. TIM will be extended to the majority of customers during 2001.

By the end of the year, the UK personal lines business had achieved a combined operating ratio of 100% (before the impact of the autumn floods), and the expense ratio continued to fall from 11.8% in 1999 to 10.7% in 2000, making Norwich Union one of the lowest-cost providers in the UK insurance market. Overall, the merger is on course to achieve its targeted cost savings of £97 million.

France

There was a deterioration in our French result, mainly because of late claims from the exceptionally severe storms at the end of 1999 and the fact that final losses in the market were twice those originally estimated. There was also a general deterioration in claims experience.

The French business has reviewed its entire portfolio to focus on its strengths and return to profitability in 2001. It has increased its rates, withdrawn from unprofitable business, and stopped working with brokers whose business generated losses. Abeille assurances is re-engineering its processes so that agents are freed from claims handling and can concentrate more on sales. Abeille assurances and CGU Courtage have both continued to improve their internet links with intermediaries.



1 – Total Incident Management ensures a streamlined, rapid response to customer needs.

2 – When floods hit the UK in autumn 2000 – the worst on record since 1766 – our employees and systems met the challenge head on, contacting all policyholders in the areas most significantly affected within days.

Before marketing costs, the direct operation, Eurofil, achieved break-even for the first time and consolidated its number two position in its sector. The launch of Eurofil.com is another step towards hands-free underwriting and administration.

Netherlands

In common with the rest of the Dutch general insurance industry, Delta Lloyd Nuts Ohra suffered falling profits in the late 1990s and has set out to reverse the trend during 2000. Improvements in rating and underwriting lifted the motor and domestic results. Our Dutch business has also strengthened its reserves and taken steps to withdraw from larger commercial risks.

Ireland

CGNU acquired Hibernian in January 2000, significantly enhancing its market presence. Following the merger, the Group's Irish operations were relaunched under the Hibernian brand. Hibernian acquired the personal lines business of Friends First Group in June, giving it 26% of the Irish general insurance market and new strength in direct business. The acquisition also brought with it a new call centre for motor insurance.

Other Europe

Our Spanish business is taking action to improve profits in a hard-pressed market, while the Italian operation – which is performing well – is working hard to reduce the cost of motor bodily injury claims. The year also saw the sale of our small general insurance company in Germany.

Canada

CGNU's Canadian business is the largest in the country, with more than 10% of the general insurance market. Its strategy is to use its size to keep its costs competitive and to forge stronger relationships with brokers, agents and banks. Following a recent agreement, CGNU's products are now distributed through the Bank of Montreal and we are looking for other similar bancassurance deals.

United States

Given that the US business ranked only 15th in a fragmented market and carried historic long-tail liabilities, CGNU took the decision to sell, and reached agreement with White Mountains in September 2000. The disposal is subject to regulatory approval and is expected to be completed in the first half of this year.

Australia and New Zealand

As the country's fourth-largest general insurer, CGU Australia operates through a range of distribution channels and continues to grow by focusing on its most profitable lines of business, improving its processes and using e-commerce to reach new markets at lower cost. Improvements in rating and underwriting, coupled with the absence of adverse weather effects, enabled Australia to report an underwriting profit in the second half of 2000.

Following the merger, CGNU had two general insurance businesses of similar size in New Zealand, and decided that the best way to generate shareholder value was to sell one of them rather than integrate the two. We therefore disposed of the former Norwich Union company and now operate through NZI, the largest general insurer in the country. In 2000, its 10th successive year of underwriting profits, NZI continued to concentrate on improving its claims management and reducing its operating expenses.

Other international

CGNU is one of the top five general insurers in Malaysia, Thailand, Singapore and Hong Kong and intends to develop its business in each of these markets, not least through new bancassurance agreements and affinity schemes. The recent economic recovery in Asia should contribute to growth, as will the trend towards greater deregulation.

As part of rationalising the portfolio, CGNU has sold its small general insurance businesses in Japan and South Africa.

Fund management

The merger catapulted CGNU into becoming the second-largest UK-based fund manager and one of the top 10 in Europe, with worldwide assets under management of £220 billion. This position enables us to retain and recruit the highest-quality investment talent, makes it practical to undertake more specialised research and gives CGNU greater influence with the companies in which it invests – all of which potentially contributes to better performance.

In building a world-class fund management business, CGNU aims to attract more third-party mandates, to increase its share of retail funds and to operate increasingly as a truly global fund manager. Third-party funds increased by 5% to £27 billion at the end of 2000. The operating profit was lower than last year, reflecting investment in Norwich Union's UK retail business.

UK

In the UK, the integration of the CGU and Norwich Union fund management businesses is progressing well and the combined operation has been relaunched under the Morley brand. The institutional fund management business faced an inevitable slowdown in new mandates as consulting actuaries waited to be convinced that the merger would not disturb investment performance. Morley is gradually being restored to their "buy lists" and new funds are being won, most notably a £250 million bond mandate from a UK public authority.

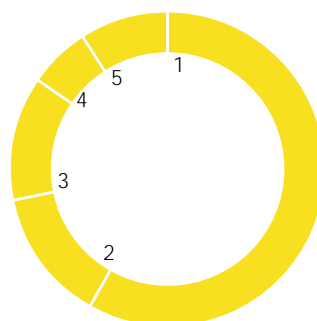
The retail business (operating as Norwich Union Investment Funds) is the UK's leading provider of low-cost, Cat-standard Isas and corporate bond Isas. Following the launch of an online Isa in March, the business is already the seventh-ranking internet Isa provider in the UK. As part of a wider drive to promote the use of e-commerce, the business now enables IFAs to facilitate the online purchase of Isas by clients.

During the year, Morley continued on its course to become a UK leader in socially responsible investment when it recruited one of the country's top teams in this growing field.

Fund management operating profit before tax	2000 £m	1999 £m
UK	16	37
France	9	5
Netherlands	13	4
Other Europe	2	2
Australia	16	16
Other international	5	2
Total	61	66

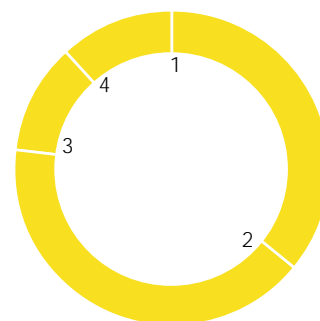
Assets under management

- 1 – UK: £128bn
- 2 – France: £30bn
- 3 – Netherlands: £28bn
- 4 – Other Europe: £14bn
- 5 – International: £20bn



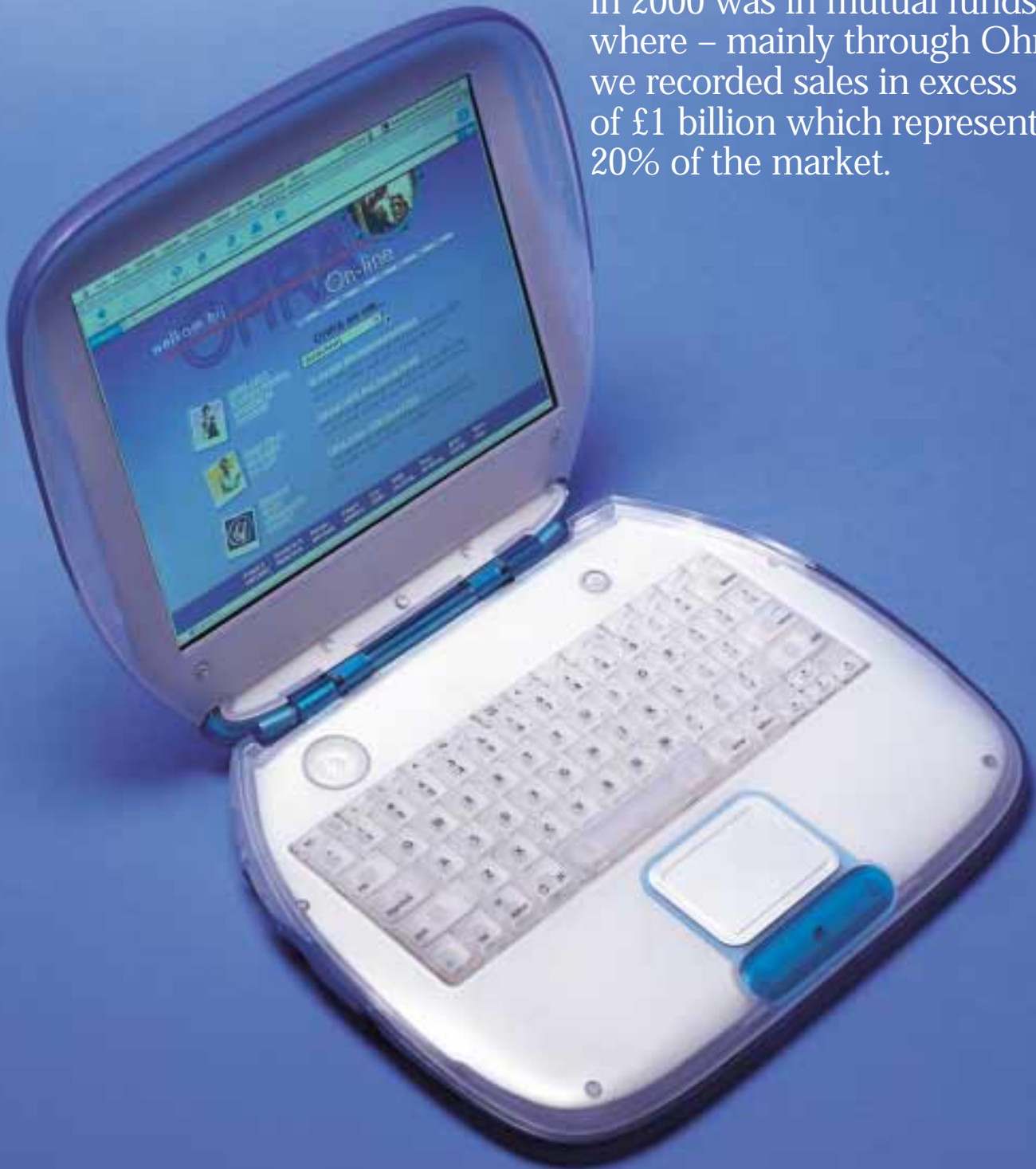
Retail fund management sales

- 1 – UK: £897m
- 2 – Netherlands: £1,025m
- 3 – Other Europe: £284m
- 4 – Australia: £295m



Netherlands

Delta Lloyd Nuts Ohra has one of the best investment performance records in the Netherlands. A particular success in 2000 was in mutual funds, where – mainly through Ohra – we recorded sales in excess of £1 billion which represents 20% of the market.



France

It was also a good year for Victoire Asset Management in France, particularly in the unit-linked market. More than half its funds ranked in the top quartile of the French index and 83% were in the top half, a performance recognised by the award of best fund management company for 2000 from La Tribune.

Netherlands

Delta Lloyd Nuts Ohra is one of the best-performing fund managers in the Netherlands. The year brought substantial growth in assets under management (up to £28 billion), with sales of mutual funds leaping 381% to £1 billion. Further success was achieved by the Delta Lloyd Investment Fund, which ranked first in the list of global mutual funds in 2000. Ohra was voted the best asset manager by the country's investors and gained a further award for performance from the Nyfer business school.

Other Europe

CGNU is transferring the Navigator concept to Europe as part of its internet-enabled offshore wealth management service, based in Dublin. The service is available to wealthy individuals in Ireland, the UK, Spain and Italy. Early results are encouraging and Navigator is likely to be offered in other markets in Europe and Asia.

Australia

The retail investment fund business in Australia scored successes with Navigator. Developed in Australia, Navigator assists customers in constructing tailored investment portfolios. By offering a wide range of fund managers, Navigator is able to accommodate the preferences of a wide variety of consumers. It offers easy entry to a range of investments backed by simple-to-access financial data and the ability to switch within schemes. Navigator is one of the leading fund administration service providers in Australia. Navigator ranks second in the market with sales of £824 million in 2000, up 36%, and funds under administration of £2.4 billion.



1 – CGNU's powerful new fund management operation in the UK was relaunched under the Morley brand on 1 November.

2 – Victoire Asset Management's investment performance was recognised by a number of awards, including the *grand prix de la gestion d'actifs* from the top financial magazine, L'AGEFI.

Environment and community

Environment

CGNU continued to make progress with its environmental programme during 2000.

We fully recognise that we have a part to play in contributing to environmental improvement and protection, and employees in each of the Group's business units are working to achieve the objectives of our corporate environmental policy.

As a successful international business, our environmental programme entails behaving responsibly in our various roles as an insurer, investor, employer and consumer.

For example, Morley Fund Management has recruited a leading socially responsible investment (SRI) team to meet the growing demand from customers for funds of this nature.

CGNU chaired the FORGE group of banks and insurers which has developed guidelines on environmental management and reporting for UK financial services. Backed by the Government, these guidelines were issued to all UK insurers and banks in December 2000.

Norwich Union has linked up with WWF, the global conservation organisation, to take part in the Sustainability Action Network in the UK. This is a forum for business, academia and Government to share environmental issues, innovations and solutions. WWF is also helping to integrate environmental considerations into Norwich Union's general insurance business.

The Group maintained its active role in the United Nations Environment Programme financial services initiatives. This year, CGNU is leading a group of insurers and banks from around the world in the definition of global guidance on environmental management and reporting.

We remain an active supporter of Business in the Environment (BiE). It was pleasing to note that in this year's BiE index of corporate environmental engagement, CGNU was placed first in the financial services sector and fourth in the overall FTSE 100 list.



3 – CGNU sponsors the National Trust's Guardianship programme, which involves children in conservation projects.

Community

Before the merger, both CGU and Norwich Union had a strong tradition of community involvement in the UK and overseas. Thanks in no small part to the continued efforts and enthusiasm of employees, this has continued in CGNU.

Examples include £37,000 raised by teams of UK staff in a 12-day charity fundraising challenge before Christmas. In November, Norwich Union Direct call centre employees took £380,000-worth of pledges for Children in Need on behalf of the BBC.

In total during 2000, the Group gave nearly £5 million worldwide to a range of community investment initiatives, such as crime prevention. In addition, about £14 million was donated to other commercial sponsorship projects, notably sport and the arts.

From next year, CGNU is preparing to report on its community activities according to Business in the Community's benchmarking template, which measures the full extent of corporate involvement in the community according to accepted yardsticks.

Financial review

Financial performance from ongoing business* – including life achieved profits

	2000 £m	Restated 1999 £m
Premiums and investment sales – ongoing business		
Life premiums	14,848	13,470
Investment sales	2,501	1,578
Health premiums	687	402
	18,036	15,450
General insurance premiums	8,990	8,373
	27,026	23,823
Pre-tax operating profit before change in risk margin, amortisation of goodwill and exceptional items		
Life achieved profit	1,569	1,407
Health	68	24
Fund management	61	66
General insurance	412	459
Non-insurance	(25)	(30)
Associated undertakings	1	10
Corporate costs	(185)	(162)
Unallocated interest	(361)	(240)
	1,540	1,534
Wealth management	(133)	–
Ongoing business	1,407	1,534
Taxation, minorities and preference dividend	(516)	(518)
Operating profit before change in risk margin, amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders	891	1,016
Per share	39.7p	45.4p

*Excluding US general insurance and UK London Market result

Reconciliation to statutory operating profit

	2000 £m	Restated 1999 £m
Pre-tax operating profit* before change in risk margin, amortisation of goodwill and exceptional items from ongoing business	1,407	1,534
Deduct life achieved profit	(1,569)	(1,407)
Add modified statutory life profit	1,190	1,172
Pre-tax operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items from ongoing business	1,028	1,299
Operating (losses)/profits from businesses discontinued and to be discontinued	(554)	201
Amortisation of goodwill	(92)	(34)
Amortisation of acquired additional value of in-force long-term business	(29)	(22)
Exceptional items	(425)	(163)
Operating (loss)/profit before tax	(72)	1,281

*Including life achieved operating profit

The merger to form CGNU was completed on 30 May 2000, creating an international group with the scale and financial strength to compete successfully in its chosen markets. We have already made substantial progress in integrating the overlapping businesses of CGU and Norwich Union and are fully on course to meet our cost savings target of £275 million a year by the end of 2001.

In line with Group strategy, during the year we have invested nearly £1.2 billion in new distribution initiatives in the long-term savings business, both in the UK and internationally. We have also pruned our general insurance businesses, with the most notable being the impending exit from the US general insurance business and our withdrawal from London Market operations. While this has been at a substantial cost of £1.3 billion after tax, it has refocused the Group. These actions have increased the proportion of our business in the faster-growing, long-term savings market and will improve the quality of our earnings.

Measuring performance

The Group seeks to generate superior returns and increasing value for its shareholders by adopting rigorous performance targets for each business unit. These targets are based on the economic value generated by each unit, after allowing for the capital used to support the business. The same measure forms an important part of our incentive scheme for senior management.

The Group's target for return on capital is a normalised after-tax return on equity capital of 10% plus inflation. The normalised return is based on operating profit from ongoing business including life achieved operating profit, before amortisation of goodwill and exceptional items, as a percentage of the opening equity capital.

In 2000, we achieved a normalised after-tax return of 6% (1999: 7%) on ongoing business. This reflects strong results from our long-term savings businesses, offset by a strategic investment in our UK online wealth management service and a fall in general insurance profits following exceptional weather-related claims.

Basis of results

In preparing these results, we have adopted merger accounting principles which assume that the combined Group has been in place for all reporting periods. The alignment of accounting policies and embedded value methodology has led to a restatement of the comparative figures.

We have continued to use life achieved profits in commenting on our performance. This method reflects the change in the embedded value of our life operations and, in our view, gives a more accurate reflection of the performance of the Group's life operations than the modified statutory basis used in the statutory financial statements.

In arriving at the Group operating profit from ongoing business, we have excluded the result of both the US general insurance business (the sale of which was announced in September 2000 and is due to complete in the first half of 2001) and the UK London Market discontinued operations.

All growth rates in the Financial review are quoted at constant rates of exchange.

Results

The Group's operating profit before tax from ongoing business was £1,407 million (1999: £1,534 million). This is after a charge for a strategic investment of £133 million in our online wealth management service, which will cost £250 million in total, and £285 million of exceptional weather-related costs (1999: £69 million) arising from late storm claims in France and floods in the UK. Excluding these items, operating profit from ongoing business would have been 17% higher.

On a modified statutory basis, operating profit before tax from ongoing business was £1,028 million (1999: £1,299 million).

Long-term savings

New business in our long-term savings operations grew by an excellent 24% to £13.5 billion, with particularly impressive performances in the UK and France. Life achieved operating profit was

£1,569 million (1999: £1,407 million), an increase of 14% over 1999. New business margins remain under pressure in many of our markets, and the new pension value contribution in the UK was all the more impressive.

UK

With strong growth in sales – up 21% to £7.5 billion (1999: £6.2 billion) – the UK business increased its share in a broadly flat market. Total pension sales rose more than 30% to £1.8 billion, placing CGNU in an excellent position for the introduction of stakeholder pensions later in 2001. The UK life achieved operating profit was up 12% to £938 million, reflecting the rising volume of new business and increased profit from existing business reflecting higher opening interest rates and growth of the in-force portfolio.

France

The French operation achieved overall sales growth of 33% in a market that grew by 20%. Operating profit increased by 67%, helped by favourable experience variances.

Netherlands

Total sales rose 158% to £1.6 billion, boosted by the first full-year contribution from Nuts Ohra (acquired in October 1999) and an impressive performance in retail investment sales. Operating profit was up 12% to £174 million (1999: £168 million).

Poland

Our business in Poland is the market leader for private pensions and individual life assurance. At £191 million (1999: £389 million), total sales were lower than last year as a result of the unique, one-off privatisation of pensions provision in 1999. Operating profit was £95 million (1999: £117 million).

Spain

Our Spanish business increased its sales by over 600%, reflecting a first-time contribution from our new bancassurance partnership with Bancaja and the introduction of unit-linked policies. Operating profit grew 250% to £42 million.

International

The performance of our international business as a whole was held back by investment in a new bancassurance systems platform in the US and the impact of the introduction of new tax legislation in Australia. Operating profit stood at £29 million (1999: £56 million).

Life operating profit on a modified statutory basis
On a modified statutory basis, life operating profit increased to £1,190 million (1999: £1,172 million).

Health

Premium income from our health businesses rose by 78% over 1999 and operating profit more than doubled to £68 million (1999: £24 million). The increase mainly reflected the first full-year inclusion of the Nuts Ohra business in the Netherlands.

Fund management

Assets under management increased by £12 billion to £220 billion, including third-party funds of £27 billion (1999: £25 billion). Operating profit amounted to £61 million.

In the UK, investment in the retail business held back the full-year result by £21 million. Now operating under the Norwich Union brand, our retail investment business is the UK's leading provider of corporate bond and Cat-standard Isa funds and its sales grew dramatically to £517 million. Over half of these sales (£274 million) related to Cat-standard Isa products, bringing funds under management for Cat-standard products to over £2.5 billion.

Sales from Norwich Union's Navigator product in Australia grew strongly, increasing 36% to £824 million.

General insurance

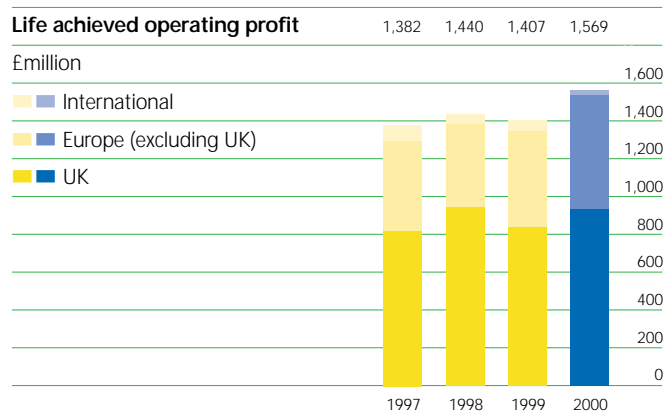
In general insurance, the ongoing business returned an operating profit of £412 million (1999: £459 million). The comparison with last year is distorted by £285 million (1999: £69 million) of exceptional weather-related costs which masks an underlying improvement in performance.

5

Major new ventures: Royal Bank of Scotland; Bancaja; Banca Popolare di Lodi; UniCredito Italiano; and Wells Fargo

10

Key exits initiated in 2000: US general insurance; UK London Market; German general insurance; State Insurance, New Zealand; South African general insurance; Norwich Union Poland life and pensions; Greek life business; Canadian life businesses; Quilter stockbrokers; and Australian fund manager, Paladin



The worldwide combined operating ratio from ongoing business was 109%, 107% before the exceptional weather-related events, and clear plans are in place to improve this ratio to 102% by the end of 2001. The worldwide expense ratio improved from 13.3% to 12.6% and will continue to benefit from merger savings.

The Group is committed to achieving satisfactory returns from general insurance business results through strict underwriting and reducing its costs. With the emphasis on profitability rather than market share, all our businesses are ensuring that premium rates were appropriate for the risks written.

UK

Our ongoing business in the UK was held back by the autumn floods, assessed as the wettest autumn since records began, which cost the Group £195 million. Before storm costs, there was an underlying improvement in the underwriting result, with particular progress in motor and household classes following strong premium rating actions. The combined ratio from ongoing business before the exceptional flood costs was 104% (1999: 107%), with personal lines achieving 100% against 103% in 1999.

France

The poor performance in France is largely attributable to the storms of December 1999 and the late notification from agents and lead co-insurers which led to an additional charge in 2000. The storms were assessed by the industry as a one-in-500-years event and were the second most expensive insured loss to hit Europe. The cost of the French storms charged in the 2000 result was £90 million (1999: £69 million, including £31 million incurred by group reinsurance).

Other Europe

Excluding France, our other European general businesses produced an underwriting loss of £125 million (1999: £89 million). While increases in claim costs and competition adversely affected the results of a number of our European operations, actions have been taken to improve results.

International

Our ongoing international general businesses saw a sharp improvement in their underwriting and operating result. Underwriting losses improved to £101 million (1999: £140 million), mainly reflecting the strong performance of our Australian and New Zealand businesses, offset by a lower Canadian result in difficult market conditions. In February 2001, we announced that we had reached agreement to sell one of our two operations in New Zealand, as the best way to maximise shareholder value in this market.

Integration savings and costs

During the period, we have achieved annualised cost savings of £111 million, with £26 million of savings included in the results for the year. We have provided for the full amount of one-off integration costs of £425 million. This cost is shown as an exceptional item in the profit and loss account. The 1999 exceptional costs largely relate to costs of the Commercial Union plc and General Accident plc merger.

Investment returns

Operating profits include longer-term investment returns. The differences between these and the actual investment returns are reported as favourable short-term fluctuations and amounted to £258 million in 2000. Over the last three years, the actual returns exceeded the longer-term returns by £1,292 million.

Taxation

The taxation charge of £255 million (1999: £382 million) includes a charge of £326 million (1999: £349 million) on operating profits from ongoing business, equivalent to an effective rate of 31.7% (1999: 26.9%). The increase is mainly due to changes in the mix of business, with life profits being a higher proportion of the total.

Dividends

A final dividend of 23.75 pence net per share has been proposed, which brings the total for the year to 38 pence net per share.

Shareholders' funds

Shareholders' funds fell £2.1 billion to £13.6 billion after deducting the equalisation provision of £216 million. The reduction mainly reflects the loss on the disposal of the US general business and our exit from UK London Market operations.

Management of financial risks

The Group recognises the critical importance of having efficient and effective risk management systems in place. Close attention is paid to asset and liability management. This is particularly important for our life businesses, given the long-term nature of the liabilities involved. For general insurance businesses, a rigorous process for managing underwriting risk is applied. Central to this process is the use of sophisticated management information that is used to measure and price underwriting risk and establish and monitor claims provisions.

Reinsurance is a key tool in managing our catastrophe exposure. In designing our reinsurance programmes we take account of our risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and smoothed returns, and the cost of reinsurance protection. To complement the reinsurance protection bought by individual businesses, the Group has an additional cover, in place above £200 million that provides protection from a single natural catastrophe event.

An important strength of the Group is the international diversity of its operations. As a result, approximately half of the Group's premium income arises in currencies other than sterling. At the same time, its net assets are denominated in a variety of currencies of which the largest are the euro (48%) and

sterling (37%). During the year, shareholders' funds benefited by foreign exchange translation gains of £303 million.

In managing our foreign currency exposures, we do not hedge revenues as these are substantially retained locally to support the growth of our business and meet local regulatory and market requirements.

The Group's net assets and, to a more limited extent its solvency, are exposed to movements in exchange rates. The Group hedges part of this balance sheet translation exposure through local currency borrowings and derivatives.

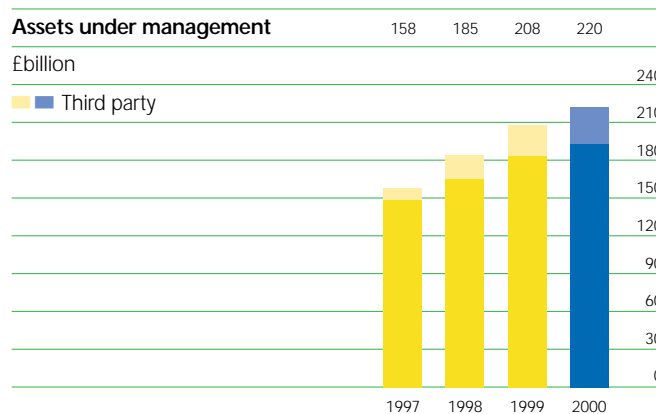
Capital management

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital and borrowings consistent with the Group's risk profile and the regulatory and market requirements of our business. The Group's principal insurance operating subsidiaries have been assigned financial strength ratings of AA ("very strong security") from Standard and Poor's (S&P). The Group's capital has been allocated such that the capital employed by trading operations is some £7 billion greater than the capital provided by our shareholders. As a result, the Group is able to enhance the returns earned on its equity capital.

Borrowings

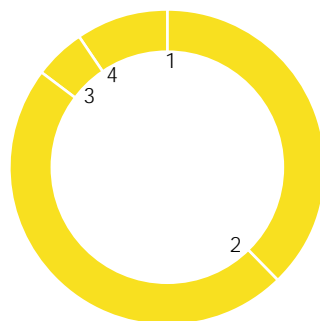
The Group uses a variety of borrowing instruments as well as its own funds to invest in the business and has substantial committed facilities available to it.

At the end of 2000, the Company's total external borrowings amounted to £2.6 billion. Some 34% of these borrowings have fixed interest rates with maturity terms of between 2 and 26 years, with the balance largely being in commercial paper. The ratio of the Group's external debt to shareholders' funds was 19%, maintaining an efficient capital structure consistent with the Group's risk profile.



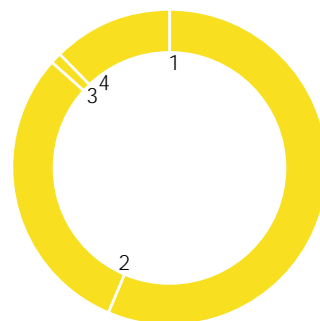
Net assets by currency 2000

- 1 – Sterling: £5,301m
- 2 – Euro: £6,810m
- 3 – US dollar: £752m
- 4 – Other: £1,354m



Net premiums written by currency* 2000

- 1 – Sterling: £13,820m
 - 2 – Euro: £7,413m
 - 3 – US dollar: £279m
 - 4 – Other: £3,014m
- *Excluding US general insurance and UK London Market



Investments

General insurance funds are invested in fixed income securities to broadly match our insurance liabilities, with the balance of the portfolio invested largely in equities. Overall, some 61% of general insurance and other non-life investments are in fixed income securities and some 29% in equities and properties.

In our long-term savings operations, unit-linked policies are backed directly by appropriate investments. Non-linked policies are invested in a mixture of assets, depending upon the nature of the liabilities. Overall, some 47% is invested in equities and properties and some 41% in fixed income securities.

Derivative instruments are used only to a limited extent, within guidelines agreed by the Board. Derivatives are used for investment or debt-hedging purposes or to structure specific retail savings products. Speculative activity is prohibited and all derivative transactions are covered fully, either by cash or by corresponding assets and liabilities.

Our asset management philosophy is to identify benchmarks appropriate for the various funds that we manage and then seek to outperform those benchmarks through superior asset allocation and stock selection based on high-quality research and analysis. Last year was challenging for the investment markets. Equity markets and technology stocks in particular performed poorly over the year, although fixed interest markets generated positive returns as the interest rate environment became more favourable.

Our overall investment returns attributable to shareholders exceeded our longer-term return assumptions, helped by good performances of a number of large investment holdings.

Peter Foster Group Finance Director

Board of directors



1 Pehr Gyllenhammar 65

Chairman and non-executive director

Appointed to the Board in 1997, becoming Chairman in 1998. Former Executive Chairman of AB Volvo. Currently a Managing Director of Lazards, Chairman of Reuters Founders Share Company Limited and a non-executive director of Lagardère SCA.

Chairman of the Nomination Committee and member of the Remuneration Committee.



2 George Paul DL 61

Deputy Chairman and non-executive director

Appointed to the Board in May 2000 as Deputy Chairman. Joined the Norwich Union Board as a non-executive director in 1990, becoming Chairman in 1994. Non-executive Chairman of Agricola Group Limited, non-executive director of Fleming Overseas Investment Trust plc and of Notcutts Limited.

Senior non-executive director, Chairman of the Remuneration Committee and member of the Nomination Committee.

3 Bob Scott AAI 59

Group Chief Executive

Appointed to the Board as Group Chief Executive in June 1998. Joined South British Insurance Company, now part of the Group, in 1959 and worked in New Zealand, the United Kingdom and Australia, before moving to the United Kingdom in 1990. Joined the Board of General Accident in 1992, becoming its Group Chief Executive in 1996. Currently Chairman of the Association of British Insurers and a non-executive director of The Royal Bank of Scotland plc. Bob will retire on 24 April 2001.

Member of the Nomination Committee.

4 Richard Harvey FIA 50

Deputy Group Chief Executive

Appointed to the Board as Deputy Group Chief Executive in May 2000. Joined Norwich Union in 1992, holding senior positions in New Zealand and the United Kingdom before joining the Norwich Union Board in 1995 and becoming Group Chief Executive in 1998. Richard will succeed Bob Scott as Group Chief Executive on 24 April 2001.

Member of the Nomination Committee.



5 Mike Biggs ACA 48

Executive director

Appointed to the Board in May 2000. Joined Norwich Union in 1991 and the Norwich Union Board in 1996. Held a number of executive appointments in Norwich Union, becoming Finance Director in 1997. Currently executive director responsible for the Group's General Insurance operations in the UK. Mike will become Group Finance Director from 31 March 2001.

6 Lyndon Bolton 64

Non-executive director

Appointed to the Board in June 1998, having served as a non-executive director of General Accident since 1982. Former Managing Director of Alliance Trust and a former non-executive director of TSB Group plc. He will retire from the Board on 24 April 2001 at the close of the Annual General Meeting.

Member of the Remuneration Committee.

7 Guillermo de la Dehesa 59

Non-executive director

Appointed to the Board in May 2000. Joined the Board of Norwich Union as a non-executive director in 1999. Former Chief Executive of Banco Pastor and currently a director. Former General Manager of the Bank of Spain, Secretary General of Commerce and Secretary of State of Finance in Spain 1982-1988. Currently Vice-Chairman of Goldman Sachs Europe and Chairman of the Centre for Economic Policy Research.

Member of the Audit and Nomination Committees.

8 Wim Dik 62

Non-executive director

Appointed to the Board in 1999, having served as a Chairman of Nuts Ohra, a Dutch insurer acquired by the Group in 1999. A former Chairman of Nederlandse Unilever Bedrijven BV and former Chairman and Chief Executive Officer of KPN, Royal Dutch Telecom. Currently a member of the Supervisory Board of ABN AMRO Bank and TNT Post Group.

Member of the Audit Committee.





9

9 Peter Foster FCCA 54

Executive director

Appointed to the Board in 1994. Joined Commercial Union in 1963 and appointed Finance Director in 1994. Currently Group Finance Director. Peter will retire from the Board on 31 March 2001.



10

10 Sir Michael Partridge KCB 65

Non-executive director

Appointed to the Board in May 2000. Joined the Board of Norwich Union as a non-executive director in 1996. Former Permanent Secretary, Department of Social Security, non-executive director of Methodist Ministers' Pension Trust Limited and Epworth Management Investment Limited. Chairman of the Stationery Office Pension Scheme Trust. *Member of the Audit Committee.*



11

11 Philip Scott FIA 47

Executive director

Appointed to the Board in May 2000. Joined Norwich Union in 1973 and the Board of Norwich Union in 1993. Held a number of senior positions in Norwich Union, becoming Chief Executive UK Life and Long-Term Savings in March 1999. Currently executive director with responsibility for the Group's UK Life, Long-Term Savings and Wealth Management operations.



12

12 Derek Stevens 62

Non-executive director

Appointed to the Board in 1995. A director and Chief Financial Officer of British Airways Plc. *Chairman of the Audit Committee.*



14

13 Philip Twyman FIA FIAA AAI 56

Executive director

Appointed to the Board in June 1998. Joined the Board of General Accident in 1996 as executive director responsible for finance, life and investment operations. Currently an executive director with responsibility for the Group's international and fund management operations, as well as Group Strategy and Planning.



15

14 Elizabeth Vallance 55

Non-executive director

Appointed to the Board in May 2000. Joined the Board of Norwich Union as a non-executive director in 1995. Chairman of the NHS Advisory Committee on Distinguished Awards. Fellow of Queen Mary and Westfield College, University of London. Non-executive director of Charter European Trust plc and a former non-executive director of HMV Group Limited. *Member of the Remuneration and Nomination Committees.*



16

15 André Villeneuve 56

Non-executive director

Appointed to the Board in 1996. Chairman of Instinet Corporation and a non-executive director of United Technologies Corporation. A former executive director of Reuters plc. *Member of the Remuneration Committee.*

16 Tony Wyand 57

Executive director

Appointed to the Board in 1987. Joined Commercial Union in 1971 and worked for the Group in the UK, the United States and France. Currently responsible for the Group's operations in continental Europe. A non-executive director of Société Générale, UniCredito Italiano and Grosvenor Estate Holdings.

Patrick Snowball 50

On 24 January 2001, the Company announced that Patrick Snowball is to be appointed an executive director with responsibility for the Group's General Insurance operations in the United Kingdom and that he will join the Board with effect from 31 March 2001. Patrick was previously a director of Norwich Union, appointed in October 1999, having joined that company in 1989. He is currently Managing Director of the Group's General Insurance operations in the United Kingdom.

Other officer

Richard Whitaker Group Company Secretary

Directors' report

The directors submit their Report and accounts for CGNU plc, together with the consolidated accounts of the CGNU Group of companies, for the year ended 31 December 2000.

Change of name

The Company changed its name on 30 May 2000 from CGU plc to CGNU plc, upon completion of the merger with Norwich Union plc.

Annual General Meeting

A separate document accompanying the Report and accounts contains an explanation of the business to be conducted at, and the Notice convening, the Annual General Meeting of the Company, to be held on 24 April 2001 at 11.00am at The Barbican Centre, Silk Street, London EC2Y 8DS.

Principal activities

CGNU plc is the holding company of the CGNU Group of companies, which transacts life assurance (other than industrial life) and long-term savings business, fund management, and all classes of general insurance through its subsidiaries, associates and branches in the United Kingdom, Continental Europe, North America, Asia, Australia 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.

Review of operations, current position and future prospects

Details of the Group's operations for the accounting period, its current position and future prospects are contained in the Chairman's statement, Group Chief Executive's review and business operating and financial reviews set out on pages 2 to 31.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole 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 53 to 55.

Dividend

The directors are recommending a final dividend of 23.75 pence (*1999: 23.75 pence*) per share which, together with the interim dividend of 14.25 pence (*1999: 14.25 pence*) per share, produces a total dividend for the year of 38.00 pence (*1999: 38.00 pence*) per share. The total cost of dividends for 2000, including preference dividends, will amount to £872 million (*1999: £790 million*), leaving £2,585 million to be transferred from reserves (*1999: £230 million to reserves*).

The final dividend for 2000 will be payable on 17 May 2001 to all holders of ordinary shares on the Register of Members at the close of business on 30 March 2001. The Company's Dividend Reinvestment Plan will be available to shareholders in respect of the payment of the final dividend. Further details of the Plan can be found in the shareholder information contained on page 108.

Share capital

Details of the share capital and shares under option as at 31 December 2000, and shares issued during the year which ended on that date, are given in note 31 on pages 85 to 87.

Directors

The names of the present members of the Board and brief biographical notes appear on pages 32 and 33.

Louise Botting, Sir Tim Lankester, Lord Lang of Monkton and Peter Ward, who were directors at the beginning of the year, resigned from the Board on 30 May 2000 upon completion of the merger with Norwich Union. Mike Biggs, Guillermo de la Dehesa, Richard Harvey, Sir Michael Partridge, George Paul, Philip Scott and Elizabeth Vallance were all appointed to the Board on that date. Since these directors joined the Board after the date of the last Annual General Meeting they will, in accordance with the articles of association, retire at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment. Alan Perelman was also appointed a director on 30 May 2000 and subsequently resigned on 14 November 2000.

The directors retiring by rotation in accordance with the articles of association at the Annual General Meeting and, being eligible, offering themselves for reappointment are Pehr Gyllenhammar and Tony Wyand. Bob Scott also retires by rotation, but will not be seeking reappointment. Mike Biggs, Richard Harvey, Philip Scott and Tony Wyand each have a service contract with a Group Company, details of which can be found on page 43.

Bob Scott, the Group Chief Executive and Lyndon Bolton, a non-executive director, will both retire from the Board on 24 April 2001. At the conclusion of the Annual General Meeting, Richard Harvey will succeed Bob Scott as Group Chief Executive.

Patrick Snowball is to be appointed a Group Executive Director with responsibility for the Group's UK General Insurance operations and will join the Board with effect from 31 March 2001. He will, in accordance with the articles of association, retire at the forthcoming Annual General Meeting and, being eligible, seek reappointment. Upon appointment, he will have a service contract with a Group Company.

Mike Biggs, currently a Group Executive Director, is to be appointed Group Finance Director with effect from 31 March 2001, at which point Peter Foster, currently Group Finance Director, will retire from the Board.

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 table below shows the interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in the Company, as recorded in the register maintained by the Company in accordance with the provisions of section 325 of the Companies Act 1985. Details of any options and awards held through the Company's share schemes and incentive plans are shown on pages 45 to 47. All the disclosed interests are beneficial.

	At 1 January 2000 (or appointment if later)	At 31 December 2000
Mike Biggs*	25,940	20,673
Lyndon Bolton	3,541	3,541
Guillermo de la Dehesa*	144	144
Wim Dik	–	–
Peter Foster	29,170	33,753
Pehr Gyllenhammar	8,114	16,114
Richard Harvey*	38,157	21,171
Sir Michael Partridge*	2,226	2,236
George Paul*	20,366	20,397
Bob Scott	40,354	39,635
Philip Scott*	26,772	26,772
Derek Stevens	1,747	1,965
Philip Twyman	12,558	19,751
Elizabeth Vallance*	830	830
André Villeneuve	640	640
Tony Wyand	55,527	17,465

The directors marked with an asterisk held shares in Norwich Union plc prior to their appointment to the Board of CGNU plc. These shares were converted to shares in CGNU plc on 30 May 2000, in accordance with the terms of the Scheme of Arrangement, at the rate of 48 CGNU shares for every 100 Norwich Union shares held. In order to show actual movements in shareholdings during the year, these shareholdings are stated as if the conversion had been applied at the start of the year.

The following are changes to directors' interests during the period 1 January 2001 to 26 February 2001, that have been reported to the Company and are for shares acquired through the reinvestment of dividends in Personal Equity Plans and/or Individual Savings Accounts.

	Number of shares
Mike Biggs	11
Richard Harvey	13
Sir Michael Partridge	9
George Paul	26

Substantial shareholdings

The register maintained by the Company in accordance with the provisions of section 211 of the Companies Act 1985 shows that, as at 26 February 2001, no person had reported a notifiable interest in the ordinary share capital of the Company.

Charitable and political donations

CGNU has continued to support community initiatives and charitable causes worldwide and the total Group commitment during the year was £4.7 million.

In the United Kingdom, payments of £3 million were made during the year to community support projects, of which £1.1 million (1999: £0.8 million) were charitable donations. The Group's charitable giving covers a wide range of sectors and organisations, including many aspects of medical research, social welfare, the young, the elderly and the arts. In the United Kingdom, the Group has encouraged its staff to participate in charitable activities by matching funds raised. During the year, staff raised £0.1 million for a wide range of charities which was matched by the Company, on a £ for £ basis.

No political donations were made during the year (1999: nil).

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.

The Company has no trade creditors. In respect of Group activities in the United Kingdom, the amounts due to trade creditors at 31 December 2000 represented approximately 32 days of average daily purchases through the year (1999: 29 days).

European Monetary Union

CGNU has significant operations within the European Union and considers that overall success of EMU presents a substantial opportunity for the Group. Costs incurred to date for the introduction of the euro amount to £57 million, of which £17 million has been included in these results (1999: £16 million). The expected total cost of preparing the Group's systems for the euro is some £74 million, excluding the UK.

United Kingdom employees

Employees are kept informed of the affairs of the Group through circulars, in-house newspapers, intranet, video presentations and face-to-face briefings. This process was enhanced on the announcement of the proposal to merge CGU and Norwich Union and has continued as integration of the businesses progresses. A process of continuing consultation with the staff representative bodies has been essential in the management of change.

Employees are involved in the Group's performance by way of participation in profit sharing and save as you earn share option schemes. The Company will be seeking the approval of shareholders at the Annual General Meeting to establish an All Employee Share Ownership Plan which will replace the profit sharing scheme.

Directors' report

continued

The companies in the Group are committed to providing equal opportunities to all employees irrespective of sex, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection through competency-based comparisons, training, career development, promotion and performance appraisal. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

Standards of Business Conduct

The Group recognises its responsibilities to all those with whom its business brings it into contact, including customers, employees, shareholders, suppliers and the community. It therefore operates a Standards of Business Conduct Policy which provides guidance for every employee to act with integrity in all business relationships.

Each of the Group's businesses is required to have, and to monitor the effectiveness of, a code of conduct based on the Group's policy, adjusted for local laws and customs, where appropriate.

Environment

CGNU has continued to make progress with its environmental programme (see page 25). A stronger and redefined environmental structure has been extended across the enlarged Group and each business unit is working to achieve the objectives of the corporate environmental policy. This year, in accordance with the policy, an externally verified environmental audit has been undertaken to provide assurance on the Group's progress.

The environmental programme is directed centrally to ensure consistency of approach towards the achievement of objectives and targets, to disseminate best practice across the business and to collate Group performance. The Board continues to review progress annually. The Group's programme aims to integrate environmental considerations into corporate policy, business decision making, product development and purchasing and supply chain management.

An Environment Report has been prepared, setting out the Group's policy, its progress to date, future programmes and the results of the externally verified audit. A summary copy is available upon request from the Group Company Secretary or the full report can be viewed on the internet: www.cgnuenvironment.com

Auditors

On 20 June 2000, PricewaterhouseCoopers and Ernst & Young were appointed joint auditors of the Company to replace PricewaterhouseCoopers who resigned as the Company's sole auditors.

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the appointment of Ernst & Young as sole auditor of the Company. PricewaterhouseCoopers are not seeking reappointment as a joint auditor of the Company.

Ernst & Young has stated that, subject to the approval of its partners, it is intending to transfer its business to a limited liability partnership during 2001. If this happens, it is the current intention of the directors to use their statutory powers to appoint Ernst & Young LLP in place of Ernst & Young at the appropriate time.

By order of the Board.

Richard Whitaker
Group Company Secretary

26 February 2001

Registered Office: St. Helen's
1 Undershaft, London EC3P 3DQ
Registered in England No. 2468686

Corporate governance

Application of the Combined Code

The UK Listing Authority requires listed companies to disclose, in relation to section 1 of the Combined Code produced by the Committee on Corporate Governance in June 1998 (the Combined Code), how they have applied its principles and whether they have complied with its provisions throughout the accounting year.

Directors of the Board

The Board has nine scheduled meetings each year and meets more frequently as required. It currently comprises nine non-executive directors, including the Chairman, and seven executive directors. Each non-executive director serves for a fixed term of three years, which may be renewed by mutual agreement, and there is no limit to the number of terms a director may serve. The Company's articles of association require that, following appointment by the Board, directors must submit themselves for election by shareholders at the next Annual General Meeting. The articles also provide that one third of directors must retire by rotation each year, but are eligible to submit themselves for re-election by the shareholders, and that all directors are obliged to retire at least every three years.

The Board has a formal performance review process to assess how well it is performing. To ensure that directors are able to exercise an independence of judgement, the Nomination Committee undertakes a regular review of directors' interests in which all potential or perceived conflicts and issues of 'independence' are considered. Based on the latest review, the Board considers that all of the current non-executive directors are independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The directors bring to the Board a wide range of experience and skills and participate fully in decisions on the key issues facing the Group. Directors are encouraged to attend relevant training courses upon joining the Board and at regular intervals on an ongoing basis, where appropriate.

The duties of the Board and its Committees are set out clearly in formal terms of reference, which are reviewed annually, stating the items specifically reserved for decision by the Board. The said terms of reference contain a procedure whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense if considered appropriate. At the Board meetings, directors receive regular reports from the key areas of the business and on other material issues.

The Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to his advice and services.

The Board has established a number of committees, including Remuneration, Audit, Nomination and Information Technology Strategy Committees, which operate within defined terms of reference. Minutes of their meetings are circulated to the Board.

Remuneration Committee

The Remuneration Committee comprises the following non-executive directors, appointed by the Board:

George Paul (Chairman)
Lyndon Bolton
Pehr Gyllenhammar
Elizabeth Vallance
André Villeneuve

The Committee has four scheduled meetings each year to consider all aspects of remuneration paid to senior executives, including executive directors, and to make recommendations to the Board on the remuneration policy, strategy and framework for this group of employees. The Committee also exercises discretion on behalf of the Board in relation to the operation of the Group's various share schemes and incentive plans.

The remuneration packages and the benefits paid to each director are reviewed carefully by the Committee, which seeks independent professional advice to ensure that they are appropriate to support both the Company's short-term and long-term business objectives and that performance-based remuneration is measured against challenging criteria. The Board itself determines the level of fees paid to the non-executive directors, following consideration of a recommendation from the executive directors.

The Board's Remuneration report is contained on pages 40 to 43.

Audit Committee

The Audit Committee comprises the following non-executive directors, appointed by the Board:

Derek Stevens (Chairman)
Guillermo de la Dehesa
Wim Dik
Sir Michael Partridge

The Committee meets four times each year to assist the Board in discharging its responsibilities for the Company's financial announcements, business risk management, internal control issues and regulatory compliance, as well as oversee the objectivity and effectiveness of the internal and external auditors.

Corporate governance

continued

Nomination Committee

The Nomination Committee comprises the following directors, appointed by the Board:

Pehr Gyllenhammar (Chairman)
Guillermo de la Dehesa
Richard Harvey
George Paul
Bob Scott
Elizabeth Vallance

The Committee deals with appointments and reappointment to the Board, monitors potential conflicts of interests and makes recommendations to the Board concerning the independence of the non-executive directors.

Information Technology Strategy Committee

This committee comprises the following members appointed by the Board:

André Villeneuve (Chairman)
Wim Dik
Pehr Gyllenhammar
Richard Harvey
Bob Scott
Sven Skarendahl*
Philip Twyman

*Sven Skarendahl, an independent consultant, whilst not a director of the Company, has been appointed by the Board to this committee due to his broad experience in technology and internet-based companies.

The committee advises the Board on the Group's IT and e-commerce strategies.

Relations with shareholders

The Company places considerable importance on communications with shareholders and responds to them on a wide range of issues. It has an ongoing programme of dialogue and meetings between the executive directors and its major institutional shareholders, where a wide range of relevant issues including strategy, performance, management and governance are discussed. The Company also seeks the views of major investors, particularly on remuneration issues, through consultation with the Association of British Insurers.

At its Annual General Meetings, the Company complies with the Combined Code as it relates to the disclosure of proxy votes, the separation of resolutions and the attendance of committee chairmen. The Notice of the Annual General Meeting is sent out at least 20 working days prior to the Meeting in order to ensure that shareholders have sufficient time in which to consider the items of business.

Both the Company's Annual report and Annual review are designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement, Group Chief Executive's review and business operating and financial reviews on pages 2 to 31 provide an assessment of the Group's affairs and position and will be supported by a presentation to be made at the Annual General Meeting.

Institutional investor

As a major investor, the Group monitors the governance of the companies in which it invests and has in place a policy of exercising the voting rights attaching to its own shareholdings in the United Kingdom and, where it has been given discretion to do so, those of its clients. Details of how the voting discretion has been used on any particular issue are available to clients upon request. To avoid unnecessary and confusing variations on corporate governance requirements, the Group's governance and voting policy is based largely on that recommended by the Association of British Insurers. However, each issue is considered on its merits and, where a company can provide a reasonable justification for any non-compliance, its management will often receive support.

Internal controls

The Board has ultimate responsibility for the systems of internal control maintained by the Group and for reviewing their effectiveness. The systems are intended to provide reasonable assurance, but not an absolute guarantee, against material financial misstatement or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

During the year, the Audit Committee, on behalf of the Board, has reviewed the effectiveness of the framework of the Group's systems of internal control, the principal features of which are as follows.

Control environment

The key features of the control environment include the terms of reference for the Board and each of its committees; a clear organisational structure, with documented delegation of authority from the Board to executive management; and defined procedures for the approval of major transactions and capital allocation.

Risk identification and assessment

The Group's systems of internal control have a key role in the identification and management of risks that are significant to the achievement of its business objectives. The Board has in place a system of business risk management, which has been integrated throughout the Group into the business planning and monitoring processes. The results are reviewed by a Risk Committee under the chairmanship of the Group Finance Director. The overall risk management process and results are reviewed formally by the Audit Committee and the Board.

Control procedures and monitoring systems

The Group has a well-developed system of planning and monitoring, which incorporates Board approval of a rolling three year Group plan. Performance against the plan is subsequently monitored, and reported formally through the quarterly publication of Group results using a prudent basis of financial reporting and accounting policies applied consistently throughout the Group. There is regular liaison between executive directors and operational management and the Board receives regular presentations from the management responsible for each principal business operation.

The Group has well-established internal audit, risk management and compliance functions. There are formal procedures in place for both internal and external auditors to report independently conclusions and recommendations to management and to the Audit Committee.

Compliance with the Combined Code

Following the merger of the Company with Norwich Union, all aspects of corporate governance were reviewed by the Board at its first meeting post-merger, in June 2000. Other than where stated below, the Company has complied fully throughout the accounting period with the provisions set down in section 1 of the Combined Code.

The Combined Code requires the Remuneration Committee to determine, on the Board's behalf, the specific remuneration packages for each of the executive directors. It was the Company's practice to put these packages to all the non-executive directors, for approval. The Company changed its practice to be in line with the Combined Code from June 2000. Four of the current executive directors have rolling two-year service contracts although, as stated in the Remuneration report on page 43, new appointments to the Board made during the year have been on a one year basis.

The Combined Code also introduced a requirement that the Board reviews the effectiveness of the Group's system of internal control. This extends the existing requirements in respect of internal financial controls to cover all controls, including financial, operational, compliance and risk management. *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance), was published in September 1999. As from the third quarter, following completion of the merger, the Board confirms that the Company, as required by the London Stock Exchange, has complied with the Combined Code provisions on internal control having implemented the Turnbull guidance and reporting in accordance with the guidance.

The Auditors' report on page 49 covers their review of the Company's compliance with the relevant provisions of the Combined Code.

Remuneration report

This report sets out the reward policy established by the Remuneration Committee (the Committee) for the Company's senior executives, including the executive directors, and outlines the various elements of their remuneration. The details given in the report relate to the basis of remuneration following the merger of the Company and Norwich Union on 30 May 2000 ("the Merger"). Prior to that date, the remuneration packages paid by both companies were based on those set out in their respective Report and Accounts for 1999. Copies of these documents are available from the Group Company Secretary.

This report should be read in conjunction with the details of the remuneration paid to the directors in 2000 contained on pages 44 to 48.

Changes made during the year

Following the Merger, the Committee undertook a detailed review of the Company's reward policies to ensure that they remain effective to motivate senior management towards achieving the Company's targets, and to attract and retain management of the highest calibre. In its review, the Committee was assisted by independent consultants who specialise in reward strategies for senior executives of large multinational organisations.

As a result of the review, a new Long-Term Incentive Plan was introduced in which the Group's most senior executives participate. The executive directors will, subject to shareholders' consent, participate in this Plan instead of the Company's Executive Share Option Scheme. In addition, the performance conditions attaching to incentive awards granted during the year were amended. A new Deferred Bonus Plan has been introduced to replace the Company's current Plan and a new Integration Incentive Plan relating specifically to the Merger has also been established. Again, shareholders will be asked to approve these plans and the executive directors' participation in them. Full details of all these changes are given below.

Remuneration policy

The Company's remuneration policy seeks to provide competitive remuneration packages relevant for each particular market in which the Company operates, which attract and retain high-calibre employees and encourage and reward superior performance in a manner which is consistent with the interests of shareholders. The Group's remuneration policies are aimed at meeting these objectives and ensuring that senior executives, including executive directors, are rewarded fairly for their respective individual contributions to the Group's performance.

Against this policy, the Committee has set the content of the senior executives' total remuneration package by reference to a variety of factors, including market practices for companies of similar size and standing; current economic conditions; prevailing operating conditions within the Group and the financial services industry; the earnings of the Group's employees generally; and the skills and management capabilities which the Group must secure in order to attain its strategic objectives. Also, in considering the various elements which constitute senior executives' remuneration, the Committee seeks to produce a balance between long-term, short-term, fixed and variable rewards. The cyclical nature of some aspects of the Group's operations is, where appropriate, taken into account in determining this balance.

Executive directors' remuneration package

The remuneration package for the Company's senior executives (including executive directors) comprises a basic salary, pension entitlements and certain benefits in kind, including a company car allowance. In addition, they participate in short-term and long-term incentive plans as well as the Company's profit sharing and savings-related share option schemes. Full details of the total remuneration paid to the executive directors in 2000 are set out on pages 44 to 47.

Basic salaries

Each year, the Committee gathers data from a number of independent sources concerning salaries paid to senior executives performing comparable functions within the financial services sector and industry generally, for similar sized companies. Based on this information, salaries are targeted towards the upper quartile for comparable positions, subject to the senior executives being assessed as fully competent in their role. Competence is measured taking into account the executive's experience, performance and personal objectives achieved and requires evidence of superior performance over a sustained period.

Short-term incentives

The Company believes that a proportion of a senior executive's total remuneration should be attained through an annual incentive bonus arrangement which links rewards directly with performance.

Senior executives, including executive directors, participate in a Short-Term Incentive Plan that provides for the payment of cash bonuses. Seventy per cent of the payments under the Plan are dependent upon the achievement of performance against an internal financial target, with the balance dependent upon the attainment of personal objectives. For executive directors, the on-target bonus is 35% of basic salary, with a maximum payment of 50%.

A fundamental part of the Short-Term Incentive Plan, which is designed partly as a retention incentive, is the requirement for participants to defer a stated proportion of any cash bonuses awarded under the Plan each year. Executive directors are required to defer 50% and may defer up to 100% of their cash bonus. Participants are granted an award of shares of equal value to the amount of cash bonus deferred which is matched on a 'one for one basis' with a grant of restricted shares. The awards of shares and restricted shares are held in trust and vest after three years. The vesting of the shares is not subject to any specific performance conditions as the bonuses which are deferred, and upon which the awards are subject, are only made if the demanding performance conditions of the Short-Term Incentive Plan have been met. The Committee believes that imposing additional conditions would discourage participants from deferring the non-compulsory proportion of their bonus and thereby reducing the retention effect. It is the intention to acquire the shares required in connection with this Plan in the market.

This Plan will operate in respect of the financial year 2000, with the first deferment of bonuses taking place in Spring 2001. Currently, executive directors do not participate in this Plan but a proposal that they do so will be put to shareholders at the forthcoming Annual General Meeting. If approved, executive directors will participate in this Plan by deferring at least 50% of their bonuses which become due for the 2000 financial year. The former CGU Deferred Bonus Plan, which was approved by shareholders in 1999, and which matches deferred bonuses with options over shares, was used in respect of bonuses paid in 2000 but will be replaced by the Plan described above for senior executives, including executive directors.

Senior executives in the United Kingdom, including executive directors, are entitled to participate in the Group's Inland Revenue-approved profit sharing scheme on the same basis as other eligible employees. At the forthcoming Annual General Meeting, shareholders will be requested to grant authority for the Company to establish an All Employee Share Ownership Plan (AESOP) to replace the Company's current profit sharing scheme. If approved it is proposed that the free share element of the AESOP would operate instead of the profit sharing scheme in respect of the 2001 financial year, based on performance targets set for that year.

Long-term incentives

The Board believes in the value of share incentives that align the interests of employees directly with those of shareholders.

A new Long Term Incentive Plan (LTIP) was introduced in September 2000 in which senior executives participate. Under the LTIP, participants receive an award of restricted shares each year up to the value of one times basic salary. The shares vest after three years but only if certain demanding performance conditions have been met.

The performance conditions compare the total shareholder return (TSR) produced by the Company against that of a chosen comparator group. Achievement of median performance within this group triggers the vesting of 20% of awards and this rises to 70% if the Company's performance is in the upper decile of the comparator group. The other 30% of the awards vest if the Company achieves a given return, in excess of inflation, on the capital employed within the Company (ROCE) over a three year performance period. Awards under this part of the performance conditions will begin to vest if the ROCE over a performance period is 24%, with the full 30% vesting if the ROCE is 30% or higher. If the performance targets are not met over three years, they will be retested just once over five years with the ROCE performance conditions adjusted accordingly i.e. the ROCE would need to be at least 40% in excess of inflation over the extended performance period for any awards under that part of the Plan to vest. Recognising the Company's position as an international insurer, the comparator group for the TSR part of the Plan comprises 19 financial services companies, including 12 major European insurers. Shares acquired in the market are held in trust for use in connection with the Plan.

The performance conditions described above differ from the conditions used previously in connection with the Executive share option schemes, which based vesting solely on the TSR performance.

The Company currently operates Executive Share Option Schemes, which have the same performance conditions as those described above for the LTIP. Grants of options under the Schemes are awarded to those members of Group-wide management that have been identified as 'key' or possessing high potential. The former CGU executive directors participated as normal in the option schemes in 2000.

The Company will propose to shareholders at the Annual General Meeting that a new CGNU Executive Share Option Plan be introduced. This plan will not differ to any material extent from the existing schemes, save that it will align the rules and wording with those of the LTIP and current ABI guidelines and will provide flexibility to grant options to employees outside the United Kingdom. No executives will participate in both the LTIP and the Executive Share Option Scheme in the same financial year.

The executive directors are entitled to purchase shares through the Company's Inland Revenue-approved Savings Related Share Option Scheme on the same basis as other eligible employees. Under this scheme, shares are granted at a discount of up to 20% of the market value. In order to exercise the option, participants must have saved the consideration through either a three, five or seven year approved savings contract, subject to a maximum savings limit of £250 per month.

Remuneration report

continued

Transitional arrangements

Senior Norwich Union executives were to have participated in the Norwich Union Executive Share Plan (ESP) which that company proposed to establish in 2000, subject to the approval of its shareholders. Under the Plan, participants would have received an award of shares up to a value of 100% of their basic salaries and the award would have vested subject to performance conditions being met by the company. As a result of the Merger, the grants under the proposed ESP were not made and, to compensate for this, an award was made in September 2000 under the LTIP described above, to those former Norwich Union employees who would have participated in the ESP. The participation of Mike Biggs, Richard Harvey and Philip Scott, the former Norwich Union directors, in this award is conditional upon the approval of the LTIP by shareholders at the forthcoming Annual General Meeting.

The Company does not operate any other long-term incentive arrangements in which executive directors participate. The Commercial Union Long-Term Incentive Plan introduced by the Company in 1997 has been discontinued, although some entitlements granted under the Plan remain outstanding. All the Norwich Union incentive plans terminated upon the Merger.

Pension arrangements

The remuneration of executive directors includes company contributions into the Group's defined benefits pension scheme. All the executive directors are members of either the CGU Staff Pension Scheme, or the Norwich Union Group Pensions and Life Insurance Non-Contributory Plan (1971), on a non-contributory basis.

Senior executives, including the executive directors, have a normal retirement age of 60. Executive directors accrue pensionable service at a rate of one-thirtieth of pensionable salary for each year of service since they became a senior executive. No pension benefits are accrued on bonuses or other benefits. The Schemes provide a death in service benefit of four times the member's basic salary at the date of death and a spouse's pension equal to either two-thirds of a member's actual or prospective pension (CGU Scheme) or one-third of the member's salary at the date of death (Norwich Union Scheme).

Post-retirement pensions are reviewed annually and increases are guaranteed equivalent to the increase in the Retail Prices Index (up to 5% CGU Scheme and 10% Norwich Union Scheme).

The benefits paid from the pension schemes are subject to Inland Revenue limits. There is in place an unfunded pension top-up scheme to ensure that senior executives, including executive directors, receive the benefits promised by the pension schemes notwithstanding certain Inland Revenue limits relating to an earnings cap which restricts the

amount of pension that can be paid from a tax-approved scheme. Where the limit applies, benefits are topped-up from the unfunded scheme. Bob Scott, Philip Twyman, Mike Biggs and Richard Harvey are affected by these limits and therefore will, at retirement, receive some of their pensions benefit from this top-up arrangement.

Other benefits

In addition to the benefits described above, executive directors are entitled to the benefits of a company car allowance, and private medical insurance.

Integration incentive plans

As reported last year, an Integration Incentive Plan was introduced in September 1998 in connection with the merger of Commercial Union and General Accident which was approved by shareholders at the Company's Annual General Meeting in 1999. In connection with that merger, the stretched savings target, which the Plan was set up to achieve, has been exceeded and accordingly the awards granted under the Plan will vest in February 2001. Details are set out on page 45.

The Committee is of the view that the above Plan was instrumental in motivating key members of management to exceed the merger savings target whilst remaining focused on the underlying performance of the Group. The Committee has therefore sanctioned that a CGNU Integration Incentive Plan (CGNU Plan) be introduced in connection with the CGU and Norwich Union merger. Like the CGU Integration Incentive Plan, the CGNU Plan has two parts:

The first is a cash incentive with the purpose of ensuring that executives focus on achieving the agreed objectives for the particular part of the Group's operations for which they are responsible. Participants will receive a cash award in 2002 of up to 50% of their basic salary if their respective business units meet both their trading and merger savings targets.

The second part of the CGNU Plan is a restricted share scheme whereby key executives have been allocated shares in the Company to the value of one times their basic salary as at September 2000. The shares will only vest if, at 31 December 2001, the Company has exceeded the annualised merger savings target of £275 million announced by the Company in August 2000, by at least 10%. If this target is not achieved, the awards will lapse and the participants will not benefit from this part of the Plan. If the shares do vest, they will be met by shares purchased in the market.

In addition to focusing the senior executives on achieving both performance and savings targets, the CGNU Plan is aimed at retaining key executives during the integration period. The executive directors' participation in the CGNU Plan is conditional upon the approval of shareholders and a resolution that they participate will be proposed at the forthcoming Annual General Meeting.

Service contracts

Service contracts agreed with each executive director incorporate their terms and conditions of employment. It was stated in last year's Remuneration Report that it was the Company's intention to reduce the notice period for new executive appointments to 12 months. In line with this statement, Mike Biggs, Richard Harvey and Philip Scott, who joined the Board as executive directors in May 2000 upon the Merger, have contracts which include a 12 months' notice period. Those executive directors who had already been granted 24 month contracts, namely Bob Scott, Peter Foster, Philip Twyman and Tony Wyand, have retained such terms as the Board does not consider it to be in shareholders' interests to renegotiate these contracts. Both Bob Scott's and Peter Foster's contracts will expire when they retire from service in spring 2001.

In January 2001, it was reported that Patrick Snowball will join the Board on 31 March 2001 as an executive director. He will be granted a contract which includes a 12 month notice period.

Non-executive directors

The Company's articles of association provide that the remuneration paid to the non-executive directors shall be determined by the Board within the limits set by shareholders. At last year's Annual General Meeting, this limit was set at £750,000. Non-executive directors do not have service contracts with the Company.

The emoluments paid to the Chairman and Deputy Chairman take into account their duties and the amounts paid by both competitors and similar sized companies. In addition to fees, the Chairman receives a company car allowance.

Non-executive directors receive a basic annual fee in respect of their Board and Board Committee duties, with a further fee being paid to those directors (other than the Chairman and Deputy Chairman) who have the additional responsibilities of chairing the meetings of the Board Committees. These fees are reviewed, but not necessarily increased, annually and are set by the Board to attract individuals with a broad range of skills and experience appropriate for a major international company. In determining the levels of non-executive directors' fees, including the Chairman's and Deputy Chairman's fees, the recommendation of executive directors is considered, taking into account the time commitment expended in preparing for and attending meetings as well as market practice. Non-executive directors (other than the Chairman) receive no benefits other than their fees.

Directors' remuneration

Emoluments of directors

The directors' remuneration report regarding the Group's remuneration policy for its directors and senior executives is presented on pages 40 to 43. The aggregate amount of emoluments paid to directors in 2000 was £5.2 million (1999: £4.8 million).

Executive directors

The remuneration payable to executive directors who held office for any part of the financial year, including amounts paid to them as directors of subsidiary undertakings, was:

	Basic salary		Bonus (note 2)		Benefits (note 3)		Total	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Mike Biggs (note 1)	351	290	145	128	21	31	517	449
Peter Foster	358	319	84	80	28	18	470	417
Richard Harvey (note 1)	556	450	248	203	34	17	838	670
Bob Scott	626	556	155	135	34	12	815	703
Philip Scott (note 1)	355	305	174	128	7	7	536	440
Philip Twyman	375	326	112	82	22	9	509	417
Peter Ward (note 1)	147	347	49	87	7	21	203	455
Tony Wyand	415	383	107	95	29	26	551	504

Each of the following directors accrued pension benefits during the year under the Group's pension schemes for UK employees, as follows:

	Increase in pension (note 4)		Transfer value of increase (note 4)		Pension accumulated (note 4)	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Mike Biggs (note 1)	67	67	845	–	67	–
Peter Foster	48	34	826	505	238	185
Richard Harvey (note 1)	73	49	985	694	259	180
Bob Scott	66	119	1,405	2,389	419	342
Philip Scott (note 1)	31	24	388	307	165	129
Philip Twyman	17	15	338	271	50	32
Peter Ward (note 1)	28	46	545	812	237	207
Tony Wyand	59	40	1,126	663	255	190

Notes

1. Richard Harvey, Mike Biggs and Philip Scott were appointed directors of the Company on 30 May 2000 and the figures disclosed for these directors include remuneration (salary and benefits) of £232,000, £148,000 and £142,000 respectively paid by Norwich Union prior to that date. Peter Ward retired as a director on 30 May 2000 and from service on 30 June 2000.

2. 'Bonus' refers to the amount paid in 2001 under the performance-related Cash Bonus Plan and the value of shares granted in 2000 under Inland Revenue-approved profit sharing schemes.

3. 'Benefits' are taxable benefits in kind, which relate mainly to the provision of a company car allowance and private medical insurance. In respect of Mike Biggs, £8,000 (1999: £16,000) relates to payments to compensate him for the equivalent of the benefit he would have received had he been a member of the Norwich Union Pension Scheme prior to 1 June 2000, being the date he joined the Scheme.

4. Disclosed for each director is the 'increase in pension' entitlement over the year (in excess of an allowance for inflation) and the corresponding transfer value of that increase. The 'transfer value of increase' represents an obligation on the pension fund (where funded), or the employer (where unfunded): they are not sums paid or due to the director. Also disclosed is the 'pension accumulated', being the amount of pension to which the director would be entitled on leaving service. Prior to 1 June 2000, pensions for Mike Biggs were provided by the Norwich Union Group making contributions into a defined contribution pension plan. The value of this plan, which is being used to offset the cost of his benefits under the Norwich Union Pension Scheme, as at 31 December 2000 was £752,000 and therefore the additional pension cost accrued during 2000 was £93,000.

5. As a result of the Merger with Norwich Union, Richard Harvey was required to relocate from Norwich to London. He received a cash lump sum relocation allowance on a basis generally equivalent to that provided to members of management required to relocate at the Company's request. The allowance, which largely takes into account the substantial disparity in housing values between the two locations was £387,000. The figure is not included in the tables on the facing page. In addition, the Company paid appropriate expenses necessarily incurred in relocating such as legal, estate agency and removal costs.

6. In February 2001, the Awards granted in 1999 under the CGU Integration Incentive Plan vested, the performance condition having been met. As a result, the following shares were transferred from the trustees of the Plan to the executive directors.

	Number
Peter Foster	34,789
Bob Scott	59,299
Philip Twyman	34,789
Tony Wyand	41,792

Peter Ward received 37,838 shares upon leaving service, the performance condition having been met at that time.

7. Consequent upon the Scheme of Arrangement which gave effect to the Merger between the Company and Norwich Union, awards made under the Norwich Union Long-Term Incentive Plan vested in full, and awards granted under the Norwich Union Restricted Share Plan (which were subject to the attainment of conditions based on Norwich Union's performance) vested as to 45% in relation to awards granted in 1998 (but not otherwise). As a result, the former Norwich Union directors received Norwich Union shares (which, under the terms of the said Scheme, were exchanged for shares in the Company at the rate of 48 CGNU shares for every 100 shares in Norwich Union plc) as follows:

	Number
Mike Biggs	24,280
Richard Harvey	34,303
Philip Scott	25,890

8. The mid-market price of an ordinary share in the Company at 29 December 2000, being the last day in 2000 upon which shares were traded, was 1082 pence.

9. Peter Ward, an executive director of CGU plc, stepped down as a director on 30 May 2000 upon the Merger taking effect and left service on 30 June 2000. He was within 23 months of normal retirement at his date of leaving service and had a two-year service contract. A severance payment of £729,000 based on the above was paid and he will receive a bonus of £41,307 in respect of his service in 2000. In view of Peter Ward's age and the circumstances, no mitigation was applied in determining the severance payment. In line with normal practice in such circumstances, Peter Ward received an immediate pension on a non-discounted basis. The cost of this augmentation to his pension entitlement was £168,000.

Incentive scheme plans

Details of the directors who held executive office for any part of the financial year, and hold or held options to subscribe for ordinary shares of the Company under the Executive Share Option Scheme, Savings Related Share Option Scheme, Deferred Bonus Plan, or have acquired a contingent interest in shares under the Integration Incentive Plan, Deferred Bonus Plan or Long-Term Incentive Plans are given in the tables overleaf.

Directors' remuneration

continued

Share options

	At 1 January 2000 Number	Options granted during year Number	Options exercised during year Number	At 31 December 2000 Number	Weighted average exercise price p
Mike Biggs					
– Savings related options	3,185	–	–	3,185	541.6
Peter Foster					
– Executive options	214,869	39,583	121,486	132,966	858.2
– Savings related options	2,528	–	788	1,740	790.2
– Bonus Plan options	3,824	–	–	3,824	966.5
Richard Harvey					
– Savings related options	3,185	–	–	3,185	541.6
Bob Scott					
– Executive options	410,386	**	153,876	256,510	732.4
– Savings related options	3,694	–	–	3,694	466.7
– Bonus Plan options	6,518	**	–	6,518	966.5
Philip Scott					
– Savings related options	3,185	–	–	3,185	541.6
Philip Twyman					
– Executive options	149,324	41,666	–	190,990	810.3
– Savings related options	2,162	–	–	2,162	797.6
– Bonus Plan options	3,824	4,259	–	8,083	918.0
Peter Ward					
– Executive options	215,321	–	–	215,321*	674.5
– Savings related options	1,222	–	–	1,222*	797.6
– Bonus Plan options	–	**	–	–	
Tony Wyand					
– Executive options	191,676	45,000	–	236,676	762.0
– Savings related options	2,162	–	–	2,162	797.6
– Bonus Plan options	4,593	–	–	4,593	966.5

* At date of ceasing to be a director – 30 May 2000.

** Not eligible to participate due to the proximity of retirement dates.

Notes

1. Executive options, which have been granted on various dates from 1991 to 2000, are normally exercisable between the third and tenth anniversaries of the date of grant. Options granted after 1997 are only exercisable if certain performance conditions have been met. Savings related options, granted from 1994 to 2000, are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the relevant savings contract. No options lapsed unexercised during the year. Bonus Plan options granted in 1999 and 2000 are normally exercisable between the third and tenth anniversary of their grant. The exercise of Savings Related and Bonus Plan options is not subject to the attainment of performance conditions.

2. Mike Biggs, Richard Harvey and Philip Scott each held options over Norwich Union shares granted under the Norwich Union Savings Related Share Option Scheme. As a result of the terms of the Scheme of Arrangement, the directors exchanged these for options over the Company's shares on the basis of 48 CGNU shares for every 100 Norwich Union shares. The table therefore shows the interests as if converted on 1 January 2000.

3. During the year, Bob Scott and Peter Foster made gains of £830,062 and £625,945 respectively upon the exercise of options. The gains have been calculated as the difference between the mid-market price of a share on the date of exercise and the price at which the shares were acquired.

4. In respect of options granted during the year, those under the CGNU Executive Share Option Scheme were granted on 29 September 2000 at an exercise price of 960 pence per share; those under the Savings Related Share Option Scheme were granted on 19 September 2000 at 895.2 pence per share; and those under the Deferred Bonus Plan were granted on 31 March 2000 at 875 pence per share.

5. The mid-market price of an ordinary share in the Company at 29 December 2000, the last day in 2000 on which shares were traded, was 1082 pence and the mid-market prices during the year ranged from 710 pence to 1138 pence.

Share awards

(i) CGU incentive plans

In 1999, shareholders approved the establishment of the CGU Deferred Bonus Plan. As a result, awards over shares have been granted to those executive directors who deferred some or all of their cash bonuses as stated below. Certain directors also hold awards granted in 1997 under the Commercial Union Long Term Incentive Plan, which was approved by shareholders in 1997. The Plan has been discontinued and no awards have been made under that Plan since 1997.

	CGU Deferred Bonus Plan		Commercial Union Long Term Incentive Plan	
	At 31 December 2000 Number	At 1 January 2000 Number	At 31 December 2000 Number	At 1 January 2000 Number
Peter Foster	3,824	3,824	5,332	26,263
Bob Scott	6,518	6,518	–	–
Philip Twyman	8,083	3,824	–	–
Peter Ward	–	–	5,394*	26,566
Tony Wyand	4,593	4,593	6,564	32,324

*At date of ceasing to be a director – 30 May 2000.

Notes

1. The shares under the CGU Deferred Bonus Plan relating to those directors who elected to defer some or all of their bonuses under the performance-related Cash Bonus Plan will be released on the third anniversary of their grant. In respect of bonuses relating to the 1999 financial year, the deferred bonuses were converted into shares at 875 pence per share being the market value of a share on 31 March 2000, the date the award was granted.
2. Awards under the Commercial Union Long Term Incentive Plan vested at the end of the relevant performance period with half the shares vesting being transferred to the director immediately and the balance being transferred two years later. In respect of the performance period ended 31 December 1999, 18,476 shares vested in February 2000 (Peter Foster 5,698 shares, Peter Ward 5,764 shares and Tony Wyand 7,014 shares). Half of the shares were transferred to the directors on vesting and the other half will be transferred to them in 2002. All awards, which have not vested under this Plan, have lapsed. Also included in the numbers disclosed above is half of the shares which vested in 1999, which will be transferred to the directors in February 2001.

(ii) CGNU incentive plans

As described in the Remuneration Report on pages 40 to 43, the Group's remuneration policy was reviewed following the Merger and a number of new incentive plans have been introduced. In respect of the executive directors, all awards made under these Plans are subject to the condition that shareholders approve that they participate. Subject to this, and the performance conditions attaching to the awards, the following awards were granted to the executive directors during the year.

	CGNU Integration Incentive Plan Number	CGNU Long Term Incentive Plan (Transitional) Arrangement Number
Mike Biggs	37,333	34,453
Peter Foster	39,081	–
Richard Harvey	59,393	107,988
Bob Scott	68,495	–
Philip Scott	38,052	34,453
Philip Twyman	41,138	–
Tony Wyand	44,429	–

Notes

1. The Committee agreed to grant an award under the CGNU Integration Incentive Plan to Bob Scott, notwithstanding that he would retire prior to the end of the performance period. The Committee believed that this was appropriate bearing in mind that he was instrumental in driving through the merger savings programme and would have served for two thirds of the performance period at the date of his retirement. If the performance target is met, Bob Scott will receive the award at the end of the performance period, pro rated to reflect the fact that he would have served for two thirds of that period.
2. Awards granted under the CGNU Integration Incentive Plan which vest in 2002, were granted on 29 September 2000. Awards granted under the Transitional Arrangement part of the CGNU Long Term Incentive Plan were granted on 29 September 2000 and will vest in 2003. In both cases, vesting is subject to the attainment of performance conditions.

Directors' remuneration

continued

Non-executive directors

The emoluments paid to the non-executive directors during the year were:

	2000 £'000	1999 £'000
Pehr Gyllenhammar	246	216
Lyndon Bolton	44	42
Louise Botting**	13	31
Wim Dik	35	2
Guillermo de la Dehesa*	35	18
Lord Lang of Monkton**	16	37
Sir Tim Lankester**	13	31
Sir Michael Partridge*	35	32
George Paul*	172	169
Alan Perelman*	43	63
Derek Stevens	50	43
Dr Elizabeth Vallance*	35	32
André Villeneuve	35	31

Notes

1. The directors marked * were appointed to the Board of the Company on 30 May 2000 upon the merger with Norwich Union. Those directors marked ** retired from the Board on that date. Alan Perelman resigned from the Board on 14 November 2000. The fees for Lyndon Bolton include an additional amount for serving as the senior non-executive director, Chairman of the Remuneration Committee and member of the Group's United Kingdom Advisory Board during the year to 30 May 2000. The fee disclosed for Derek Stevens includes an additional amount for acting as Chairman of the Board's Audit Committee and of the Trustees of the CGU Staff Pension Scheme. The fee for George Paul reflects his duties as Deputy Chairman which includes chairing the Remuneration Committee and acting as the senior non-executive director.

2. No non-executive director accrued benefits under a defined benefit or defined contribution pension scheme during the year.

3. The figures disclosed above include remuneration paid to the following directors by Norwich Union prior to 30 May 2000: Guillermo de la Dehesa £13,000; Sir Michael Partridge £13,000, George Paul £72,000 (including the benefit of a company car), Alan Perelman £27,000 and Elizabeth Vallance £13,000.

4. No past directors received any increase in retirement benefits in excess of the amount to which they were entitled on the later of the date when the benefits first became payable and 26 February 2001.

Directors' responsibility for the accounts

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

Auditors' report to the members of CGNU plc

We have audited the accounts on pages 50 to 97 which have been prepared on the basis of the accounting policies set out on pages 50 to 52.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report. As described above, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on page 39 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with 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 2000, and the effect of the movement in the provision during the year on the balance on the general business technical account and loss on ordinary activities before taxation, are disclosed in accounting policy O and note 38 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 2000 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London

28 February 2001

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

28 February 2001

Accounting policies

A. Basis of accounts

The consolidated accounts have been prepared in accordance with section 255A of, 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"). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2000, as considered appropriate for an insurance company. The balance sheet of the Company has been prepared in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985.

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 taxation. The items taken directly to reserves include movements in the value of internally generated in-force long-term business and 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

General business premiums written reflect business inception during the year. General business unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk after the balance sheet date. They are computed principally on either the daily or monthly pro rata basis. Long-term business premiums are accounted for when receivable, except for investment-linked premiums, which are accounted for when liabilities are recognised.

C. Claims

General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain general insurance claims, particularly in respect of liability and marine business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date. General business outstanding claims and 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, except for provisions for certain claims which are discounted using rates having regard to the returns generated by the assets supporting the liabilities. Long-term business claims reflect the cost of all claims arising during the year, as well as policyholder bonuses paid in anticipation of a bonus declaration.

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. General business deferred acquisition costs are amortised over the period in which the related premiums are earned. Long-term business deferred acquisition costs are amortised over a period no longer than that in which they are expected to be recoverable out of margins in revenues from the related policies.

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. Investment income and unrealised investment gains or losses

Investment income consists of interest, dividends and rents receivable for the year together with realised investment gains and losses. Following the adoption of FRS16 'Current taxation', dividend income is no longer grossed up for related tax credits. This represents a change in policy as disclosed in note 3 on page 64. Interest includes the interest rate differential on forward foreign exchange contracts. Realised investment gains and losses represent the difference between the net sale 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. 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. Unrealised gains and losses on the valuation of internally generated in-force long-term business are taken to the revaluation reserve as explained in accounting policy L.

G. Long-term business result and fund valuations

Transfers from the long-term business technical account to the non-technical account 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.

H. Pension costs

The Group operates defined-benefit pension schemes with contributions made on a going concern basis, as recommended by actuaries which, together with a money purchase plan in the United Kingdom and defined contribution arrangements in France, cover the majority of employees. Where separate pension schemes exist, they are fully funded on a discontinuance actuarial valuation basis. The pension costs, which are included in expenses, are calculated using actuarial valuation methods which give a substantially even charge over the expected service lives of employees. The costs of other material post-retirement benefits, also included in expenses, are charged as they accrue.

I. 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, over their estimated useful lives of between three and five years. Assets acquired under finance leases are capitalised and charged to the profit and loss account over the shorter of the term of the leases or their estimated useful lives, subject to a maximum of five years. Computer software acquired under a finance lease is capitalised and depreciated over the period of the lease. 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.

J. Investments

Investments are stated at their current values at the end of the year, with the exception of most 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.

K. 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 Group's borrowings. These are valued at the year end rates and disclosed as part of borrowings;

- 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.

L. Additional value of in-force long-term business

The valuation of long-term business included in the Group's balance sheet comprises two elements: the net assets of the long-term business operations, stated in accordance with United Kingdom accounting principles; and an additional asset, called the additional value of in-force long-term business, which is shown separately and represents the difference between the total embedded value of the long-term operations and their net assets included in these accounts. Movements in the additional value of internally-generated in-force long-term business are taken to the revaluation reserve. The present value of in-force business arising on acquisitions is recognised in the balance sheet. It is amortised over the anticipated lives of the related contracts in the portfolio on a systematic basis. The value of purchased in-force long-term business is reviewed annually for any diminution in value and any reductions are charged to the long-term business technical account.

The embedded value is carried at the directors' valuation, having regard to advice from consulting actuaries. The embedded value is the total of the assets of the long-term operations and the present value, at risk discount rates, of the projected releases to shareholders arising from the business in force, less a charge for the cost of capital supporting the solvency requirements of the business. This cost of capital is the difference between the nominal value of required solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital. The assets of shareholders and policyholders that back the long-term business are managed on a unified basis.

M. Consolidation of subsidiary undertakings

The results of all material subsidiary undertakings are consolidated using audited accounts prepared to 31 December, either from 1 January or the effective date of acquisition. A number of overseas subsidiary undertakings, which do not represent a material part of the Group's income or assets, have not been consolidated but have been treated as investments and included within other participating interests. In the Parent Company balance sheet, subsidiary undertakings are stated at current value which, for this purpose, is net asset value.

Accounting policies

continued

N. Participating interests

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 taxation of associated undertakings is shown separately in the non-technical account, except where associated undertakings are held by the long-term businesses, in which case the profit is included in the long-term technical account. The appropriate proportion of the shareholders' funds of associated undertakings is included in the consolidated balance sheet. A number of associated undertakings, which do not represent a material part of the Group's income or assets, have been treated as investments and included within other participating interests.

O. 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 United Kingdom 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.

P. Long-term business provision and technical provision for linked liabilities

The long-term business provision is calculated separately for each life operation, mainly using the net premium method, based on local actuarial principles consistent with those applied in the United Kingdom. Within the long-term business provision, explicit allowance is made for vested bonuses, including those added following the current valuation, but not generally for future reversionary or terminal bonuses. The provisions held for linked business and unitised with profits business are the unit liabilities together with certain non-unit provisions.

Q. Fund for future appropriations

The fund for future appropriations is used in connection with long-term business funds containing liabilities in respect of participating policies or in respect of other non-linked policies under which benefits reflect current resources and the future experience of the fund. In such funds, the division between shareholders' reserves and policyholders' liabilities is uncertain and, as a result, 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 the fund for future appropriations and the long-term business technical account represent the changes in the unallocated amounts between balance sheet dates.

R. Goodwill

Goodwill arising on the acquisition of subsidiary and associated undertakings is carried on the balance sheet and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of associated undertakings is included within the carrying value of associated undertakings. All other goodwill is included as a separate intangible asset on the balance sheet. The carrying value of all goodwill is reviewed regularly for 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 to the profit and loss account when calculating the profit or loss on any disposal of the underlying investment.

S. Debenture loans

Borrowings issued at a discount are included in the consolidated balance sheet at their proceeds, net of expenses, together with amortised discount to the balance sheet date. The discount, amortised on a compound basis, and expenses are charged to loan interest in the profit and loss account over the term of the borrowing.

T. Taxation

The taxation charge in the non-technical account is based on the taxable profits for the year. Taxation, including taxation relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves. In the long-term business technical account, the taxation charge is based on the method of assessing taxation for long-term funds applicable in the relevant country of operation. Any part of the balance on the long-term business technical account that is computed on an after tax basis is grossed up at the effective rate of taxation in the non-technical account. Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future. No provision is made for taxation that might arise if profits retained by overseas subsidiary and associated undertakings were remitted to the United Kingdom.

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 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.

Consolidated profit and loss account

Technical account – long-term business

For the year ended 31 December 2000

2000 €m		2000 £m	Restated 1999 £m
24,902	Gross premiums written – continuing operations (6a)	15,190	13,799
(561)	Outward reinsurance premiums	(342)	(329)
24,341	Written and earned premiums, net of reinsurance (B & 5a)	14,848	13,470
17,448	Investment income (F & 7a)	10,643	10,860
(10,997)	Unrealised (losses)/gains on investments (F & 7a)	(6,708)	4,988
	Claims paid		
(16,311)	Gross amount	(9,950)	(8,968)
323	Reinsurers' share	197	525
(15,988)		(9,753)	(8,443)
	Change in the provision for claims		
(59)	Gross amount	(36)	18
2	Reinsurers' share	1	(3)
(57)		(35)	15
(16,045)	Claims incurred, net of reinsurance (C)	(9,788)	(8,428)
	Change in long-term business provision (P)		
(14,411)	Gross amount	(8,791)	(6,608)
331	Reinsurers' share	202	(93)
(14,080)		(8,589)	(6,701)
(3,282)	Change in technical provision for linked business, net of reinsurance (P)	(2,002)	(5,922)
(17,362)	Changes in other technical provisions, net of reinsurance	(10,591)	(12,623)
(3,144)	Net operating expenses (9a)	(1,918)	(1,689)
(298)	Investment expenses and charges (7a)	(182)	(186)
(38)	Other technical charges – net of reinsurance (24a)	(23)	(15)
(1,002)	Tax charge attributable to long-term business (T & 14b)	(611)	(578)
(3)	Allocated investment return transferred to the non-technical account (F & 7b)	(2)	(29)
8,215	Transfers from/(to) the fund for future appropriations (Q)	5,011	(4,964)
3,730	Other income/(charges)	2,275	(7,461)
1,115	Balance on the technical account – long-term business continuing operations (G)	679	806
1,115	Balance on the technical account – long-term business	679	806
613	Taxation credit attributable to balance on the long-term business technical account	374	340
	Long-term business operating profit		
1,905	Profit before exceptional items	1,161	1,150
(177)	Exceptional items (9b)	(108)	(4)
1,728	Shareholders' pre-tax profit from long-term business	1,053	1,146

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Consolidated profit and loss account

Technical account – general business

For the year ended 31 December 2000

2000 £m		2000 £m	Restated 1999 £m
17,098	Gross premiums written – ongoing business	10,430	9,442
5,133	– business to be discontinued (2a)	3,131	2,828
510	– business discontinued (2a)	311	398
22,741	Gross premiums written (6b)	13,872	12,668
(1,610)	Outward reinsurance premiums	(982)	(1,039)
21,131	Net premiums written (B & 5a)	12,890	11,629
	Change in the provision for unearned premiums		
(530)	Gross amount	(323)	(18)
90	Reinsurers' share	55	20
(440)		(268)	2
20,691	Earned premiums, net of reinsurance	12,622	11,631
2,979	Allocated investment return transferred from the non-technical account (F & 7b)	1,817	1,563
	Claims paid		
(17,507)	Gross amount	(10,679)	(9,895)
1,403	Reinsurers' share	856	930
(16,104)		(9,823)	(8,965)
	Change in the provision for claims		
(1,346)	Gross amount	(821)	–
(85)	Reinsurers' share	(52)	90
(1,431)		(873)	90
(17,535)	Claims incurred, net of reinsurance (C)	(10,696)	(8,875)
	Changes in other technical provisions, net of reinsurance, not shown under other headings	(13)	(15)
(6,582)	Net operating expenses (9a)	(4,015)	(3,735)
(6,603)	Other charges	(4,028)	(3,750)
	General insurance operating result		
441	Ongoing business	269	368
(902)	Business to be discontinued	(550)	176
(7)	Business discontinued	(4)	25
(468)		(285)	569
(44)	Change in the equalisation provision (O)	(27)	(55)
(512)	Balance on the technical account – general business	(312)	514

The table below provides a reconciliation between the analysis used in the narrative sections of this Report and the balance on the general business technical account above.

	Underwriting result		Allocation of longer-term investment return		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
General insurance results, excluding health						
Ongoing business	(821)	(593)	1,233	1,052	412	459
Business to be discontinued	(967)	(204)	417	380	(550)	176
Business discontinued	(59)	(44)	55	69	(4)	25
Unwinding of discount on business no longer written (37)	(24)	(33)	24	33	–	–
Health insurance results	(20)	(5)	88	29	68	24
(Loss)/profit before exceptional items	(1,891)	(879)	1,817	1,563	(74)	684
Exceptional items (9b)					(211)	(115)
Change in the equalisation provision					(27)	(55)
Balance on the technical account – general business					(312)	514

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Consolidated profit and loss account

Non-technical account

For the year ended 31 December 2000

2000 €m		2000 £m	Restated 1999 £m
1,115	Balance on long-term business technical account	679	806
613	Taxation credit attributable to balance on the long-term business technical account (T)	374	340
1,728	Pre-tax profit from long-term business (5b)	1,053	1,146
(512)	Balance on general business technical account	(312)	514
	Investment income (F & 7a)		
2	Profit from associated undertakings	1	10
3,998	Other	2,439	1,965
4,000		2,440	1,975
(393)	Unrealised losses on investments (7a)	(240)	(71)
	Allocated investment return transferred from the long-term business technical account (F)	2	29
(798)	Investment expenses and charges (7a)	(487)	(350)
	Allocated investment return transferred to the general business technical account (F)	(1,817)	(1,563)
	Other income/(charges), including value adjustments (10a)		
(1,755)	Provision for loss on sale of United States general business (18d)	(1,070)	–
(735)	Loss on withdrawal from London Market operations	(448)	–
(865)	Other	(527)	(212)
(3,355)		(2,045)	(212)
(2,306)	(Loss)/profit on ordinary activities before taxation	(1,406)	1,468
(418)	Tax on (loss)/profit on ordinary activities (T & 14a)	(255)	(382)
(2,724)	(Loss)/profit on ordinary activities after taxation (A)	(1,661)	1,086
(51)	Minorities – equity	(31)	(45)
(34)	– non-equity	(21)	(21)
(85)		(52)	(66)
(2,809)	(Loss)/profit for the financial year	(1,713)	1,020
(28)	Preference dividends	(17)	(17)
(2,837)	(Loss)/profit for the financial year attributable to equity shareholders	(1,730)	1,003
(1,402)	Ordinary dividends (15)	(855)	(773)
(4,239)	Retained (loss)/profit transferred to reserves (33)	(2,585)	230
	Earnings per share		
	Operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after taxation, attributable to equity shareholders in respect of ongoing business (16a)	28.3p	39.2p
46.4c			
(126.2)c	(Loss)/profit attributable to equity shareholders (16a)	(77.0)p	44.8p
(126.1)c	(Loss)/profit attributable to equity shareholders – diluted (16b)	(76.9)p	44.7p

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Reconciliation of Group operating profit to profit on ordinary activities before taxation

For the year ended 31 December 2000

2000 €m		2000 £m	Restated 1999 £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:		
1,686	– ongoing business	1,028	1,299
(909)	– businesses discontinued and to be discontinued	(554)	201
777		474	1,500
(151)	Amortisation of goodwill (19)	(92)	(34)
(47)	Amortisation of acquired additional value of in-force long-term business (24a)	(29)	(22)
(697)	Exceptional items (9b)	(425)	(163)
	Operating (loss)/profit before tax based on longer-term investment return after amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	(72)	1,281
	Short-term fluctuation in investment return		
3	– long-term business	2	29
420	– general business and other	256	221
423		258	250
(44)	Change in the equalisation provision	(27)	(55)
20	Net profit/(loss) arising on the sale of subsidiary undertakings (10a)	12	(8)
(735)	Loss on withdrawal from London Market operations (10a)	(448)	–
(1,755)	Provision for loss on sale of United States general business (10a)	(1,070)	–
(97)	Merger transaction costs (10a)	(59)	–
(2,306)	(Loss)/profit on ordinary activities before taxation	(1,406)	1,468

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2000

2000 €m		2000 £m	Restated 1999 £m
(2,809)	(Loss)/profit for the financial year	(1,713)	1,020
120	Movement in internally generated additional value of in-force long-term business* (33)	73	909
203	Foreign exchange gains/(losses) (U & 33)	303	(389)
(2,486)	Total recognised gains and losses arising in the year	(1,337)	1,540

*Stated before the effect of foreign exchange movements which are reported within the foreign exchange gains/(losses) line.

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 2000

2000 €m		2000 £m	Restated 1999 £m
	Balance at 1 January		
15,431	As previously reported – CGU plc	9,567	9,039
9,740	– Norwich Union plc	6,039	5,713
108	Merger adjustments arising from alignment of accounting policies	67	141
25,279	Restated shareholders' funds at 1 January	15,673	14,893
(2,486)	Total recognised gains and losses arising in the year	(1,337)	1,540
(1,430)	Dividends	(872)	(790)
89	Increase in capital (31c)	54	23
8	Merger reserve arising in the year (33)	5	8
180	Goodwill written back and other movements (R & 33)	110	(1)
21,640	Balance at 31 December	13,633	15,673

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Consolidated balance sheet

At 31 December 2000

Group 2000 €m		Group 2000 £m	Restated Group 1999 £m
Assets			
Goodwill (R & 19)			
1,263	Positive goodwill	796	507
(78)	Negative goodwill	(49)	(55)
1,185		747	452
Investments (J)			
14,010	Land and buildings (20)	8,826	7,847
1,575	Investments in Group undertakings and participating interests (21a)	992	434
201,235	Other financial investments (22a)	126,778	123,264
(552)	Less: Non-recourse funding (22a)	(348)	–
200,683		126,430	123,264
10,484	Additional value of in-force long-term business (L & 24a)	6,605	6,425
233	Deposits with ceding undertakings	147	114
226,985		143,000	138,084
43,262	Assets held to cover linked liabilities	27,255	24,626
Reinsurers' share of technical provisions			
295	Provision for unearned premiums (B)	186	307
2,081	Long-term business provision (P)	1,311	952
5,668	Claims outstanding (C)	3,571	2,366
1,116	Technical provision for linked liabilities (P)	703	1,738
9,160		5,771	5,363
Debtors			
6,784	Debtors arising out of direct insurance operations (25)	4,274	3,923
1,265	Debtors arising out of reinsurance operations	797	634
51	Loan to associated undertaking	32	–
6,422	Other debtors (26)	4,046	3,999
14,522		9,149	8,556
Other assets			
565	Tangible assets (I & 27)	356	331
3,092	Cash at bank and in hand	1,948	1,248
16	Own shares (28)	10	4
3,673		2,314	1,583
Prepayments and accrued income			
2,260	Accrued interest and rent	1,424	1,350
4,533	Deferred acquisition costs (D)	2,856	2,698
1,273	Other prepayments and accrued income (29)	802	472
8,066		5,082	4,520
306,853	Total assets	193,318	183,184

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Group 2000 €m		Group 2000 £m	Restated Group 1999 £m
	Liabilities		
	Capital and reserves		
894	Ordinary share capital (31c)	563	560
317	Preference share capital (32a)	200	200
1,211	Called up share capital	763	760
1,675	Share premium account (31c)	1,055	1,004
9,522	Revaluation reserve (A & 33)	5,999	5,914
4,840	Merger reserve (33)	3,049	3,136
4,392	Profit and loss account (A & 33)	2,767	4,859
21,640	Shareholders' funds	13,633	15,673
517	Minority interests – equity	326	320
410	– non-equity (40j)	258	264
927		584	584
	Total capital and reserves:		
21,840	Equity	13,759	15,793
727	Non-equity	458	464
22,567		14,217	16,257
	Other liabilities		
22,784	Fund for future appropriations (Q)	14,354	19,314
	Technical provisions		
9,648	Provision for unearned premiums (B)	6,078	5,831
154,003	Long-term business provision (P & 36)	97,022	86,947
28,579	Claims outstanding (C)	18,005	16,420
343	Equalisation provision (O & 38)	216	212
43	Other technical provisions	27	28
192,616		121,348	109,438
44,378	Technical provision for linked liabilities (P)	27,958	26,364
3,311	Provisions for other risks and charges (39)	2,086	979
973	Deposits received from reinsurers	613	541
	Creditors		
1,924	Creditors arising out of direct insurance operations	1,212	882
2,514	Creditors arising out of reinsurance operations	1,584	340
25	Long-term business borrowings		
	Debenture loans (S & 40b)	16	18
1,417	General business and other borrowings		
627	Debenture loans (S & 40b)	893	857
2,070	Amounts due to credit institutions (40c)	395	558
9,628	Commercial paper (40d)	1,304	679
44	Other creditors including taxation and social security (41)	6,066	6,211
18,249	Loans from associated undertakings	28	11
1,975		11,498	9,556
284,286	Accruals and deferred income (42)	1,244	735
306,853	Total other liabilities	179,101	166,927
	Total liabilities	193,318	183,184

Approved by the Board on 26 February 2001

Peter Foster
Director

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Consolidated cash flow statement

For the year ended 31 December 2000

	£m	2000 £m	£m	Restated 1999 £m
Operating activities				
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs (44a)		738		857
Exceptional items and merger transaction costs paid		(251)		(223)
		487		634
Servicing of finance				
Interest paid	(205)		(117)	
Preference dividends paid	(17)		(13)	
Dividends paid to minorities	(35)		(26)	
Net cash outflow from servicing of finance		(257)		(156)
Taxation				
Corporation tax paid (including advance corporation tax)		(210)		(124)
Capital expenditure				
Purchases of tangible fixed assets	(143)		(147)	
Sales of tangible fixed assets	24		20	
Net purchases of tangible fixed assets		(119)		(127)
Acquisitions and disposals				
Net acquisitions of subsidiary and associated undertakings (44b)		(277)		(64)
Equity dividends				
Equity dividends paid		(816)		(731)
Financing activities				
Issue of share capital (44c)	54		31	
Net drawdown of loans (44c)	439		397	
Net cash inflow from financing activities		493		428
Net cash flows		(699)		(140)
Cash flows were invested as follows:				
Increase in cash holdings (44d)		119		–
Net portfolio investment				
Purchases of investments	12,824		15,758	
Sales of investments	(14,365)		(16,056)	
Net sales of investments (44f)		(1,541)		(298)
Non-trading cash flow to long-term business operations		723		158
Net investment of cash flows		(699)		(140)

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Parent company balance sheet

At 31 December 2000

	£m	2000 £m	£m	1999 £m
Fixed assets				
Shares in subsidiary undertakings (M & 18e)		13,655		10,224
Current assets				
Amounts owed by subsidiary undertakings	3,426		2,118	
Other assets	76		46	
Own shares (28)	10		4	
	3,512		2,168	
Creditors: Amounts falling due within one year				
Amounts owed to subsidiary undertakings	(1,434)		(1,744)	
Proposed ordinary dividend	(535)		(311)	
Other creditors	(25)		(30)	
Net current assets		1,518		83
Total assets less current liabilities		15,173		10,307
Creditors: Amounts falling due after more than one year				
Loans (40e)		(1,540)		(740)
Net assets		13,633		9,567
Represented by:				
Capital and reserves				
Ordinary share capital (31a)		563		328
Preference share capital (32a)		200		200
Called up share capital		763		528
Share premium account (31c)		1,055		1,004
Revaluation reserve (34)		4,393		7,254
Merger reserve (34)		227		227
Profit and loss account (34)		7,195		554
Shareholders' funds		13,633		9,567
Analysed between:				
Equity		13,433		9,367
Non-equity		200		200
		13,633		9,567

Approved by the Board on 26 February 2001

Peter Foster
Director

The accounting policies (identified alphabetically) on pages 50 to 52 and notes (identified numerically) on pages 62 to 97 are an integral part of these accounts. The auditors' report is on page 49.

Notes to the accounts

1 – Merger of CGU plc and Norwich Union plc

(a) On 21 February 2000, CGU plc and Norwich Union plc announced plans to merge their respective businesses to form CGNU plc. The merger was effected by way of a scheme of arrangement of Norwich Union plc under section 425 of the Companies Act 1985. Under the terms of the scheme, Norwich Union shareholders had their existing shares replaced by new shares in CGNU plc. CGU shareholders' rights were unaffected. The merger became effective on 30 May 2000 and on that date 931 million new shares in CGNU plc, with a total market value of £9,528 million, were issued to Norwich Union plc shareholders in return for Norwich Union plc shares in a ratio of 48 CGNU plc shares for every 100 Norwich Union plc shares.

The merger has been accounted for using the merger accounting principles set out in Financial Reporting Standard 6 'Acquisitions and Mergers'. Accordingly, the financial information for the current year has been presented, and that for prior years restated, as if CGU plc and Norwich Union plc had been combined throughout the current and comparative accounting periods. Merger accounting principles have given rise to a merger reserve (see note 33).

Costs of integrating and reorganising the business are included within operating profit. Merger transaction costs of £59 million have been incurred and are shown after operating profit within the profit on ordinary activities before taxation.

(b) The accounts have been prepared on the basis of the accounting policies used to prepare the CGU plc and Norwich Union plc 1999 Annual Report and Accounts, as modified to align differences in the accounting policies used by the two companies. The accounting policies aligned were such that:

- (i) Certain general business fixed income and debt securities held by Norwich Union plc were revalued from an amortised cost basis to a market value basis;
- (ii) Project costs which had formerly been capitalised by Norwich Union plc have been eliminated;
- (iii) Embedded value assumptions used by both companies have been brought onto a common basis.

The impact of these changes was to increase profit before tax by £7 million (1999: reduce by £91 million) and increase shareholders' funds by £110 million (1999: increase by £67 million).

(c) The results prior and subsequent to the merger, together with net assets at the date of the merger, are shown below. For both CGU plc and Norwich Union plc, the financial year began on 1 January. The post-merger operating profit before tax includes integration costs.

(i) Analysis of 2000 results

	To date of merger		Post-merger	Total £m
	CGU £m	Norwich Union £m	CGNU £m	
Life premiums	3,717	2,149	8,982	14,848
Investment sales	261	413	1,827	2,501
Health premiums	306	87	294	687
General insurance premiums	3,943	1,160	7,100	12,203
Premium income after reinsurance and investment sales	8,227	3,809	18,203	30,239
Operating profit before tax	385	264	(721)	(72)
Short-term fluctuation in investment returns	(24)	(90)	372	258
Change in the equalisation provision	(1)	(9)	(17)	(27)
Net profit arising on the sale of subsidiary undertakings	–	–	12	12
Loss on withdrawal from London Market operations	–	–	(448)	(448)
Provision for loss on sale of United States general business	–	–	(1,070)	(1,070)
Merger transaction costs	(25)	(25)	(9)	(59)
Profit/(loss) on ordinary activities before taxation	335	140	(1,881)	(1,406)
Tax and minority interests	(126)	(75)	(106)	(307)
Profit/(loss) for the financial year	209	65	(1,987)	(1,713)
Other recognised gains and losses	456	(2)	(78)	376
Total recognised gains and losses arising in the year	665	63	(2,065)	(1,337)

1 – Merger of CGU plc and Norwich Union plc continued

(ii) Analysis of 1999 results

	Restated CGU £m	Norwich Union £m	Accounting policy adjustments £m	Total £m
Life premiums	8,826	4,644	–	13,470
Investment sales	1,001	577	–	1,578
Health premiums	225	177	–	402
General insurance premiums	8,621	2,606	–	11,227
Premium income after reinsurance and investment sales	18,673	8,004	–	26,677
Operating profit before tax	588	712	(19)	1,281
Short-term fluctuation in investment returns	239	83	(72)	250
Change in the equalisation provision	(28)	(27)	–	(55)
Net loss arising on the sale of subsidiary undertakings	(8)	–	–	(8)
Profit/(loss) on ordinary activities before taxation	791	768	(91)	1,468
Tax and minority interests	(276)	(199)	27	(448)
Profit/(loss) for the financial year	515	569	(64)	1,020
Other recognised gains and losses	507	23	(10)	520
Total recognised gains and losses arising in the year	1,022	592	(74)	1,540

(iii) Net assets

The net assets of the Group on the date of the merger were:

	£m
Using the respective 1999 policies	
CGU	10,457
Norwich Union	6,218
Alignment of accounting policies	112
Net assets at 30 May 2000	16,787

2 – Basis of preparation

(a) 'Business discontinued' represents a material discrete operation where the Group has completed the sale of its operations. These disclosures relate solely to the exit from London Market business.

'Business to be discontinued' represents a material discrete operation where sales contracts have been exchanged with a prospective purchaser but all conditions of sale have not been achieved, and sales proceeds have not yet been received by the Group. These disclosures relate solely to the general insurance business in the United States.

The results of all other operations are entitled 'Ongoing business'. They do not incorporate the use of the expected proceeds from businesses sold or sales of businesses to be completed.

In instances where the carrying value of businesses to be disposed of is more than the likely sales proceeds, a provision for loss on sale has been included in the results.

Notes to the accounts

continued

2 – Basis of preparation continued

(b) The Group's consolidated profit and loss account incorporates the following financial information in respect of the UK London Market and US general insurance businesses:

Abridged statement of operating and investment gains

	London Market		US general	
	2000 £m	1999 £m	2000 £m	1999 £m
Net premiums written	192	233	3,021	2,621
Change in the provision for unearned premiums	(16)	64	(14)	(6)
Earned premiums, net of reinsurance	176	297	3,007	2,615
Allocated investment return transferred from the non-technical account	55	69	417	380
Claims incurred, net of reinsurance	(173)	(256)	(3,025)	(1,973)
Other charges	(62)	(85)	(949)	(846)
Balance on the technical account – general business				
Underwriting result	(59)	(44)	(967)	(204)
Longer term investment return	55	69	417	380
	(4)	25	(550)	176
Unallocated interest charges*	–	–	(42)	(45)
Operating (loss)/profit	(4)	25	(592)	131
Amortisation of goodwill	–	–	(3)	(3)
Exceptional items	–	–	–	(32)
Short-term fluctuation in investment returns	(10)	(10)	66	(237)
(Loss)/profit on ordinary activities before tax	(14)	15	(529)	(141)
Tax on (loss)/profit on ordinary activities	1	8	110	34
(Loss)/profit for the financial year	(13)	23	(419)	(107)
Retranslation to closing date	–	–	(4)	(1)
Retained (loss)/profit	(13)	23	(423)	(108)

*Unallocated interest charges are eliminated at Group level.

3 – Change in accounting policy – dividend income

Financial Reporting Standard 16 'Current Tax' was published by the Accounting Standards Board on 16 December 1999, following changes in the United Kingdom tax system. The principal requirement of this standard is that dividends should be recognised at the amount receivable without any attributable tax credit.

In presenting the results for the year to 31 December 2000, the CGNU plc Group has complied with FRS16. Norwich Union plc adopted FRS16 in its 1999 accounts. Accordingly, dividend income within the comparative results for the year to 31 December 1999 for CGU plc only has been restated to a net of tax basis.

UITF abstract 14 'Disclosure of Changes in Accounting Policy' requires the effect of changes in accounting policy to be disclosed in relation to both the reported results in 2000 and 1999. The change in accounting policy has a purely presentational effect and does not alter the profit of the Group after taxation. Accordingly, shareholders' reserves at 31 December 2000 and 31 December 1999 remain at the same level before and after the change in accounting for dividend income. The impact on (loss)/profit on ordinary activities before tax is a loss of £32 million (1999: £19 million).

4 – Exchange rates

The principal rates of exchange used for translation are:

	Average rates		Closing rates	
	2000	1999	2000	1999
Canadian dollar	2.25	2.40	2.24	2.34
French franc	10.76	9.99	10.44	10.55
Netherlands guilder	3.62	3.35	3.51	3.54
United States dollar	1.51	1.62	1.49	1.61

The 2000 profit and loss account and balance sheet figures have been translated into euros using the average rate of €1/£0.61 (1999: €1/£0.66) and the closing rate of €1/£0.63 (1999: €1/£0.62) respectively.

5 – Geographical segmental information

(a) Written premiums and sales of investment products

(i) Long-term business premium income and sales of investment products by geographical origin

	Premiums before reinsurance		Premiums after reinsurance		Sales of investment products	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	8,806	7,514	8,548	7,405	897	807
Europe (excluding UK)	5,686	5,623	5,629	5,418	1,309	360
International	698	662	671	647	295	411
	15,190	13,799	14,848	13,470	2,501	1,578

Total premiums written in Europe (excluding UK) include £29 million (1999: £654 million) relating to transfers from existing contracts.

(ii) General business premium income by geographical origin

	Premiums before reinsurance		Premiums after reinsurance	
	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	5,478	5,148	5,141	4,812
Europe (excluding UK)	2,849	2,211	2,595	2,031
International	2,103	2,083	1,907	1,848
Group reinsurance retentions	–	–	34	84
Ongoing business	10,430	9,442	9,677	8,775
Businesses discontinued and to be discontinued				
United States (to be discontinued)	3,131	2,828	3,021	2,621
London Market (discontinued)	311	398	192	233
	13,872	12,668	12,890	11,629

(iii) 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) Long-term and general business results

(i) Operating profit in respect of long-term business

	2000 £m	1999 £m
United Kingdom	763	778
Europe (excluding UK)	362	326
International	36	46
Operating profit before exceptional items	1,161	1,150
Exceptional items	(108)	(4)
Operating profit from long-term business	1,053	1,146

(ii) Operating (loss)/profit, before the change in the equalisation provision, in respect of general insurance and health business

	Underwriting result		Operating result	
	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	(409)	(297)	302	290
Europe (excluding UK)	(355)	(170)	(16)	60
International	(69)	(133)	192	132
Group reinsurance retentions	(32)	(31)	2	1
Operating (loss)/profit before exceptional items – ongoing business	(865)	(631)	480	483
Businesses discontinued and to be discontinued				
United States (to be discontinued)	(967)	(204)	(550)	176
London Market (discontinued)	(59)	(44)	(4)	25
Operating (loss)/profit before exceptional items	(1,891)	(879)	(74)	684
Exceptional items	(211)	(115)	(211)	(115)
General business operating result	(2,102)	(994)	(285)	569

Notes to the accounts

continued

5 – Geographical segmental information continued

(c) Operating (loss)/profit before taxation

	Excluding goodwill amortisation, amortisation of acquired additional value of in-force and exceptional items		Including goodwill amortisation, amortisation of acquired additional value of in-force and exceptional items	
	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	912	1,094	525	958
Europe (excluding UK)	411	411	312	381
International	249	195	189	142
Group reinsurance retentions	2	1	2	1
Ongoing business	1,574	1,701	1,028	1,482
Businesses discontinued and to be discontinued	(554)	201	(554)	201
Unallocated interest charges	(361)	(240)	(361)	(240)
Corporate costs	(185)	(162)	(185)	(162)
Operating profit before goodwill amortisation, amortisation of acquired additional value of in-force and exceptional items	474	1,500		
Goodwill amortisation	(92)	(34)		
Amortisation of acquired additional value of in-force	(29)	(22)		
Exceptional items	(425)	(163)		
Operating (loss)/profit	(72)	1,281	(72)	1,281

(d) Net assets by geographical segment

	Long-term business		General business and associated undertakings		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	1,699	1,508	2,282	3,379	3,981	4,887
Europe (excluding UK)	2,123	2,148	2,115	2,222	4,238	4,370
International	428	469	3,939	4,195	4,367	4,664
Group reinsurance retentions	–	–	220	137	220	137
	4,250	4,125	8,556	9,933	12,806	14,058
Other assets and liabilities					1,411	2,199
Total					14,217	16,257

Group reinsurance retentions consist of certain reinsurance covers which are retained by the Group rather than being placed with third parties.

(e) Net assets by principal currency

	2000 £m	1999 £m
Sterling	5,301	6,939
Euro	6,810	4,978
Canadian dollar	651	653
United States dollar	752	2,461
Other	703	1,226
Total	14,217	16,257

Net assets are stated after taking account of the effect of currency swaps and forward foreign exchange contracts.

6 – Premiums written and sales of investment products

(a) The analysis of life and savings business premiums written before reinsurance is:

	New business – single premiums		New business – regular premiums		Total premiums written	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Life:						
United Kingdom	3,941	3,046	118	109	5,423	4,361
Europe (excluding UK)	2,709	2,723	239	261	4,422	4,698
International	61	57	30	18	210	190
	6,711	5,826	387	388	10,055	9,249
Pensions:						
United Kingdom	2,313	2,064	236	201	3,383	3,153
Europe (excluding UK)	703	352	244	383	1,264	925
International	406	397	23	27	488	472
	3,422	2,813	503	611	5,135	4,550
	10,133	8,639	890	999	15,190	13,799
Investment products	2,481	1,566	20	12	2,501	1,578

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.

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

	2000 £m	1999 £m
Property	4,602	4,336
Motor	5,400	4,855
Liability	2,653	2,570
Other	530	497
General business premiums excluding health	13,185	12,258
Health	687	410
Total general business premiums	13,872	12,668

7 – Analysis of investment return

(a) The total investment return before taxation comprises:

	Long-term business		Non-technical account	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit from associated undertakings	–	–	1	10
Income from land and buildings	542	491	57	59
Income from other investments	5,277	5,249	1,364	1,319
Realised investment gains	4,824	5,120	1,018	587
Investment income	10,643	10,860	2,440	1,975
Expenses and charges, including allocated interest charges	(182)	(186)	(126)	(110)
Unallocated interest charges:				
External	–	–	(151)	(97)
Intra-group	–	–	(210)	(143)
	(182)	(186)	(487)	(350)
Investment return before unrealised gains	10,461	10,674	1,953	1,625
Unrealised investment (losses)/gains	(6,708)	4,988	(240)	(71)
Total investment return before taxation	3,753	15,662	1,713	1,554

Notes to the accounts

continued

7 – Analysis of investment return continued

(b) 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 £1,817 million (1999: £1,563 million) and £2 million (1999: £29 million) respectively.

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 interest income receivable for the year.

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	
	2000 %	1999 %	2000 %	1999 %
United Kingdom	8.1	6.9	6.6	5.4
France	7.5	5.9	6.5	4.9
Ireland	8.7	7.0	6.7	5.0
Netherlands	8.4	6.8	6.5	4.9
Australia and New Zealand	10.0	8.0	8.0	6.0
Canada	9.3	7.9	7.3	5.9
United States	9.3	7.7	7.3	5.7

(c) The actual return on investments, before deducting investment management expenses and charges, is compared below with the aggregate longer-term return over a three year period.

	1998 - 2000 £m	1997 - 1999 £m
Actual return attributable to shareholders:		
Long-term insurance business*	480	498
General insurance (including health)	6,591	7,222
	7,071	7,720
Longer-term return credited to operating results:		
Long-term insurance business*	428	422
General insurance (including health)	5,351	5,194
	5,779	5,616
Excess of actual returns over longer-term returns	1,292	2,104

*Figures are given for non-with-profits business only, where a longer-term rate of return is used.

Three year periods have been chosen as comparable information is not available for Norwich Union prior to 1997.

8 – Long-term business bonuses

	2000 £m	1999 £m
Policyholder bonuses allocated in anticipation of a bonus declaration included in claims paid	977	860
Reversionary and similar policyholder bonuses included in the movement in the long-term business provision	2,585	2,541
Bonuses included in the long-term business technical account	3,562	3,401

9 – Net operating expenses

(a) Net operating expenses in the technical accounts comprise:

	Long-term business		General business	
	2000 £m	1999 £m	2000 £m	1999 £m
Acquisition costs	1,429	1,311	3,125	3,024
Changes in deferred acquisition costs	(96)	(66)	(82)	(8)
Administrative expenses				
– integration costs (9b)	140	7	211	115
– other	482	475	886	719
	1,955	1,727	4,140	3,850
Reinsurance commissions receivable	(37)	(38)	(125)	(115)
	1,918	1,689	4,015	3,735

In 2000, long-term business 'other' expenses include costs of £11 million (1999: £9 million) and general business 'other' expenses include costs of £6 million (1999: £7 million) relating to projects to prepare for the introduction of the euro.

(b) Exceptional items have been charged to the consolidated profit and loss account as follows:

	Long-term business technical account		General business technical account		Non-technical account		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Merger integration costs:								
Charged to administrative expenses	140	7	211	115	–	–	351	122
Charged to profit from fund management	–	–	–	–	56	1	56	1
Charged to corporate costs	–	–	–	–	50	–	50	–
Less: Net transfer to fund for future appropriations	(32)	(3)	–	–	–	–	(32)	(3)
	108	4	211	115	106	1	425	120
Integration incentive plans:								
Charged to corporate costs	–	–	–	–	–	31	–	31
Total merger integration costs	108	4	211	115	106	32	425	151
Other integration costs:								
Charged to other income/(charges)	–	–	–	–	–	12	–	12
Charged to profit on ordinary activities before taxation	108	4	211	115	106	44	425	163
Tax							(73)	(39)
Charged to profit on ordinary activities after taxation							352	124

Merger integration costs comprise the costs of integrating and reorganising the business of the former CGU and Norwich Union operations. For 1999, these relate to the businesses of the former Commercial Union and General Accident operations.

Other integration costs in 1999 relate to the integration of the long-term business of Norwich Union's Spanish operation with its acquisition of British Life.

The 1999 figures for integration incentive plans, which related to the integration of the former Commercial Union and General Accident businesses, comprised the costs of incentive plans payable to staff in certain business units and the costs of cash and share awards to senior management of the Group, which were conditional upon the performance of the Group against predefined targets.

Notes to the accounts

continued

10 – Other income/(charges), including value adjustments

(a) Other income/(charges) comprise:

	2000 £m	1999 £m
Profit from fund management	5	65
Non-insurance operations	(25)	(30)
Wealth management	(133)	–
Corporate costs (10b)	(235)	(193)
Net profit/(loss) arising on the sale of subsidiary undertakings (18c)	12	(8)
Provision for loss on sale of United States general business (18d)	(1,070)	–
Loss on withdrawal from London Market operations	(448)	–
Goodwill amortisation (19)	(92)	(34)
Exceptional items (9b)	–	(12)
Merger transaction costs	(59)	–
	(2,045)	(212)

(b) Corporate costs

	2000 £m	1999 £m
Staff profit sharing scheme costs	57	34
Sundry corporate expenses	128	128
	185	162
Integration incentive plans (9b)	–	31
Integration costs (9b)	50	–
	235	193

11 – Employee information

The average number of persons employed by the Group during the year was:

	2000 Number	1999 Number
United Kingdom	35,641	34,076
Europe (excluding UK)	17,671	13,639
International	19,437	20,535
	72,749	68,250

The analysis of total staff costs was:

	2000 £m	1999 £m
Wages and salaries	1,816	1,594
Social security costs	195	187
Pension costs	88	77
	2,099	1,858

12 – Directors

Information concerning individual directors' emoluments, interests and transactions is given on pages 44 to 48.

13 – Auditors' remuneration

On 21 June 2000, Ernst & Young and PricewaterhouseCoopers were appointed joint auditors of the Company, having previously been auditors of Norwich Union plc and CGU plc respectively.

The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, in respect of the audit of these accounts is shown below, together with fees paid to the auditors of the parent company and their associated firms in respect of other work.

	2000 £m	1999 £m
Auditing these financial statements	4.9	4.5
Other audit work	1.8	1.6
Other work – United Kingdom	36.8	8.9
– Non-United Kingdom	6.2	2.7
	49.7	17.7

The auditors' remuneration in respect of the parent company was £3,000 (1999: £3,000).

Non-audit fees paid to Ernst & Young and its associates during the year were £4.7 million (1999: £2.4 million).

Non-audit fees paid to PricewaterhouseCoopers and its associates during the year were £38.3 million (1999: £9.2 million).

The non-audit fees include consultancy work related to development of the UK wealth management service, and work relating to merger activity and the integration of Norwich Union plc and CGU plc, the majority of which is subject to competitive tender.

14 – Taxation

(a) Tax on (loss)/profit on ordinary activities

Tax charged in the non-technical account comprises:

	2000 £m	1999 £m
UK corporation tax	(65)	22
Advance corporation tax written back	(46)	(50)
Overseas taxation	46	62
Associated undertakings	3	3
Deferred taxation	(70)	10
Prior year adjustments	13	(5)
Tax attributable to balance on long-term business technical account	374	340
	255	382

(b) Long-term business

Tax charged in the long-term business technical account comprises:

	2000 £m	1999 £m
UK corporation tax	500	494
Overseas taxation	144	115
Deferred taxation	(30)	(43)
Prior year adjustments	(3)	12
	611	578

Notes to the accounts

continued

14 – Taxation continued

(c) Balance sheet

The provision for deferred taxation, included within the provisions for other risks and charges, comprises:

	Long-term business		Non-long-term business	
	2000 £m	1999 £m	2000 £m	1999 £m
Unrealised gains on investments	187	253	210	223
Provisions and other timing differences	114	103	40	13
Losses	–	–	(122)	(1)
	301	356	128	235

The potential amount of taxation not expected to become a liability in the foreseeable future, for which provision has not been made, comprises:

	Long-term business		Non-long-term business	
	2000 £m	1999 £m	2000 £m	1999 £m
Unrealised gains on investments	1,525	1,891	615	351
Provisions and other timing differences	(177)	(42)	(45)	(5)
Losses	(77)	(61)	(96)	(5)
	1,271	1,788	474	341

Included within other prepayments and accrued income in 1999 of £472 million in the consolidated balance sheet was a deferred tax asset of £31 million. This asset arose mainly from timing differences within the group of companies headed by The GAN Company of Canada Limited, which was acquired by the Group in 1999. For 2000, the balance of this asset has been netted against the larger deferred tax liability of the Canadian group.

15 – Ordinary dividends

Ordinary dividends in the profit and loss account comprise:

	2000 £m	1999 £m
Interim – 14.25 pence (1999: 12.34 pence*)	320	278
Final – 23.75 pence (1999: 21.96 pence*)	535	495
	855	773

*Based on the weighted average dividends per share of CGU plc and Norwich Union plc. The 1999 interim and final dividends per share for CGU plc were 14.25 pence and 23.75 pence respectively.

Irish shareholders who are due to be paid a final dividend denominated in Irish punts will receive a payment based on the exchange rate prevailing on 26 February 2001.

16 – Earnings per share

(a) Basic earnings per share

	Before tax £m	Net of tax, minorities and preference dividends £m	Per share 2000 p	Before tax Restated £m	Net of tax, minorities and preference dividends £m	Per share 1999 p
Operating profit – ongoing business before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	1,028	636	28.3	1,299	877	39.2
Adjusted for the following items:						
Operating (loss)/profit on business to be discontinued	(550)	(420)	(18.7)	176	197	8.8
Operating (loss)/profit on discontinued businesses	(4)	(3)	(0.1)	25	17	0.8
Amortisation of goodwill	(92)	(92)	(4.1)	(34)	(34)	(1.5)
Amortisation of acquired additional value of in-force long-term business	(29)	(22)	(1.0)	(22)	(15)	(0.7)
Exceptional items	(425)	(352)	(15.7)	(163)	(124)	(5.5)
Short-term fluctuation in investment returns	258	(117)	(5.2)	250	133	5.9
Change in the equalisation provision	(27)	(19)	(0.8)	(55)	(40)	(1.8)
Net profit/(loss) arising on the sale of subsidiary undertakings	12	12	0.5	(8)	(8)	(0.4)
Provision for loss on businesses to be sold	(1,070)	(989)	(44.0)	–	–	–
Loss on for withdrawal from London Market operations	(448)	(314)	(14.0)	–	–	–
Merger transaction costs	(59)	(50)	(2.2)	–	–	–
(Loss)/profit attributable to equity shareholders	(1,406)	(1,730)	(77.0)	1,468	1,003	44.8

Earnings per share has been calculated based on the operating profit from ongoing business before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after taxation, attributable to equity shareholders, as well as on the (loss)/profit attributable to equity shareholders, as the directors believe the former earnings per share figure provides a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,247 million (1999: 2,237 million) ordinary shares in issue.

The actual number of shares in issue at 31 December 2000 was 2,251 million (1999: 2,242 million).

(b) Diluted earnings per share

	Total £m	Weighted average number of shares m	Per share 2000 p	Total £m	Weighted average number of shares m	Per share 1999 p
(Loss)/profit attributable to equity shareholders	(1,730)	2,247	(77.0)	1,003	2,237	44.8
Dilutive effect of options	–	4	0.1	–	5	(0.1)
Diluted earnings per share	(1,730)	2,251	(76.9)	1,003	2,242	44.7

Notes to the accounts

continued

17 – Consolidated balance sheet segmentation

Segmented assets comprise:

	Long-term business		General business and associated undertakings		Other		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Goodwill:								
Positive	–	–	–	–	796	507	796	507
Negative	–	–	–	–	(49)	(55)	(49)	(55)
	–	–	–	–	747	452	747	452
Investments:								
Land and buildings	8,006	7,084	820	761	–	2	8,826	7,847
Investments in Group undertakings and participating interests	728	151	264	266	–	17	992	434
Other financial investments	104,549	101,221	21,354	21,562	527	481	126,430	123,264
Additional value of in-force long-term business	–	–	–	–	6,605	6,425	6,605	6,425
Deposits with ceding undertakings	2	4	145	110	–	–	147	114
	113,285	108,460	22,583	22,699	7,132	6,925	143,000	138,084
Assets held to cover linked liabilities	27,255	24,626	–	–	–	–	27,255	24,626
Reinsurers' share of technical provisions:								
Provision for unearned premiums	–	–	186	307	–	–	186	307
Long-term business provision	1,311	952	–	–	–	–	1,311	952
Claims outstanding	48	35	3,523	2,331	–	–	3,571	2,366
Technical provision for linked liabilities	703	1,738	–	–	–	–	703	1,738
	2,062	2,725	3,709	2,638	–	–	5,771	5,363
Debtors:								
Debtors arising out of direct insurance operations	713	586	3,561	3,337	–	–	4,274	3,923
Debtors arising out of reinsurance operations	100	66	697	568	–	–	797	634
Loans to associated undertakings	–	–	32	–	–	–	32	–
Other debtors	1,004	1,003	4,579	3,624	(1,537)	(628)	4,046	3,999
	1,817	1,655	8,869	7,529	(1,537)	(628)	9,149	8,556
Other assets:								
Tangible assets	101	68	156	184	99	79	356	331
Cash at bank and in hand	1,208	668	516	576	224	4	1,948	1,248
Own shares	–	–	–	–	10	4	10	4
	1,309	736	672	760	333	87	2,314	1,583
Prepayments and accrued income:								
Accrued interest and rent	1,152	1,037	264	311	8	2	1,424	1,350
Deferred acquisition costs	1,520	1,448	1,336	1,250	–	–	2,856	2,698
Other prepayments and accrued income	151	111	614	114	37	247	802	472
	2,823	2,596	2,214	1,675	45	249	5,082	4,520
Total assets	148,551	140,798	38,047	35,301	6,720	7,085	193,318	183,184

'Other' comprises fund management, stockbroking and banking activities, and unallocated external and intra-group borrowings. The negative figures for other debtors included in this column of £1,537 million (1999: £628 million) reflect balances due to and from different business segments, which are eliminated on consolidation.

The cost of assets held to cover linked liabilities is £25,812 million (1999: £19,181 million). Assets held to cover linked liabilities include assets with a carrying value of £nil (1999: £106 million) which are held on behalf of others.

17 – Consolidated balance sheet segmentation continued

Segmented liabilities excluding capital and reserves comprise:

	Long-term business		General business and associated undertakings		Other		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Fund for future appropriations	14,354	19,314	–	–	–	–	14,354	19,314
Technical provisions:								
Provision for unearned premiums	–	–	6,078	5,831	–	–	6,078	5,831
Long-term business provision	97,022	86,947	–	–	–	–	97,022	86,947
Claims outstanding	540	455	17,465	15,965	–	–	18,005	16,420
Equalisation provision	–	–	216	212	–	–	216	212
Other technical provisions	–	–	27	28	–	–	27	28
	97,562	87,402	23,786	22,036	–	–	121,348	109,438
Technical provision for linked liabilities	27,958	26,364	–	–	–	–	27,958	26,364
Provisions for other risks and charges	496	452	1,590	482	–	45	2,086	979
Deposits received from reinsurers	602	512	11	29	–	–	613	541
Creditors:								
Creditors arising out of direct insurance operations	841	410	371	472	–	–	1,212	882
Creditors arising out of reinsurance operations	66	45	1,518	295	–	–	1,584	340
Long-term business borrowings								
Debenture loans	16	18	–	–	–	–	16	18
General business and other borrowings								
Debenture loans	–	–	–	–	893	857	893	857
Amounts owed to credit institutions	–	–	11	201	384	357	395	558
Commercial paper	–	–	–	–	1,304	679	1,304	679
Other creditors including taxation and social security	2,040	1,912	1,435	1,582	2,591	2,717	6,066	6,211
Loans from associated undertakings	11	11	17	–	–	–	28	11
	2,974	2,396	3,352	2,550	5,172	4,610	11,498	9,556
Accruals and deferred income	355	233	752	416	137	86	1,244	735
Total liabilities, excluding capital and reserves	144,301	136,673	29,491	25,513	5,309	4,741	179,101	166,927

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continued

18 – Subsidiary undertakings

(a) During the year ended 31 December 2000, the Group acquired the following companies:

	Country of incorporation	Percentage acquired	Date of acquisition
Hibernian Group plc	Republic of Ireland	73.7%	18 January 2000
Aseval	Spain	50%	31 July 2000

On 18 January 2000, the Group acquired the remaining 73.7% of the share capital of Hibernian Group plc, formerly an associate of CGU plc, for a cash consideration of £254 million, giving rise to goodwill of £122 million. Hibernian Group plc transacts general insurance in the Republic of Ireland and the United Kingdom, life insurance business in the Republic of Ireland and international reinsurance. The transaction was accounted for as an acquisition. Compliance with Financial Reporting Standard 2 'Accounting for subsidiary undertakings' requires a departure from the Companies Act 1985 relating to the calculation of goodwill on Hibernian. In the opinion of the directors, in order to give a true and fair view, goodwill has to take account of the share of net assets purchased when Hibernian became an associate. If the provisions of the Companies Act had been followed, goodwill would have been £47 million lower.

On 31 July 2000, the Group entered into a bancassurance partnership with Bancaja, a leading savings bank in Spain. As part of this alliance, the Group purchased 50% of the issued share capital of Aseval, Bancaja's life insurance subsidiary, for a cash consideration of £205 million (including transaction costs), with further amounts payable if Aseval achieves certain performance targets. The Group's share of Aseval's embedded value amounted to £47 million, giving rise to goodwill of £193 million after taking into account the estimated value of the deferred consideration. The transaction has been accounted for as an acquisition and, in view of the management control exercised by the Group, the results of Aseval have been consolidated with those of other Group operations from the date of the purchase.

(b) The identifiable assets and liabilities of the entities acquired, at the relevant date of acquisition, were as set out below.

	Book value £m	Fair value adjustments £m	Fair value £m
Assets			
Total investments	1,314	–	1,314
Additional value of in-force long-term business (24a)	102	–	102
Other assets	147	–	147
Total assets	1,563	–	1,563
Liabilities			
Technical provisions including linked liabilities	1,192	15	1,207
Other creditors and provisions	129	–	129
Total liabilities	1,321	15	1,336
Total shareholders' funds	242	(15)	227
Less: Minority interests			(48)
Shareholders' funds acquired			179
Goodwill arising on acquisition			315
Total consideration			494
The total consideration comprised:			
Cash (including contingent cash amounts)			487
Attributable acquisition costs			7
			494

The fair value adjustments arise from revaluations.

No individual acquisition was material enough to require separate disclosure.

In addition to the goodwill arising on the acquisition of these subsidiary undertakings, the Group acquired the 25% minority interest in CGU Underwriting Limited and the 10% minority interest in Commercial Union Hayat Sigorta AS, in Turkey, and made a number of smaller acquisitions in the United Kingdom and continental Europe. These gave rise to an additional amount of £49 million goodwill. Total positive goodwill arising in the year was therefore £364 million (note 19).

18 – Subsidiary undertakings continued

(c) Disposals

On 31 July 2000, the Group disposed of its wholly-owned German general insurance business, General Accident Versicherungs AG. The cash consideration for the transaction was £34 million which incorporates adjustments following the completion accounts process. Net assets at the date of the disposal amounted to £27 million. Under the terms of the sale, the Group has retained some exposure to certain types of run-off losses and is currently in the process of securing reinsurance for the residual risk. A loss on disposal of £43 million has been recorded after allowing for transaction costs and the likely cost of reinsurance and after writing back £31 million of goodwill previously written off against reserves.

During July 2000, the Group disposed of its 50.1% holding of First Australian Property Group Holdings Pty Limited ('Paladin') for a consideration of £16 million. The net assets disposed of, comprising unamortised goodwill, amounted to £12 million, generating a profit on disposal of £4 million.

In October 2000, the Group disposed of its 51% holding in its South African general insurance business, CGU Holdings Limited, for a cash consideration of £58 million. The net assets disposed of amounted to £57 million and the loss on disposal, after transaction costs and after writing back £8 million of goodwill previously charged to reserves, was £11 million.

On 29 November 2000, the Group disposed of its wholly-owned Polish businesses, PTE Norwich Union S.A. and Norwich Union Towarzystwo Ubezpieczen na Zycie S.A., for a cash consideration of £133 million, subject to any adjustments arising from the completion accounts process. Net assets at disposal amounted to £57 million, resulting in a profit on disposal of £65 million, after allowing for transaction costs.

In December 2000, the Group completed the sale of Marlborough Underwriting Agency Limited, its wholly-owned Lloyd's managing agency, to the Berkshire Hathaway Group for a consideration of £5 million. Under the terms of the agreement, the Berkshire Hathaway Group has also replaced CGNU as the provider of capacity to the Marlborough-managed syndicates. This agreement brings to an end the Group's involvement in the London Market. Reinsurance has also been purchased from the Berkshire Hathaway Group to secure protection against any adverse impact of the run-off of claims reserves held by CGNU in respect of business written prior to exit, both in the respect of historic business through the ILU and other London Market operations, and, more recently, Lloyd's. This provides cover of £1 billion in excess of CGNU's claims reserves of £1.2 billion. The charge for withdrawal from London Market operations of £448 million includes the cost of the associated reinsurance protection.

During the course of 2000, the Group entered into binding agreements to dispose of its life operations in Canada and stockbroking operations in the United Kingdom. In addition, the Group announced its intention to dispose of its life operations in Greece and part of its general business operations in New Zealand. These disposals were not completed by 31 December 2000.

(d) Business to be discontinued – United States general insurance

On 25 September 2000, the Group announced that it had entered into an agreement to sell its US general insurance operations for US\$2,063 million. In addition, an inter-company loan of US\$1,100 million will be repaid to the Group. The settlement will comprise cash, the transfer of businesses to be retained and subordinated loan notes of US\$260 million. This sale is subject to the satisfaction of certain conditions, including US regulatory approval, and is expected to be completed later in 2001.

Subject to the satisfaction of certain conditions, the total proceeds for the sale of the US general business of US\$3,163 million were fixed by reference to the operation's net assets as at 31 August 2000 and will not be adjusted to reflect the business results in the period from 1 September 2000 to completion, nor will the Group bear any continuing operating risk from 31 August 2000 or provide any guarantees in respect of its claims reserves or balance sheet beyond this date. Consequently, had the transaction been completed on 31 August 2000, the post-tax loss on sale would have been US\$2,007 million.

Financial Reporting Standard 2 'Accounting for subsidiary undertakings' requires the results of the US general business to be consolidated with those of the Group's ongoing operations until the completion of the transaction. However, given that, subject to completion, the Group has retained no economic interest in the operations of this business beyond 31 August 2000, the US general business's post-tax operating and investment gains incorporated in the Group's consolidated profit and loss account from 1 September 2000 to completion will be offset by a corresponding change to the loss on sale calculated at 31 August 2000. The loss on sale recorded in these accounts also reflects goodwill previously written off against reserves but which needs to be reinstated and charged in the profit and loss account.

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18 – Subsidiary undertakings continued

(d) Businesses to be discontinued – United States general insurance continued

The after-tax provision for the loss on the sale, including pre-closing adjustments of US\$200 million (£134 million), recorded in the Group's consolidated profit and loss account at 31 December 2000 is US\$1,477 million or £989 million retranslated at the exchange rate prevailing at 31 December 2000.

The calculation of the loss is summarised below:

	£m	US\$m	Exchange rate \$:£
Net assets at 31 December 1999	3,133	5,050	1.6117
Exchange rate movements	248	–	1.4938
	3,381		
Capital injection	134	200	
Actual operating profit/(loss) and investment gains/(losses)			
1 January – 31 August	136	203	
1 September – 31 December	(559)	(835)	
	3,092	4,618	
Proceeds	2,117	3,163	1.4938
Less: Net assets to which proceeds apply	(3,092)	(4,618)	
Less: Transaction costs	(25)	(38)	
Provision for loss on sale before tax and goodwill write back	(1,000)	(1,493)	
Goodwill write back	(70)	(105)	
Pre-tax provision for loss on sale	(1,070)	(1,598)	
Tax attributed to loss on sale	81	121	
Provision for loss on sale after tax and goodwill write back	(989)	(1,477)	

The final accounting loss on completion will differ from the post-tax loss of £989 million above. This is due to the consolidation profits or losses of this business from 1 January 2001 to the date of completion, despite there being no economic effect on the Group, and fluctuations in the \$:£ exchange rate.

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

	2000 £m	1999 £m
Net asset value		
At 1 January	10,224	9,913
Additions	6,832	–
Disposals	(540)	–
Movement in net asset value	(2,861)	311
At 31 December	13,655	10,224

Shares in subsidiary undertakings are valued at net asset value computed in accordance with the Company's accounting policies. The resulting gain over book value of £4,393 million (1999: £7,254 million) has been credited to the Company's revaluation reserve (see note 34). The directors are satisfied that the aggregate value of all such investments is not less than the aggregate amount at which they are stated in the balance sheet.

(f) Principal subsidiary undertakings at 31 December 2000 are listed on page 107.

19 – Goodwill

The carrying value of goodwill comprises:

	Positive goodwill £m	Negative goodwill £m	Total 2000 £m	Total 1999 £m
Cost:				
At 1 January	551	(56)	495	481
Additions (18b)	364	–	364	33
Disposals	(13)	–	(13)	–
Foreign exchange rate movements	15	(1)	14	(19)
Other movements	16	5	21	–
At 31 December	933	(52)	881	495
Amortisation:				
At 1 January	44	(1)	43	10
Charge in the year	94	(2)	92	34
Foreign exchange rate movements	(1)	–	(1)	(1)
At 31 December	137	(3)	134	43
Carrying value at 31 December	796	(49)	747	452

Other movements include adjustments to the fair value of acquisitions in 1999.

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 R on page 52, goodwill arising in 1997 and prior years was charged directly to reserves.

20 – Land and buildings

The carrying value of land and buildings comprises:

	Long-term business		Non-long-term business		Group	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Freeholds	6,041	5,381	787	720	6,828	6,101
Long leaseholds – over 50 years	1,933	1,684	29	39	1,962	1,723
Short leaseholds – under 50 years	32	19	4	4	36	23
	8,006	7,084	820	763	8,826	7,847

The cost of land and buildings at 31 December 2000 was £7,299 million (1999: £6,346 million). The carrying value of land and buildings occupied by the Group for its own activities was £580 million (1999: £621 million).

The valuation of properties has been undertaken by qualified external valuers or prepared or monitored by qualified members of staff reporting to the Head of Property of Morley Properties Limited, who is a Fellow of The Royal Institution of Chartered Surveyors, or by local qualified staff of the Group in overseas operations. All properties are valued at market value.

21 – Investments in Group undertakings and participating interests

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

	Carrying value 2000 £m	Cost 2000 £m	Carrying value 1999 £m	Cost 1999 £m
Investments in associated undertakings (21b)	979	920	376	295
Other participating interests	13	26	58	54
	992	946	434	349

None of the other participating interests is listed on a recognised investment exchange.

Notes to the accounts

continued

21 – Investments in Group undertakings and participating interests continued

(b) Associated undertakings

Movements in the Group's investments in associated undertakings comprise:

	Long-term business £m	Non-long-term business £m	Total £m
Profit for the year after taxation	–	(2)	(2)
Foreign exchange rate movements	2	2	4
Realised investment gains after taxation	–	1	1
Unrealised investment gains after taxation	17	28	45
Dividends received	–	(5)	(5)
Additions	600	17	617
Reclassification to subsidiary (see below)	–	(57)	(57)
Movements in investments in associated undertakings	619	(16)	603
Balance at 1 January			
Goodwill (21c)	–	–	–
Share of net assets	108	268	376
	108	268	376
Balance at 31 December			
Goodwill (21c)	257	–	257
Share of net assets	470	252	722
	727	252	979

The associated undertakings included above are:

Company	Class of share	Proportion held	Country of incorporation and operation
Compania de Seguros La Republica SA	Ordinary shares – no par value	31.8%	Chile
Global Aerospace Underwriting Managers Limited	Ordinary £1 shares	50%	England
Norwich Winterthur Holdings Limited	Ordinary £1 shares	48.5%	England
RBS Life Investments Limited	Ordinary £1 shares	50%	Scotland
Société Foncière Lyonnaise	Ordinary FF 50 shares	31.5%	France
The British Aviation Insurance Company Limited	Ordinary £1 shares	38.1%	England

All investments in associated undertakings are held by subsidiary undertakings and are included in the accounts using year ended 31 December 2000 figures, except where the relevant accounting date is shown in brackets. Société Foncière Lyonnaise ('SFL') is listed on a recognised investment exchange; all other associated undertakings are not listed. All associated undertakings transact insurance business, with the exception of SFL which is a property company.

The Group's shareholding in SFL would reduce to 26.4% if all convertible bonds previously issued by SFL are converted to ordinary shares.

On 5 December 2000, the Group acquired 49.99% of the ordinary share capital of RBS Life Investments Limited ('RBSLI'), the immediate holding company of Royal Scottish Assurance plc ('RSA') and National Westminster Life Assurance Limited ('NWLA'), for a consideration of £600 million, representing assets acquired of £343 million and goodwill of £257 million. The investment is in the form of a £1 million 49.99% equity participation in RBSLI and a £599 million loan to RBS Life Holdings Limited, the company holding the remaining 50.01% of the ordinary shares in RBSLI. The loan is interest-free, would become repayable if RBSLI disposed of its investments in RSA and NWLA and is guaranteed by The Royal Bank of Scotland plc. The National Westminster Life Assurance Limited element of the transaction is subject to ratification by The Royal Bank of Scotland plc shareholders at their Annual General Meeting on 11 April 2001. If ratification of the transaction is not forthcoming, then full ownership of National Westminster Life Assurance Limited will revert back to The Royal Bank of Scotland plc and the attaching element of the consideration, plus interest, will become repayable to CGNU. No ratification is required for the Royal Scottish Assurance plc element of the transaction.

On 25 September 2000, the Group increased its shareholding in Global Aerospace Underwriting Managers Limited (formerly British Aviation Insurance Group Limited) for a cash consideration of £12 million.

On 18 January 2000, the Group purchased the remaining 73.7% holding in Hibernian Group, taking the Group holding to 100% (see note 18(a)). This company has been consolidated with effect from that date.

21 – Investments in Group undertakings and participating interests continued

(c) The carrying value of goodwill on associated undertakings comprises:

	Long-term business £m	Non-long-term business £m	Total 2000 £m	Total 1999 £m
Cost:				
At 1 January	–	–	–	–
Additions	257	–	257	–
At 31 December	257	–	257	–
Carrying value at 31 December	257	–	257	–

Goodwill will be amortised on a straight line basis over its useful economic life of 20 years, which has been determined to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets.

(d) In France, the Group holds the majority interest 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 in other financial investments or land and buildings as appropriate.

22 – Other financial investments

(a) These financial investments comprise:

	Long-term business £m	Non-long-term business £m	Total 2000 £m	Long-term business £m	Non-long-term business £m	Total 1999 £m
Shares and other variable yield securities and units in unit trusts	44,941	5,868	50,809	47,108	7,595	54,703
Debt securities and other fixed income securities:						
At current value	11,460	13,813	25,273	12,472	12,421	24,893
At amortised cost	35,095	–	35,095	29,757	–	29,757
Participation in investment pools	101	–	101	33	–	33
Loans secured by mortgages:						
Own mortgages	7,912	941	8,853	7,500	832	8,332
Securitised mortgages (23)	348	–	348	–	–	–
Less: Non-recourse funding (23)	(348)	–	(348)	–	–	–
	–	–	–	–	–	–
Other loans:						
Loans secured on policies	957	–	957	902	–	902
Other loans	2,209	292	2,501	1,922	248	2,170
Deposits with credit institutions	1,874	967	2,841	1,527	947	2,474
	104,549	21,881	126,430	101,221	22,043	123,264

All investments above are shown at current value unless otherwise indicated. The cost of financial investments above was £106,707 million (1999: £109,111 million).

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

	2000 £m	1999 £m
Shares and other variable yield securities and units in unit trusts	50,625	50,234
Debt securities and other fixed income securities	58,433	52,178

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

	2000 £m	1999 £m
Cost	34,794	29,638
Cumulative amortisation	301	119
Amortised cost	35,095	29,757
Market value	36,743	31,361

The redemption value of investments held at the year end was £488 million greater (1999: £1,042 million greater) than the amortised cost.

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22 – Other financial investments continued

(d) In addition to the investments in participating interests detailed in note 21, the Group holds investments exceeding 10% of a class of the equity capital in a number of other companies in the United Kingdom and elsewhere. These investments do not represent a material part of the assets or investment income of the Group. These include the Group's 9.3% (1999: 10.0%) shareholding in Delta Lloyd Investment Fund NV. 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. The economic benefits of ownership of an additional holding of 12.1% (1999: 10.8%) belong to the Delta Lloyd Pension Fund.

(e) Included within other financial investments are shareholdings held on a long-term basis in the issued share capital of Société Générale, a banking company incorporated in France, Münchener Rückversicherungs-Gesellschaft, a reinsurance company incorporated in Germany and The Royal Bank of Scotland Group, a banking company incorporated in Scotland. The market values of these holdings at 31 December 2000 were £1,188 million, £1,510 million and £1,391 million respectively (1999: £1,029 million, £1,385 million and £123 million respectively) and represented 6.8%, 3.6% and 3.3% (1999: 6.9%, 5.0% and 1.3%) of the respective issued share capitals of these companies. Of these holdings, the long-term business operations owned £359 million (1999: £110 million) of the Société Générale shares, £255 million (1999: £416 million) of the Münchener Rückversicherungs-Gesellschaft shares and £1,357 million (1999: £117 million) of The Royal Bank of Scotland Group shares.

(f) At 31 December 2000, the Group held equity index futures, forwards and options to buy a notional total of £566 million (1999: £247 million) and to sell a notional total of £169 million (1999: £37 million) for long-term business operations. These contracts have a net positive fair value of £1 million (1999: £5 million). No adjustment has been made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

In 1998, the Group purchased several swap options from a European bank to cover a possible future exposure to interest rates related to guaranteed annuities in a subsidiary purchased prior to 1998. At 31 December 2000, the exposure hedged by these options was £2,551 million (1999: £2,649 million) and the contracts had a fair market value of £122 million (1999: £105 million). These options have varying expiry dates up to 2028.

On 23 September 2000, the Group purchased a foreign currency option to hedge \$1 billion of the expected proceeds from the sale of the US general insurance business. The premium cost of this option was £18.9 million. At the year end, the option was showing a profit of £31.7 million and it was closed out on 22 January 2001 at a profit of £13.2 million.

(g) The Group has entered into stocklending arrangements in the United Kingdom and overseas during the year in accordance with established market conventions. In the United Kingdom, investments are lent to locally-domiciled counter-parties 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 £191 million (1999: £345 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 (note 41).

23 – Securitised mortgages and related assets

Other financial investments at 31 December 2000 include financial investments, subject to non-recourse finance arrangements, comprising portfolios of mortgage loans in a Dutch subsidiary ('DLNO'). These balances are accounted for using a linked presentation in accordance with Financial Reporting Standard 5 'Reporting the substance of transactions'.

The principal benefits of these mortgage loans were acquired during 2000 from DLNO by a special purpose securitisation company, Arena 2000-1 B.V. ('Arena'), which was funded primarily through the issue of fixed rate notes. No gain or loss was recognised on this transfer.

DLNO and its subsidiary undertakings are not obliged to support any losses that may be suffered by the fixed rate 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 Arena's respective available resources, including funds due from customers in respect of the securitised loans, are sufficient and that noteholders have no recourse whatever to DLNO.

All the shares in Arena are held by an independent trustee, Stichting Security Trustee Arena 2000-1 B.V. DLNO does not own, directly or indirectly, any of the share capital of Arena or its parent company. DLNO has purchased £30 million of the fixed rate notes, which are repayable in 2062, and these are included in debt securities and other fixed income securities within other financial investments in the consolidated balance sheet.

DLNO receives payments from Arena in respect of fees for loan administration purposes, and also under the terms of interest rate swaps written between DLNO and Arena to hedge its respective exposures to movements in interest rates arising from this transaction. In each case, the effect of these interest rate swaps is that Arena swaps all or part of the interest flows receivable from customers in respect of the securitised mortgage loans into fixed interest flows which are designed broadly to match the interest payable to the noteholders. DLNO has no right, nor any obligation, to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where DLNO is in breach of warranty.

No income has yet been earned by DLNO relating to the securitisation of the mortgage loan portfolio.

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

(a) Movements in the additional value of in-force long-term business comprise:

	Internally generated £m	Acquired £m	Total £m
Balance at 1 January	5,949	476	6,425
Foreign exchange rate movements	14	(8)	6
In-force long-term business acquired in subsidiaries (18b)	–	102	102
In-force long-term business acquired in associates (21b)	–	343	343
Amortisation charge for the year	–	(29)	(29)
Other movements during the year	95	6	101
Movements arising in the year	109	414	523
Balance at 31 December			
Included in investments in Group undertakings	–	343	343
Other	6,058	547	6,605
	6,058	890	6,948

The amortisation charge for the year appears under the heading 'Other technical charges – net of reinsurance' in the long-term business technical account on page 53, netted down for attributable tax.

Details of the assumptions and methodology supporting the additional value of in-force long-term business can be found on pages 103 to 105.

(b) The reserve arising from the additional value of in-force long-term business comprises:

	2000 £m	1999 £m	Movement in the year £m
Additional value of in-force long-term business at 31 December	6,948	6,425	523
Amount attributable to minority interests	(111)	(43)	(68)
Pre-acquisition value of in-force long-term business, net of minority interests	(838)	(468)	(370)
Balance at 31 December	5,999	5,914	85

(c) The embedded value of the long-term operations comprises:

	2000 £m	1999 £m
Total assets of the long-term business segment	148,551	140,798
Total liabilities of the long-term business segment	(144,301)	(136,673)
	4,250	4,125
Less: Net liabilities/(assets) of other life and savings operations	36	(32)
Net assets of long-term operations	4,286	4,093
Additional value of in-force long-term business	6,948	6,425
	11,234	10,518

Analysis of the geographical split of the embedded value and of the movement in the year are given in the supplementary information on page 103.

25 – Debtors arising out of direct insurance operations

	2000 £m	1999 £m
Amounts owed by policyholders	2,330	2,103
Amounts owed by intermediaries	1,944	1,820
Debtors arising out of direct insurance operations	4,274	3,923

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26 – Other debtors

	2000 £m	1999 £m
Banking and stockbroking assets (30a)	2,138	2,147
Other	1,908	1,852
Other debtors	4,046	3,999

27 – Tangible assets

	Motor vehicles £m	Computer equipment £m	Other £m	Total £m
Cost:				
At 1 January	100	379	411	890
Acquisitions	1	4	1	6
Additions	24	107	145	276
Disposals	(50)	(35)	(39)	(124)
At 31 December	75	455	518	1,048
Depreciation:				
At 1 January	41	260	258	559
Acquisitions	–	1	–	1
Charge for the year	14	85	99	198
On disposals	(27)	(19)	(20)	(66)
At 31 December	28	327	337	692
Net book value at 31 December 2000	47	128	181	356
Net book value at 31 December 1999	59	119	153	331

28 – Own shares

Movements in the residual value of own shares comprise:

	Number	2000 £m	Number	1999 £m
Additions	550,000	6	882,815	8
Distributed in year	(396,265)	–	–	–
Charge for the year	–	–	–	(18)
Movement arising in the year	153,735	6	882,815	(10)
Balance at 1 January	2,259,485	4	1,376,670	14
Balance 31 December	2,413,220	10	2,259,485	4

These shares are owned by an employee share trust to satisfy awards under Integration Incentive Plans, Deferred Bonus Plans, Executive Share Option Plans and the CGNU Long Term Incentive Plan. A charge to profit has been made in respect of the exercise of options and vesting of awards during the year. Further details of the shares held can be found in note 31b. Further details of the features of the plans can be found in the Remuneration report on pages 40 to 43.

29 – Other prepayments and accrued income

	2000 £m	1999 £m
Deferred tax asset (14c)	–	31
Other	802	441
Other prepayments and accrued income	802	472

30 – Banking and stockbroking activities

(a) Banking and stockbroking assets, excluding intra-group balances, comprise:

	2000 £m	1999 £m
Investments	459	327
Loans and advances to banks	275	749
Loans and advances to customers	1,216	843
	1,950	1,919
Stockbroking clients and counterparties	38	35
Short-term deposits and cash	17	30
Other banking and stockbroking assets	133	163
	2,138	2,147

(b) Banking and stockbroking liabilities, excluding intra-group balances, comprise:

	2000 £m	1999 £m
Deposits by banks	124	436
Bank customer accounts	1,269	957
Stockbroking clients and counterparties	28	34
Bank overdrafts	22	1
Other banking and stockbroking liabilities	456	584
	1,899	2,012

31 – Ordinary share capital

(a) The authorised share capital of the Company at 31 December 2000 was:

	2000 £m	1999 £m
3,000,000,000 (1999: 1,907,000,000) ordinary shares of 25 pence each	750	477

The allotted, called up and fully paid share capital of the Company at 31 December 2000 was:

	2000 £m	1999 £m
2,251,102,449 (1999: 1,312,541,748) ordinary shares of 25 pence each	563	328

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continued

31 – Ordinary share capital continued

(b) At 31 December 2000, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

CGNU Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	491.01	17,890	2000	580.27	553,117	2000, 2002 or 2004
	437.74	164,269	2002	797.60	1,991,968	2001, 2003 or 2005
	484.66	141,893	2000 or 2002	750.00	2,392,419	2002, 2004 or 2006
	478.26	500,376	2001 or 2003	895.20	4,328,614	2003, 2005 or 2007
Norwich Union Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	541.60	3,261,757	2000 or 2002	752.00	1,050,501	2002 or 2004
	785.00	1,007,916	2001 or 2003			
Hibernian Savings Related Share Option Scheme	Option price Irish p	Number of shares	Normally exercisable	Option price Irish p	Number of shares	Normally exercisable
	810.40	125,267	2002 or 2004	1,165.00	212,134	2003 or 2005
General Accident Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	421.73	131,170	2001	421.73	783,672	2001 or 2003
	352.79	189,085	2000 or 2002	555.55	689,631	2002 or 2004
CGNU Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	465.01	67,938	1994 to 2001	857.00	43,343	2000 to 2007
	471.03	19,107	1995 to 2002	1,073.31	21,592	2001 to 2008
	580.17	249,301	1995 to 2002	1,119.00	100,876	2001 to 2008
	585.97	25,099	1996 to 2003	1,016.00	26,278	2001 to 2008
	547.17	68,717	1997 to 2004	853.00	1,322,286	2001 to 2008
	542.17	51,284	1998 to 2005	965.00	261,172	2002 to 2009
	614.83	51,700	1998 to 2005	919.00	2,382,879	2002 to 2009
	581.17	391,537	1999 to 2006	870.83	180,314	2002 to 2009
	601.17	93,287	1999 to 2006	952.00	28,362	2002 to 2009
	689.17	45,121	1999 to 2006	947.67	3,165	2002 to 2009
	677.50	26,568	2000 to 2007	776.66	159,013	2003 to 2010
	680.00	132,442	2000 to 2007	822.00	7,306	2003 to 2010
	725.50	48,566	2000 to 2007	972.33	270,894	2003 to 2010
	763.50	11,787	2000 to 2007	960.00	1,460,378	2003 to 2010
	773.50	117,882	2000 to 2007			
General Accident Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	562.85	42,513	1996 to 2003	553.93	376,949	1999 to 2006
	463.09	122,279	1997 to 2004	766.42	295,468	2000 to 2007
	506.08	236,096	1998 to 2005			
CGNU Executive Share Option Scheme (Delta Lloyd)	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	581.17	14,056	1996 to 2001	965.00	328,047	1999 to 2004
	680.00	101,955	1997 to 2002	952.00	35,401	1999 to 2004
	1,119.00	271,887	1998 to 2003	822.00	684,866	2000 to 2005
CGU plc Deferred Bonus Plan	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	899.50	81,059	2002 to 2009	875.00	57,980	2003 to 2010
	966.50	22,185	2002 to 2009			

31 – Ordinary share capital continued

(b) continued

At 31 December 2000, restricted awards over a total of 1,365,123 ordinary shares were outstanding under the CGU Integration Incentive Plan and 1,120,417 were outstanding under the CGNU Integration Incentive Plan. The awards will be satisfied by means of shares purchased by an employee share trust set up for the purpose of satisfying awards under various executive incentive plans and funded by the Company. Details are given in note 28. As at 31 December 2000, the trust held 2,413,220 shares with an aggregate nominal value of £603,305 and their market value at the year end was £26 million. The dividends on these shares have not been waived by the trust. Further details of the Plan can be found in the Remuneration report on page 42.

As at 31 December 2000, awards over a total of 27,480 ordinary shares were outstanding under the Commercial Union Long Term Incentive Plan. These awards will vest in 2001 and 2002. Shares will be purchased into an employee share trust established to satisfy the vesting of awards.

As at 31 December 2000, awards over a total of 399,375 ordinary shares were outstanding under the CGNU Long Term Incentive Plan. Subject to satisfying performance criteria, these awards will vest in 2003. Shares will be purchased into an employee share trust to satisfy the vesting of awards. Further details of this plan can be found in the Remuneration report on page 41.

The Company has also established and funded an employee share ownership trust, which has the power to acquire shares in the open market to meet future obligations under the Company's Savings Related Share Option Schemes. Alternatively, new shares may be issued by the Company to meet such obligations.

(c) During 2000, a total of 938,560,701 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	Share capital £m	Share premium £m
At 1 January	1,312,541,748	328	1,004
Shares issued to members of Norwich Union plc	930,607,903	232	–
Shares issued under the Group's Employee and Executive Share Option Schemes	7,952,798	3	51
At 31 December	2,251,102,449	563	1,055

The issued share capital at 31 December 1999 of £560 million shown in the consolidated balance sheet comprises 1,312,541,748 ordinary shares of CGU plc and the conversion of the 1,936,743,694 Norwich Union plc shares in issue at that date.

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

32 – Preference share capital

(a) The preference share capital of the Company at 31 December 2000 was:

	2000 £m	1999 £m
Authorised		
200,000,000 cumulative irredeemable preference shares of £1 each	200	200
	200	200
Issued and paid up		
100,000,000 8% cumulative irredeemable preference shares of £1 each	100	100
100,000,000 8% cumulative irredeemable preference shares of £1 each	100	100
	200	200

The fair value of these shares at 31 December 2000 was £234 million (1999: £267 million).

(b) The preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are being altered. On a winding up, they carry a preferential right to return of capital ahead of the ordinary shares.

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33 – Group reserves

	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2000				
As previously reported – CGU plc	3,341	417	4,277	8,035
– Norwich Union plc	2,472	950	616	4,038
Merger adjustments arising from alignment of accounting policies	101	1,769	(34)	1,836
Restated opening balances	5,914	3,136	4,859	13,909
Transfer from non-technical account	–	–	(2,585)	(2,585)
Foreign exchange rate movements	12	–	291	303
Increase in value of in-force long-term business (L)	73	–	–	73
Merger reserve arising in the year	–	5	–	5
Goodwill on disposals, previously written off	–	–	115	115
Other movements	–	(92)	87	(5)
At 31 December 2000	5,999	3,049	2,767	11,815

As explained in accounting policy R on page 52, 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 £1,279 million and £18 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 unrealised gains and losses is £2,412 million (1999: £2,655 million).

34 – Parent company reserves

Movements in the Company's reserves comprise:

	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
Profit for the year attributable to equity shareholders, including dividends paid or proposed by subsidiary undertakings	–	–	7,494	7,494
Dividends	–	–	(872)	(872)
Profit for the year	–	–	6,622	6,622
Foreign exchange rate movements	–	–	6	6
Unrealised (losses)/gains	(2,861)	–	13	(2,848)
Movements in the year	(2,861)	–	6,641	3,780
At 1 January 2000	7,254	227	554	8,035
At 31 December 2000	4,393	227	7,195	11,815

The cumulative amount in the profit and loss account includes non-distributable gains of £5,735 million (1999: £nil).

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.

35 – Long-term business

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

(i) In the United Kingdom mainly in

– 'with-profit' funds of CGNU Life, Commercial Union Life, Norwich Union Life & Pensions and the Provident Mutual fund, where the with-profits policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance;

– 'non-profit' funds of Norwich Union Annuity, Norwich Union Life & Pensions and Norwich Union Linked Life, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by Norwich Union Life & Pensions are derived from management fees and policy charges and emerge in the non-profit fund.

35 – Long-term business continued

(ii) 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.

(iii) 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.

(iv) 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 2000.

36 – Long-term business provision

The assumptions used to calculate the long-term business provision depend on the circumstances prevailing in each of the life operations. The principal assumptions for life funds in the United Kingdom, France and the Netherlands are:

	Interest %	Mortality tables used
United Kingdom		
Assurance		
With-profit	2.25	AM80/AF80 or A67/70 less 3 years
Non-profit	3.25 to 4	70%, 90% or 100% AM80/AF80 adjusted for smoker status
Pure endowment and deferred annuity		
Pensions business (in deferment)	3 to 5.75	Nil or 50% of AM80/AF80 or AM 80 less 5 years
General annuity business (from vesting)	4	IMA80/IFA80 or IM92/IFA92 Adjusted
Pensions business (from vesting)	4	PMA80/PFA80 or PMA92/PFA92 Adjusted
Annuity in payment (non profit)		
General annuity	4 to 5.6	IMA80/IFA80 or IMA92/IFA92 Adjusted
Pensions	4 to 5.6	PMA80/PFA92/PFA92 Adjusted
France		
Life assurances		
Up to eight years	3.5 to 4.5	TD 88/90
Eight years and over	2.5 to 3.5	TD 88/90
Annuities	2.5 to 4.5	TPRV (prospective table)
Netherlands		
Life assurance	3 to 4	GBM 61-65, 76-80, 80-85 and GBM/V 85-90, 90-95
Annuities in deferment and in payment	3 to 4	GBM/V 76-80, 80-85, 85-90, 90-95, Coll 1993, and DIL 98 plus further allowance for future mortality improvement

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.

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37 – Provisions for outstanding claims

(a) Claims incurred in the general business technical account include deficits amounting to £737 million arising on claims reported in previous years. These have arisen principally in relation to certain long-tail liability business which is no longer written. The equivalent figure for surpluses and deficits in respect of prior year claims in 1999 was not material.

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

	Class	Rate		Mean term of liabilities	
		2000	1999	2000	1999
Netherlands	Permanent health and injury	4%	4%	8 years	8 years
Belgium	Workers' compensation	4%	4%	19 years	20 years
United States	Workers' compensation	7%	7%	7 years	9 years
United States and London Market	Business no longer written	4.5%	4.5%	9 years	9 years

Net of reinsurers' share, the outstanding claims provisions before discounting were £14,470 million (1999: £14,227 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. The unwinding of the discount in respect of the United States and London Market business no longer written amounted to £24 million (1999: £33 million).

38 – Equalisation provision

An equalisation provision has been established in the Group accounts as explained in accounting policy O on page 52. This had the effect of reducing Group and Company shareholders' funds by £216 million at the year end (1999: £212 million). The change in the equalisation provision during the year comprised a reduction of £27 million (1999: £55 million) in the balance on the general business technical account and the profit on ordinary activities before taxation, offset by £23 million representing the equalisation provision of a subsidiary company sold during the year.

39 – Provisions for other risks and charges

Movements in provisions for other risks and charges were:

	Pensions and similar obligations £m	Deferred taxation (note 14c) £m	Provision for integration costs £m	Other £m	Total £m
At 1 January 2000	106	622	74	177	979
Exchange rate movements on opening provisions	2	9	3	4	18
Movement during the year					
Additional provisions made in the year			425	1,077	
Amounts utilised			(241)	(12)	
Amounts released unutilised			–	(7)	
Disposals			–	(4)	
Total movement	53	(202)	184	1,054	1,089
At 31 December 2000	161	429	261	1,235	2,086

The provision for integration costs includes amounts relating to staff reductions, vacant properties and integration of the businesses following the merger of Norwich Union plc and CGU plc. The provision is expected to be fully utilised by December 2001. 'Other' provisions comprise the provision for loss on sale of the US operations to be discontinued, as well as many small provisions throughout the Group for such obligations as costs of litigation and staff entitlements.

40 – Debenture loans, amounts due to credit institutions and commercial paper

(a) The analysis by business segment is:

	Debenture loans		Amounts owed to credit institutions		Commercial paper		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Long-term business	16	18	–	–	–	–	16	18
General business	–	–	11	201	–	–	11	201
Other	893	857	384	357	1,304	679	2,581	1,893

'Other' comprises borrowings by holding companies within the Group which are not allocated to operating companies. The amounts shown above are net of related derivative contracts.

40 – Debenture loans, amounts due to credit institutions and commercial paper continued

(b) Debenture loans comprise:

	Long-term business		Other	
	2000 £m	1999 £m	2000 £m	1999 £m
9.125% US\$100 million subordinated debentures 2026	–	–	61	62
9.5% guaranteed bonds 2016	–	–	150	148
11.9% C\$24 million mortgage 2005	–	–	9	9
8.625% guaranteed bonds 2005	–	–	149	147
1.5% FF2.8 billion exchangeable bonds 2003	–	–	304	264
10.75% guaranteed bonds 2002	–	–	100	99
2.5% subordinated perpetual loans	–	–	108	107
Institutional borrowings 2000/2003 (average rate 8%)	16	18	–	–
Institutional borrowings 2000/2001 (average rate 3%)	–	–	12	21
	16	18	893	857
Repayable as follows:				
One year or less	1	4	73	10
Between one and two years	6	6	100	73
Between two and five years	9	8	462	363
After five years	–	–	258	411
	16	18	893	857
The interest charge for the year on the above loans was:	1	2	63	50

The 9.125% US\$100 million subordinated debentures 2026 were issued by the Canadian General Insurance Group Limited in 1996. Although these debentures mature in 2026, they are redeemable at the option of that company on or after 31 March 2001 and notice has been given to effect this. Although these bonds were issued in US dollars, this loan has been converted into Canadian dollars through the use of financial instruments.

The 9.5% and the 8.625% guaranteed bonds were issued at a discount of £1.1 million and £0.2 million respectively. These amounts, together with the issue expenses, are being amortised over the full term of the bonds. Although these bonds were issued in sterling, the loans have been converted into French franc and deutschmark liabilities through the use of financial instruments in a subsidiary undertaking.

The 1.5% FF2.8 billion exchangeable bonds were issued by a French subsidiary undertaking. They are repayable in cash in 2003 and hence are included in borrowings falling due within two to five years. The holders may however exchange their bonds at any time up to 8 July 2003 into ordinary shares of Société Générale, which are already owned by the Group, although the issuer has the option to pay a cash equivalent. The carrying value of the bonds is adjusted to reflect the value of the Société Générale shares if this value exceeds the nominal bond exchange value of FF381.25 (formerly FF1,525 before a share split during 2000). At 31 December 2000, the value of a Société Générale share was FF434.24.

The 10.75% guaranteed bonds were issued at a discount of £0.8 million and this amount, together with the issue expenses, is being amortised over the full term of the bonds.

The 2.5% subordinated perpetual loan notes were issued by a Dutch subsidiary undertaking to finance the acquisition of NUTS OHRA Beheer BV. These loan notes have a face value of NLG 1,079 million and their fair value is estimated at NLG 380 million (1999: NLG 380 million) which is based on the future cash flows in perpetuity discounted back at a market rate of interest. The rate of interest paid on the notes will be gradually increased over the next nine years to a maximum of 2.76%. The loan notes are convertible into ordinary shares in Delta Lloyd Nuts Ohra NV, should there be a public offering of those shares.

The long-term institutional borrowings arise wholly in the Netherlands and are mainly in respect of segregated funds for external pension schemes. Other institutional borrowings also arise wholly in the Netherlands, their purpose being to provide working capital.

Notes to the accounts

continued

40 – Debenture loans, amounts due to credit institutions and commercial paper continued

(c) Amounts due to credit institutions comprise:

	General business		Other	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans	10	200	305	323
Other borrowings	1	1	79	34
	11	201	384	357
Repayable as follows:				
One year or less	11	201	201	66
Between one and two years	–	–	–	31
Between two and five years	–	–	150	213
After five years	–	–	33	47
	11	201	384	357
The interest charge for the year on the above was:	13	12	27	16

(d) Commercial paper comprises:

	2000 £m	1999 £m
Average rate 6% (1999: 5%)	1,304	679
The interest charge for the year on the above borrowings was:	73	34

The commercial paper is all repayable within one year and is issued in a number of different currencies. Part of this has been converted into a French franc liability through the use of financial instruments in a subsidiary undertaking.

(e) The Company's loans comprise:

	2000 £m	1999 £m
9.5% guaranteed bonds 2016	198	198
8.625% guaranteed bonds 2005	199	199
10.75% guaranteed bonds 2002	100	99
Commercial paper	1,043	244
	1,540	740
Repayable as follows:		
One year or less	1,043	244
Between one and two years	100	–
Between two and five years	199	99
After five years	198	397
	1,540	740

(f) Loans exclude intra-group borrowings, certain of which are guaranteed by third parties.

40 – Debenture loans, amounts due to credit institutions and commercial paper continued

(g) After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the general business and other borrowings of the Group was:

	Floating rate borrowings		Fixed rate borrowings		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Sterling	1,187	850	100	99	1,287	949
Euro	228	338	731	685	959	1,023
United States dollar	267	19	–	–	267	19
Canadian dollar	–	–	76	98	76	98
Other	3	5	–	–	3	5
Total non-long-term business borrowings	1,685	1,212	907	882	2,592	2,094

The floating rate borrowings comprise commercial paper and bank borrowings bearing interest based on local inter-bank offer rates, which are fixed in advance for the period of the borrowings. Excluding the subordinated perpetual loan notes, the fixed rate borrowings have a weighted average interest rate of 5.88% (1999: 6.23%) for a weighted average term of 5 years (1999: 8 years).

(h) The Group has the following undrawn committed central borrowing facilities available to it, of which £1,000 million (1999: £544 million) is used to support the commercial paper programme:

	2000 £m	1999 £m
Expiring within one year	1,430	350
Expiring beyond one year	1,170	1,450
	2,600	1,800

(i) The difference between the carrying value and the fair value of the non-long-term business fixed rate borrowings and the related swaps is as follows:

	Carrying value 2000 £m	Fair value 2000 £m	Carrying value 1999 £m	Fair value 1999 £m
Non-long-term business fixed rate borrowings	1,012	1,129	984	1,107
Currency swaps	(105)	(157)	(102)	(137)
	907	972	882	970

(j) The General Accident preference shares, included in minority interests at their par value of £250 million together with an £8 million accrual for dividends, are listed on the London Stock Exchange. Their fair value at 31 December 2000 was £297 million (1999: £330 million), based on their quoted market price.

41 – Other creditors including taxation and social security

	2000 £m	1999 £m
Banking and stockbroking liabilities (30b)	1,899	2,012
Proposed final ordinary dividend (15)	535	495
United Kingdom and overseas taxation	420	524
Bank overdrafts	500	217
Other	2,712	2,963
Other creditors including taxation and social security	6,066	6,211

Bank overdrafts arise substantially from unpresented cheques and amount to £281 million (1999: £41 million) in long-term business operations and £219 million (1999: £176 million) in general business and other operations. The 'other' totals include the obligation to repay £191 million (1999: £345 million) received under stock repurchase arrangements entered into in the Netherlands.

Notes to the accounts

continued

42 – Accruals and deferred income

	2000 £m	1999 £m
Deferred reinsurance commissions	29	34
Other accruals and deferred income	1,215	701
Accruals and deferred income	1,244	735

43 – Pension and other post-retirement benefit costs

(a) In the United Kingdom, France, the Netherlands and the United States, there are pension schemes whose membership comprises some 80% of pension scheme members throughout the Group. Members of the schemes receive benefits on either a defined benefit basis or on a defined contribution basis. The assets of the United Kingdom and the United States schemes are held in separate trustee-administered funds and, in the Netherlands and France, the schemes are written in life funds of the Group. An actuarial report has been submitted for each of the four defined benefit schemes within the last three years, using appropriate methods for the respective countries. There are no material deficiencies in any of the schemes.

In the United Kingdom, the Group operates two main pension schemes. Both schemes are valued on a market value basis with the respective pension costs from each scheme's valuation being determined using the same financial assumptions, namely a pension increase rate of 2.8%, a salary increase rate of 4.5% and an interest rate of 6%. The CGU scheme is open to new entrants and was valued using the Projected Unit Method. The scheme had an asset value of £3,801 million and a funding level of 129%. The cost of future service benefits was 32% of pensionable salaries. The spreading of the scheme surplus over the average remaining cost of future service life had the effect that the net pension cost at the scheme anniversary was 3.3% of pensionable salaries. The defined benefit section of the Norwich Union Pension Plan was valued using the Attained Age Method, as this section is generally closed to new employees. New entrants join the defined contribution section. The scheme had an overall asset value of £1,447 million and a funding level of 122%. The cost of future service benefits in respect of defined benefit members was 26% of pensionable salaries which, after allowing for the interest on the surplus shown in the balance sheet and the additional surplus since, leads to a net pension cost at the scheme anniversary of 15.6% of pensionable salaries. The pension cost is then increased to allow for the amounts credited to members' accounts under the defined contribution section. These two United Kingdom pension schemes account for the substantial part of the Group's United Kingdom pension liabilities.

In France, pension arrangements which supplement other national and insurance industry arrangements are on a defined contribution basis with returns on individual personal pension accounts reflecting the experience of segregated funds within the life funds. At 31 December 2000, the assets of the arrangements at market value amounted to £54 million. The employers' contribution is 2.15% of salaries. A deficit in the French insurance industry pension fund is being charged to companies over a maximum 10 year period from 1995. The Group's share of the deficit as at 31 December 1995 of £53 million is being recognised over a 10 year period in accordance with United Kingdom accounting practice.

In the Netherlands, the accruing liabilities each year are fully insured. Life assurance contracts are taken out in the Delta Lloyd Life fund and the premiums are calculated individually for each member.

For the United States scheme, the valuation carried out by independent actuaries as at 31 December 1999, using the projected unit method, assumed a discount rate of 8% and salary increases of 4%. The assets of the fund at market value amounted to £377 million and the level of funding was 166%. There was no contribution due for 2000. The majority of the pension scheme relates to the US general insurance business, which is in the process of being sold. The assets and liabilities that will be retained are immaterial to the Group.

The 2000 pension costs for the Group were £88 million (1999: £77 million). There were no significant contributions outstanding or prepaid as at 31 December 2000.

(b) Post-retirement health care benefits are provided to employees in the United States through a comprehensive medical plan, whereby participants are reimbursed for a proportion of medical expenses. At 31 December 2000, 7,899 (1999: 8,490) current employees and 6,042 (1999: 5,553) retired employees were eligible to receive these benefits.

Since 1 January 1993, the estimated present cost of providing these future benefits has been charged to expenses. The estimated liability at 31 December 1992 of £39 million is being charged over a 20 year period from 1 January 1993 and annual costs incurred after that date are charged as they arise. Tax relief is only available on these costs as payments are made.

There are no material schemes in the other countries.

44 – Cash flow statement

The cash flow statement reflects long-term business activities only to the extent that cash is transferred between long-term and non-long-term operations. In the following analyses, long-term business assets and liabilities shown in the consolidated balance sheet have therefore been excluded.

(a) The reconciliation of (loss)/profit on ordinary activities to net cash inflow from operating activities is:

	£m	2000 £m	£m	1999 £m
(Loss)/profit on ordinary activities before taxation		(1,406)		1,468
Add back: Exceptional items		425		163
Merger transaction costs		59		–
(Loss)/profit on ordinary activities before taxation, excluding exceptional items and merger transaction costs		(922)		1,631
Adjustments for financing expense and items not involving movements of cash:				
Depreciation of tangible fixed assets	141		114	
Amortisation of goodwill	92		15	
Amortisation of acquired additional value of in-force long-term business	29		22	
Increase in general business underwriting liabilities and provisions	280		105	
Realised and unrealised gains on investments	(780)		(515)	
Provision for loss on sale of United States general business	1,070		–	
Net (profit)/loss arising on the sale of subsidiary undertakings	(12)		8	
(Increase) in deferred acquisition costs	(67)		(29)	
(Increase) in banking and stockbroking assets and liabilities	(100)		(32)	
Decrease in other assets/liabilities	1,285		139	
Profits retained in associated undertakings	–		(9)	
Profits not yet transferred from long-term business funds	(467)		(702)	
Loan interest expense	189		97	
Taxation on franked investment income	–		13	
		1,660		(774)
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs		738		857

(b) Analysis of cash flows in respect of the acquisition and disposal of subsidiary and associated undertakings is:

	2000 £m	1999 £m
Cash consideration for subsidiary undertakings acquired	(546)	(196)
Cash proceeds from disposal of subsidiary undertakings	246	33
Net cash balances acquired with subsidiary undertakings	23	99
	(277)	(64)

Notes to the accounts

continued

44 – Cash flow statement continued

(c) Changes in financing during the year were:

	Share capital		Borrowings	
	2000 £m	1999 £m	2000 £m	1999 £m
Issue of ordinary share capital	54	33	–	–
Redemption of preference share capital	–	(2)	–	–
New borrowings drawn down, net of expenses	–	–	9,673	4,927
Repayment of borrowings	–	–	(9,234)	(4,530)
Net cash inflow	54	31	439	397
Foreign exchange rate movements	–	–	49	(86)
Loan notes issued to fund acquisition	–	–	–	111
Loans in acquired companies	–	–	10	71
Amortisation of discounts and other non-cash items	–	–	–	(2)
Changes in financing	54	31	498	491
Balance at 1 January	3,760	3,729	2,094	1,603
Balance at 31 December	3,814	3,760	2,592	2,094

Share capital is represented by:

Ordinary share capital	563	560
Preference share capital	200	200
Share premium account	1,055	1,004
Merger reserve in respect of share capital	1,996	1,996
	3,814	3,760

(d) Changes in cash during the year were:

	2000 £m	1999 £m
Increase in cash holdings	119	–
Foreign exchange rate movements	3	28
Changes in cash	122	28
Balance at 1 January	483	455
Balance at 31 December	605	483

(e) Non-long-term business cash included in the consolidated balance sheet comprised:

	2000 £m	1999 £m	Changes in year £m
Cash at bank and in hand:			
General business and other activities	829	630	199
Banking and stockbroking	17	30	(13)
	846	660	186
Bank overdrafts:			
General business and other activities	(219)	(176)	(43)
Banking and stockbroking	(22)	(1)	(21)
	(241)	(177)	(64)
	605	483	122

44 – Cash flow statement continued

(f) Movements in opening and closing non-long-term portfolio investments were:

	2000 £m	1999 £m
Net sales of investments	(1,541)	(298)
Net investments acquired with subsidiary undertakings	105	780
Changes in market values and foreign exchange rate movements	1,435	501
Net movement in opening and closing non-long-term portfolio investments	(1)	983
Balance at 1 January	23,225	22,242
Balance at 31 December	23,224	23,225

(g) Non-long-term portfolio investments included in the consolidated balance sheet comprised:

	2000 £m	1999 £m	Changes in year £m
Land and buildings	820	763	56
Other participating interests	12	32	(21)
Other financial investments	21,788	21,993	(204)
Deposits with ceding undertakings	145	110	36
Banking and stockbroking investments and short-term deposits	459	327	132
	23,224	23,225	(1)

45 – Contingent liabilities

In the course of conducting insurance business, various companies within the CGNU Group receive general insurance liability claims, and become involved in actual or threatened litigation arising therefrom, including in respect of pollution and other environmental hazards. Amongst these are claims notified in respect of asbestos production and handling in various jurisdictions, including Australia, Canada, South Africa and the United States. 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, 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.

The Group is continuing with a review of those past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Personal Investment Authority and the Financial Services Authority. The regulators have extended the initial scope of the review so that further sales are to be reviewed within a second phase which began in 1999. A provision of some £225 million (1999: £275 million) has been made to meet the outstanding costs of the extended review, including potential levies payable to the Investors Compensation Scheme. It continues to be the Group's view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

In addition, the Company has guaranteed the overdrafts and borrowings of certain subsidiary and associated undertakings. In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

46 – Capital commitments

In carrying on the business of investment, the Group has entered into future commitments, including property development, after 31 December 2000. These amounts are not reflected in the consolidated balance sheet on pages 58 and 59. The Group has in hand a number of property developments which, under contracts already signed, will require expenditure of £51 million (1999: £81 million) for long-term business and £48 million (1999: £8 million) for general business operations.

Four year review

	2000 £m	1999 £m	1998 £m	1997 £m
Worldwide long-term savings new business sales				
Life and pensions sales				
Single premiums	10,133	8,639	6,374	6,334
Regular premiums	890	999	640	589
	11,023	9,638	7,014	6,923
Investment sales	2,501	1,578	828	625
	13,524	11,216	7,842	7,548
Premium income after reinsurance and investment sales				
Ongoing business				
Life assurance				
United Kingdom	8,548	7,405	5,641	5,656
Europe (excluding UK)	5,629	5,418	4,185	3,729
International	671	647	688	831
	14,848	13,470	10,514	10,216
Investment sales	2,501	1,578	828	625
Health premiums	687	402	277	152
	18,036	15,450	11,619	10,993
General insurance				
United Kingdom	4,937	4,635	3,889	3,569
Europe (excluding UK)	2,112	1,806	1,797	1,773
International	1,941	1,932	1,742	1,883
	8,990	8,373	7,428	7,225
Total ongoing business	27,026	23,823	19,047	18,218
Operating profit before exceptional items				
Life assurance (achieved profit basis)				
United Kingdom	938	837	947	822
Europe (excluding UK)	602	514	444	473
International	29	56	49	87
Operating profit before exceptional items	1,569	1,407	1,440	1,382
Life assurance (modified statutory basis)				
United Kingdom	772	816	726	669
Europe (excluding UK)	382	315	311	226
International	36	41	38	48
Operating profit before exceptional items	1,190	1,172	1,075	943
Fund management and non-insurance operations				
United Kingdom	(29)	3	(3)	4
Europe (excluding UK)	44	17	18	10
International	21	16	8	5
Operating profit before exceptional items	36	36	23	19
General insurance				
United Kingdom	(387)	(284)	(418)	(182)
Europe (excluding UK)	(333)	(169)	(119)	(98)
International	(69)	(109)	(99)	(31)
Group reinsurance retentions	(32)	(31)	(18)	27
Underwriting result before exceptional items (c)	(821)	(593)	(654)	(284)
Longer-term investment return	1,233	1,052	1,150	1,206
Operating profit before exceptional items	412	459	496	922

	2000 £m	1999 £m	1998 £m	1997 £m
Consolidated profit and loss account				
Life assurance (achieved profit basis)	1,569	1,407	1,440	1,382
Health	68	24	17	9
Fund management and non-insurance operations	36	36	23	19
General insurance	412	459	496	922
Associated undertakings	1	10	14	5
Corporate costs	(185)	(162)	(118)	(107)
Unallocated interest charges	(361)	(240)	(168)	(177)
	1,540	1,534	1,704	2,053
Wealth management	(133)	–	–	–
Operating profit including achieved life profits – ongoing business	1,407	1,534	1,704	2,053
Deduct achieved life profits	(1,569)	(1,407)	(1,440)	(1,382)
Add modified statutory life profits	1,190	1,172	1,075	943
Operating profit on ongoing business before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	1,028	1,299	1,339	1,614
Business discontinued and to be discontinued	(554)	201	152	268
	474	1,500	1,491	1,882
Amortisation of goodwill	(92)	(34)	(10)	–
Amortisation of acquired additional value of in-force long-term business	(29)	(22)	–	–
Exceptional items	(425)	(163)	(645)	–
Operating profit before tax	(72)	1,281	836	1,882
Short-term fluctuation in investment returns (d)	258	250	784	1,070
Change in the equalisation provision	(27)	(55)	47	(73)
Net loss arising from sale of subsidiary undertakings	12	(8)	17	–
Provision for loss on sale for businesses to be sold				
United States general insurance	(1,070)	–	–	–
Provision for withdrawal from London Market operations	(448)	–	–	–
Merger transaction costs	(59)	–	(75)	–
(Loss)/profit on ordinary activities before tax	(1,406)	1,468	1,609	2,879
Taxation (d)	(255)	(382)	(482)	(792)
Minorities	(52)	(66)	(40)	(94)
(Loss)/profit for the financial year	(1,713)	1,020	1,087	1,993
Dividends	(872)	(790)	(729)	(574)
Retained (loss)/profit transferred to reserves	(2,585)	230	358	1,419
Consolidated shareholders' funds				
Equity shareholders' funds	13,433	15,473	14,691	13,022
Non-equity shareholders' funds	200	200	202	202
	13,633	15,673	14,893	13,224
Pence per ordinary share				
Net asset value (e)	597p	690p	662p	595p
Market price (London) (e)	1082p	998p	941p	848p
Earnings per share (f):				
Operating profit before amortisation of goodwill, amortisation of acquired additional value of in force long-term business and exceptional items, after taxation, attributable to equity shareholders in respect of ongoing business	28.3p	39.2p	35.5p	32.0p
Profit/(loss) attributable to equity shareholders	(77.0)p	44.8p	47.5p	89.0p
Ordinary dividend (g)	38.0p	34.3p	31.7p	25.1p

Notes

- (a) The above table presents the figures of CGNU Group for the four years 1997 to 2000, being the period since Norwich Union demutualised. Norwich Union figures for 1996 were not prepared on a comparable basis.
- (b) Save for the life achieved profit results, the figures included in this four year review have been based on the audited accounts of the Company and its subsidiaries. All years have been restated under the principles of merger accounting as if CGU and Norwich Union had always been merged and have been prepared on a consistent basis, using CGNU's current accounting policies for 1999 and 2000, and CGU and Norwich Union's accounting policies for 1997 and 1998.
- (c) Geographical results exclude the effect of certain intra-group reinsurance arrangements with North America.
- (d) Dividend income for 1999 has been recognised as the amount receivable without any attributable tax credit. 1998 and 1997 are shown on a gross of tax basis.
- (e) The net asset value and market price (London) are as at 31 December. Market prices for 1999 and 1998 are for CGU plc, while that for 1997 is for Commercial Union plc.
- (f) Basic earnings per ordinary share are shown only. No figures have been provided for diluted earnings per share.
- (g) Figures for 1999 and 1998 are based on the weighted average dividends per share of CGU plc and Norwich Union plc. Figures for 1997 are based on the weighted average dividends per share of Commercial Union plc, General Accident plc and Norwich Union plc.

Alternative method of reporting long-term business

Summarised consolidated profit and loss account – achieved profit basis

For the year to 31 December 2000

2000 €m		2000 £m	Restated 1999 £m
	Operating profit		
2,572	Life achieved operating profit (excluding change in risk margin)	1,569	1,407
112	Health	68	24
100	Fund management	61	66
676	General insurance	412	459
(41)	Non-insurance operations	(25)	(30)
2	Associated undertakings	1	10
(303)	Corporate costs	(185)	(162)
(592)	Unallocated interest charges	(361)	(240)
2,526		1,540	1,534
(218)	Wealth management	(133)	–
2,308	Operating profit – ongoing business before tax, change in risk margin, amortisation of goodwill and exceptional items	1,407	1,534
(902)	Businesses discontinued and to be discontinued		
(7)	United States general insurance (to be discontinued)	(550)	176
	London Market (discontinued)	(4)	25
1,399		853	1,735
–	Change in risk margin	–	89
(151)	Amortisation of goodwill	(92)	(34)
(697)	Exceptional items	(425)	(163)
551	Operating profit before tax	336	1,627
349	Variation from longer-term investment return	213	1,072
(441)	Effect of economic assumption changes	(269)	358
(44)	Change in the equalisation provision	(27)	(55)
20	Net profit/(loss) arising on the sale of subsidiary undertakings	12	(8)
	Provision for loss on sale for businesses to be discontinued		
(1,755)	– United States general insurance	(1,070)	–
(735)	Loss on withdrawal from London Market operations	(448)	–
(97)	Merger transaction costs	(59)	–
(2,152)	(Loss)/profit on ordinary activities before tax	(1,312)	2,994
	Tax on operating profit – ongoing business before change in risk margin, amortisation of goodwill and exceptional items	(437)	(428)
(716)			
285	Tax on profit on other ordinary activities	174	(425)
(2,583)	(Loss)/profit on ordinary activities after tax	(1,575)	2,141
(107)	Minority interests	(65)	(85)
(2,690)	(Loss)/profit for the financial year	(1,640)	2,056
(28)	Preference dividends	(17)	(17)
(2,718)	(Loss)/profit for the financial year attributable to equity shareholders	(1,657)	2,039
(1,402)	Ordinary dividends	(855)	(773)
(4,120)	Retained (loss)/profit for the financial year	(2,512)	1,266
	Earnings per share		
	Operating profit on an achieved profit basis before change in risk margin, amortisation of goodwill and exceptional items, after taxation, attributable to equity shareholders in respect of ongoing business	39.7p	45.4p
65.1c			
(121.0)c	(Loss)/profit attributable to equity shareholders	(73.8)p	91.2p
(120.9)c	(Loss)/profit attributable to equity shareholders – diluted	(73.7)p	90.8p

Basis of preparation

The achieved profit statement on page 100 includes the results of the Group's life operations reported under the achieved profit basis combined with the modified statutory basis results of the Group's non-life operations set out on pages 50 to 97. In the directors' opinion the achieved profit basis provides a more accurate reflection of the performance of the Group's life operations year on year than results under the modified statutory basis. The achieved profit methodology used is in accordance with the latest draft 'Guidance on accounting in Group accounts for proprietary companies long-term insurance business', circulated by the Association of British Insurers. Further details on the methodology and assumptions are set out on pages 103 to 105.

The results of the Group's life operations under the modified statutory basis, which is the basis used in the annual statutory accounts, can be found on pages 50 to 97.

Components of total life achieved profit

Total life achieved profit comprises the following components, the first four of which in aggregate are referred to as life achieved operating profit:

- new business contribution written during the year, including value added between the point of sale and end of year;
- the profit from existing business equal to:
 - the expected return on the value of the in-force business at the beginning of the period,
 - experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value,
 - the impact of changes in operating assumptions;
- development costs incurred in establishing new life businesses;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected experience based on economic assumptions used to calculate the start of year value;
- the impact of changes in economic assumptions in the period.

	2000 £m	1999 £m
New business contribution	392	403
Profit from existing business – expected return	839	634
– experience variances	10	80
– operating assumption changes	(7)	8
Development costs	(20)	(24)
Expected return on shareholders' net worth	319	265
	1,533	1,366
Other life and savings activities*	36	41
Life achieved operating profit before tax, change in risk margin and exceptional items	1,569	1,407
Change in risk margin**	–	89
Life achieved operating profit before tax and exceptional items	1,569	1,496
Exceptional items***	(106)	(12)
Investment return variances	(43)	851
Effect of economic assumption changes	(269)	358
Total life achieved profit before tax	1,151	2,693
Attributed tax	(375)	(819)
Total life achieved profit after tax	776	1,874

* Profits from other life and savings activities, which include service companies, have been calculated on a statutory basis.

** Impact of risk margin changes within economic assumptions.

*** Exceptional items in 2000 comprise one-off integration costs. Exceptional items in 1999 comprised one-off costs relating to the integration of the British Life business in Spain.

Alternative method of reporting long-term business

continued

New business contribution

The following table sets out the contribution from new business written by the long-term business operations. The contribution generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business. Contribution before tax is calculated by grossing up the contribution after-tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries.

	Annual premium equivalent*			New business contribution		
	2000 £m	1999 £m	Local currency growth %	2000 £m	1999 at 2000 assumptions** £m	1999 £m
United Kingdom	979	821	19%	294	250	239
Europe (excluding UK)						
France	222	189	27%	63	65	63
Ireland	79	52	65%	21	14	16
Netherlands	119	118	9%	19	31	22
Poland – Life	43	58	(25)%	11	38	39
– Pensions	139	319	(56)%	28	69	69
Spain	57	17	256%	22	–	1
Other	165	199	(12)%	19	33	33
International	100	90	8%	6	20	19
Total annualised premiums	1,903	1,863	5%			
Total new business contribution before effect of solvency margin***				483	520	501
Effect of solvency margin				(91)	(93)	(98)
Total new business contribution including effect of solvency margin				392	427	403

* Annual premium equivalent represents regular premiums plus 10% of single premiums.

** 1999 new business contribution has been shown using the application of year 2000 economic assumptions and rates of exchange.

*** New business contribution before effect of solvency margin includes minority interests in 2000 of £29 million (1999: £31 million). This comprises minority interests in France of £4 million (1999: £3 million), Poland £7 million (1999: £15 million), Spain £10 million (1999: £nil) and Other Europe £8 million (1999: £13 million).

New business contributions have been calculated using the same assumptions as those used to determine the embedded values as at the beginning of each year. The effect of solvency margin represents the impact of holding the minimum European Union (EU) solvency margin (or equivalent for non-EU operations) and discounting to present value the projected future releases from the solvency margin to shareholders.

Analysis of life achieved operating profit

Life achieved operating profit is calculated on an after-tax basis and then grossed up at the full rate of corporation tax for UK business and at appropriate rates of tax for other countries.

	2000 £m	1999 £m
United Kingdom*	903	798
Europe (excluding UK)		
France	204	131
Ireland	68	53
Netherlands	174	168
Poland – Life	58	72
– Pensions*	36	43
Spain	42	13
Other	19	32
International	29	56
Total life achieved operating profit before tax, change in risk margin and exceptional items**	1,533	1,366

* Excludes other life and savings activities.

** Life achieved operating profit includes minority interests in 2000 of £42 million (1999: £37 million). This comprises minority interests in France of £6 million (1999: £5 million), Poland £15 million (1999: £16 million), Spain £10 million (1999: £nil), Other Europe £12 million (1999: £16 million) and International £(1) million (1999: £nil).

Embedded value of life business

	2000 £m	1999 £m
Embedded value at the beginning of the year as previously reported:		
– CGU plc	5,675	4,868
– Norwich Union plc	4,742	4,415
Merger adjustments arising from alignment of embedded value methodology	101	111
Restated embedded value at the beginning of the year	10,518	9,394
Total life achieved profit after tax*	813	1,845
Exchange rate movements	81	(420)
Embedded value from business acquired/(disposed)**	437	89
Amounts injected into life operations	167	164
Amounts released from life operations	(782)	(554)
Embedded value at the end of the year***	11,234	10,518

* Excluding profits from other life and savings activities after tax.

** Embedded value from businesses acquired in 2000 comprises Hibernian Group in Ireland (£57 million), Aseval in Spain (£94 million), and the Group's share of the associated partnership with RBS Life Investments Limited (£343 million). Embedded value from business disposed of comprises the Norwich Union Poland life and pensions operations (£57 million).

*** Embedded value at the end of the year includes minority interests in 2000 of £208 million (1999: £104 million). This comprises minority interests in France of £34 million (1999: £30 million), Poland £42 million (1999: £24 million), Spain £57 million (1999: £nil) and Other Europe £75 million (1999: £50 million).

Segmental analysis of embedded value of life business

	Net worth* at 31 December		Valuation of in-force at 31 December		Total at 31 December	
	2000 £m	1999 £m	2000** £m	1999 £m	2000 £m	1999 £m
United Kingdom	1,809	1,745	4,450	4,461	6,259	6,206
Europe (excluding UK)						
France	805	705	397	386	1,202	1,091
Ireland	211	179	274	190	485	369
Netherlands	1,294	1,090	752	716	2,046	1,806
Poland	74	61	210	155	284	216
Spain	59	34	147	45	206	79
Other	183	127	135	109	318	236
International	351	409	83	106	434	515
Embedded value of life businesses	4,786	4,350	6,448	6,168	11,234	10,518

* The shareholders' net worth comprises the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds determined on a statutory solvency basis and adjusted to add back any non-admissible assets.

** The effect of holding the minimum statutory solvency margin and allowing for projected future releases was £700 million.

Methodology

(a) Life achieved profit

The achieved profit method of financial reporting is designed to recognise profit as it is earned over the life of an insurance policy. The total profit recognised over the lifetime of a policy is the same as under the modified statutory basis of reporting, but the timing of recognition is different.

Distributable profits from long-term businesses arise when they are released to shareholders following actuarial valuations. These are carried out in accordance with statutory requirements designed to ensure and demonstrate solvency in long-term business funds.

Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality and administration costs. Using realistic assumptions of future experience, we can project releases to shareholders arising in future years from the business in force and associated minimum statutory solvency margin.

The life achieved profit reflects current performance by measuring the movement, from the beginning to the end of the year, in the present value of projected releases to shareholders, together with the movement in the net assets of the long-term operations held in excess of the minimum statutory solvency margin, adjusted for any amounts released from or invested in life operations.

The present value of the projected releases to shareholders is calculated by discounting back to the current time using a risk discount rate. The risk discount rate is a combination of a discount rate to reflect the time value of money and a risk margin to make prudent allowance for the risk that experience in future years may differ from the assumptions.

The calculations are carried out on an after-tax basis and the profits are then grossed up for tax at the full rate of corporation tax for the United Kingdom and at an appropriate effective rate for each of the other countries.

Alternative method of reporting long-term business

continued

(b) Embedded value

The shareholders' interest in the long-term business operations is represented by the embedded value. The embedded value is the total of the net assets of the long-term operations and the present value at risk discount rates (which incorporate a risk margin) of the projected releases to shareholders arising from the business in force, less a deduction for the effect of holding the minimum statutory solvency margin. This effect of solvency margin is the difference between the nominal value of the solvency margin and the present value at risk discount rates of the projected release of the solvency margin and investment earnings on the assets deemed to back the solvency margin.

For with-profit funds in the United Kingdom, for the purpose of recognising the value of the estate, it is assumed that terminal bonuses are increased to exhaust all of the free assets over the future lifetime of the in-force with-profit policies.

Minority interests in life achieved profit

	Group 2000 £m	Minority interest 2000 £m	Shareholders' interest 2000 £m	Group 1999 £m	Minority interest 1999 £m	Shareholders' interest 1999 £m
New business contribution before effect of solvency margin	483	29	454	501	31	470
Effect of solvency margin	(91)	(9)	(82)	(98)	(9)	(89)
New business contribution including effect of solvency margin	392	20	372	403	22	381
Life achieved operating profit	1,533	42	1,491	1,366	37	1,329
Other life and savings activities	36	–	36	41	–	41
Life achieved operating profit before tax, change in risk margin and exceptional items	1,569	42	1,527	1,407	37	1,370
Total life achieved profit before tax	1,151	46	1,105	2,693	43	2,650
Attributed tax	(375)	(17)	(358)	(819)	(17)	(802)
Total life achieved profit after tax	776	29	747	1,874	26	1,848
Closing life embedded value	11,234	208	11,026	10,518	104	10,414

Principal economic assumptions

The principal economic assumptions used are as follows:

	United Kingdom			France		
	2000	1999	1998	2000	1999	1998
Risk discount rate	7.4%	7.8%	7.2%	8.5%	8.7%	7.7%
Pre-tax investment returns:						
Base government fixed interest	4.7%	5.2%	4.5%	5.0%	5.5%	3.9%
Ordinary shares	7.2%	7.7%	7.0%	7.0%	7.5%	5.9%
Property	6.2%	6.7%	6.0%	6.5%	7.0%	5.4%
Future expense inflation	3.7%	4.1%	3.4%	2.5%	2.5%	2.5%
Tax rate	30.0%	30.0%	31.0%	37.8%	40.0%	40.0%
	Ireland			Netherlands		
	2000	1999	1998	2000	1999	1998
Risk discount rate	9.1%	9.0%	8.1%	8.0%	8.3%	7.2%
Pre-tax investment returns:						
Base government fixed interest	5.3%	5.6%	4.6%	5.0%	5.5%	3.9%
Ordinary shares	8.3%	8.6%	7.6%	7.9%	8.4%	6.8%
Property	6.8%	7.1%	6.1%	6.5%	7.0%	5.4%
Future expense inflation	5.0%	4.0%	4.0%	2.5%	2.5%	2.5%
Tax rate	20.0%	28.0%	33.0%	25.0%	25.0%	25.0%
	Poland – Life			Poland – Pensions		
	2000	1999	1998	2000	1999	1998
Risk discount rate	20.0%	19.8%	20.6%	17.3%	17.1%	n/a
Pre-tax investment returns:						
Base government fixed interest	12.5%	12.5%	12.5%	12.5%	12.5%	n/a
Ordinary shares	12.5%	12.5%	12.5%	12.5%	12.5%	n/a
Property	n/a	n/a	n/a	n/a	n/a	n/a
Future expense inflation	9.2%	9.2%	9.2%	9.2%	9.2%	n/a
Tax rate	28.0%	33.0%	35.0%	28.0%	33.0%	n/a

Principal economic assumptions continued

	Spain		
	2000	1999	1998
Risk discount rate	8.4%	9.1%	8.0%
Pre-tax investment returns:			
Base government fixed interest	5.4%	5.6%	4.0%
Ordinary shares	8.4%	8.6%	7.0%
Property	6.9%	7.1%	5.5%
Future expense inflation	4.0%	3.0%	3.0%
Tax rate	35.0%	35.0%	35.0%

Other assumptions

- Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.
- Assumed future mortality, morbidity and lapse rates have been derived from an analysis of CGNU's recent operating experience.
- The management expenses of CGNU attributable to long-term business operations have been split between expenses relating to the acquisition of new business and to the maintenance of business in force. Certain expenses of an exceptional nature have been identified separately and the discounted value of projected exceptional costs has been deducted from the value of in-force business.
- It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values.
- The value of in-force business does not allow for future premiums under recurring single premium business or non-contractual increments. The value arising therefrom is included in the value of new business, when the premium is received. Department of Social Security (DSS) rebate premiums have been treated as recurring single premiums.
- The value of the in-force business has been determined after allowing for the cost of holding solvency margins equal to the minimum EU solvency requirement (or equivalent for non-EU operations). Solvency margins relating to with-profit business are assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders.
- Bonus rates on with-profit business have been set at levels consistent with the economic assumptions and CGNU's medium-term bonus plans. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

Alternative assumptions

The table below shows the sensitivity to a one percentage point increase in interest rates and in the discount rate for new business contribution and embedded value.

	New business contribution		Embedded value	
	Interest rates £m	Discount rate £m	Interest rates £m	Discount rate £m
United Kingdom	20	(40)	(400)	(400)
Europe (excluding UK)				
France	10	(10)	(40)	(70)
Ireland	2	(2)	(5)	(15)
Netherlands	10	(10)	(50)	(110)
Poland – Life	–	(5)	–	–
– Pensions	–	(3)	–	–
Spain	2	(2)	–	(10)
Other	–	(5)	–	(10)
International	–	(2)	(5)	(10)
	44	(74)	(500)	(635)

Profits are affected by a change in underlying interest rates. When interest rates change, expected future investment returns will also change and this in turn will affect projected cash flows. A change in interest rates will also result in a change in the discount rate used to calculate the present value of the projected cash flows. The impact of an increase of one percentage point in interest rates incorporates all such changes.

The impact of an increase of one percentage point in the discount rate is calculated with all other assumptions remaining unchanged.

Alternative method of reporting long-term business

continued

Auditors' report to the directors of CGNU plc on the alternative method of reporting long-term business profits

We have audited the supplementary information on pages 100 to 105 in respect of the year ended 31 December 2000, which has been prepared in accordance with the achieved profits basis as set out under Methodology and Assumptions and Definitions on pages 103 to 105. The supplementary information should be read in conjunction with the accounts prepared on the modified statutory solvency basis, which are on pages 50 to 97.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report, including, as described on page 49, the accounts prepared on the modified statutory solvency basis. Our responsibilities in relation to the Annual report, including those accounts, are set out on page 49. The directors are also responsible for preparing the supplementary information on the above achieved profits basis.

Our responsibilities, as independent auditors, in relation to the supplementary information are established in the United Kingdom by the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the supplementary information has been properly prepared in accordance with the achieved profits basis. We also report to you if we have not received all the information and explanations we require for our audit of the supplementary information.

We also read the other information in the Annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the supplementary information.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information.

The evidence included an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary information, 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 supplementary information stated on the achieved profits basis is 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 the supplementary information.

Opinion

In our opinion, the supplementary information for the year ended 31 December 2000 has been properly prepared in accordance with the achieved profits basis set out under Methodology and Assumptions and Definitions on pages 103 to 105.

Comparative information

We have not audited the comparative figures contained in the supplementary information in respect of the year ended 31 December 1999.

Ernst & Young

London

28 February 2001

PricewaterhouseCoopers

Chartered Accountants

London

28 February 2001

CGNU Group of companies

Parent Company

CGNU 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.

United Kingdom

CGNU Life Assurance Limited
 CGU Bonus Limited
 CGU Insurance plc
 CGU International Insurance plc
 CGU Underwriting Limited
 Commercial Union Life Assurance Company Limited
 General Accident plc
 London & Edinburgh Insurance Group Limited
 Morley Fund Management Limited
 Morley Pooled Pensions Limited
 Morley Properties Limited
 Northern Assurance Company Limited, The
 Norwich Union Annuity Limited
 Norwich Union Healthcare Limited
 Norwich Union Insurance Limited
 Norwich Union Investment Management Limited
 Norwich Union Holdings Limited
 Norwich Union Life Holdings Limited
 Norwich Union Life & Pensions Limited
 Norwich Union Linked Life Assurance Limited
 Norwich Union Portfolio Services Limited
 Norwich Union Trust Managers Limited
 Norwich Union Wealth Management Limited
 Quilter & Co Ltd (73.7%) (*Stockbroking*)
 Sabre Insurance Company Limited
 Scottish General Insurance Company Limited
 your-move.co.uk Limited

Australia

CGU Insurance Australia Limited and its principal subsidiaries:
 CGU Insurance Limited
 Mutual Community General Insurance Pty. Limited (51.0%)
 NZI Insurance Australia Limited
 Swann Insurance (Australia) Pty. Limited
 Norwich Union Life Australia Limited

Belgium

CGU SA NV (99.9%)

Bermuda

Curepool Limited

Brazil

CGU Companhia de Seguros (99.9%)

Canada

CGU Holdings Canada Limited and its principal operating subsidiary:
 CGU Insurance Company of Canada Limited
 Pilot Insurance Company

Czech Republic

Commercial Union zivotni pojist'ovna AS

France

CGU Participations SA (99.9%) and its subsidiaries:
 CGU France SA (99.8%) and its principal subsidiaries:
 Abeille assurances SA (99.8%)
 Abeille vie SA (99.8%)
 CGU Courtage SA (99.8%)
 Eurofil SA (99.8%)

General Accident Vie SA (99.8%)
 Société d'Epargne Viagère SA (74.9%)
 Union Financière de France Banque (76.2%)
 Norwich Union Holding (France) SA

Germany

Berlinische Lebensversicherung Aktiengesellschaft (99.5%)
 General Accident Lebensversicherung-Aktiengesellschaft

Italy

Commercial Union Italia SpA and its principal subsidiaries:
 Commercial Union Assicurazioni SpA
 Commercial Union Life SpA
 Commercial Union Previdenza SpA (66.7%)
 Commercial Union Vita SpA (55.0%)
 Commercial Union Insurance SpA (66.7%)
 Norwich Union Vita SpA

Ireland

Hibernian Group plc
 Hibernian Life & Pensions Limited
 Norwich Union General Insurance (Ireland) Limited

Luxembourg

Commercial Union International Life SA

Malaysia

Commercial Union Assurance (Malaysia) Berhad (60.0%)
 GA Insurance Berhad (49.0%)

Netherlands

Commercial Union Finance BV
 Delta Lloyd Nuts Ohra NV and principal subsidiaries:
 Delta Lloyd Bank NV (*Banking*)
 Delta Lloyd Levensverzekering NV
 Delta Lloyd Schadeverzekering NV
 NUTS OHRA Beheer BV

New Zealand

Belves Investments Limited and its principal operating subsidiaries:
 General Accident Insurance Asia Limited
 New Zealand Insurance Limited
 Norwich Union Holdings (NZ) Limited
 State Insurance Limited

Poland

Commercial Union Polska Towarzystwo Ubezpieczen Ogolnych SA (90.0%)
 Commercial Union Polska Towarzystwo Ubezpieczen na Zycie SA (90.0%)
 Commercial Union Powszechnie Towarzystwo Emerytalne BPH CU WBK SA (75.0%)

Spain

Plus Ultra Compania Anonima de Seguros y Reaseguros
 Plus Ultra Vida Sociedad Anonima de Seguros y Reaseguros

Thailand

Commercial Union Assurance Company (Thailand) Limited (49.0%)
 General Accident Insurance (Thailand) Co. Limited (49.0%)

Turkey

Commercial Union Hayat Sigorta AS
 Commercial Union Sigorta AS (54.9%)

United States

CGU Corporation
 Commercial Union Life Insurance Company of America

Principal associated companies are set out in note 21 on page 80.

Shareholder information

Group financial calendar for 2001

Ex-dividend date (ordinary shares)	28 March
Record date (ordinary shares)	30 March
First dividend payment for 8%% cumulative irredeemable preference shares	31 March
Dividend Reinvestment Plan Election Date	19 April
Annual General Meeting	24 April
Publication of unaudited three months' results	3 May
Payment date (ordinary shares)	17 May
First dividend payment for 8%% cumulative irredeemable preference shares	30 June
Publication of unaudited six months' results	2 August
Second dividend payment for 8%% cumulative irredeemable preference shares	30 September
Publication of unaudited nine months' results	1 November
Second dividend payment for 8%% cumulative irredeemable preference shares	31 December

Dividends

The recommended final dividend on the ordinary shares for 2000 will be paid in cash on 17 May 2001 and shareholders will again be offered the opportunity to participate in the Company's Dividend Reinvestment Plan (the 'Plan') which enables shareholders to re-invest their dividend in the Company's shares whilst benefiting from reduced dealing costs. Shareholders who have already joined the Plan need take no further action and the cash dividend will automatically be used to purchase CGNU shares on or after the dividend payment date.

Shareholders who have not joined the Plan and wish to do so, should complete a Plan mandate form and return it to the Company's Registrar by no later than 19 April 2001 in order to participate for the 2000 year final dividend. A mandate form and further details of the Plan can be obtained from the Company's Registrar.

Shareholder profile

The categories of ordinary shareholders and the ranges and size of shareholding as at 31 December 2000 are set out below:

Analysis of shareholders	No. of shareholders	%	No. of shares	%
Individuals	970,607	96.10	334,296,679	14.85
Banks and nominee companies	27,496	2.72	1,689,243,621	75.04
Pension fund managers and insurance companies	160	0.02	76,415,097	3.39
Other corporate bodies	11,690	1.16	151,147,052	6.72
Total	1,009,953	100.00	2,251,102,449	100.00

Range of shareholdings	No. of shareholders	%	No. of shares	%
1 – 1,000	949,937	94.06	240,749,029	10.69
1,001 – 5,000	53,655	5.31	97,703,856	4.34
5,001 – 10,000	2,920	0.29	19,923,735	0.88
10,001 – 250,000	1,882	0.19	40,890,437	1.81
250,001 – 500,000	1,124	0.11	186,827,268	8.29
500,001 and above	435	0.04	1,665,008,124	73.99
Total	1,009,953	100.00	2,251,102,449	100.00

Isas and Peps

The Government introduced the Individual Savings Account ('Isa') on 6 April 1999 to promote long term savings. The Isa replaced the Personal Equity Plan ('Pep') and the Tax Exempt Special Savings Account ('Tessa').

Peps taken out prior to 5 April 1999 have been allowed to continue and, in addition, the Company introduced a Corporate Sponsored Isa enabling shareholders to hold CGNU shares in a tax advantageous manner. Details can be obtained from the Company's Registrar – see contact details below.

Shareholders with disabilities

Alternative versions of this publication are available on request from the Company's Registrar. The Company's Registrar has available a 'textphone' (Tel: 0870 600 3950) to enable any shareholders with hearing difficulties to communicate with them.

Internet addresses

There are various internet sites within the Group, most of which inter-link with each other to enable quick reference direct to specific sites. The details are listed below:

CGNU Group	www.cgnu-group.com
UK Life, Long-term savings and General insurance	www.norwichunion.co.uk
Wealth management	www.norwichunion.com
Estate agency	www.your-move.co.uk
	www.assertahome.com
Fund management	www.morleyfm.com

Useful contact details

Detailed below are various addresses that could prove useful in the event that you have a query in respect of your shareholding. Please quote CGNU plc, as well as the name and address in which your shares are held, in all correspondence.

General shareholding administration queries and CGNU share account queries	Lloyds TSB Registrars	The Causeway Worthing West Sussex BN99 6DA	0870 600 3952
Corporate and single company Peps	Quilter & Co. Limited	St Helen's 1 Undershaft London EC3P 3DQ	020 7662 6262
	Barclays Stockbrokers Limited	Tay House 300 Bath Street Glasgow G2 4JR	0141 352 3000
Isas	Lloyds TSB Registrars (Isa Manager)	The Causeway Worthing West Sussex BN99 6DA	0870 2424 244
General comments/queries	Group Company Secretary, CGNU plc	St Helen's 1 Undershaft London EC3P 3DQ	
Share price			0906 843 2197*

*Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute. The share price is also posted on our internet site at www.cgnu-group.com.

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www.cgnu-group.com
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