

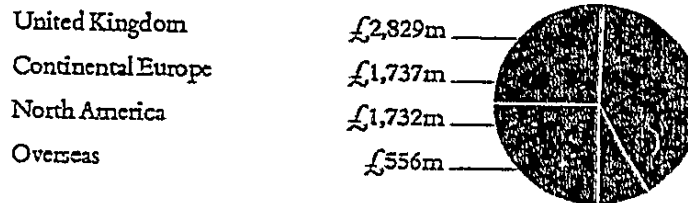
Results at a glance

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FINANCIAL HIGHLIGHTS	1993	1992 Restated
Premium income after reinsurance	£5,970m	£5,572m
Operating profit before taxation and loss on termination of activities	£218m	£31m
Profit attributable to shareholders	£321m	£229m
Operating earnings per share	31.4p	2.0p
Net assets per ordinary share	418p	270p
Dividend per ordinary share	24.85p	22.63p

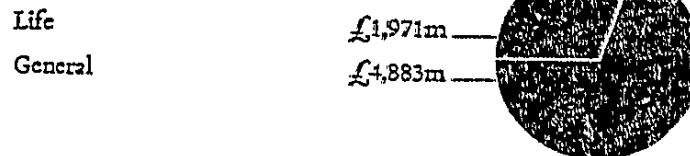
PREMIUM INCOME - GEOGRAPHICAL

before reinsurance - £6,854m

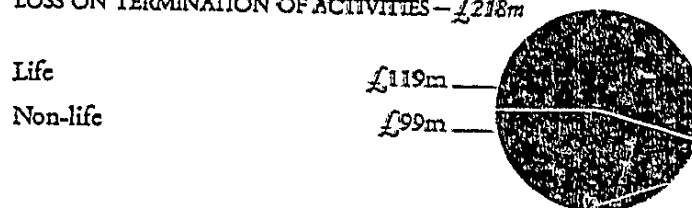


PREMIUM INCOME - LIFE & GENERAL

before reinsurance - £6,854m



OPERATING PROFIT BEFORE TAXATION AND
LOSS ON TERMINATION OF ACTIVITIES - £218m



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A03 RECEIPT DATE: 27/06/94

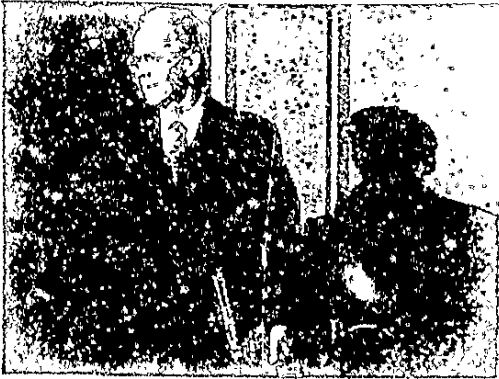
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reporting life profits and the Group will continue to play a full role in the continuing discussion. Contemporaneously with this report we are publishing a supplement setting out an alternative approach to the way in which we have historically shown those profits in our accounts. This alternative approach to calculating profits is based on embedded value methodology. In our own case it has to take account of the spread of the Group's life business, which is wider than with most United Kingdom companies, and variations in local conditions; ~~and~~ further modification may be called for.

Dividends

At the time of the half-year results your directors made an exceptional increase in the 1993 interim dividend and offered a 50% enhanced scrip dividend alternative. In considering the amount of the final dividend, your directors have looked at the rate of ordinary dividend for the year as a whole, on the capital as increased following the rights issue and the issue of new shares under the enhanced scrip option. The effect of the bonus element in the new shares issued would equate the rate declared for 1992 of 24.35p per share to a rate of 22.63p per share.

Taking account of the improvement in the Group's results and its future prospects your directors now recommend a final dividend of 9.75p per share making 24.85p per share for 1993 as a whole and representing an increase of 2% over the amount declared for 1992 and 10% after adjustment for the bonus element of shares issued in 1993.

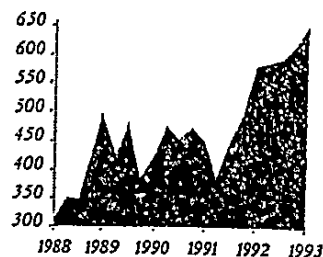
Corporate governance and Board remuneration

I mentioned in my 1992 statement the increasing burden carried by the independent directors, as we intend in the future to refer to the non-executive members of the Board. This derives both from the complexity of the issues they are called upon to address and the responsibility inherent in their statutory role, which has been accentuated by the recommendations of the Cadbury Committee. We continue to believe that the business of the Board is best handled with a small number of directors, of whom a clear majority should be independent individuals of high standing in their own fields. In order to ensure that the Group can offer such individuals remuneration commensurate with their responsibilities and work-load, a substantial increase is called for in their fees, which have remained unchanged since January 1990. From the beginning of this year, therefore, the directors' fee has been raised from £12,500 to £20,000 per annum which is a level we propose to maintain for three years. It is also relevant to point out that from this year the fees have become non-pensionable.

In order to take account of these increases and to give ourselves some margin for the future, a resolution is being proposed for approval at the Annual General Meeting, increasing the aggregate limit for independent directors' remuneration to £500,000 from the present ceiling of £250,000 per annum which was fixed in 1987.

As was the case last year, Note 8 on the accounts shows the breakdown between the

COMMERCIAL UNION SHARE PRICE



DIVIDEND PER ORDINARY SHARE—pence





Nicholas Baring with Tony Brend (r) who retired as Chief Executive on 31 December 1993

various elements which go to make up the total remuneration of the executive directors. As will be evident from the figures, the Board decided on the recommendation of the Remuneration Committee that following the improved financial performance of the Group in 1993 the executive directors' performance-related bonus should be increased.

Board changes

The year end marked the handover of the Group Chief Executive responsibility from Tony Brend to John Carter and the appointment of Peter Ward as an executive director, whom we welcome as a member of the Board.

Following service with the Royal Marines, Tony Brend spent his entire working life with the Group including eight years as Chief Executive. He returned to London at the beginning of 1986 following periods of service as Chief Executive in Australia and subsequently the United States. The re-establishment of Commercial Union as a leading member of the group of United Kingdom based composite insurers owes a great deal to the dedication, wisdom and resolve which he has shown as Chief Executive. The Group has benefited enormously from his determination in concentrating the Group's attention on our business objectives. We wish him a long and happy retirement.

John Carter, who takes over, also has an outstanding record with the Group.

including a spell of five years in charge of our United Kingdom operations. Under his leadership, together with the support of Peter Ward and Tony Wyand, shareholders can expect a continuation of the Group's previous strategy.

At the end of the year, Sir Martin Jacomb retired from the Board of which he had been a member since 1984 including five years as Deputy Chairman. We shall miss his unrivalled breadth of experience as a lawyer, merchant banker and company director. He has made an outstanding contribution to the Board and we wish him well for the future.

Conclusion

The Group made progress overall in 1993; there is scope for further improvement, particularly in those parts of our business which have yet to produce results up to the standard which we have set ourselves. The Board is grateful to management and staff for their contribution to what has been achieved so far, I am confident that, with their maintained efforts, the Group is well placed to continue its advance in 1994.

NH BARING CHAIRMAN
28 February 1994

I am pleased, in my first review as Chief Executive, to report that the Group's objective of increasing shareholder value by a further improvement in the profitability of general insurance trading and the careful expansion of our businesses was achieved in 1993. Pre-tax profits from continuing activities increased by £187m to £218m, total premium income grew by 6% to £5,970m and shareholders' funds reached a record level of £2,529m.

Life assurance

The Group's important life business is becoming increasingly international; in addition to our two substantial life operations in the Netherlands and the United Kingdom, we now operate in nine other countries following the commencement of business in Turkey during 1993. We also have interests in the life business written by our associated companies in the Republic of Ireland and South Africa.

although single premiums of £883m were 14% below the record levels of 1992.

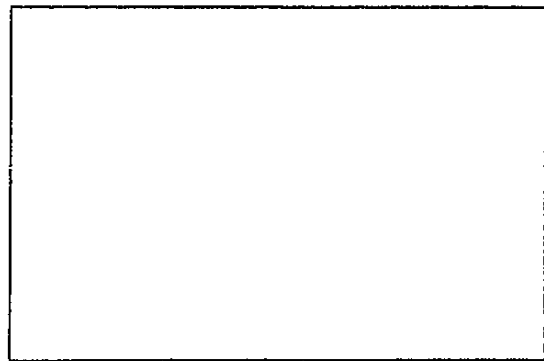
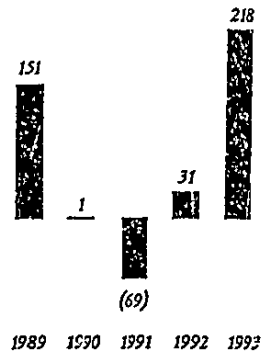
Life profits increased to £119m (1992 £118m) on the conservative basis on which they are reported, this does not reflect fully the increased shareholder value generated by the life operations.

Action continues to be taken to reduce our life expense ratios and we expect to see significant progress during 1994.

General insurance

General insurance trading results have been depressed for a number of years by competitive pressures forcing premium rates down whilst claims costs increased, aggravated in many territories by recession related claims and catastrophes. During this period, we have concentrated on increasing further the quality of our risk selection and claims controls. In addition, we have reduced expense ratios in all our operations through improved working practices, new computer systems and structural changes. Since 1990, our Group general insurance administrative

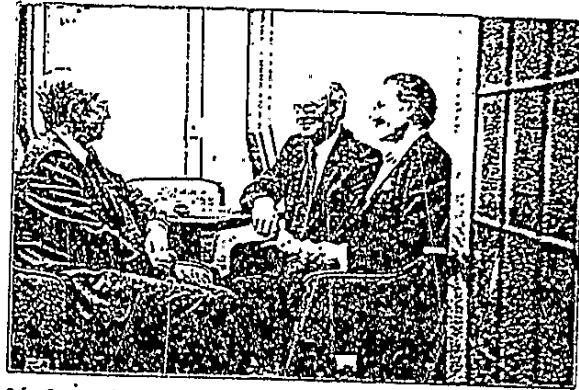
OPERATING RESULT BEFORE TAXATION AND LOSS ON TERMINATION OF ACTIVITIES - £m



John Carter (56), appointed a director in 1987 and Chief Executive in January 1994

Despite the low level of economic growth in a number of countries, annual premiums for new policies increased by 14% to £198m,

expense ratio has been brought down by 2.9 percentage points from 15.5% to 12.6% and I expect to see further progress in several territories over the next year.



John Carter with Peter Ward (51), appointed a director in January 1994 (centre), and Tony Wyand (50), appointed a director in 1987 (right)

In a number of important markets, and particularly in the United Kingdom, the trading environment is now more favourable, as shown by the significant improvement in results, and we have taken the opportunity to strengthen our position. Overall growth in premium income from general insurance of 10% reflects both increases in premium rates and new business in selected areas. Profits have been restored in 1993 as our actions have had a progressive and beneficial effect, and the worldwide non-life profit amounted to £99m (1992 loss £87m).

A greatly improved result was achieved in the United Kingdom. In addition, Continental Europe, the United States and CU Overseas produced better results.

This improving trend needs to be maintained before returns are adequate for the risks associated with this cyclical business

whilst the reduction in interest rates further heightens the need for improved underwriting results.

The restoration of a better level of profitability has put pressure on our policyholders, who have had to face increased premiums and occasionally more restrictive covers. It is therefore unfortunate that in the 1993 Autumn Budget the Chancellor announced that a new Insurance Premium Tax is to be introduced from October 1994 equal to 3% of premiums for United Kingdom general insurance policyholders.

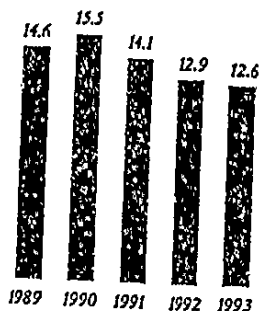
Management and staff

The Group has been well served in recent years by the skill and commitment of its management and staff throughout its worldwide operations, many of which have out-performed their respective peer groups.

The management changes introduced from 1 January 1994 have included the establishment of an executive board of directors for Commercial Union Assurance Company plc, the principal operating subsidiary, of which I am Chairman and Tony Wyand is Deputy Chairman. This has reaffirmed the strategic role of the international management team and the accountability of the territorial executives to manage their businesses to achieve the desired financial objectives.

Peter Ward has been appointed an executive director of the Group. He brings a wide experience of both life and general insurance built up during a career including

GENERAL INSURANCE EXPENSE RATIO - %



service in Australia, South Africa and the United Kingdom, where he has controlled our trading operations since 1989.

Following Peter Ward's promotion, the United Kingdom operations, which have grown rapidly in recent years, have been divided into two separate businesses with Ian Reynolds as General Manager, Life, and Cees Schrauwers as General Manager, Non-life.

Elsewhere in the Group, Michael Ford retires on 31 March 1994 having completed over 35 years' service, most recently as Group European Manager. In this role, he has led the development of our operations in Continental Europe outside the Netherlands.

He will be succeeded by Roy Kemp, previously a United Kingdom Divisional Director, with the title General Manager, CUEurope.

We wish him a long and happy retirement.

Overseas Boards

Arnold Hancock OBE retired in November 1993 as Chairman of National Commercial Union Limited after 23 years of distinguished service on the board. His successor is Andrew Guy.

Al Ross retired in May 1993 as Chairman of Commercial Union of Canada Holdings Limited after 13 years of distinguished service on the board. His successor is Mark Gunther.

We wish them both well in their retirement.

The Future

We remain committed to the policy of providing shareholders with real dividend growth on a sustained basis, consistent with

long term profitability. Our strategies remain focused on the continued development of our life operations and the further improvement of the profitability of our general insurance operations.

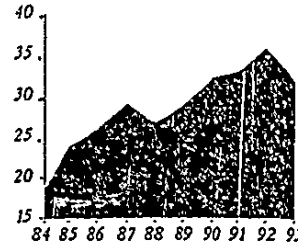
The success of our strategies will depend crucially on providing a very high level of service in a cost effective way to our clients, whether individual policyholders, insurance brokers and agents or commercial concerns. All our operations have continued to set themselves high service standards and good progress has been made in their achievement. Already we are seeing the benefits in terms of business support and retention. Our expense ratio has been consistently reduced and further major initiatives are in progress in the Netherlands and Canada to improve service and reduce expenses.

During the late 1980's and early 1990's, the Group has changed from being a United Kingdom based general insurer with a high concentration of business in North America and a small life business. Today we are a major European insurer with a good worldwide spread of both life and general business. This repositioning provides us with a strong base for the future development of the Group and the progressive increase in shareholder value which we are working to achieve.

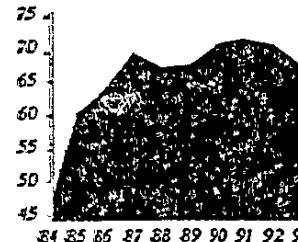
JGT:CA/TIER CHIEF EXECUTIVE

28 February 1994

LIFE PREMIUMS AS % OF TOTAL PREMIUMS AFTER REINSURANCE



EUROPE AS % OF TOTAL PREMIUMS AFTER REINSURANCE



The Group operating profit before taxation from continuing activities improved substantially in 1993 to £218m (1992 £31m) and shareholders' funds increased to £2,529m at the end of 1993 (1992 £1,501m). The strong financial position of the Group provides an adequate base for the future organic development of our business.

OPERATING PROFIT/(LOSS) BEFORE TAXATION AND LOSS ON TERMINATION OF ACTIVITIES

	1993 £m	1992 £m
United Kingdom	168	59
Continental Europe	39	29
North America	53	48
Overseas	33	25
Group reinsurance retentions	28	(10)
Central financing	(103)	(120)
Group total	218	31

Results

Life premium income amounted to £1,899m (1992 £2,007m). The reduction in premium income reflected lower sales of single premium policies compared with the record level achieved in 1992. In contrast, there was an increase of 14% in sales of new annual premiums which are of greater value to shareholders because of their recurring nature.

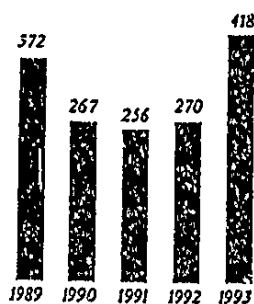
Life profits amounted to £119m (1992 £118m). The result was affected by the cost of developing the newer life operations which under present accounting conventions penalises current profits to the benefit of future years.

General insurance premium income grew to £4,071m (1992 £3,565m), an underlying increase of 10% after adjusting for exchange rate movements and the consolidation of twelve months' results from Australia (1992 four months). This growth reflected a combination of premium rate increases and selective new business.

There was a substantial improvement of £154m in the general insurance underwriting result to a loss of £277m (1992 loss £431m). This was due to the action taken in all territories to increase premium rates, control expenses and improve the quality of insurance portfolios. The United Kingdom underwriting loss was significantly lower at £57m (1992 loss £162m). Elsewhere, the United States and much of Continental Europe also produced better results, although the Netherlands was affected by adverse claims experience and the cost of reorganising operations which is expected to bring significant future benefits.

Investment income net of loan interest increased to £363m (1992 £325m) which includes a profit of £7m (1992 loss £9m) from our non-insurance activities and is after charging external loan interest of £27m (1992 £45m). Investment income benefited from substantially higher operating cash flow, together with income on the proceeds of the rights issue in March. These factors were partly offset by lower interest rates, which are likely to remain a factor as existing fixed interest securities are progressively re-invested. The improved

NET ASSET VALUE PER SHARE
—pence



result from non-insurance activities reflected expense savings and better results from our fund management and stockbroking businesses.

Associated undertakings' earnings were lower at £13m (1992 £19m), following the consolidation of Australia as a subsidiary from August 1992. Associates in the Republic of Ireland and South Africa produced satisfactory profits.

The taxation charge on the operating profit for the year amounted to £20m (1992 £7m). The lower effective rate of taxation of 10% in 1993 (1992 32%) reflected the utilisation of tax losses brought forward from prior years, particularly in the United Kingdom and United States and the absence of an advance corporation tax write off (1992 £40m). Shareholders were offered an enhanced scrip dividend as an alternative to receiving the interim dividend in cash which reduced advance corporation tax payable by £22m.

A loss of £7m on the termination of activities was incurred on the cessation of trading in Argentina and the sale of our United States leasing company. The 1992 results have been restated to include a loss of £7m following the termination of our activities in Mexico.

The operating profit after taxation and loss on termination of activities amounted to £188m (1992 £16m) with operating earnings per share of 31.4p (1992 2.0p). Including realised investment gains of £133m (1992 £213m), after taxation of

£76m (1992 £115m), the profit attributable to shareholders rose to £321m (1992 £229m) and earnings per share were 55.9p (1992 46.8p).

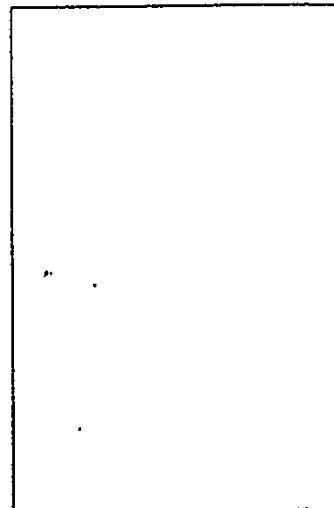
Ordinary dividends for the year of 24.85p per share increased by 2% over the amount declared for 1992 and by 10% after adjustment for the bonus element of shares issued in 1993.

There was a transfer to reserves of £168m (1992 £114m) after charging £136m (1992 £109m) for the cost of ordinary dividends and £17m (1992 £6m) for the cost of preference dividends.

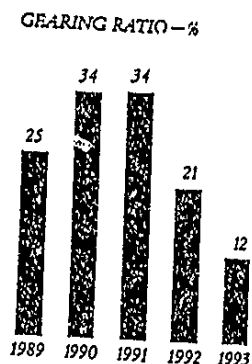
Shareholders' funds increased to £2,529m at the end of 1993 (1992 £1,501m). The movement reflected a rise in investment values of £569m, after a charge of £110m for taxation and minority interests, the additional capital raised of £430m, the improved results and £81m arising from the issue of shares in lieu of dividends. These were partly offset by the cost of the dividends and by a reduction of £87m from exchange, goodwill and other movements.

Currency movements

With the scale of our overseas operations, the Group's results and shareholders' funds are sensitive to movements in exchange rates. In 1993, exchange rate movements had only a marginal effect on the operating profit before



*Peter Foster, General Manager - Finance (left),
Alan Clifton, Managing Director, Commercial
Union Asset Management, (standing) and
Tony Wyand (right)*



taxation, although the movement in shareholders' funds included a charge of £74m after taxation, mainly arising from the translation of overseas net assets.

Financial resources

The Group is financed by a combination of equity shareholders' funds, preference share capital and borrowings. The Group structure consists of territorial holding companies with life, general insurance and financial services subsidiaries which are capitalised at levels which satisfy local requirements. At the end of 1993, £713m of net assets supported the life businesses and £2,256m supported the general and non-insurance operations. The bulk of Group net assets are deployed in our businesses in the United Kingdom, Continental Europe and the United States.

The Group non-life solvency ratio (total shareholders' funds as a percentage of general insurance premiums) rose to 62% (1992 42%) reflecting the strong increase in shareholders' funds.

Operating cash flow at £702m (1992 £330m) was significantly higher mainly due to the growth in premium income and reduced underwriting losses.

Borrowings, which have an average term of 5 years, reduced to £294m at the end of 1993 (1992 £315m) and represented 12% of shareholders' funds (1992 21%). The Group has committed loan facilities in excess of £350m with leading international banks. In addition, the Group has access to

uncommitted facilities and a commercial paper programme supported by the highest short-term credit ratings from both Standard and Poor's and Moody's.

Investment management

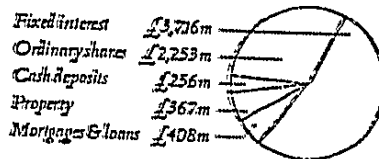
The major world equity and bond markets performed well during 1993 as interest rates reduced and growth in the United Kingdom and North American economies increased.

Non-life net investment purchases of £888m were made in equity and fixed interest markets in broadly equal proportions. Total realised and unrealised gains on investments before taxation were £679m of which £211m related to realised gains and £468m to unrealised gains. Over the past five years, realised and unrealised gains before taxation have averaged £220m (1992 £119m).

For general insurance business, insurance liabilities are matched broadly with fixed interest investments, whilst shareholders' funds are invested in a mixture of ordinary shares and properties. Our risk asset ratio (ordinary shares and properties calculated as a percentage of shareholders' funds) was 104% at the end of 1993 (1992 113%).

Overseas non-life currency liabilities and solvency margins are broadly matched by corresponding currency assets.

NON-LIFE INVESTMENT MIX



Derivative instruments are principally used in investment and currency markets as a means of hedging investment portfolios to achieve our policies efficiently on a global basis.

Life fund investments increased to £17.6 billion (1992 £14.8 billion), reflecting higher cash flow and strong growth in investment markets. There was an improvement in property values in the United Kingdom, although there was a modest decline in parts of Continental Europe.

Management of insurance risk

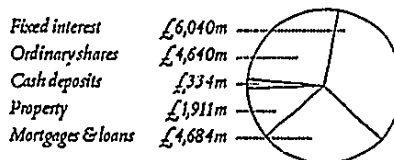
The Group limits the risk from its general insurance trading activities through the wide geographic spread of its operations and the diverse range of products underwritten. In particular, large accumulations of exposure to single events are carefully monitored and the potential cost to the Group of catastrophe events is controlled through reinsurance arrangements.

Experience and judgement is required to determine the appropriate level for claims provisions, particularly for disease, pollution and environmental damage claims where there are significant delays in the notification of claims and the liability and quantum are difficult to determine.

Fiscal comments

We welcome the publication of the consultation document on equalisation reserves and look forward to legislation in the Finance Act 1995 which will address one of the fiscal disadvantages that UK insurance

LIFE INVESTMENT MIX



companies suffer in relation to many of their European competitors.

Advance corporation tax remains a burden for UK companies, such as ourselves, which seek to earn profits in overseas markets. This is because it is a second tax charge on such profits when they are distributed to shareholders. The 1994 Finance Bill includes a scheme for foreign income dividends (FIDs) which provides limited relief from advance corporation tax in such circumstances. Unfortunately the legislation prohibits the streaming of dividends to shareholders according to their preference for a normal dividend or FID. Since a FID gives the shareholder no tax credit, a streaming facility is crucial and, without it, we believe the scheme has little merit.

United Kingdom



Ian Reynolds (left) and Cees Schraausers (right), responsible respectively for life and non-life operations in the United Kingdom, both appointed in January 1994, with Peter Foster (centre)

In 1993, the United Kingdom operations produced a strong improvement in profitability reflecting the efforts of management and staff and the benefits flowing from higher premium rates in all general insurance classes.

FINANCIAL HIGHLIGHTS

	1993 £m	1992 £m
Total premium income	2,347	2,250
Life profits	48	46
Non-life operating result	120	13
Operating profit before taxation	168	59

Life assurance and financial services

Life profits increased to £48m (1992 £46m) reflecting an increase in the surplus available to policyholders and shareholders. Bonuses for with profits life and pensions policies have been continued at the interim rate announced last year but a special reversionary bonus was added to policies commencing in 1974 or earlier. The interim reversionary and terminal bonus rates for 1994 have been slightly reduced again in anticipation of lower investment returns in an era of low inflation.

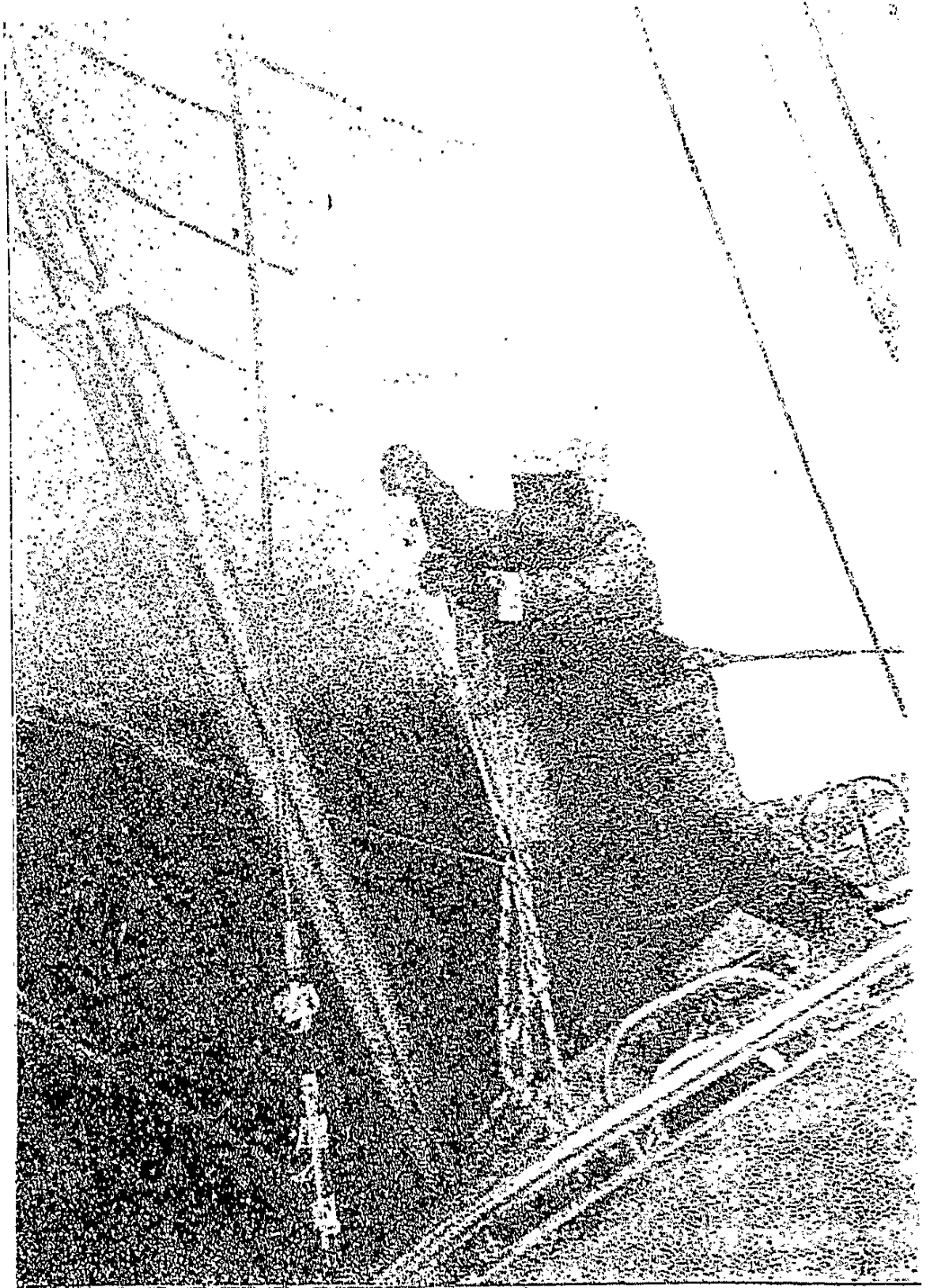
Total life and pensions premiums in 1993 amounted to £596m (1992 £706m). The 1992 premiums included the exceptionally high volume of with profits bonds sold during that year. Growth of 12% in new annual premiums increased our market share for this business.

The increase reflected growing appreciation of our financial strength, our with profits philosophy and an award-winning investment performance. During the year there was good support from our main distribution channels, namely, the direct sales force, appointed representatives and, in particular, independent financial advisers.

The investment of new cash generated by the life funds was well spread throughout the main asset classes, although fixed interest investment represented the largest asset class. Investment returns were strong in all the main investment markets, including property, which represents 10% of the life investment portfolio and which showed a rise for the first time in four years.

Higher compliance standards continue to be introduced, particularly in respect of training and competence testing of sales representatives. Whilst this absorbs considerable time and cost, there are benefits for policyholders and for the Group in terms of productivity and efficiency.

The Securities and Investments Board is co-ordinating a review of personal pension transfers from occupational schemes. By July 1994, it aims to define the criteria by which individual cases will be judged and how appropriate compensation will be determined if adjudged necessary. In anticipation of the results of the review, we have established a modest but prudent provision within the life fund in respect of business written by our representatives.



Taken in the Southern Ocean aboard "Commercial Union Assurance", the yacht sponsored by the G.P. and the British Steel Challenge for "Round the World" yachting

Unit trust sales in the United Kingdom improved steadily during 1993 as the low level of interest rates caused investors to seek opportunities to obtain higher returns. Support for the development of the Group's offshore business was particularly encouraging from newly established distribution channels in Belgium and Italy. Further distribution channels were set up in Greece towards the end of 1993, with very encouraging results.

General insurance

Premium income increased by 13% to £1,751m (1992 £1,544m). This reflected significant rate increases in most areas of business and selective new business growth, as we took advantage of our strong market position.

The strong premium growth seen last year in the household and private motor accounts continued into 1993, and growth was also maintained in the commercial property, liability and commercial motor classes; however, premium increases and volumes of motor business, particularly private motor, reduced towards the end of the year.

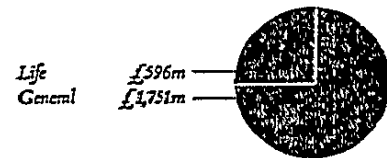
Another comparatively mild winter and lower subsidence costs helped to offset the cost of claims for arson and theft. Personal lines business produced an underwriting profit of £54m (1992 loss £16m) and commercial lines recorded an underwriting loss of £17m (1992 loss £54m). These results include a charge of £21m for the effect on United Kingdom operations of the bomb damage in the City of London in April 1993 and a further charge of £4m was included in Group reinsurance retentions.

In the London marine market, premium rates continued the improvement which commenced some two years ago and policy terms and conditions tightened further, although the new capacity at Lloyd's started to make an impact towards the end of the year.

In the London non-marine market, the hardening of reinsurance premiums was sustained as a result of the sharp reduction in capacity.

These premium rate increases are not yet reflected fully in results, particularly for marine business where the three year basis of accounting is used, and the underwriting loss for London market operations amounted to £94m (1992 loss £92m).

SPREAD OF BUSINESS



Investment income, net of loan interest, amounted to £172m (1992 £171m) which includes a profit of £4m (1992 loss £9m) from non-insurance activities. After adjusting for exchange rate movements and the reallocation of capital within the Group, there was a decrease in investment income of 5%, reflecting the fall in interest rates.

There was a large increase in new funds available for investment due to strong growth in the operating cash flow and the rights issue proceeds. Investment values benefited from growth in the equity and fixed interest markets as interest rates reduced and economic prospects improved.

Associates

Our share of the earnings of three associated companies, Hibernian Group Public Limited Company, Plant Safety Limited and The British Aviation Insurance Company Limited contributed £5m (1992 £4m) to profits.

Outlook

The United Kingdom life market will be subject to further change following the decision of the Treasury to require greater disclosure of commissions and expenses. However, the Group continues to adapt to the new environment. The United Kingdom life fund has a very strong financial base, an excellent with profits performance and an attractive range of products and services. These factors, combined with a commitment to service and a reducing expense ratio, give us advantages in a very competitive environment and we expect to continue to increase our market share.

General insurance trading will continue to benefit in 1994 from past and continuing rate increases, the provision of high levels of service to clients, strict underwriting standards and the tight control of claims and expenses. Competition for quality business is expected to intensify in most markets.

**Continental Europe
— Netherlands**

In 1993, our subsidiary company in the Netherlands, Delta Lloyd, made substantial progress in the reorganisation of its operations with the objective of improving service to agents and

policyholders and reducing costs. The operating profit before taxation of £70m (1992 £78m) was achieved despite adverse general insurance claims experience and costs incurred in the reorganisation.

FINANCIAL HIGHLIGHTS

	1993 £m	1992 £m
Total premium income	921	947
Life profits	70	65
Non-life operating result	—	13
Operating profit before taxation	70	78

Reorganisation

In 1993, Delta Lloyd successfully introduced the first phase of a major reorganisation which will strengthen its competitive position by improving service and reducing costs. During 1993, 12% of staff left or agreed to leave and further reductions will occur.



Hans Eric Janzen (left), responsible for operations in the Netherlands, appointed in 1992, and Michael Ford

Costs of £20m were incurred, mainly in respect of voluntary early retirement, and further costs will be incurred in 1994 as the

next stages of the reorganisation are determined.

Life assurance

Life and pensions business, which accounts for some 70% of total premiums, again made a substantial contribution to results with profits of £70m (1992 £65m). This result included exceptional costs of £9m incurred in reorganising operations and a net benefit of £8m following a change in the arrangements for handling a large pooled pension scheme.

New annual premiums increased by 10%, despite difficult economic conditions, but new single premiums fell by 16% from the record level in 1992.

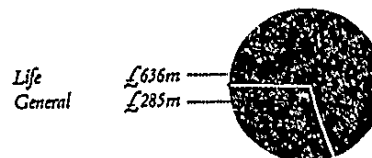
General insurance

General insurance premiums grew by 11% in local currency terms due to rate increases, particularly in motor. The underwriting loss, however, increased to £40m (1992 loss £29m) which included reorganisation costs of £11m, an increase in the cost of large commercial fires and weather related claims.

Investments

New life fund investment was directed mainly to fixed interest securities and mortgages and loans, whilst general insurance cash flow was invested mainly in equities. There was a rise in the value of both fixed interest securities and ordinary shares, although there was a modest reduction in property values, which are held mainly by the life fund.

SPREAD OF BUSINESS



Outlook

The Dutch economy is likely to grow slowly in 1994 and our operations will begin to benefit from the actions taken to improve service and efficiency. General insurance premium rates are expected to continue to improve as the market responds to poor trading results.

Continental Europe
– Other Territories

There was a substantial improvement in our results in Continental Europe, outside the Netherlands, with the operating loss before taxation reducing to £31m (1992 loss £49m). Results continue to be affected by the cost of developing operations, particularly life businesses, which are none the less creating value for shareholders.

FINANCIAL HIGHLIGHTS

	1993 £m	1992 £m
Total premium income	559	716
Life result	(6)	(5)
Non-life operating result	(23)	(14)
Operating result before taxation	(31)	(49)

The Group has sponsored the many sports organised by the Universities Athletics Union since 1989

Life assurance

Life operations achieved underlying growth in premium income of 8%, with a particularly good increase in Italy.

Our French life company, L'Epargne de France, produced premium income of £309m (1992 £319m) reflecting more difficult market conditions, although new annual premiums rose by 8%.

In Italy, our life companies continued to expand and produced an increase in premiums of 94% to £32m.

Our new life operation in Poland made an excellent start.



Michael Ford (right), responsible for operations in CU Europe territories, who retires in March 1994, and Roy Kemp (left)

Life business overall produced a loss of £8m compared with a loss of £5m in 1992. This reflected the cost of developing life operations, particularly in Italy, Spain and Poland, and a reduced profit of £5m (1992 £6m) from France, mainly due to increased pressure on profit margins.

General insurance

Significant progress was made towards our objective of

restoring general insurance operations to profitability. General insurance market conditions are improving and significant premium rate increases have been implemented. Firm action continues to be taken to control expenses, improve the quality of insurance portfolios and eliminate unprofitable business. The loss from non-life

operations declined to £23m from £44m in 1992.

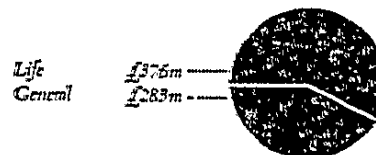
In France, our strict underwriting stance resulted in a 12% reduction in general premium income to £48m and a lower non-life loss of £20m (1992 loss £29m), which was achieved despite a significant increase in the cost of reinsurance protection. The result included a charge of £9m (1992 £7m) from our direct selling company, Eurofil SA, reflecting the development costs of this operation.

In Belgium, general insurance premiums fell by 17% in local currency terms, mainly due to the cancellation of unprofitable business. The non-life loss was reduced to £3m (1992 loss £9m) through stricter underwriting and expense controls and rate increases.

In Spain, general business premium rate increases were implemented causing a 7% reduction in premium income but an improved non-life loss of £1m (1992 loss £2m) was achieved.

In Italy, a non-life profit of £5m (1992 £1m) was achieved following further underwriting action and significant rate increases in a hardening market, with general

SPREAD OF BUSINESS





Roy Kemp (right), who assumes responsibility for operations in CUEurope territories from April 1994, and John Carter (left)

insurance premiums increasing in underlying terms by 3% to £61 m.

In other countries, a reduction in the operating loss to £4m was achieved (1992 loss £5m). In Germany, there was a strong improvement, although the result from Switzerland deteriorated.

Outlook

The improving market conditions for general insurance together with the firm action we have taken will benefit future results, although they will continue to be affected by the cost of developing our life and direct selling general insurance operations.

North America — United States

The United States general insurance company has continued to benefit from the improvements made to its operations in recent years which is recognised in the Best's rating of A. Life operations again made good progress.

An increased operating profit of £65m (1992 £57m) was achieved, despite difficult trading conditions and another year of very high catastrophe claims for the industry.

FINANCIAL HIGHLIGHTS

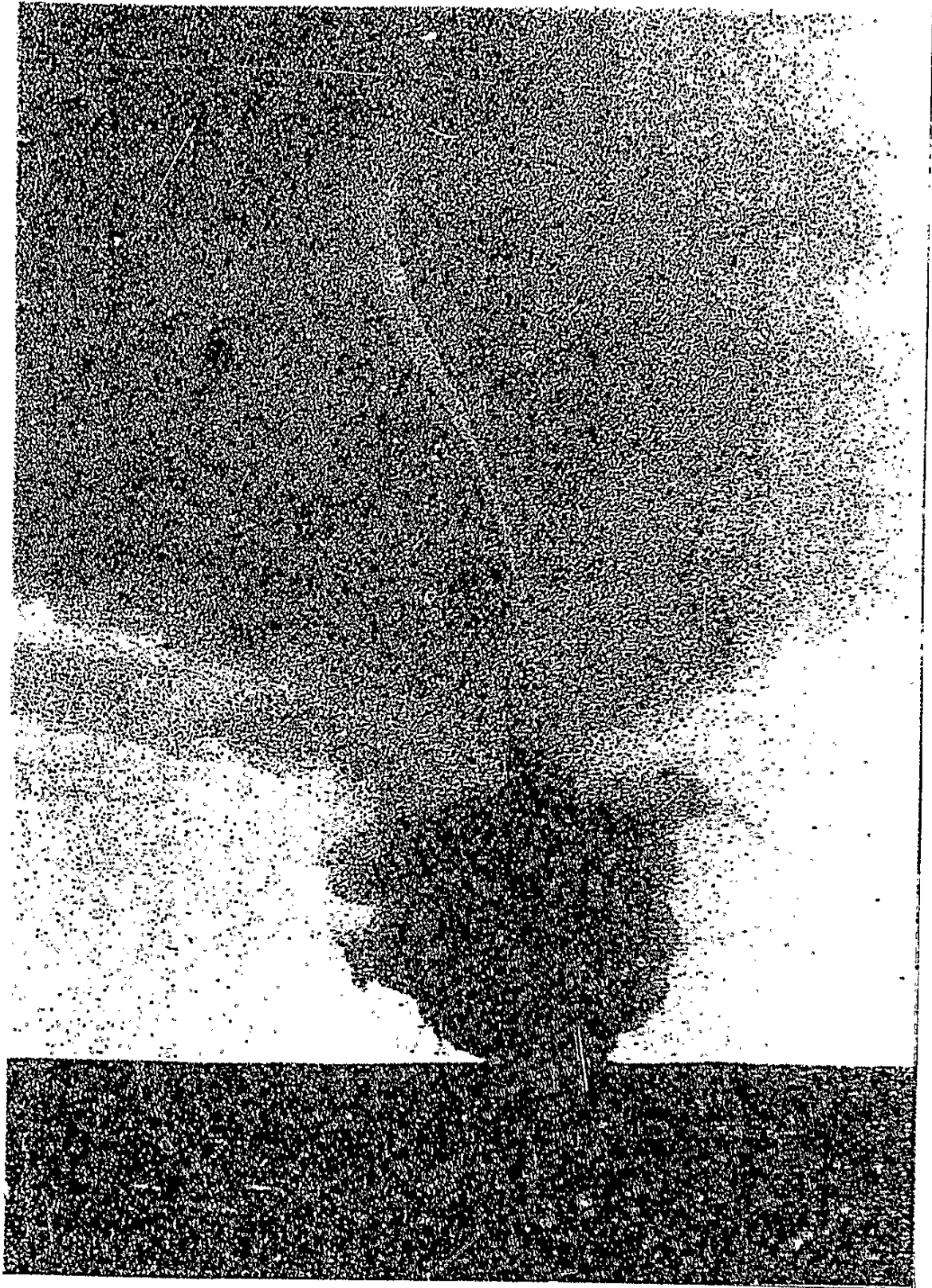
	1993 £m	1992 £m
Total premium income	1,230	1,137
Life profits	13	10
Non-life operating result	55	47
Loss on termination of activities	(5)	—
Operating profit before taxation	65	57

Life assurance

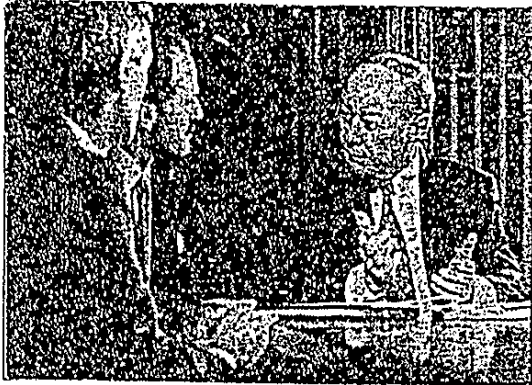
From a relatively small base, our life company has developed strongly in recent years. Premium income in 1993 amounted to £199m (1992 £179m) and profits increased to £13m from £10m in 1992. It has a strong financial position, an A+ Best's rating and a conservatively managed investment portfolio, which has enabled it to benefit from the 'flight to quality' by policyholders.

General insurance

There were some signs of modest improvement in market conditions for general insurance business, particularly in regulated lines and areas with a high exposure to catastrophes. Premium growth of 6% in local currency terms reflected some premium rate increases and our policy of selective expansion in certain specialist market sectors, such as marine, other



Tornadoes can cause heavy insurance losses in North America, although our exposure to these events is carefully controlled through selective underwriting and a prudent reinsurance programme



Kenneth Duffy (right), responsible for operations in the United States, appointed in 1986, with Tony Wyand (centre) and Alan Clifton (left)

specialist lines and personal lines in certain states, whilst a cautious approach to higher risk classes such as long tail liability business has also been beneficial.

Premium rates for personal lines and commercial lines continued to show modest increases, slightly better than the rate of inflation.

The improvement in the non-life operating profit to £55m (1992 £47m) reflected tight expense and underwriting controls and a reduction in claims frequency, especially for automobile business. Catastrophe claims of £24m (1992 £28m), remained at a high level.

Our results also benefited from increasing the business written on a voluntary basis, particularly for motor risks in Massachusetts. This has reduced the volume of the less attractive involuntary business to 4% of total premiums compared with 9% two years ago, thereby reducing the impact of losses from this business.

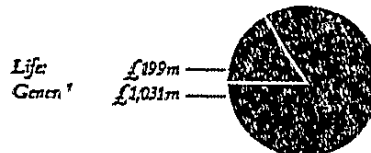
The statutory operating ratio of 107% compared favourably with that of both the industry and similar companies for the third consecutive year, reflecting the various measures taken to improve profitability. These measures were extended during the year with further steps being taken to introduce procedures which will reduce costs and improve service to our agents and policyholders.

During 1993, Commercial Union Leasing Corporation was sold as we concluded that its activities fell outside our core insurance operations. The loss on termination amounted to £3m.

Investments

Investment income benefited from strong cash flow, but this was offset by the effect of lower interest rates. New funds continued to be invested mainly in high quality fixed interest securities.

SPREAD OF BUSINESS



Outlook

With strong life and general insurance operations, the United States is well placed to continue to develop its business. We expect, in time, to see a more general increase in premium rates leading to an improvement in industry profitability.

North America – Canada

The management team appointed in 1992 has taken significant steps to improve general insurance operations with the emphasis being placed on greater efficiency and improved service. The centralisation of personal lines processing and the transfer of data processing to the United States operation were significant achievements in a year during which the ground has been prepared for better results.

Whilst our total results were disappointing with an operating loss before taxation of £15m (1992 loss £9m), there was an improving underlying trend in general insurance, after allowing for the strengthening of prior year claims provisions and reorganisation costs.

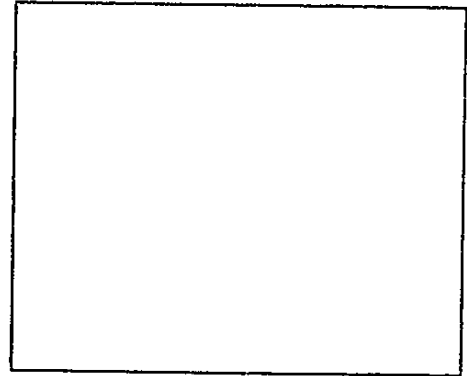
FINANCIAL HIGHLIGHTS

	1993 £m	1992 £m
Total premium income	232	230
Life result	(4)	2
Non-life operating result	(11)	(11)
Operating result before taxation	(15)	(9)

Life assurance

Against a background of patchy economic growth and lower interest rates, life premiums increased by 31% over 1992. This reflected sales of annuities and large single premium contracts. Growth slowed towards the end of the year following the implementation of increased premium rates. Life operations produced a loss of £4m (1992 profit £2m), mainly due to new business

strain, underpricing of certain products and losses on out of country medical travel policies.



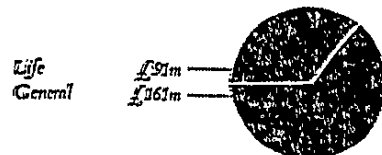
Gerry Stefford (left), responsible for operations in Canada, appointed in 1992 and John Carter (right)

General insurance

The Canadian general insurance market continued to suffer from competitive pressures during 1993, although market conditions are improving for certain classes of business. Premium income increased only slightly in local currency terms, owing to competitive pressures and underwriting actions.

Improved commercial property claims experience was partly offset by flooding in Winnipeg in August and adverse prior year claims experience. There was a slight

SPREAD OF BUSINESS



improvement in the underwriting result to a loss of £34m (1992 loss £35m).

Substantial progress was made in reducing staff numbers and restructuring operations. Further restructuring costs were incurred in 1993 and these costs offset the initial benefits flowing from these actions.

Although cash flow was positive in 1993, lower interest rates caused investment income to decline.

Outlook

The Canadian market remains competitive and subject to extreme weather, although there are signs of rating improvement in some areas. General insurance operations will benefit from the significant reorganisation that has taken place and the maintenance of strict underwriting controls.

Overseas

Commercial Union Overseas, which comprises the Group's operations in Australasia, the Far East, Africa, Latin America and the Near East, produced an increased operating profit before taxation of £29m (1992 £18m).

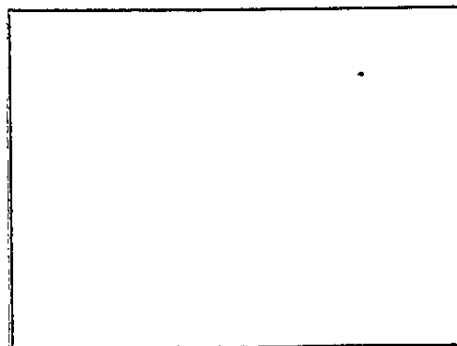
Following a review of operations, our activities in Argentina were closed from 1 October 1993 and a provision of £4m was made for the loss on termination of activities.

FINANCIAL HIGHLIGHTS

	1993 £m	1992 Restated £m
Total premium income	411	225
Life profits	—	—
Non-life operating result	13	25
Loss on termination of activities	(4)	(7)
Operating profit before taxation	29	18

Australasia

National Commercial Union is now an 80% owned subsidiary and is one of the largest general insurance companies in Australia. It has a wide spread of business in a number of specialist markets to complement its major presence throughout Australia in the commercial, rural and personal sectors. The operating profit before taxation, which amounted to £15m, benefited from the maintenance of strict underwriting disciplines, together with an absence of major



Jim Rattray (centre), responsible for operations in CU Overseas territories, appointed in 1988, with Peter Ward (left) and Phillip Clairs, Managing Director, National Commercial Union (right)

catastrophe losses, although severe weather in Victoria and South Australia, produced the highest level of crop losses for 20 years.

Far East

The Group's operations in the Far East produced a substantially improved performance with an operating profit before taxation of £9m (1992 £5m). Excellent overall results were achieved in Hong Kong, Malaysia, Singapore and Thailand.

The Group has sought a licence to write business in Indonesia and expects to commence operations there in early 1994, while an application has been made to open a representative office in China. The Group has withdrawn from the Philippines, at no cost, as no prospect was foreseen of achieving a satisfactory return on our investment in that territory.

Africa

The results from our South African associate again made a good contribution with our share of pre-tax profits amounting to £7m (1992 £7m). Other operations in Southern Africa achieved improved performances. Following a careful review of our prospects in West Africa, we have disposed of our associated undertakings in Ghana and Nigeria.

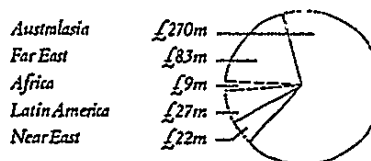
Latin America

A reduction in the underwriting loss was achieved due to corrective action taken over the past year. Latin America has been a difficult area for our relatively small operations because of the instability inherent in high inflation economies.

Near East

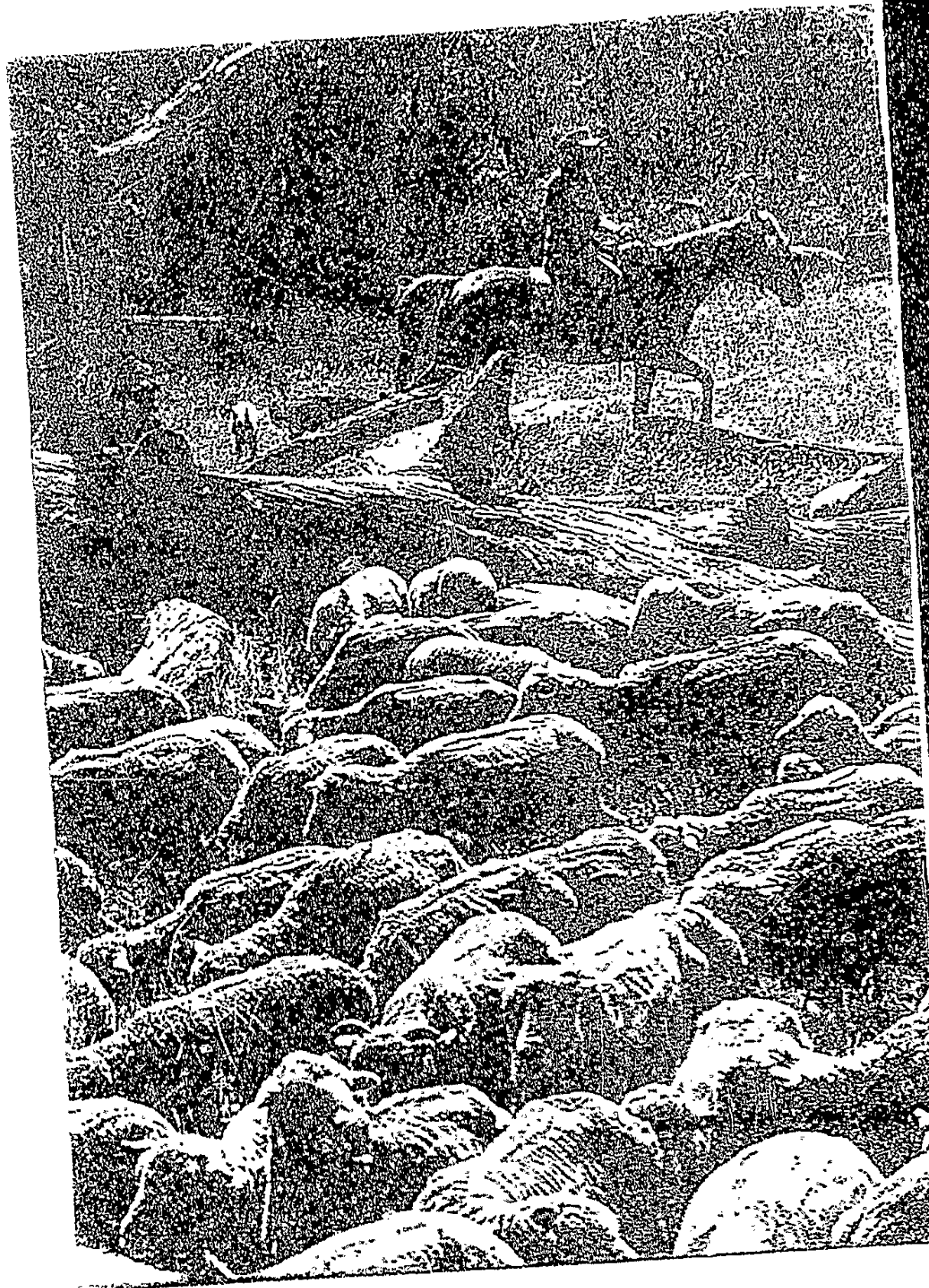
Results from this region deteriorated in 1993 following increased fire claims in a number of territories, although the result in Turkey continued to improve. Our new life operation in that territory commenced trading in 1993.

SPREAD OF BUSINESS



Outlook

Our operations are becoming more focused on markets where there is greater potential for profitable growth which should benefit future results. The outlook for Australasia and the Far East is particularly encouraging and we are also optimistic about prospects in a number of Near East markets.



Such insurance is an important part of business for our Australian company

Shareholder information

FINANCIAL CALENDAR		1994
Annual General Meeting		19 April
Publication of unaudited three months results		11 May
Publication of unaudited six months results		10 August
Publication of unaudited nine months results		9 November

DIVIDENDS		1994
Ordinary shares	1993 final dividend — payment date	17 May
	1994 interim dividend — payment date	17 November
8½% cumulative irredeemable preference shares	— first half-yearly payment of 1994 dividend	31 March
	— second half-yearly payment of 1994 dividend	30 September
8½% cumulative irredeemable preference shares	— first half-yearly payment of 1994 dividend	30 June
	— second half-yearly payment of 1994 dividend	31 December
3.5% cumulative redeemable preference shares	— first half-yearly payment of 1994 dividend	1 July
		1995
	— second half-yearly payment of 1994 dividend	1 January

The above information should be taken only as a guide.

RANGES OF SHAREHOLDINGS

The total number of ordinary shareholders at 31 December 1993 was 55,768 of whom 1,733 were resident overseas, owning 19,868,069 shares. Individuals represented 82.9% of the total number of shareholders and held 8.9% of the total number of shares.

Ranges of holdings	Number of shareholders	%	Number of shares	%
1 — 500	19,901	35.7	4,701,612	0.8
501 — 1,000	14,857	26.6	11,014,849	2.0
1,001 — 5,000	18,455	33.1	35,823,262	6.4
5,001 — 10,000	1,032	1.9	7,028,302	1.3
10,001 — 25,000	474	0.8	7,507,906	1.4
25,001 — 50,000	288	0.5	10,524,197	1.9
50,001 — 100,000	223	0.4	16,368,590	2.9
over 100,000	538	1.0	463,429,513	83.3
	55,768	100.0	556,398,231	100.0

COMMERCIAL UNION PERSONAL EQUITY PLANS (PEPs)

The Company has introduced both a General and a Single Company Personal Equity Plan managed by its stockbroking subsidiary, Quilter Goodison Company Limited. These PEPs, which are open to both existing and prospective shareholders, provide UK residents with a tax efficient method of holding ordinary shares in Commercial Union plc. Dividends on shares held in a PEP are free from income tax and any gain in the value of the shares whilst they are held in the PEP is free from capital gains tax. For further information please contact the Plan Manager by writing to Quilter Goodison Company Limited, Exchange House, Primrose Street, London EC2A 2NH or by telephoning the CU PEP Desk on 071 608 4177.

CAPITAL GAINS TAX

For the purposes of United Kingdom capital gains tax, the market value of the Company's shares on 6 April 1965 and 31 March 1982 may be obtained on request from the Secretary at the registered office of the Company.

ENHANCED INTERIM SCRIP DIVIDEND 1993

For the purposes of United Kingdom income tax and capital gains tax, the market value on 13 October 1993 of ordinary shares allotted pursuant to the enhanced scrip dividend offer dated 14 September 1993 was 628.75p per share.

SHARE PRICE INFORMATION

The latest Commercial Union plc share prices are available in the United Kingdom on the Cityline telephone service operated by the Financial Times. The telephone numbers are:

0891 432197	Ordinary shares
0891 432193	8½% preference shares
0891 432045	8½% preference shares

From 1 April 1994, calls are charged at 39p per minute cheap rate, 49p per minute at all other times.

DIRECTORS

N H BARING <i>Chairman</i>	H MEIJ
J G T CARTER	I C STRACHAN
R J L FAUROUX	P G WARD
P J GILLAM	A B WYAND
R C HAMPEL	

INDEPENDENT DIRECTORS

The Board has a majority of independent directors, brief details of whom are set out below:

MR N H BARING, *Chairman*, is 60 years of age and was appointed to the Board of Commercial Union in 1968 following the merger with the Northern & Employers Assurance Company, having been a director of that company since 1966. He was appointed Chairman in 1990. Mr Baring is a director of Barings plc, FosTel Investment Management Limited, Unilever Pension Investments Limited, Chairman of the National Gallery Trustees and a member of the Council of the National Trust.

MR R J L FAUROUX is 67 years of age and was appointed to the Board of Commercial Union in 1992. He is *President d'Honneur de la Compagnie de Saint Gobain*, a director of Saint Gobain Corporation (USA), Editions du Cerf (France) and a member of the Supervisory Board of Siemens AG (Germany). He was Minister of Industry in the French government until 1991 and his former directorships include the Eurotunnel Group.

MR P J GILLAM is 60 years of age and was appointed to the Board of Commercial Union in 1991. He is Chairman of Asda Group plc, Standard Chartered plc and The International Chamber of Commerce and a Governor of The London School of Economics & Political Science.

MR R C HAMPEL is 61 years of age and was appointed to the Board of Commercial Union in 1987. He is Deputy Chairman and Chief Executive of Imperial Chemical Industries PLC and also a director of British Aerospace Public Limited Company.

PROF DRS H MEIJ is 65 years of age and was appointed to the Board of Commercial Union in 1991. He is *emeritus professor* and Chairman of an Advisory Board at the Free University of Amsterdam. He is a member of the Supervisory Boards of *internatio-Müller NV* and *Obam NV* in the Netherlands and a member of the *Aufsichtsrat of Deutsche Unilever GmbH* (Germany). He was formerly an executive director of Unilever NV and Unilever PLC.

MR I C STRACHAN is 50 years of age and was appointed to the Board of Commercial Union in 1992. He is Deputy Chief Executive and a director of The RTZ Corporation PLC.

REMUNERATION COMMITTEE

The Committee membership comprises four independent directors:

N H BARING (*Chairman*)
P J GILLAM
H MEIJ
I C STRACHAN

The Remuneration Committee reviews the remuneration policy for senior executives on which it makes recommendations to the Board. It specifically advises the Board on the form and quantum of the executive directors' remuneration to ensure that it reflects their contribution to the management of the Group and its financial performance.

AUDIT COMMITTEE

The Committee membership comprises three independent directors:

I C STRACHAN (*Chairman*)
N H BARING
P J GILLAM

The Audit Committee reviews the Group's results, internal control and internal audit procedures, Group compliance and any other matters related to the Company's compliance with statutory and regulatory issues in connection with financial and accounting policies, and holds discussions on such matters with the Company's external auditors.

Group Company Secretary K N GRANT

Group Actuary J H WEJIB FLA

Directors' report

The directors submit their Report and Accounts for Commercial Union plc, together with the consolidated accounts of the Commercial Union Group of companies, for the year ended 31 December 1993.

CORPORATE GOVERNANCE. In December 1992, the Cadbury Committee issued its report on the financial aspects of corporate governance. The Board supports the principles contained in the Cadbury Committee's Code of Best Practice and since 30 June 1993 has complied with the current provisions of the Code. Guidance on the application of the Code in respect of internal control and going concern is awaited from the accounting profession.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS. The directors are required to ensure that financial statements are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985, in respect 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 financial statements, 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 standards also have to be followed, with any material departures being disclosed and explained.

The directors are also 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 controls are in place for the prevention and detection of fraud and other irregularities.

INTERNAL CONTROL. The Group maintains a system of internal control, which includes a clearly documented delegation of authority from the Board to executive management. Defined procedures are in place for the approval of strategies and major transactions, together with a system of planning and monitoring which identifies deviations from approved plans.

PRINCIPAL ACTIVITIES. Commercial Union plc is the holding company for the Commercial Union Group of companies which transacts all classes of general insurance and life assurance, other than industrial life, through its subsidiaries, associates and branches in the United Kingdom, Continental Europe, North America and many other territories throughout the world. The Group provides a number of financial services related to its core business of insurance, including unit trust and investment management, banking, stockbroking, private client investment management, trustee services and personal equity plans. The Group also invests in stocks, shares, properties, mortgages and loans and carries on the business of trading in property.

REVIEW OF THE YEAR AND FUTURE DEVELOPMENTS. These are detailed in the Chief Executive's review, the operating and financial review, and the territorial reviews on pages 5 to 25.

RESULTS. The Group results for the year are set out in the consolidated profit and loss account on page 30.

DIVIDEND. Following the payment of an interim dividend of 15.10p (1992 restated 8.60p) per share in October 1993, the directors recommend a final dividend of 9.75p (1992 restated 14.03p) per ordinary share of the Company, payable on 17 May 1994 to shareholders on the register at close of business on 10 March 1994. This gives a total dividend for the year of 24.85p (1992 restated 22.63p) per share. The amounts originally declared as interim and final dividends for 1992 were 9.25p and 15.10p respectively, giving a total dividend for that year of 24.35p. The total cost of dividends for 1993, including preference dividends, will amount to £153m (1992 £115m) leaving £168m to be transferred to retained profits and reserves (1992 restated £114m). UK resident and certain foreign shareholders will be entitled to an imputation tax credit of 6.21p (1992 8.12p) per share at current rates of taxation, making a gross equivalent dividend for the year of 31.06p (1992 32.47p) per share.

DIRECTORS. The names of the directors of the Company at the date of this report are given on page 27.

Mr A L Brend and Sir Martin Jacobson retired from the Board on 31 December 1993.

Mr J G T Carter and Mr A B Wyand retire this year by rotation in accordance with Article 21.01 of the Articles of Association and, being eligible, will be proposed for re-election at the Annual General Meeting.

Since the last Annual General Meeting Mr P G Ward has been appointed to the Board. In accordance with Article 21.07 of the Articles of Association, he will retire at the Annual General Meeting and, being eligible, will be proposed for election.

Messrs. J G T Carter, P G Ward and A B Wyand have contracts of service with a subsidiary company which, in normal circumstances, may be terminated by either party on two years' notice in writing.

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

The details of directors' interests in the Company's shares and particulars of their transactions or arrangements requiring disclosure pursuant to section 232 of, and schedule 6 to, the Companies Act 1985 are disclosed on pages 56 and 57.

Directors' report

SUBSTANTIAL SHAREHOLDINGS. According to the register maintained by the Company under the provisions of section 211 of the Companies Act 1985, the Company had received notifications of the following interests in 3% or more of its issued ordinary share capital, as at 25 February 1994:

	Number of shares	% of issued ordinary share capital
Münchener Rückversicherungs-Gesellschaft	17,296,388	3.11
Société Générale	16,747,045	3.01

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE. During the financial year to 31 December 1993, the Company effected insurance cover for the directors and officers of the Company as permitted by section 310 of the Companies Act 1985.

CHARITABLE AND POLITICAL CONTRIBUTIONS. During 1993, the Group gave a total of £213,582 (1992 £188,167) in the United Kingdom for charitable purposes. The Group's charitable and sponsorship programmes are directed mainly towards the fields of medicine, community welfare, conservation, sport and the arts, with a particular emphasis on young people. No contributions were made to political organisations during 1993 (1992 Nil).

INCOME AND CORPORATION TAXES ACT 1988. The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988 (as amended).

UNITED KINGDOM EMPLOYEES. (A) The average number of persons employed by the Group in the United Kingdom each week during the year was 9,418 (1992: 9,132)

(B) The aggregate remuneration paid in the United Kingdom for the year was £158m (1992 £156m).

(C) With regard to the employment of disabled persons, the policy which the Group has developed over several years remains unchanged. Full and fair consideration is given to all requests for employment by such persons, taking account of the aptitudes and abilities of applicants. Disabled persons employed by the Group enjoy the same opportunities as their colleagues in respect of training, career prospects and promotion. Every effort is made to continue the employment of persons who become disabled whilst employed by the Group, and to provide specialised training in appropriate cases.

(D) It is the Group's policy and practice that selection for employment and promotion is based on objective assessment of ability and experience, free from discrimination on any grounds. The Group seeks to facilitate work and career opportunities for employees by the provision of a career break scheme and other flexible employment options.

(E) The Group seeks to ensure that its employees are fully aware of employment conditions and benefits through the medium of an extensive Staff Manual. Regular reports are provided on the Pension Fund. New employees receive structured induction training and a detailed induction handbook.

(F) The Group has a set of formal agreements with the Commercial Union Group Staff Association which incorporates the commitment to consultation on matters affecting the Group and its employees in the United Kingdom. These provisions are used extensively.

(G) The Group encourages the involvement of United Kingdom employees in its performance by way of

(i) the Staff Profit Sharing Scheme, for which an amount of £4m in respect of 1993 United Kingdom profit will be made available in 1994 and for which provision has been made in the accounts (no amount was allocated to the Scheme in respect of 1992).

(ii) the Savings Related Share Option Scheme, under which the take up of options in 1993 was 906,668 shares (1992: 1,038,853 shares).

(H) The Group seeks to develop an awareness and understanding by all employees of its business performance and of the external and internal factors affecting that performance. This is achieved by a variety of methods, dependent upon circumstances, but normally comprises management briefing meetings with employees, the use of video presentations and the issue of explanatory documents and publications.

REAPPOINTMENT OF AUDITORS. It will be proposed at the Annual General Meeting that the retiring auditors, Coopers & Lybrand, be reappointed as auditors to the Company to hold office for the period prescribed by section 385(2) of the Companies Act 1985 and that the directors be authorised to fix the amount of the remuneration of the auditors.

Approved and signed on behalf of the Board

K N GRANT Secretary, 28 February 1994

Registered office

St. Helen's, 1 Undershaft, London EC3P 3DQ

Registered in England No. 2468686

Consolidated profit and loss account

For the year ended 31 December 1993

	1993		1992	
	£m	£m	£m	* Restated £m
PREMIUM INCOME AFTER REINSURANCE				
Life		1,899		2,007
General		4,071		3,565
		<u>5,970</u>		<u>5,572</u>
OPERATING PROFIT				
Investment income net of loan interest (F & 171)		363		325
Underwriting result (4)		(277)		(431)
Associated undertakings' earnings (N)		13		19
Non-life operating profit/(loss)		99		(87)
Life profits (G & 7)		119		118
OPERATING PROFIT BEFORE TAXATION AND LOSS ON TERMINATION OF ACTIVITIES				
Loss on termination of activities (10)		218		31
		<u>(7)</u>		<u>(7)</u>
OPERATING PROFIT BEFORE TAXATION				
Taxation (Q & 11A)		211		24
Minorities		(20)		(7)
		<u>(3)</u>		<u>(1)</u>
OPERATING PROFIT AFTER TAXATION (A)				
Realised investment gains after taxation (29)		188		16
		<u>133</u>		<u>213</u>
Profit attributable to shareholders		321		229
DIVIDENDS				
Preference		(17)		(6)
Ordinary (13)		(136)		(109)
		<u>(153)</u>		<u>(115)</u>
Transfer to reserves (28A)		168		114
EARNINGS PER SHARE (14)				
Operating profit after taxation		31.4p		2.0p
Profit attributable to equity shareholders		55.9p		46.8p

Certain 1992 figures have been restated, as explained in note 1.

The accounting policies (identified alphabetically) on pages 37 and 38 and notes (identified numerically) on pages 39 to 55 are an integral part of these accounts. The auditors' report is on page 36.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 1993

	1993		1992
	£m	£m	Restated £m
Operating profit after taxation		188	16
Total investment gains/(losses) after taxation:			
Realised (29)	133		213
Unrealised (29)	436		(168)
		569	45
Foreign exchange (losses)/gains (28A)		(74)	130
Total recognised gains		683	191

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 1993

	1993	1992
	£m	Restated £m
Balance at 1 January	1,501	1,210
Total recognised gains	683	191
Dividends	(153)	(115)
Shares in lieu of dividends (28A)	81	5
Increase in capital (32B)	430	224
Goodwill and other movements	(13)	(14)
Balance at 31 December	2,529	1,501

The accounting policies (identified alphabetically) on pages 37 and 38 and notes (identified numerically) on pages 39 to 55 are an integral part of these accounts. The auditors' report is on page 36.

Consolidated balance sheet

At 31 December 1993

	1993 £m	1992 Restated £m
INVESTMENTS		
Government securities	2,677	2,195
Debentures	963	840
Preference shares	76	54
Ordinary shares	2,253	1,302
Cash deposits	256	268
Property	367	398
Mortgages and loans	408	424
Total investments (J, K & 17)	7,000	5,481
LIFE ASSETS		
Valuation of Northern Non-Participation Life fund (L)	15,738	13,988
	90	90
OTHER ASSETS		
Associated undertakings (N & 16)	101	84
Banking and stockbroking assets (18A)	661	647
Agents, companies and sundry assets (D & 19)	2,397	2,289
TOTAL ASSETS	25,987	22,579
LESS:		
LIABILITIES AND PROVISIONS		
GENERAL INSURANCE UNDERWRITING		
Outstanding claims and provisions (C & 20)	4,491	4,104
Unearned premiums (B, E & 21)	1,694	1,546
Total general insurance underwriting	6,185	5,650
LIFE LIABILITIES AND RESERVES		
	15,115	13,400
OTHER LIABILITIES		
Loans (P & 22A)	294	315
Banking and stockbroking liabilities (18B)	490	497
Agents, companies and sundry liabilities (23)	1,374	1,216
TOTAL LIABILITIES AND PROVISIONS	23,458	21,078
	2,529	1,501
REPRESENTED BY:		
SHAREHOLDERS' FUNDS		
Equity shareholders' funds:		
Ordinary share capital (24)	139	112
Share premium (27)	466	63
Capital reserve (26)	—	201
Retained profits and reserves (23A)	931	568
Unrealised gains on investments after taxation (A & 29)	701	265
Interest in Northern Non-Participation Life fund (L)	90	90
Non-equity shareholders' funds:	2,327	1,299
Preference share capital (25)	202	202
	2,529	1,501

Approved by the Board on 28 February 1994

Director

Director

The accounting policies (identified alphabetically) on pages 37 and 38 and notes (identified numerically) on pages 39 to 53 are an integral part of these accounts. The auditors' report is on page 36.

Consolidated life balance sheet

At 31 December 1993

	1993 £m	1992 £m
INVESTMENTS		
Government securities	3,519	2,765
Debentures	2,486	1,989
Preference shares	35	32
Ordinary shares	4,640	3,535
Cash deposits	334	269
Property	1,911	1,908
Mortgages and loans	4,684	4,312
Total investments (J, K, 17 & 30)	17,609	14,810
Investment reserves (J)	(2,708)	(1,673)
Value of investments after investment reserves	14,901	13,132
OTHER ASSETS		
Agents and companies	701	745
Bank balances	136	111
TOTAL LIFE ASSETS	15,738	13,988
REPRESENTED BY:		
LIFE FUNDS (G, 5 & 30)	13,857	12,374
OTHER LIABILITIES		
Outstanding claims and provisions	68	62
Agents and companies	969	753
Loans (22A)	221	211
TOTAL LIFE LIABILITIES AND RESERVES	15,115	13,400
Shareholders' funds in life companies	623	588
TOTAL LIFE LIABILITIES AND SHAREHOLDERS' FUNDS	15,738	13,988

The accounting policies (identified alphabetically) on pages 37 and 38 and notes (identified numerically) on pages 39 to 55 are an integral part of these accounts. The auditor's report is on page 36.

Parent Company balance sheet

At 31 December 1993

	£m	1993 £m	£m	1992 £m
FIXED ASSETS				
Shares in subsidiary undertakings (M, 12B & 15)		2,778		1,733
CURRENT ASSETS				
Amounts owed by subsidiary undertakings	32		35	
Other assets	2		—	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Amounts owed to subsidiary undertakings	(120)		(92)	
Proposed ordinary dividend	(55)		(68)	
Other creditors	(9)		(8)	
NET CURRENT LIABILITIES		(150)		(133)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,628		1,600
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Loans (22B)		(99)		(99)
NET ASSETS		2,529		1,501
REPRESENTED BY:				
CAPITAL AND RESERVES				
Equity shareholders' funds:				
Ordinary share capital (24)		139		112
Share premium (27)		466		63
Unrealised gains on investments (15A)		1,563		1,044
Profit and loss account (28B)		159		80
		2,327		1,299
Non-equity shareholders' funds:				
Preference share capital (25)		202		202
SHAREHOLDERS' FUNDS		2,529		1,501

Approved by the Board on 28 February 1994

 Director 

The accounting policies (identified alphabetically) on pages 37 and 38 and notes (identified numerically) on pages 39 to 55 are an integral part of these accounts. The auditors' report is on page 36.

Consolidated cash flow statement

For the year ended 31 December 1993

	£m	1993 £m	£m	1992 £m
OPERATING ACTIVITIES				
Net cash inflow from operating activities (32A)		702		330
SERVICING OF FINANCE				
Interest paid	(26)		(24)	
Dividends paid	(83)		(105)	
Net cash outflow from servicing of finance		(109)		(129)
TAXATION				
Corporation tax (paid)/recovered (including advance corporation tax)		(23)		19
INVESTING ACTIVITIES				
Purchases of investments, excluding cash deposits	(4,031)		(3,256)	
Sales of investments, excluding cash deposits	3,143		2,964	
Net purchases of investments	(888)		(292)	
Additional investment in life operations	(36)		(32)	
Acquisitions and disposals of subsidiaries and associates, and related items	(3)		24	
Purchases of tangible fixed assets	(33)		(41)	
Sales of tangible fixed assets	5		9	
Net cash outflow from investing activities		(955)		(332)
Net cash outflow before financing activities		(385)		(112)
FINANCING ACTIVITIES				
Issue of share capital (32B)	430		201	
Net repayment of loans (32B)	(24)		(145)	
Net cash inflow from financing activities		406		56
Increase/(decrease) in cash and cash equivalents (32C)		21		(56)

The accounting policies (identified alphabetically) on pages 37 and 38 and notes (identified numerically) on pages 39 to 55 are an integral part of these accounts. The auditors' report is on page 36.

Auditors' reports

To the members of Commercial Union plc on the financial statements

We have audited the financial statements on pages 30 to 35, 37 to 55 and 57.

Respective responsibilities of directors and auditors

As described in the Directors' report on page 28, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the balance sheet of the Company gives a true and fair view of the state of the Company's affairs at 31 December 1993 and has been properly prepared in accordance with the Companies Act 1985 and the consolidated accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

COOPERS & LYBRAND

Chartered Accountants and Registered Auditors

London

28 February 1994

Coopers & Lybrand

To the members of Commercial Union plc on the statement of compliance with the Code of Best Practice

We have reviewed the directors' statement on page 28 concerning the Company's compliance with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance, in so far as it relates to those paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the bulletin 'Disclosures relating to corporate governance' issued by the Auditing Practices Board.

Our procedures primarily comprised enquiry of appropriate directors and officers and examination of relevant documents. We are not required to review, and have not reviewed, the effectiveness of the Company's governance procedures.

Based on our review we have satisfied ourselves that the directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

COOPERS & LYBRAND

Chartered Accountants and Registered Auditors

London

28 February 1994

Coopers & Lybrand

Accounting policies

A. **BASIS OF RESULTS.** 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 on accounting for insurance business issued by the Association of British Insurers. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice as considered appropriate for an insurance company. As explained in note 1, certain comparative figures for 1992 have been restated to comply with new financial reporting standards. 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 reflects all non-life income and expenditure (together with life profits due to shareholders), other than items charged to provisions set up in earlier years and the following items which are taken directly to reserves after taxation:

- unrealised gains and losses on investments;
- gains and losses on movements in rates of exchange;
- goodwill arising on acquisition of subsidiaries, associated companies and agencies.

The general insurance underwriting result is determined on an annual basis, with the following exceptions where it is not possible to obtain all the information necessary to determine that result with the required degree of certainty:

- London market business in respect of marine and aviation and non-marine non-proportional reinsurance is accounted for on a three-year fund basis, with any profit being released at the end of the third year;
- London market non-marine proportional reinsurance business is accounted for on a deferred annual basis, with any profit being released at the end of the second year.

Income and expenditure of life operations is reflected in the movements in life funds except for:

- realised and unrealised investment gains and losses, together with certain other items, which are taken directly to investment reserves. Transfers between these reserves and the movements in life funds are made on the advice of the Group Actuary;
- acquisition costs which have been deferred in certain overseas life funds, in accordance with local practice.

B. **PREMIUMS.** General insurance premiums written reflect business accepted during the year, with the exception of London market marine and aviation, and non-marine proportional and non-proportional reinsurance business, which are accounted for when receivable. Life premiums are accounted for when receivable, except for investment-linked premiums which are accounted for when received.

General insurance unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a pro-rata basis.

C. **CLAIMS.** General insurance claims incurred comprise all claims occurring during the year, whether reported or not, together with related administrative expenses, and any adjustments to claims outstanding from previous years. Where applicable, deductions are made for salvage and other recoveries. Significant delays are experienced in the notification of certain general insurance claims, particularly in respect of liability and marine business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Life claims reflect the cost of all claims arising during the year.

Outstanding claims and provisions as shown in the consolidated balance sheet are based upon the estimated ultimate cost of all claims incurred but not settled at the date of the balance sheet, whether reported or not, together with related administrative expenses, subject to certain claims which are discounted. This discounting applies in the Netherlands, to permanent health and injury claims and, in Belgium and the United States to some workers' compensation claims in accordance with industry practice in those countries. Additionally, within the United States, claims provisions in respect of certain business no longer written are determined after taking account of the estimated future investment earnings from matched assets.

Outstanding claims and provisions also include the funds in respect of London market marine and aviation and non-marine reinsurance business.

D. **DEFERRED ACQUISITION COSTS.** Deferred acquisition costs, which are included in agents, companies and sundry assets in the consolidated balance sheet, represent a proportion of commission and other acquisition costs.

E. **UNEXPIRED RISKS.** Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of investment income expected to arise from investments held supporting general insurance provisions.

F. **INVESTMENT INCOME.** Investment income comprises interest, dividends and rents receivable for the year, after adding back any related tax credit. Interest includes the interest rate differential on forward foreign exchange contracts. No depreciation charge is made in respect of investment property occupied by the Group since such property represents an immaterial proportion of total assets.

G. **LIFE PROFITS AND FUND VALUATIONS.** Life profits accrue to the Group as a result of annual actuarial valuations of the life funds, which are based on local practice, subject to movements to or from investment reserves made on the advice of the Group Actuary. The profits included in the profit and loss account are stated before taxation, with the related taxation being included in the taxation charge. Within the movements in life funds, the profits are stated after taxation.



NOTICE OF ILLEGIBLE DOCUMENT ON THE MICROFICHE RECORD

Companies House regrets that the microfiche record for this company, contain some documents, which are illegible.

The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause

