



Andrew Moss, group chief executive

Interim Results - 30 July 2008

Group results

Q: You're announcing your interim results today, but you're also making an announcement on the reattribution of the inherited estate in UK?

A: Well, let's talk about the results first. The results for the first half, I think, are solid in the face of some economic headwinds. Operating profits are up 12 per cent and we've been able to put the dividend up 10 per cent, I think that demonstrates the Board's confidence in the prospects for the company going forward.

The other thing you referred to, the reattribution of the inherited estate in the UK, is a real milestone for the company. We've been working on it for a couple of years. It's going to see payments, on average, of £1,000 going to just over 1 million policy holders here in the UK. And there are some real benefits for shareholders as well which will underpin the dividend stream of Aviva going forward.

And finally I think there are some really important messages today about the pace of change here at Aviva. There is a genuine transformation going on in some of our businesses. And I think that's working its way right through to the Group level.

Q: Looking at those results first of all, how do you sum up the first half?

A: Well, as I said, I think it's a solid result. At the operating level, profits are up 12 per cent. They're up 7 per cent on the IFRS basis. I think we can be encouraged by that. We're not immune, of course, to some of the changes that have taken place in investment markets in the first half of the year. Below the operating results, we've seen some unrealised losses coming through from equity markets, from rising interest rates and from property markets to a degree.

However in the face of economic uncertainty, we've charted a very certain course through some difficult times. Our customers, in some areas are showing more caution and I expect that to continue a little bit in the second half of the year. But the diversity of our business continues to give us real strength and is fuelling the growth that we're seeing in the actual operating numbers.

Q: You're seeing growth in long term savings. What's behind this?

A: We are still seeing growth in our long term savings business, despite the economic headwinds that I mentioned earlier. And what's behind that is, frankly, the geographical diversity of the company. In some markets we're still seeing strong growth. In other markets we're seeing more subdued behaviour from our customers which is, I think, actually pretty rational given the level of economic uncertainty that we face.

But if you look at the US where we grew by 28 per cent in terms of sales growth, if you look at Asia Pacific where Life and Pension sales were up 20 per cent, if you look at Eastern Europe where we're still seeing strong growth in Poland, strong growth in Turkey, and Russia, for example, those things are still outweighing the more subdued performance that we're seeing in Europe and in the UK.

The European performance is helped by the strong Euro and that's a feature of Aviva. We have a large European business and the Euro is strengthening, and that means real sterling gains for us. But no doubt in markets like Italy for example, we're seeing a quite marked reduction in long term savings volumes.

And here in the UK, which is still our biggest market, our growth, I think, is something like at the 1 per cent level, but that's on top of growth of about 40 per cent over the preceding two years. So, I think, actually holding on to that growth, in the face of more difficult economic times, is still a very creditable result.

Q: You mentioned a couple of times there the global economic climate. To what extent has Aviva been affected by the credit crunch?

A: We're making some further extra disclosures today about credit risk in our balance sheet. We remain in a very strong position. I think these disclosures are very clear. I don't think we can say we're completely unaffected. But I continue to believe that all of that exposure is very manageable for us. And in fact in the first half, in one or two areas, we've increased our exposure to credit because we see a good opportunity to benefit from rising credit spreads.

Q: Turning then to the reattribution in the UK, I wonder if you can tell me a bit more about this?

A: What we're doing is effectively reorganising our with-profit funds in the UK to make them more efficient. And, as part of that, we're making a cash offer to just over 1 million customers, effectively making a payment today to them, and in return they give up the right for uncertain potential future distributions from the fund. Now that's on top of a special distribution, that we already announced earlier in the year, which saw £2.1 billion going into the asset share of the policy holders in the funds.

So the policy holders in those funds are getting almost a windfall in cash terms potentially and also the actual proceeds of those policies will be increased as a result of the special distribution. I think that's a pretty attractive outcome for them, I think it's fair to policy holders.

I think it's also fair to shareholders. Shareholders do benefit from this reorganisation. And we will see a benefit to the dividend streams coming out of the UK Life business to the Group. And the Group clearly will have more flexibility in terms of the external dividend that it can pay in the future.

Now I know that Mark Hodges, the Chief Executive at Norwich Union Life, and Clare Spottiswoode, the Policyholder Advocate, are both talking about this in more detail in their interviews.

Regional performance

Q: Turning then to the regions, I wonder if you can update me on what's been driving the North America performance.

A: Well really that continues to be a story about the product that we sell. And it's quite interesting. In the face of what have clearly been difficult economic conditions in America, for us to grow our business again by 28per cent in the first half of 2008 I think is an outstanding performance.

The main product that we sell, the indexed annuity product, is what we call a de-cumulation product. So people already have money. They buy a product from us in retirement. That product gives them an income stream. It gives them access to some upside interest in equity market movements, but it gives them downside protection against equity market movements as well. And at times like this, when people are concerned about economic volatility and market volatility, it's a very attractive product.

Now I think the other story there is broadening distribution. We have more independent marketing organisations that we're working with. And the

rating upgrade that we got last autumn, from A.M. Best for example, is helping us get into new distribution. And we're talking to quite a large number of banks. And I expect sales from those banks to come on-stream probably later this year, but certainly in 2009.

Q: And what's been happening in Europe?

A: We've done well in Europe again. I think the geographical spread, within Europe as well as the different distribution channels that we have, has served us well. So profits are up 21 per cent and sales are up about 15 per cent. Now that's helped by the strong Euro, but that's real money in sterling terms. And it's one of the strategic strengths of Aviva at the moment that we have this strong exposure to the Euro zone.

I think we've seen resilient performances in the Netherlands, in France, in Spain even against the backdrop of tough economic conditions there. I think the further east you move, the better growth characteristics you see. So businesses in Poland for example, in Turkey with our new joint venture there, in Russia as well, we're seeing very strong growth.

Q: And Asia Pacific appears to be performing well?

A: Life and Pension sales in Asia Pacific were up about 20 per cent. So it continues to be a more and more meaningful part of the Group. I think if you look at particular markets there, the two that I'd pick out out of the nine markets that we're in, would be China, where the first half of 2008 has seen us move forward extremely successfully. We are the number two foreign life insurer in China, growth in sales of 163 per cent in China in the first half of 2008. We're now in 32 cities across eight provinces. And we're expecting to grow further from that. So I'm very pleased with that.

India, growth of about 67 per cent in the first half of 2008 as well. So in those two very large markets, where the real opportunities exist for us to build meaningful businesses quickly, we're making great progress.

Q: And, as your home market the UK always attracts special attention, what's been happening there?

A: I think that's a picture of somewhat subdued growth. I think our overall sales are up something like 1 per cent. But what you have to remember is that that market, and our market here, has grown by about 40 per cent over the course of the last couple of years. So in the face of what everybody would agree is quite a difficult time economically, to be holding on to that 40 per cent growth in 2008 relative to earlier years, I think is a pretty creditable performance.

And we are gaining market share, but at the same time we're going on with the transformation program that we have in our UK Life business. We've transferred, for example, nearly 0.5 million policies from old systems on to newer systems. That's allowed us to close down more than 100 systems. And every time we do that, our unit costs fall. We become a more efficient operation. And the profitability of the business is going up.

Profitability coming out of the existing book of business, rather than new business, went up by almost 20 per cent in the first half of 2008. And that's continuing a trend that we've been working very hard to maintain for the last couple of years. So I'm really pleased with the way that UK business is going.

Q: And turning specifically to UK General Insurance, what's happening there?

A: Well that's an improving story. We're working very hard to transform that business. Profits are up relative to last year. But you would expect that, given that last year we suffered from some of the worst floods in living memory in the UK.

Making the business more efficient is a real priority for us. Last year we announced cost savings of about £200 million. That's going to come through in 2008. We're right on track for that. But today we're also announcing a further £150 million of savings. Now that's going to be good for our customers. It's certainly good for our shareholders. We recognise, of course, that it has some impact on our employees. And we're going to manage that just as sensitively as we can.

Future Prospects

Q: What progress are you making towards your 'One Aviva, twice the value' vision?

A: Well I think good progress is the answer, but let's just remember what it is. What we're trying to do here is build a more unified, more profitable company over time. And I think we've put some good building blocks in place in the course of the last few months.

Now we set some financial targets around that. And when it comes to growth in our Life businesses, or the combined operating ratio for the General Insurance business, the first half has continued to see us perform pretty well in line with those targets.

More challenging has been, in the short term, the IFRS target that we set for ourselves, to double IFRS earnings per share by 2012 at the latest. And investment markets in the first half of 2008 have been difficult, but we're four months into what is a five year program. We remain absolutely committed to the target. And I'm confident that we have ways of getting there, certainly by 2012, but hopefully earlier.

Now the 'One Aviva, twice the value' vision is not just about financials. It's about value for customers. And we're going to see more and more product offerings coming through to customers as we move to a global brand over the course of the next year. That move to a global brand is not just about a name change. It has to fundamentally be about an improved offering to our customers. You're going to see Aviva more customer-centric and more customer-focused than it ever has been before. And that's a cultural change that's going to come through the company.

And the people that are going to make that difference are the employees of the company. And in the last few months we've been engaging the senior leadership in the company, the top 450 people in the company, in a completely new way. It's something we haven't done at Aviva before. And I'm really encouraged by the response that I'm getting from that group of people.

Q: What then is the outlook for your business in what are challenging times?

A: Well I think the outlook for the business is still positive. The agenda that we set ourselves a year ago, which was to realise the full potential of our existing businesses, has actually suited us very well in the face of a more challenging economic environment. We're concentrating on pulling the levers that we can, but are within our control, within Aviva.

We can't help what's going on in the external markets. What we can do though, of course, is monitor it carefully and make sure that we're managing any downside risks for our shareholders, for our policyholders, in that economic environment. I'm confident that we've done a good, cautious, prudent job in that regard. So I think we're well protected.

I think as far as customer behaviour is concerned, we'll continue to see some caution in some of our markets. And you'd expect that given what's going on outside. But in others of our markets, I think we're going to go on seeing some reasonably healthy growth. So again, the diversified business that we have will continue to serve us well.

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