

Group chief executive's review

Andrew Moss
Group chief executive



Dear Shareholder,

Last year I outlined our vision to unlock value and drive growth from our existing business – “one Aviva, twice the value”. Events in 2008 have certainly made it harder to achieve our medium term objectives but we remain 100% committed to their delivery. I'm confident that we can deliver our vision for our customers, our shareholders and our people.

When times are tough people want to protect what they have. They look for reassurance from brands they can trust – and our long experience of managing risk gives Aviva the strength and stability they need.

In a challenging year, the most difficult that I or any of my colleagues have had to encounter, we've remained true to our core purpose of bringing prosperity and peace of mind to our customers. We are not immune to the financial crisis, but we are confident that we have the right strategy for a successful future. I'm pleased to report that this is reflected in sound trading performance, with growth in both our life and pensions and general insurance businesses. In addition we have undertaken a thorough review of the value of our assets and liabilities and provided prudently for possible future losses so that we can withstand future volatility and uncertainty.

Today we're the fifth-largest insurance group in the world. We have over 50 million customers, 54,000 employees, global sales of £51.4 billion and £381 billion of funds under management.

Financial results

We have reported our results for the first time on a market consistent embedded value (MCEV) basis. MCEV is an improvement in many ways on European embedded value (EEV) reporting, which we have previously used, and Aviva is one of the first to adopt this basis in the UK. It leads to a more conservative view of our business which is appropriate in the current economic environment.

As a global group with 63% of our total sales coming from outside the UK we have benefited from currency movements in the year, mainly the appreciation of the euro and US dollar. However, our results also reflect the impact of the financial volatility that we've seen in 2008. On an IFRS basis shareholder funds have fallen to £11,052 million (2007: £12,946 million). However, using the MCEV methodology, the impact of market movements is significantly greater and shareholder funds are reduced to £12,912 million (2007 restated: £19,998 million). The great majority of this reduction in shareholders' funds is due to prudent marking to market of our assets rather than realised cash losses. As markets recover, as they will to some degree, at some point, our shareholders' funds will also increase.

On an IFRS basis, the group operating profit before tax was £2,297 million (2007 restated: £2,216 million) and total IFRS return was a loss of £885 million (2007 restated: £1,498 million profit) which again reflected the significant impact of investment market volatility during the period. This resulted in IFRS earnings per share being a loss of 36.8 pence (2007 restated: 48.9 pence profit).

Meanwhile our underlying business has shown great resilience. Pre-tax operating profit on an MCEV basis was £3,358 million (2007 restated: £3,065 million) with strong results in both our long-term savings and general insurance business lines. Return on equity shareholders' funds on an MCEV basis was 11.0% (2007: 10.4%) and the net asset value of the group at 31 December was 486 pence (31 December 2007: 763 pence).

A strategy to deliver our vision

The Aviva triangle has been developed to explain the purpose, vision, strategy and regional performance of the group. Our strategic priorities are:

Manage composite portfolio

Build global asset management

Allocate capital rigorously

Increase customer reach

Boost productivity



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The enormous financial volatility of 2008 has led to a reduction in the capital that we hold in excess of regulatory requirements. We remain in a strong position with an IGD capital surplus of £2.0 billion at the end of 2008. Maintaining this capital strength has been a priority in 2008 and will remain so in 2009.

Maintaining our dividend

Our group dividend policy remains unchanged. With savings rates at a record low, this is good news for our shareholders as well as a mark of our financial strength. Our recommended final ordinary dividend is 19.91 pence per share, bringing the total dividend for the year to 33.00 pence, unchanged from 2007.

Strength of our business

In 2008 we benefited more than ever from the diversity of our business model, as the spread of our businesses and geographical reach helped to mitigate risk.

Despite the downturn, we achieved our highest ever life and pensions sales in our UK Life market. In the United States we met our target of doubling new business sales, a year earlier than expected. In our general insurance business, profits improved despite continuing tough market conditions and our focus now is on sustainable profitability rather than volumes.

In the Asia Pacific markets we saw life and pensions business growing on the back of our Chinese joint venture and our new ventures in South Korea and Taiwan. Some European markets suffered in 2008 but we performed well in central and eastern Europe. With over 65% of sales coming from outside the UK, we've also benefited from currency movements such as the appreciation of the euro.

In September we launched Aviva Investors, pooling our asset management skills into a single company. With £236 billion currently under management, working in 15 countries around the world, we fully expect to see Aviva Investors become a powerhouse in global investment.

Managing our risk

Sound risk management has always been at the heart of our business. This discipline has served us well in 2008.

Whether it's financial risk as a result of changes in the values of our investments and insurance liability or credit risk from our investment in bonds and other securities, we are monitoring and managing our risk continuously.

There are many examples of our prudent approach to risk. Expectations of credit default increased dramatically in 2008 and within our UK annuity company we have made provisions at a level which assumes credit default will be worse than at any time in modern business history, worse even than the 1930's. We have experienced some credit default losses during the year, but these have been acceptable within the overall scale of our business.

Back in 2007 we made a sound decision to manage our equity risk when we sold £3.4 billion of equities and we've also taken steps to safeguard ourselves against further falls in equity markets through the derivatives markets.

Financial volatility has also meant that we have had to reassess the policyholder and shareholder elements of the reattribution of the inherited estate in the UK to ensure fairness between shareholders and policyholders. This negotiation continues in a constructive way.

Delivering for our customers

Our purpose is to provide prosperity and peace of mind to our 50 million customers around the world. I am pleased with the progress we are making towards measuring customer advocacy across our group. It will help us measure and improve customer experience and build customer loyalty. Currently over two thirds of our businesses are at or better than the external benchmark and we aim to be world-class. In the end the number of customers that stay with us and recommend us to others is the ultimate measure of our success. It has been pleasing to see the strong growth in our customer numbers, particularly in China and central and eastern Europe.

When I talk to customers, I am always struck how good it is when we are delivering first class service. Our challenge is to do this consistently, day in, day out and this is what we aim to deliver through our new brand promise.

Building the Aviva brand

Through the year we've moved several steps closer to our goal of a global brand. We already operate as Aviva in 21 markets and by June 2009, Norwich Union will have been renamed as Aviva. Hibernian in Ireland and Commercial Union in Poland move fully to the Aviva name in 2010. You can read more about our brand on page 16.

Pride in our people

If our 54,000 people around the world feel valued and that their contribution matters, they will in turn provide excellent service for our customers. I'm particularly pleased that in this difficult year, our global employee climate survey shows improvements in almost every area of activity. Our staff have weathered an unsettling year with enormous professionalism and dedication, and I am grateful to them.

We want this to be a great organisation to work for, and I believe that our people show all the signs of being proud to belong to the global family that is Aviva. As a result of our cost cutting exercise, there were some redundancies in 2008; a difficult decision, but necessary to ensure the future development of the business.

In 2008, I appointed the final members of my leadership team. I now have the support of a ten strong executive team; talented and dedicated individuals who are working together to achieve our vision.

As a company, we take our obligations to the world around us seriously. We're a leader in the field of corporate responsibility and many of our people play an active part in the communities in which we operate. In 2008 we continued to be recognised by a wide range of external benchmarks for the work we do across a range of activities.

Committed to our vision

We remain committed to our vision of "one Aviva, twice the value". It has given us the focus to remain on course during one of the most difficult years in financial memory. Providing prosperity and peace of mind for our customers is a long term enterprise. This long term view of our business has meant that we've managed our resources carefully and avoided excessive risk. That gives me real confidence as I look to the future.

In the following pages you'll find more about the general trading conditions and our business activities over the last year, plus our plans for the year ahead. I hope you'll take the time to read on.

Andrew Moss
Group chief executive