

# **AVIVA plc**

## **Interim results 2005**



**11 August 2005**

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# Agenda

- Overview
- Financial review
- Questions & Answers

**Richard Harvey**

Group Chief Executive

**Andrew Moss**

Group Finance Director

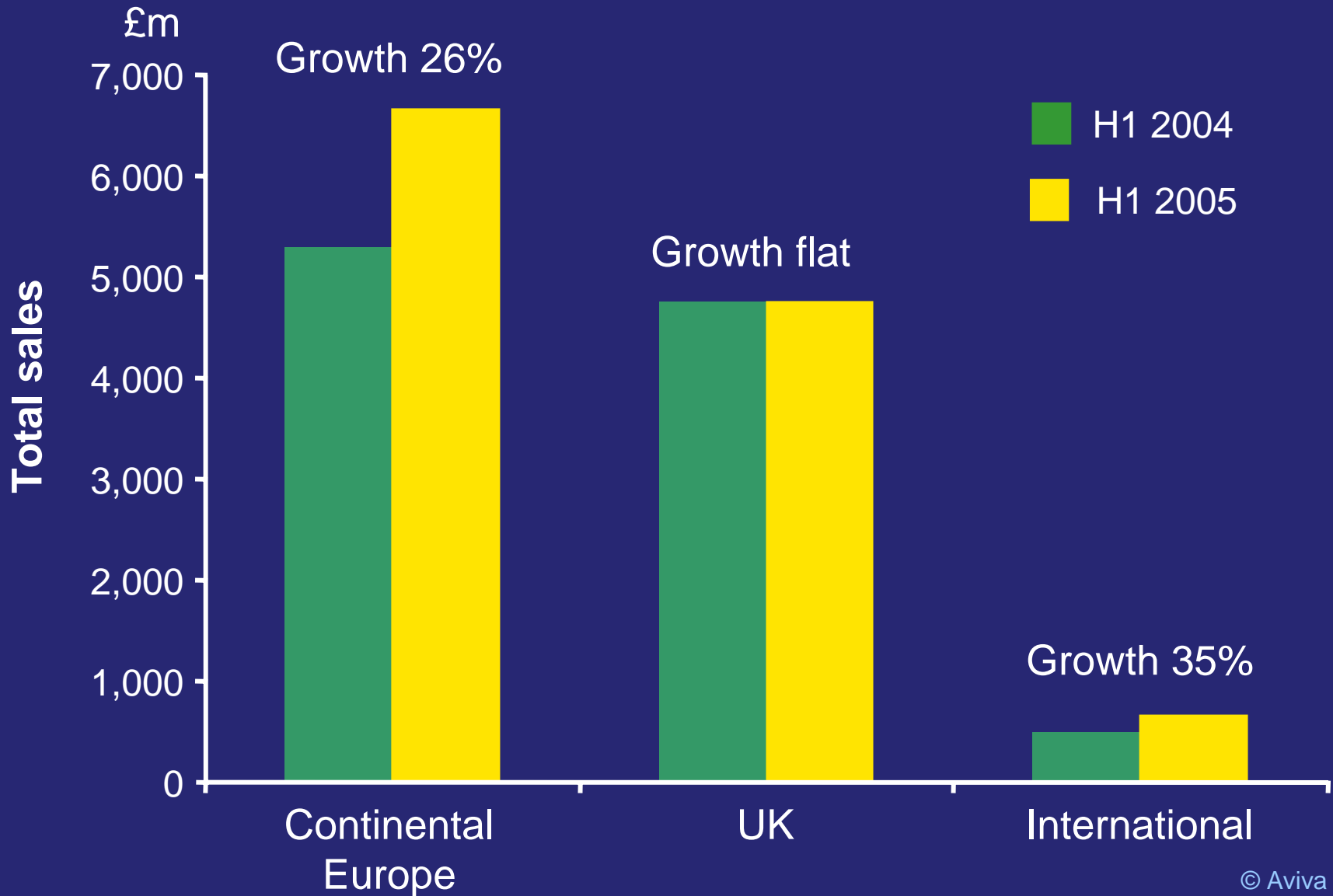
# Strong operations delivering good profits

Operating profit (EEV basis)	£1,318m	+21%
Operating profit (IFRS)	£943m	+19%
Life and pensions sales (PVNBP)	£11.0 bn	+12%
New business contribution	£393m	+15%
General insurance COR	95%	(FY 2004: 97%)
Interim dividend	9.83p	+5%
ROCE	14.6%	(FY 2004: 13.7%)

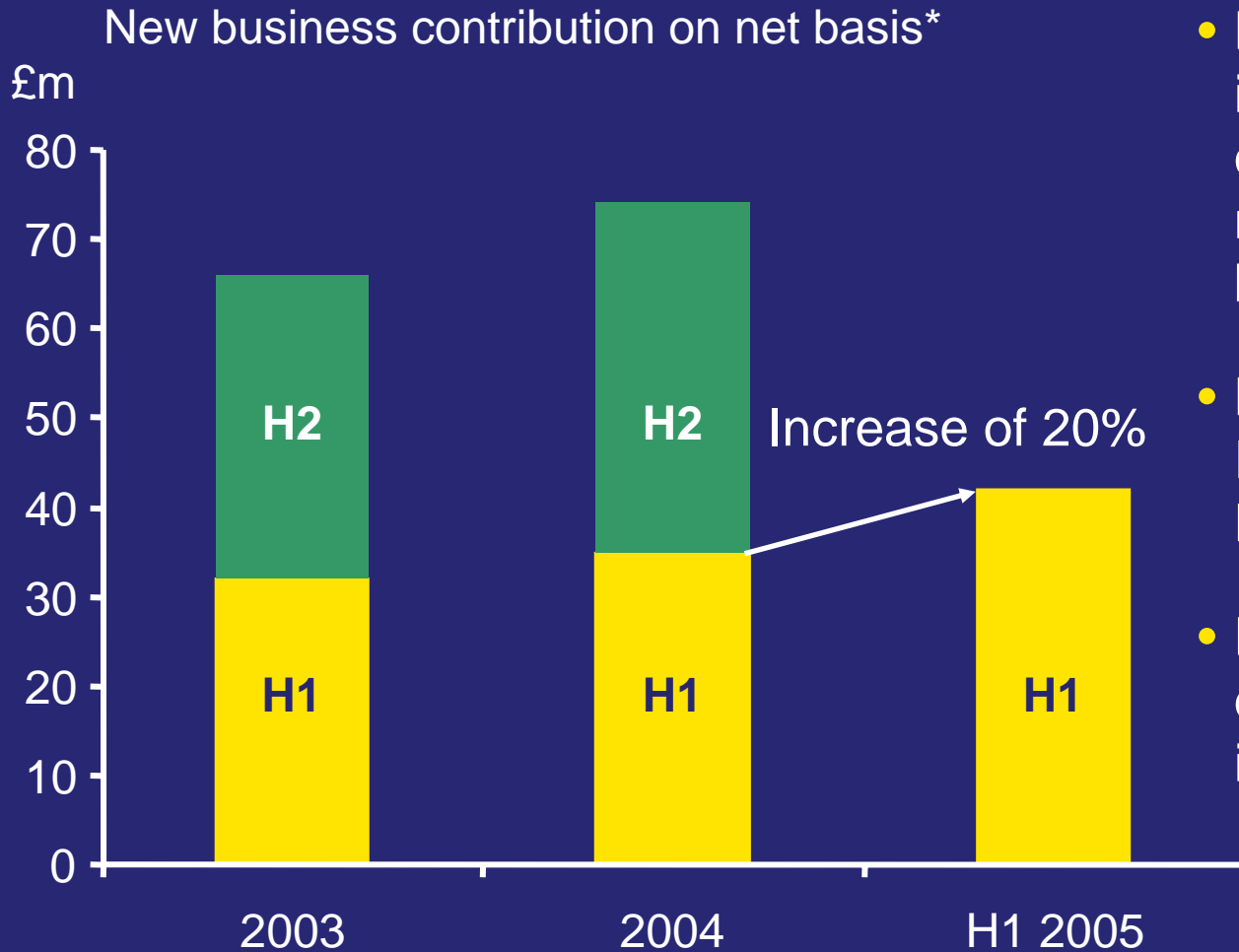
# 2005 interim results: key themes

- Strong new business sales with increased value from our bancassurance network
- Strong performance in mature markets, particularly France
- Transforming our UK Life business to succeed in a competitive market
- Prospects for our developing businesses
- Excellent general insurance and health results

# Strong growth in long-term savings new business



# Increasing value from our bancassurance network



- Bancassurance is an increasing proportion of new business profits now over quarter of business
- Businesses growing in France, Italy and the Netherlands
- Higher average margin delivering value growth in Spain

\* net basis after capital, tax and minorities

# France: benefiting from focus on unit linked sales

- Total sales up 36% (PVNBP) to £1.9 billion
  - Contribution up 52% (gross) to £202 million
  - Total proportion of unit-linked sales now 40% (FY 2004: 32%)
  - Net margin at 2.6% (FY 2004: 1.9%)
- Benefit of Crédit du Nord (commenced October 2004)
- Increased attractiveness of equity markets
- Focus on unit-linked business delivering higher margins

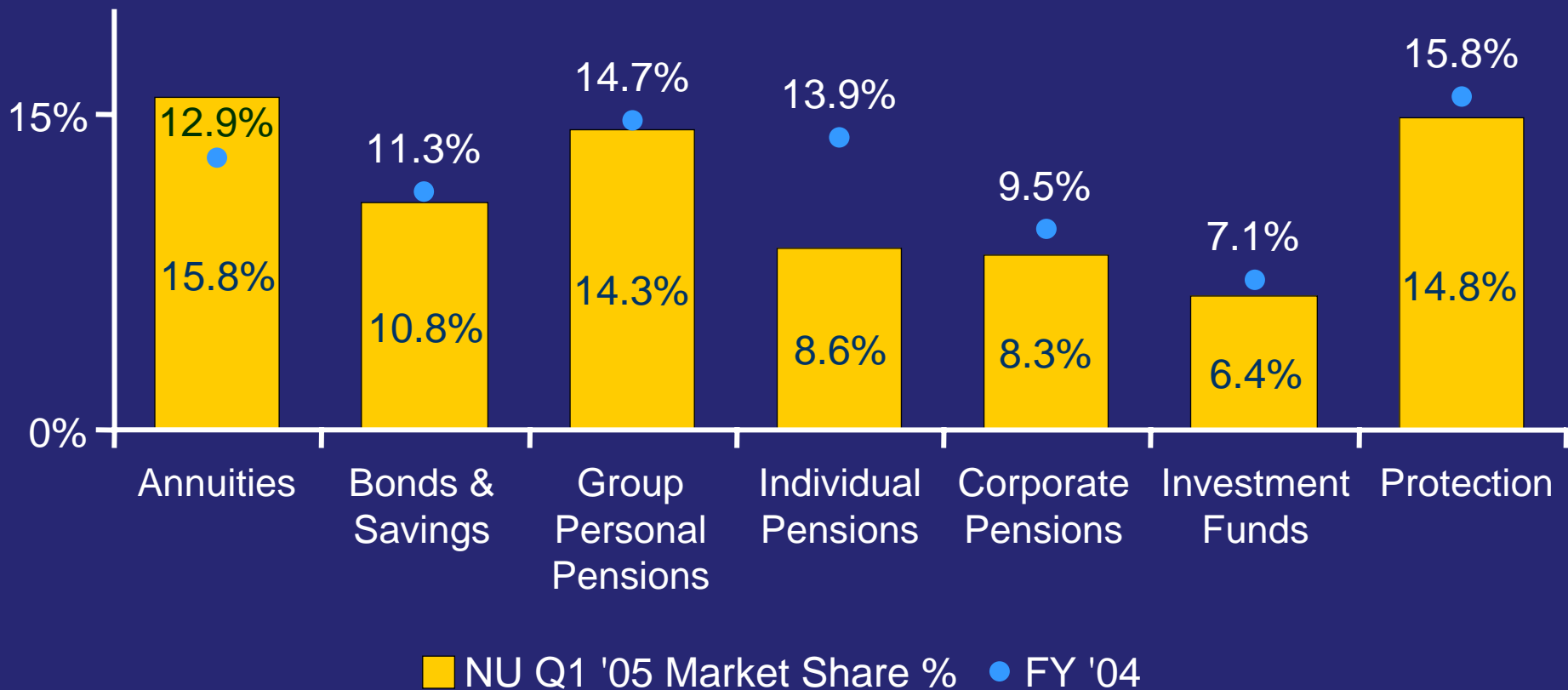


# UK Life: managing for value

- Operating in competitive market where growth modest
- Holding volume whilst increasing margin
- Retaining a significant presence across the product portfolio
- Achieving an IRR of 11.4% (H1 2004: 11.0%)
  - IRR improves to 13.6% taking into account debt/equity mix

# Strong UK market share consistently maintained in main product areas...

Total market share at 11.5% (Q1 2005)



# UK Life: transforming the business for the long-term

- Expect to see a reduction in second half margins as product mix changes
- Continue to improve underlying value drivers
  - Broad distribution base
  - Innovative capital management
  - Aggressive transformation of the business
    - Offshoring
    - Assisted transformation of business services
    - Ongoing customer servicing initiatives

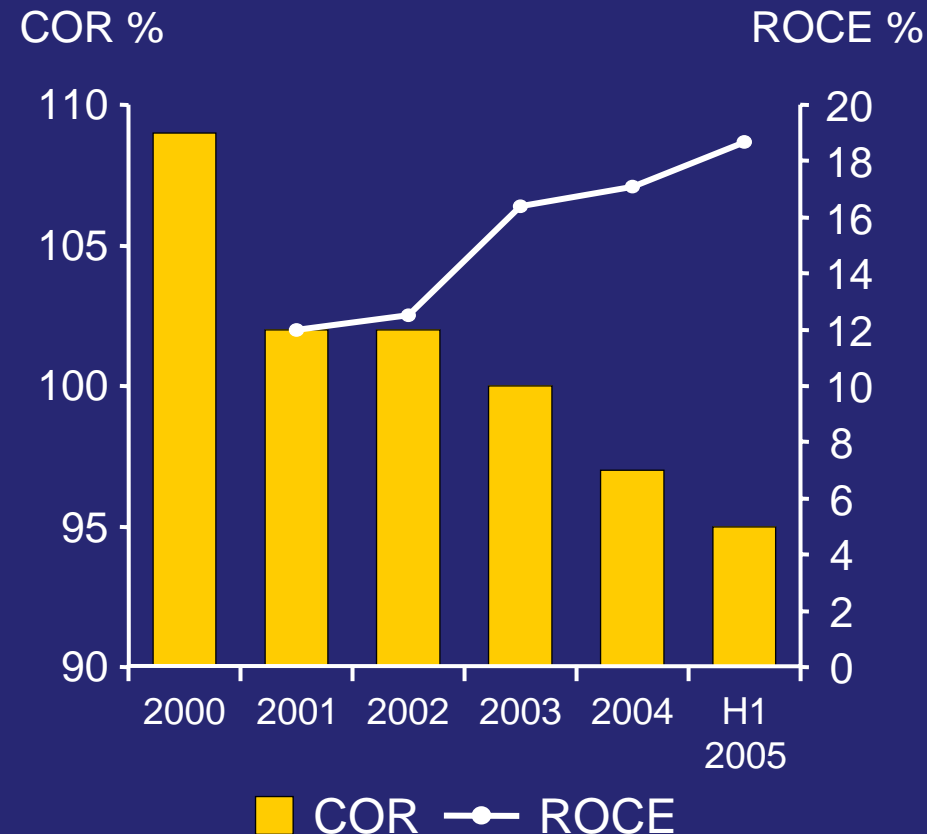
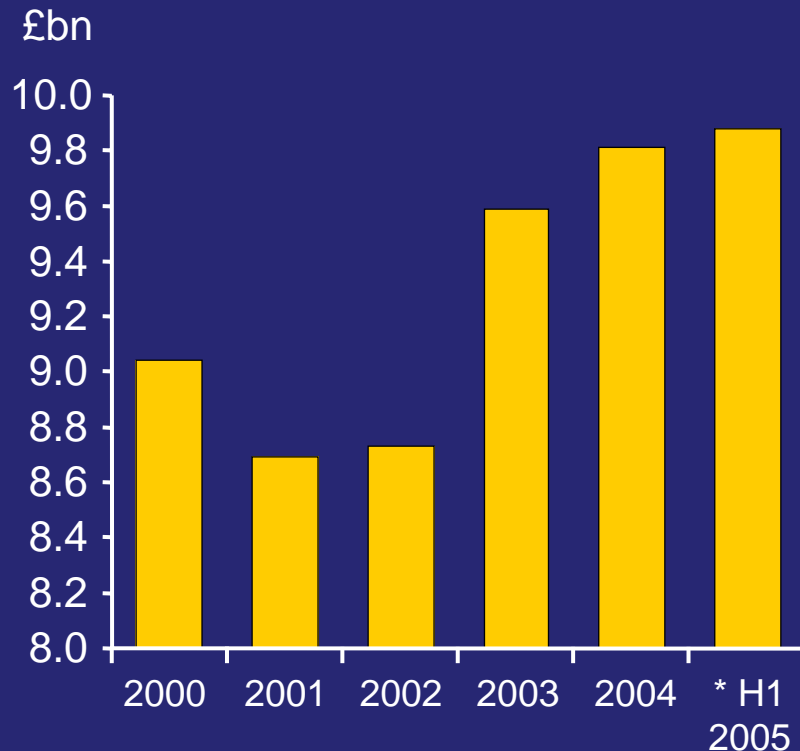
# Developing our presence in other markets

- Rapid expansion in India and China:
  - Total sales from operations of £82 million (2004: £29 million)
  - India: working with 8 banks
  - China: presence in 6 cities
- Broadening distribution and moving into new product markets in the US
- Enter new markets selectively, for example exploring entry into Russia and Taiwan

# Excellent contribution from general insurance and health

Growing premium income ...

... whilst increasing ROCE

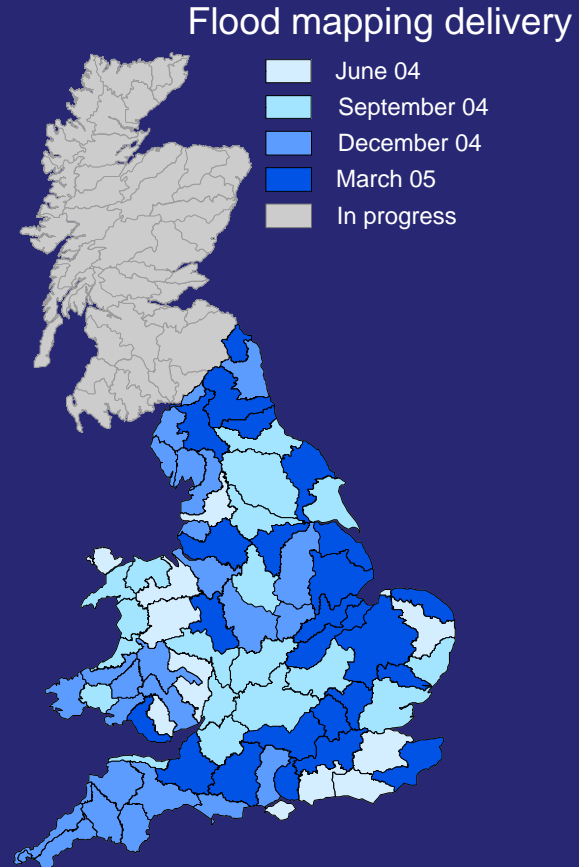


- GI COR reduced from 109% to 95% between 2000 and 2005

\* 2005 Annualised

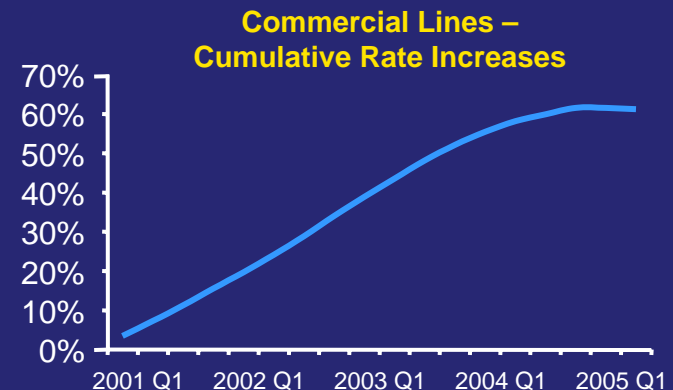
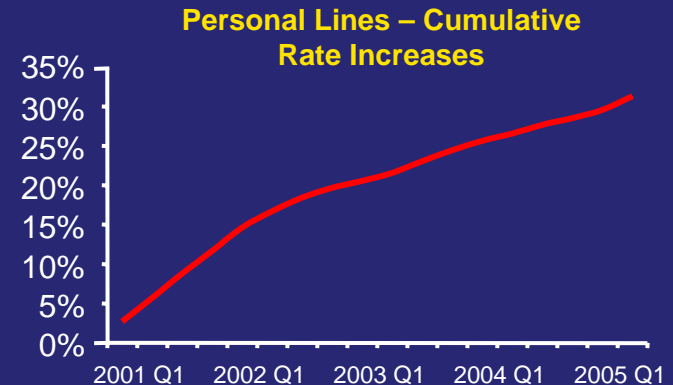
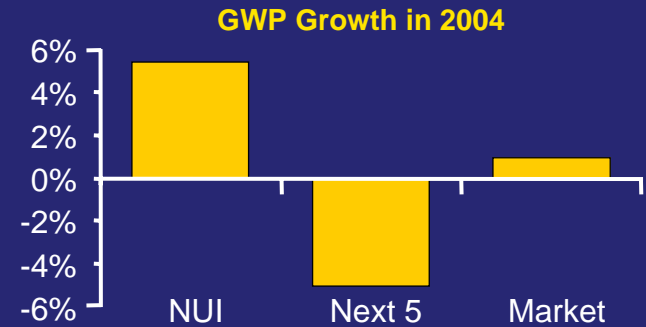
# GI achievements in 2005

- Corporate Partner deals
  - New Barclays contract
  - Extended Asda deal to 2009
  - Extending Canadian strategic alliance with Loblaws
- Digital flood map
- Telematics
- Improving customer service
  - Direct customer satisfaction at 91%
  - Customers feel cared for by Norwich Union at 92%
- 2,800 jobs now in India



# UK: sustained profits

- Using our business model to win in a competitive market
  - 22% increase in Direct premiums
  - Rates increasing in personal lines
  - 5% in personal motor and 6% (including indexation) in homeowner, in line with claims inflation
  - Commercial rates flat; profitability excellent

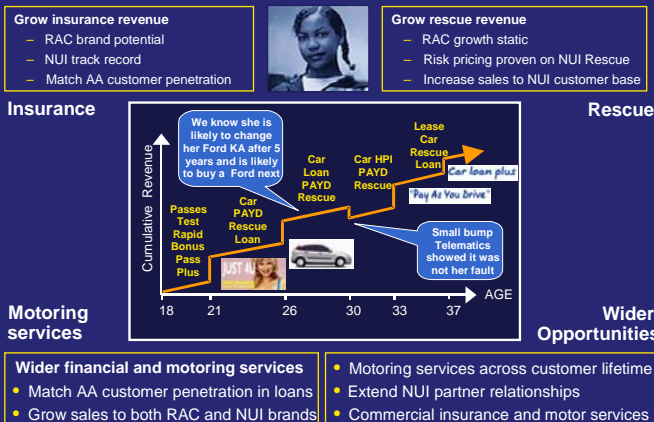


# RAC

- RAC accelerates NUI's strategy, bringing us closer to our customers, and will generate significant revenue and cost synergies
- Took control of RAC on 4 May
  - RAC performance in line with plan
  - Confident in delivering pre tax £80m cost synergies
- Excellent progress on integration
  - Management and structures in place
  - Hyundai distribution agreement transferred



## Motor services provider across customer lifetime





# Financial review

Andrew Moss

Group Finance Director

# Improved operational performance across all businesses

	<u>H1 2005</u>	<u>H1 2004</u>	<u>Growth <sup>†</sup></u>
	£m	£m	%
Life EEV operating return	857	799	5
Fund management	18	10	80
General insurance and health	694	583	18
Non-insurance operations	45	(12)	-
Corporate costs	(83)	(99)	16
Unallocated interest	(213)	(205)	(3)
Operating profit: EEV basis <sup>(1)</sup>	<u>1,318</u>	<u>1,076</u>	<u>21</u>
Operating profit: IFRS basis	943	781	19
EPS: IFRS basis	27.1p	21.8p	
ROCE	14.6%	13.7%*	
NAV <sup>(2)</sup>	533p	511p*	

<sup>(1)</sup> Stated before amortisation of other intangibles, impairment of goodwill and exceptional items

<sup>†</sup> On a constant currency basis

\* As at 31 December 2004

<sup>(2)</sup> ON an EEV basis

All operating profit is from continuing operations

# Growth from an international life portfolio

	<b>H1 2005</b>	
	<b>Sales PVNBP <sup>(1)</sup></b>	<b>Growth <sup>(2)</sup></b>
	<b>£m</b>	<b>%</b>
<b>Life and pensions</b>		
UK	4,244	(1%)
France	1,854	36%
Ireland	349	28%
Italy	1,333	61%
Netherlands	1,241	24%
Spain	965	(16%)
Other countries	1,030	8%
<b>Group life and pensions</b>	<b>11,016</b>	<b>12%</b>

- UK: Improvement in unit-linked bond sales and annuities, offset by lower pension and protection sales
- France: Strong growth in unit-linked sales; strong start to Crédit du Nord partnership
- Netherlands: Increased sales from ABN AMRO and in annuity business
- Italy: Increases due to strong marketing campaigns and BPU branch extension
- Spain: Stronger focus on higher margin protection products in the first half of 2005
- Other countries: Strong development in international businesses

<sup>(1)</sup> PVNBP is equal to single premiums plus the present value of regular premiums

<sup>(2)</sup> On a constant currency basis

# Life businesses creating shareholder value

Group	H1 2005		H1 2004	FY 2004
	Contribution £m	Margin	Margin	Margin
Gross <sup>(1)</sup>	393	3.6%	3.5%	3.4%
Gross, net of required capital	286	2.6%	2.6%	2.5%
Net to shareholders <sup>(2)</sup>	158	1.7%	1.7%	1.6%
<b>Net to shareholders <sup>(2)</sup></b>				
UK	74	1.7%	1.7%	1.6%
Continental Europe	76	1.7%	1.7%	1.6%
International	8	1.4%	1.9%	1.7%
<b>Group</b>	<b>158</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.6%</b>

<sup>(1)</sup> Pre effect of required capital, pre tax and minorities

<sup>(2)</sup> Post effect of required capital, tax and minorities

# New business profitability: focus on post required capital margins

	<u>H1 2005</u>		<u>H1 2004</u>	<u>FY 2004</u>
	<u>Contribution</u>	<u>Margin <sup>(1)</sup></u>	<u>Margin <sup>(1)</sup></u>	<u>Margin <sup>(1)</sup></u>
	£m			
UK	105	2.5%	2.5%	2.3%
France	48	2.6%	2.0%	1.9%
Ireland	8	2.3%	4.1%	2.9%
Italy	20	1.5%	1.7%	1.9%
Netherlands	18	1.5%	2.5%	2.0%
Spain	70	7.3%	4.9%	5.7%
Other countries	17	1.7%	1.4%	1.6%
<b>Group</b>	<b>286</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.5%</b>

<sup>(1)</sup> Post effect of required capital, pre tax and minorities

# Life EEV operating return

	<u>H1 2005</u>	<u>H1 2004</u>
	£m	£m
UK	327	345
France	158	112
Ireland	22	16
Italy	47	36
Netherlands	115	132
Poland	46	35
Spain	92	81
Other Europe	14	14
International	36	28
<b>TOTAL</b>	<b><u>857</u></b>	<b><u>799</u></b>

- Post required capital new business contribution up £35 million to £286 million due to increased volume
- Higher returns on opening embedded value at start of 2005 up £27 million to £595 million (2004: £568 million)
- Small movement in operating assumptions and experience variances to negative £24 million (2004: negative £20 million)

# Life IFRS profits: businesses generating capital and cash

	<u>H1 2005</u>	<u>H1 2004</u>
	£m	£m
UK		
With profit	33	49
Non profit	178	179
France	131	89
Ireland	14	14
Italy	24	19
Netherlands	58	54
Poland	48	39
Spain	39	24
Other Europe	1	(4)
International	(16)	57
<b>TOTAL</b>	<b><u>510</u></b>	<b><u>520</u></b>

- UK: Lower with-profit result due to bonus cut
- France: Significant improvement due to profitable business development and investment gains
- Netherlands: Growth in business whilst maintaining cost base
- Italy and Spain: Reduced new business strain due to product growth and mix
- International: Lower level of realised gains in 2005

# Sustainability and resilience in excellent general insurance and health profits

	<u>H1 2005</u>	<u>H1 2004</u>
	£m	£m
Underwriting result	182	92
LTIR	512	491
Operating profit	<u>694</u>	<u>583</u>

## Analysed as:

UK	431	364
France	17	20
Ireland	83	60
Netherlands	55	53
Canada	67	52
Other countries	41	34
TOTAL	<u>694</u>	<u>583</u>

- GI COR of 95% (2004: 97%)
- UK:
  - Personal motor rates up 5% and homeowners up 6% (including indexation)
  - Commercial rates flat
- Ireland: Increasingly competitive, but motor rates beginning to stabilise
- Netherlands: Disciplined underwriting and costs containment
- Canada: Commercial market softening, but favourable claims frequency in all our major classes



# Asset management gathering momentum

- IFRS fund management operating profit up 94% to £33 million
- Morley UK and overseas businesses significantly increased from £7 million to £18 million
- Morley UK and overseas businesses: cost/income ratio 80% (2004: 89%)
- Award winning performances in France
- Worldwide investment sales up 35% to £1,062 million
- Funds under management up to over £290 billion

# RAC profits up 13%

	RAC trading for the six months ended 30 June		Post acquisition amounts included in interim results
	6 months 30 June 2005 £m	6 months 30 June 2004 £m	2 months 30 June 2005 £m
<b>Turnover</b>			
Insurance	107	105	36
Non-insurance	510	502	162
	<b>617</b>	<b>607</b>	<b>198</b>
<b>Operating profit</b>			
Insurance	19	19	6
Non-insurance	32	26	11
	<b>51</b>	<b>45</b>	<b>17</b>
<b>Integration costs incurred to date<sup>(1)</sup></b>			<b>(14)</b>
<b>Roadside membership:</b>			
Number of individual members	<b>2.21m</b>	<b>2.20m</b>	
Number of corporate members	<b>4.66m</b>	<b>4.52m</b>	

<sup>(1)</sup> Total estimated one-off integration costs of £100 million pre-tax

# Strong operational cash generation, with benefits of innovative financing

	<u>H105</u> £m	<u>H104</u> £m
New business strain	(210)	(280)
Life inforce profits	646	493
Non life profits after interest costs	316	238
Normalised operating profits after tax	<u>752</u>	<u>451</u>
Interim dividend including preference shares and DCI	(264)	(220)
Benefit from scrip dividend in H1 2004	-	100
Normalised profits post tax retained to fund growth	<u><u>488</u></u>	<u><u>331</u></u>

The capital requirements on a realistic basis increased by £31 million, but include a release of £245 million arising from the restructuring of the UK non-profit funds

# Movement in EU groups directive solvency

	IGD £ billion
As reported at 31 December 2004	3.6
Less: previously signposted changes	
FSA valuation rules: market value of non-insurance	(0.6)
FSA valuation rules: pension deficit	(0.4)
Disposal of Asia	0.2
Acquisition of RAC	(0.8)
<i>Sub-total</i>	(1.6)
Capital generation in the period net of RMM increase	0.6
<b>As estimated at 30 June 2005</b>	<b>2.6</b>

# Movement in net asset value per share

	Reported pence
<b>As at 31 December 2004 (restated for IFRS/EEV)</b>	511
Deduct: 2004 final dividend	(16)
	<hr/> 495
Operating profit for the period	36
Investment variances	12
Foreign exchange and pension deficit	(13)
	35
Effect of issuing equity share capital	3
	<hr/>
<b>As at 30 June 2005</b>	<b>533</b>
	<hr/> <hr/>

# Aviva: a thriving business

- Strong and steady growth in profits from businesses operating efficiently
  - New business contribution +15%
  - Excellent COR at 95%
- Working to maximise our position in competitive long-term savings environment
- Strong and sustainable outlook for general insurance
- Strong cash and statutory profits
- Good dividend growth

**Aviva is financially fit and strongly positioned for profitable growth**

# **30 June 2005 results**

## **Questions and answers**

