

News Release

Aviva plc half year report for the six months ended 30 June 2009



AVIVA REPORTS £747 MILLION PROFIT, BUILDS CAPITAL STRENGTH AND ANNOUNCES NEW PLANS FOR DELTA LLOYD

Management actions deliver encouraging results

- IFRS profit after tax £747 million (HY08: £84 million loss)
- IFRS operating profit £1,049 million (HY08: £1,223 million)
- MCEV operating profit £1,685 million (HY08: £1,509 million)
- Margin increased, with life and pensions sales down 4%
- Combined operating ratio ahead of target at 97% (HY08: 97%)
- IGD solvency surplus increased to £3.2 billion (31 December 2008: £2.0 billion)

Action on dividend reflects strategy, earnings and outlook

- Interim dividend reduced by 31% to 9 pence
- Lower earnings drives dividend adjustment
- Provides additional financial flexibility to create long-term value

Strategic actions create financial flexibility to exploit market opportunities

- Plans for partial IPO of Delta Lloyd on Euronext Amsterdam
- Sale of Aviva Australia will complete in the third quarter
- Overwhelming customer support for reattribution of inherited estate which will generate customer and shareholder value
- 9% reduction (£0.5 billion annualised) in group's operating cost base

Andrew Moss, group chief executive, commented:

"In a challenging economic environment Aviva has returned to profit: life and pensions margins have improved, the general insurance business has beaten our targets and our regulatory capital position has strengthened significantly. The diversity of our business and innovative products and services have served our shareholders and customers well in difficult economic times.

"Our overriding priority now is to continue to build a position of strength from which Aviva can exploit market opportunities. In this context we have decided to reduce our interim dividend to 9p per share in line with lower investment earnings in 2009.

"We continue to transform Aviva for the future. We are today announcing plans for a partial IPO of Delta Lloyd when market conditions allow. This will enable Aviva to free up capital for use elsewhere and will allow Delta Lloyd to pursue its ambitions in the Benelux region.

"These actions, together with ongoing focus on cost management and the sale of Aviva Australia, will significantly increase our strategic flexibility. In the long term interest of our shareholders we are determined that Aviva should be in the best possible shape to seize opportunities to grow and add value."

Investor contacts	Media contacts	Timings	Contents
Andrew Moss +44 (0)20 7662 2286	Hayley Stimpson +44 (0)20 7662 7544	Newsire conference call 0745 BST	Group performance.....3 IFRS operating profit.....5
Philip Scott +44 (0)20 7662 2264	Sue Winston +44 (0)20 7662 8221	Analyst presentation 0845 BST	New business 13 MCEV operating profit20
Charles Barrows +44 (0)20 7662 8115	Andrew Reid +44 (0)20 7662 3131	Live webcast www.aviva.com	Capital management.....25 Operational cost base32
Jessie Burrows +44 (0)20 7662 2111	Ed Simpkins/ Conor McClafferty +44 (0)20 7251 3801		Analysis of assets.....33 Financial supplement.....47 Shareholder services 139

Half year 2009 key financial highlights

	IFRS			MCEV		
	6 months 2009 £m	Restated 6 months 2008 £m	Growth %	6 months 2009 £m	Restated 6 months 2008 £m	Growth %
Life MCEV operating return/ IFRS long-term business profit	940	958	(2)%	1,607	1,280	26%
General insurance and health	545	528	3%	545	528	3%
Fund management	35	75	(53)%	(4)	30	(113)%
Other:						
Other operations and regional costs	(107)	(66)	(62)%	(99)	(57)	(74)%
Corporate centre	(46)	(71)	35%	(46)	(71)	35%
Group debt and other interest costs	(318)	(201)	(58)%	(318)	(201)	(58)%
Operating profit before tax	1,049	1,223	(14)%	1,685	1,509	12 %
Profit/(loss) after tax	747	(84)		1,084	(2,361)	
Total dividend per share	9.0p	13.09p		n/a	n/a	
Net asset value per share	349p	437p		416p	660p	
Diluted earnings per share	24.8p	(4.0)p		38.9p	(91.6)p	
Equity shareholders' funds	£9,549m	£11,625m		£11,399m	£17,541m	
Return on equity shareholders' funds				16.5%	11.0% ¹	

1. As at 31 December 2008

Life and pensions new business

	Present value of new business premiums		Value of new business		New business margin	
	6 months 2009 £m	Restated 6 months 2008 £m	6 months 2009 £m	Restated 6 months 2008 £m	6 months 2009 £m	Restated 6 months 2008 £m
United Kingdom	4,735	6,010	101	73	2.1%	1.2%
Europe	8,851	9,064	234	249	2.6%	2.7%
North America	3,189	2,227	16	(8)	0.5%	(0.4)%
Asia Pacific	698	896	16	32	2.3%	3.6%
Total life and pensions	17,473	18,197	367	346	2.1%	1.9%

General insurance and health

	Net written premiums	
	6 months 2009 £m	Restated 6 months 2008 £m
United Kingdom	2,298	2,832
Europe	1,738	2,183
North America	889	771
Asia Pacific	22	14
Total general insurance and health	4,947	5,800

Chief executive's statement

A clear strategy in challenging markets

The first six months of 2009 continued to be challenging for the insurance industry. Highly volatile financial markets in the first quarter and new lows in consumer confidence in the real economy are challenging for all businesses and this continues to suggest that a cautious stance is required. It is therefore encouraging to see Aviva return to profit.

Against this backdrop we have continued to execute our strategy to reshape and transform Aviva. Our overriding priority is to build a position of strength from which Aviva can exploit global market opportunities. This will enable us to seek out and be responsive to opportunities that bring competitive advantage and drive long term shareholder value.

Sound financial performance

Lower financial markets at the end of 2008 have put predictable downward pressure on our operating earnings but we have been able to counteract that to a significant degree through the action we have taken to make Aviva's business more resilient by reducing costs and operating more efficiently. The diversity of our business has again been a strength through our range of geographies, products and distribution. On an IFRS basis we have reported a return to profit after tax of £747 million. Operating profit before tax was lower by 14% on an IFRS basis at £1,049 million and up 12% on an MCEV basis to £1,685 million.

Our general insurance business and in-force life book are sizeable and resilient contributors to earnings, together accounting for about 80% of our operating profits. Our 'One Aviva' strategy has also delivered a good contribution to operating profits through significant cost and efficiency initiatives, making our cost base more flexible. As a result, we have reduced our underlying cost base by 9% over the last 12 months and are ahead of our plan to deliver £500 million of cost savings by 2010.

We are reporting a net asset value per share of 349 pence on an IFRS basis. On an MCEV basis the net asset value per share is 416 pence after marking all financial investments to fair value, with a 16.5% return on equity shareholders funds. The fall in net asset value is due to foreign exchange movements and the marking of our pension fund liabilities to market, both as a result of the ongoing economic volatility.

Strong capital position backed by a sound balance sheet

Throughout the last eighteen months we have focussed on maintaining a strong capital position in the face of the volatile external environment. We have been successful in achieving this objective and in the first half of 2009 the IGD capital surplus of the group increased substantially from £2.0 billion to £3.2 billion. The sale of our Australian life business will contribute a further £0.4 billion to this measure when it completes later this year.

The sensitivity of our IGD capital position to downward market movements is relatively low with a 40% fall in equities reducing the surplus by just £0.3 billion at 30 June 2009, while a 40% rise would increase the surplus by £0.7 billion. The liquidity position of the group remains strong with £1.1 billion of liquidity held at the centre of the group.

Our capital surplus allows for defaults from UK corporate bonds and commercial mortgages and we remain comfortable with the provisions we have in place. Our commercial mortgage portfolio is well diversified and there have been no new defaults in the first half of 2009. Actual defaults against our corporate debt portfolio remain low. Last year the level of unrealised losses was reflective of exceptional market conditions and some of these have started to reverse.

Strategic action creates financial flexibility to exploit market opportunities

We have made two strategic moves this year to optimise capital allocation and reshape Aviva to give us enhanced financial flexibility for the future. In Australia we announced the sale of our life business to National Australia Bank for £452 million, a return of 16 times 2008 IFRS earnings. This is a good price for us for a business which did not have the scale to compete in a consolidating market driven by local players.

In the UK the reattribution of the inherited estate will make better use of our capital. It will also generate cash payments for eligible customers who vote in favour of the deal; to date approximately 70% of policyholders have already voted, 96% of whom have voted in favour of the deal.

We are also announcing today new plans in respect of our Dutch business, Delta Lloyd. We believe the IPO of a minority of our shareholding in Delta Lloyd would be in the best interests of both our shareholders and Delta Lloyd. For Aviva, an IPO would bring the flexibility to reallocate capital to other profitable opportunities or to pursue balance sheet restructuring opportunities. Aviva would also benefit from the enhanced value and liquidity of our retained stake. Delta Lloyd would benefit from a new shareholder base supportive of the company's growth ambitions in the Benelux region, and a public listing would help to better position Delta Lloyd ahead of anticipated consolidation in the Netherlands. The IPO preparations have started and the IPO would take place when market conditions and other factors allow.

These actions, together with our focus on costs and the dividend reduction, will significantly increase our strategic flexibility and allow us to consider growth opportunities over the coming year, which will create long-term value for all our shareholders.

We have also continued to make good progress on our global finance programme, which will bring with it Sarbanes-Oxley compliance. This would enable us to consider a listing of our shares in the US if we choose to do so. Over 20% of our shareholders are in the US.

Action on dividend reflects strategy, earnings and outlook The interim dividend for 2009 will be 9 pence, which is a reduction of 31% from 2008. Our dividend is set by reference to IFRS operating earnings after tax. The board has considered three key factors in coming to this decision:

- the reduction in 2009 IFRS operating earnings driven by lower markets;
- the ongoing weakness in the real economy; and
- the additional financial flexibility that can be created to exploit market opportunities.

The interim dividend on a proforma basis will be at the top end of the 1.5 to 2.0 times range. Our dividend policy remains unchanged basing the dividend on IFRS operating earnings after tax within a cover range of 1.5 to 2.0 times.

Delivering competitive advantage in long-term savings

The long-term savings market remains challenging but with significant long-term potential. Consumers are currently more cautious and are seeking out brands they can trust. We have gained competitive advantage in a number of countries where we have held or improved market share against the backdrop of a short-term contraction in the market. In the UK, for example, we have increased our market share from 11% to 12%, while increasing margins significantly.

We have successfully managed our new business margins which increased to 2.1% as a result of pricing actions, commission reductions and cost control. Aviva's worldwide sales reduced 6% to £19.4 billion, with life and pensions sales 4% lower on a sterling basis and 15% lower in local currency terms.

The breadth of our long-term savings business, across a range of products, geographies and multiple distribution channels is a real strength. Sales in Europe were particularly resilient where our footprint across 15 markets at differing stages of maturity works well for us and underpins a strong profit stream. Bancassurance also remains a significant contributor, accounting for almost a third of our global life and pensions sales. We increased sales through banks by 5% to £5,369 million this year. This reflects an increasing focus on insurance earnings by banks as an important contributor to their results.

A focus on profit in general insurance Our general insurance business continues to generate good returns, with profits up 3% to £545 million. This earnings stream provides important cash and capital to invest across our global operations.

Sales are down 15% (20% in local currency) due to market conditions, but also from deliberate action to withdraw from less profitable distribution channels in our largest general insurance business in the UK.

I am pleased to report a group combined operating ratio (COR) of 97%, ahead of the full year 2008 COR of 98% and beating our 98% 'meet or beat' worldwide COR target. We have retained a firm focus on improving profitability, particularly as we transform our largest general insurance businesses in the UK and Canada. We have taken action to reduce our costs and operate more efficiently, which is already delivering results.

Delivering on 'One Aviva, twice the value'

We remain committed to our strategy to realise the full potential of the group by operating as united businesses across the world. The most visible manifestation of this has been the creation of a single global brand. Our strategy to build the Aviva brand globally has served us well and positioned us at the forefront of our customers' minds. In the UK, Norwich Union became Aviva on 1 June. Behind the change is a fundamental transformation which will enable us to build our business around our customers. We have seized the opportunity of the name change to build new products, systems and processes which focus on the needs of customers into the future. Our free life cover for all new parents and new online self-service capabilities are good examples of these changes. This transformation continues with the aim of bringing us long term competitive advantage.

Outlook

While the economic environment continues to be uncertain, and sales volumes will continue to be subdued, there will be opportunities from which strong companies like Aviva will benefit. We will continue to transform Aviva at pace to optimise our performance through a clear focus on profitability. Our increasing financial flexibility will strengthen Aviva's position, enabling us to seize new opportunities as they arise and generate long term value for shareholders.

Andrew Moss
Group Chief Executive

Regional performance

United Kingdom

- Life and pension sales of £4,735 million (30 June 2008: £6,010 million)
- Life new business gross margin up to 2.1% (30 June 2008: 1.2%)
- Life IFRS operating profit of £368 million (30 June 2008: £428 million)
- UK general insurance result of £284 million (30 June 2008: £316 million) and general insurance COR of 99%

UK Life: Gaining competitive advantage through operational excellence

In a challenging market our UK life business is gaining competitive advantage. Our market share increased to 12% in the first quarter, from 11% last year, at an increased margin. Life and pensions sales were down 21% from a combination of our action to manage product mix, pricing and costs, and the effect of the economic downturn. We have remained focused on our strategy to transform the business to become a modern low-cost and dynamic organisation. Since outlining this strategy three years ago we have made significant progress in simplifying the business, reducing costs and improving profitability. This has positioned us well for the current testing market environment, where customers want to invest with brands they can trust.

We are on track to reduce costs by £100 million by the end of 2009. Our moves to simplify the business have been at the heart of this, with three million policies moving to new administration arrangements with outsourced partners. At the same time we have improved service to our customers and our customer recommendation ratings have increased significantly over the past year.

A significant milestone in the first half of the year was our agreement with the policyholder advocate to proceed with the reattribution of the inherited estate. This is now well underway with eligible customers voting on whether they wish to participate. We believe it was the right thing to do to give almost one million customers the choice to participate and so far approximately 70% have voted, 96% of whom have voted in favour. Customers have been asked to vote by 21 August. Following High Court approval we will be able to make payments to customers. Shareholders will also benefit from the increased capital efficiency this transaction will bring.

UK General Insurance: Material progress on transformation

We are delivering on the strategy we set out two years ago to achieve competitive advantage by reshaping the book for sustainable profit, focusing on our core insurance capabilities and delivering scale benefits.

We have made significant progress against this transformational agenda and recognise that these strategic choices will have an impact on volumes in the short term. We have exited partnerships which do not match our long-term strategy and withdrawn from managing general agents. The current economic environment has also had an impact due to fewer commercial business start-ups and more business failures. However, strengthening our pricing and risk selection to attract the right customers is beginning to deliver as we are seeing an improvement in underwriting margins on our business with less reliance on prior year savings (H1 2009: £88 million; H1 2008: £153 million).

We have made considerable progress in reducing our costs as we simplify and reshape the business with today's customer in mind through fewer service centres and streamlined products and processes. These changes have delivered £200 million annualised savings in phase one in 2008 and are ahead of plan to deliver further annualised savings of £150 million by 2010 in the second phase.

When added to lower negotiated commissions, this has improved our distribution ratio from 40% in 2007 and 37% in 2008 to 34% for the first half of 2009. Throughout this transformation customer service has remained consistent and as we complete this phase we will focus on further improving our service to customers.

Europe: Resilient results and transformation underway

- IFRS operating profit of £607 million (30 June 2008: £614 million)
- Life and pension sales of £8,851 million (30 June 2008: £9,064 million)
- Life new business gross margin 2.6% (30 June 2008: 2.7%)
- General insurance COR of 96%

Aviva Europe represents 51% of Aviva's life and pension sales. Its diversity of products and distribution channels across fifteen countries means that we have some in-built resilience to the strong contribution Europe makes to Aviva's results, even in today's turbulent markets. The nature of the downturn varies considerably in different markets, with countries such as Ireland and Hungary anticipating a significant and extended slowdown, while others such as Poland and France are expected to experience a shallower recession and to bounce back more quickly. The lower margin reflects a one-off portfolio transfer in 2008 and remains well above the group average.

We have continued to expand our distribution capability in the region. As the leading bancassurer in Europe we have benefited again from banks seeking to maximise their insurance earnings. In the first half of 2009 sales were up 13% through this important channel, with particularly good results seen in Italy and France.

Andrea Moneta joined the group last summer as CEO for the region and has appointed a new leadership team to exploit the significant value of the region. Our plans to undertake a partial IPO of Delta Lloyd when market conditions allow will exploit the potential value from Delta Lloyd's position in the Dutch market. The reorganisation to realise the full potential of Aviva's unique positioning and footprint in other key western and central European markets has already started. We will give more details on 22 October when we hold a presentation on our plans.

North America: Focus on greater capital efficiency

- IFRS operating profit of £103 million (30 June 2008: £102 million)
- Life and pensions sales of £3,189 million (30 June 2008: £2,227 million)
- Life new business gross margin up to 0.5% (30 June 2008: (0.4)%)
- General insurance COR of 97%

Our business in North America comprises the leading indexed annuity and indexed life business in the US and the second largest general insurer in Canada.

In the US sales demand for our indexed annuities remains high given the attractive guarantees they offer to customers in these uncertain times. Having achieved our target to double the scale of our business a year ahead of schedule we now have a sustainable footprint in the US market. Our strategy now is to focus on greater capital efficiency by moderating the pace of growth in indexed annuities. This is in line with our initiatives to change the business mix and grow our life insurance business. We were one of the few life companies to grow our life business in the first quarter and are pursuing new distribution opportunities to accelerate life insurance sales.

In Canada we have delivered another good performance, growing both premiums and profits this year to date. We have undertaken significant changes to the business to improve the efficiency of our operations, reduce costs and improve service and have delivered a combined operating ratio ahead of the group target.

Asia Pacific: Reshaping the portfolio and extending customer reach

- IFRS operating profit of £63 million (30 June 2008: £15 million)
- Life and pension sales of £698 million (30 June 2008: £896 million)
- Life new business gross margin 2.3% (30 June 2008: 3.6%)

In Asia Pacific we have taken action to reshape the portfolio and extend customer reach in the first half of the year against a backdrop of challenging markets. These moves will position us well for future growth once a recovery begins.

The sale of our Australian business supports our strategy of focusing on the key growth markets in the region where leading positions can be achieved. Our view was that it would be challenging to reach a leading position in the foreseeable future in an increasingly consolidated market where we were ranked ninth in the life market and our wealth management platform was ranked eighth. On completion the sale will give us greater financial flexibility to redeploy the capital to other markets which we believe will deliver better returns to shareholders over the next few years.

We have recently extended our bancassurance partnership with DBS, one of the largest financial services groups in Asia, to cover five markets in the region over the next six years. In addition to our existing relationship in Singapore and Hong Kong, this new agreement will extend our partnership to India, China and Taiwan over time. In China we are a leading foreign life insurer and we recently extended our reach further by opening our tenth province. We now operate in 40 cities across China giving us access to 630 million potential customers.

Korea has become an increasingly important market for us. In the first quarter it generated our highest level of sales in the region. We have moved from 22nd to 12th in the market in just one year and have recently opened five new branches around Seoul as part of our bancassurance partnership with Woori Bank.

Aviva Investors: A new global business

- IFRS operating profit of £36 million (30 June 2008: £61 million)
- Group funds under management at 30 June 2009 were £352 billion (31 December 2008: £379 billion)
- Funds managed by Aviva Investors at 30 June 2009 at £222 billion (31 December 2008: £236 billion)
- Net new business flows of £3 billion

Aviva Investors is an example of the long-term potential we are creating in a 'One Aviva' approach to our business. We have created a single globally integrated fund management business from disparate operations in 15 countries. Aviva Investors was launched in September 2008 at the height of the turmoil in investment markets and is now ranked the 18th largest institutional fund manager in the world. Market conditions have remained tough. The significant decline across all major equity markets in the second half of 2008, together with continued falls in real estate capital values, has led to a reduction in funds under management this year and this has had a corresponding impact on management fees and profit.

Meanwhile we have made early in-roads into our long-term objectives to increase third party business and cross border sales. The success of our Absolute Tactical Asset Allocation fund is a good example. The £570 million fund has recently been ranked by Bloomberg in the top percentile of best performing active funds in the world. Through the Aviva Investors' franchise it has attracted global interest with new investments from Europe and it will shortly be available in the US. A further success is our Global High Yield Bond fund which is managed in Chicago and for which we recently won a significant mandate in Taiwan.

We have continued selectively to invest in our business, both in terms of people and operating processes, while containing costs. This investment is an important part of our transformation and we are pleased to report net new business flows of £3 billion with £2 billion from third party clients and strong pipelines of interest across the world.

Information

News wires:

There will be a conference call today for real time media at 0745 hours (BST) on +44 (0)20 7162 0025. Quote: Aviva, Andrew Moss.

Analysts:

A presentation to investors and analysts will take place at 0845 hours (BST) at St Helens, 1 Undershaft, London EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.cantos.com. In addition a replay will be available on these websites later today.

There will also be a live teleconference link to the investor and analyst meeting on +44(0)20 7806 1961. A replay facility will be available until 12 August 2009 on +44 (0)20 7806 1970. The pass code is 3248685# for the whole presentation including Question & Answer session or 4596675# for Question & Answer session only.

The presentation slides will be available on the group's website, www.aviva.com/investor-relations/presentations/ from 0845 hours (BST).

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. Photographs are available on the Aviva media centre at www.aviva.com/media.

Notes to editors

– Aviva is a leading provider of life and pension products in Europe with substantial positions in other markets around the world, making it the world's fifth largest insurance group based on gross worldwide premiums at 31 December 2008.

– Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £24.4 billion at 30 June 2009 and funds under management of £352 billion at 30 June 2009.

* Based on life and pensions PVNBP, total investment sales, including share of associates' premiums, and general insurance and health net written premiums.

– Income statements and cash flows of foreign entities are translated at average exchange rates while their balance sheets are translated at the closing exchange rates on 30 June 2009.

– The present value of new business premiums (PVNBP) is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the term of the new contracts, and is expressed at the point of sale.

– This preliminary announcement may include oral and written "forward-looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. These forward-looking statements sometimes use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe" or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which may be beyond Aviva's control, including, among other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, the possible effects of inflation or deflation, the timing impact and other uncertainties relating to acquisitions by the Aviva group and relating to other future acquisitions or combinations within relevant industries, the impact of tax and other legislation and regulations in the jurisdictions in which Aviva and its affiliates operate, as well as the other risks and uncertainties set forth in our 2008 Annual Report to Shareholders. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements, and persons receiving this announcement should not place undue reliance on forward-looking statements.

– Aviva undertakes no obligation to update the forward-looking statements made in this announcement or any other forward-looking statements we may make. Forward-looking statements made in this announcement are current only as of the date on which such statements are made.

