



RSA

Half Year Results Presentation

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RSA

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Introduction & Business Update

Stephen Hester, Group Chief Executive

Good morning everyone, can you make a start? Thank you very much. Welcome to our half year earnings presentation. As ever, you've met a number of them mingling outside, but we have a number of my colleagues in addition to Scott here, on the front row Steve Lewis in particular who is running our UK business, welcome as ever to our Chairman Martin Scicluna who is down here also. And clearly we're all available to answer questions afterwards as well.

The format of our presentation is well established, you should have the hard copy in front of you and of course it's all up on the web as well.

I think that what we can say after this half year is frankly much the same as we've said after the last five or so half years, which is to say that the company is in good shape, it's on an outperformance track. The results are reassuringly coming in the areas that we wanted them to come in. There are always one or two blips, but the blips are being overcome by the things that are going better.

So the RSA proposition that we have been crafting we believe to be very much intact. We think that the size and shape and focus of the company is a value creation asset assuming we operate it well.

We are of course a self-help story we're not in markets that are giving us tailwinds, nor are we needing those tailwinds. And the underpinnings of the story are increasingly solid. We're resilient, we believe. well diversified across our geographies and of course we're delivering attractive earnings and dividend increases and we believe that can continue.

In terms of the highlights for the first half, clearly we've put behind us the last elements of the restructuring, in this case the balance sheet elements that you knew earlier in the year around legacy disposal and the capital improvements that was able to fund.

The outperformance which is the key issue for us the outperformance of our continuing operations is in place is continuing and is driven by self-help actions. And again for I've lost count of how many times running we're delivering record for our Group, record underwriting profits and combined ratio in the period; driven by premiums up, loss ratio down and costs down, and that produces 31% earnings per share increase. The dividend is up 32%, return on tangible equity up to 16.6%. And of course these are things that not that many insurance companies are delivering in this market, particularly off a comparison period that was also for us a record.

But that's yesterday as it were, that's the half that's just passed and so the company is entirely focused on continuing record, continuing to drive towards best in class performance levels, and to improve performance therefore in the second half and in the years ahead.



Cantering through and I won't drain every slide because they are as much here for you to read afterwards as they are because there's key things that I need to present. But cantering through what we've been up to before Scott takes you through the numbers. The format of what we're trying to do is unchanged, we're trying to outperform. We believe that the platform that we have in terms of customer franchises, in terms of the disciplined strategy, in terms of now the strong and stable balance sheet, and in terms of the focus on operational delivery - that is the right platform from which to outperform.

And the formula, that we've been following continues to be the same, will be the same for years to come; focusing on improving what we do for customers, improving our underwriting skills and results and reducing our costs. And this slide also reminds you, if you like of the various ambitions and targets that we have, some of which are quantifiable in terms of combined ratio in our key regions in terms of return on tangible equity, though obviously we're already quite near the top of that and so hopefully we can break out of that and in terms of dividend policy.

So going through the three blocks; customer, underwriting, costs in terms of a report card for the first half. We're pleased that the measures that we've been taking to improve what customers experience from us have begun to bite. This is of course the first period in the considerable period when we managed to get the Group back onto volume growth. The headline, obviously you know, is better than that in terms of premium growth. And that's both by retention improving and business improving. Not in every single place, not in dramatic way, we're not even aiming for it to be dramatic, but we think we're demonstrating that we can improve for customers as well as for shareholders, although the latter remains the strongest priority for us.

And in terms of initiatives, there are multiple initiatives they are all over the company and they range into areas like improving our digital capability. If we take Johnson in Canada for example two years ago it was - it had barely a digital, it could barely recognise the name digital. It was very much a telephone business, that's changing really fast and pleasingly.

In Sweden, as a different example we believe we're amongst the market leaders anywhere in the world, in terms of our claims process becoming digital. And we have a Motor accident claim fully digital process now and we believe that's the way of the world for volume claims in the coming years.

And again as we go through our business everywhere there are example where we're improving capabilities we have to keep that going, we have to industrialise it, we have to put it through the whole Group.

In terms of underwriting, which is the second big category of what we're trying to improve, again we're pleased in the period to be showing progress. We can see that in the numbers, the attritional loss ratio is improving yet again. Clearly it's improved versus the first half last year, it's improved by more versus the second half last year, and that is despite some disappointments within that number which we can talk about largely in terms of attritional in UK Household. And again obviously as you know Direct



Line reported the same things before. And so we believe we can continue this and it is an important focus for us.

The reason that those numbers are improving is because we're doing lots of stuff to try and be better underwriters. Some of that stuff is simply about discipline and about focus and about unwillingness to write on a profitable business, but some of it is about improved capabilities. And we've given on each period, and here are a few more, some examples of that.

Of course, indemnity and your understanding on what's happening on your claims cost is a key element of being able to underwrite better. So, in Canada our Guidewire re-platforming of claims is now in operation in anger as it were, it just started in the last month or so.

We're introducing machine learning as a way of making faster and more sophisticated, more granular, some of our risk analysis. And we've got, across the business a number of evidence points where machine learning has given us some pieces of data that allowed us to underwrite better in the first half.

And similarly the pricing agility and new pricing models that we put throughout the Group's Personal Lines model are leading some quite impressive improvements in volume, which you can see in the bottom, examples is given both in Sweden and in Canada, without price sacrifice.

The third element of what we're up to is working on cost. This isn't a one-off programme, this is designed to be a permanent focus and fortunately the world is giving us and indeed everyone else, tools that allow you every single year to have less people and do more with your people through the leverage of technology and simplification. And so, we continue to be ahead of our own programme.

On cost, we continue to see no end to our inability to make costs go lower, in terms of percentage of what we write as business. And you see on this slide, a number of example whether that be lean disciplines which we're putting throughout the company and we've given some Canadian examples here. Whether that be more sophisticated technology voice analytics, trying to understand how we can take less calls, while serving customers better and of course therefore there's a customer and a cost benefit.

Site consolidation - in Scandinavia, we're doing that in every country but Scandinavia is an example here. And indeed robotics, which is one of the many forms of automation that is enabling us to do more with less people.

In terms of how we're doing in our three regional businesses, this is a slightly busy slide and of course Scott will be bringing these points to life a little bit in terms of going over the financial numbers. But I think that we are pleased that in every single one of our regions, the great majority of things that we're set out to do are happening and are being done and the businesses are all getting stronger.



Of course the inevitable volatility of one period to another and events gives volatility in results. And so I thought that I'd just give you, if you like, my take on how we're doing in each of the areas and obviously, happy to answer questions on that later.

So Scandinavia, which remains clearly the most attractive - the most profitable anyway of the markets that more insurers operate in and we operate in. Our task there has been to try to get our results towards best in class levels. All of you know that something like half of our profits come from Scandinavia. You will know the PE ratios that our peer trade on. And we need to make sure that we have a franchise that can justify that same performance in those valuations.

And we're making very good progress there. We've made some better top line progress across Scandinavia than we were able to do last year. It's still not quite as strong as we would like it to be, but the trend is going in the right direction.

In terms of underwriting progress, again we're making good underwriting progress in Scandinavia through all of the disciplines and technology and sophistication introduction that we've made. We did have a bit of slip up in the first half which held us back a bit more than we had planned in Danish attritional loss ratios, but nothing we believe that can't be corrected for next year. And obviously it didn't stop the overall going in the right direction.

Again, costs in Scandinavia is one of the areas where we were the most out of line with the best of our peers. And we're making terrific progress in that regard, in every one of our businesses in Scandinavia, although there is plenty more to go for in the cost line.

And so as a consequence we're making good progress towards our combined ratio, ambitions on what I'll call an underlying basis. We bust through our combined ratio ambition in the first half on a headline basis because we enjoyed unusually positive PYD. As you will know I'm not a great fan of basing our business results on large amounts of PYD because I find them rather unpredictable and therefore - nice, glad we had it, it helped us to offset the Ogden hit in the UK. But as far as I'm concerned some of it is random walk and therefore I'm not counting on that as repeatable Scandinavian performance.

In Canada again, many things going right. The top line has shown really convincing recovery from the re-underwriting and the different measures we're taking the business in recent years, both in terms of absolute top line and of course in terms of volume. So we're pleased with that, we want to see that continuing.

The loss ratio has also been responding very well. The comparisons - on the attritional are of course slightly weird because we had a really unusually warm weather a year ago and this year we're pretty much in line with the averages in terms of frequency of escape of water and of motor accidents and so on, so forth. So when you make that adjustment there is loss ratio progress and we expect that to continue into the second half. And is driven by many, many things that we're doing better in Canada on the underwriting front.



And similarly in costs, Canada is currently the only one of our businesses to have now got into the zone that I've targeted, i.e. better than 20% what we call total controllable costs. And there's plenty more to go for in Canada as well.

So as a consequence all of that, while the Canadian combined ratio is not improved on the first half at a headline level last year, we're relying on much less PYD. I hope we can rely on much less still and we're in within touching distance, despite that, of our combined ratio ambitions. And that suggests they remain realistic as we look forward.

Finally in the UK, again as in all of our other three regions - well the UK and International, so that obviously is also including for us the smaller businesses in Ireland, in the Middle East and the international business we write through European branches and elsewhere.

The UK has also, like our other businesses, shown improved business volumes and that's based both on retention and on new business. The loss ratio has also, in the vast majority of our UK business - the attritional loss ratio been behaving well. We'll come back to butts to this, in second. And we're rolling out all of the same qualitative improvements in the UK as we are in our other businesses. And we've got terrific results in that regard also in Ireland and in the Middle East.

Costs also coming down in the UK, with plenty more to go for.

The combined ratio however and the underwriting profits clearly we're not good in the UK in the first half. The largest amount of that is the Ogden hit that we took. And if you strip out of the Ogden hit, then the UK underwriting results were exactly in line with our plan. And so we're in that sense content with them.

However, when you bury further beneath the surface, we've had the same issue on attritional loss ratios Direct Line reported yesterday in Household. We need to get on top of that, we're taking the right actions, it will probably be 2018 before that earns through properly.

And we also have had quite a bad second quarter in terms of large losses, which has hit the UK. These I think are random walks, obviously you're always nervous about them until you go through some more quarters, where they went in the other direction. And so at the moment, we feel that the real issue in the UK that we need to get a grip of is that market issue of Household attritional, although we need to do everything better, as we think we can.

So when I stand back and look at the progress in our three key blocks, I believe that every single one of them is doing the right things and is seeing identifiable tangible progress that suggest that our combined ratio ambitions are realistic, can be achieved and can be achieved in a repeatable and high quality way and that's what we are working very hard to do.

So simply wrapping up from my part of this section, as I've said we think the decks are appropriately clear for us to focus exclusively on improvements to performance and



operating rhythm. We're very pleased that our outperformance in terms of relative momentum continues and continues driven by the actions we're taking, rather than by freebies that are given to us. That is leading us to record results for us, although not record results in terms of performance levels for best in class. So there is plenty more to go for and we think there are many years ahead where we can improve our business. Scott?

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Financial Review

Scott Egan, Group Chief Financial Officer

Thanks, Stephen. Good morning, everyone. As usual, I'll start with an overview of the numbers before getting into a bit more of the detail. But just to reinforce what Stephen said, we are delighted with the results this morning, which are driven by our continued improvement in underwriting performance and our continuing focus on our self-help levers. We remain on the right path towards our operational and our strategic objectives.

Our first half premiums grew 11% with one point of volume growth continuing the green shoots we saw in the first quarter.

Two points of rate increase and an eight point benefit from FX.

Our underwriting profit, at £222m, was up 28% on the prior year with a record combined ratio of 93.2%, 1.5 points better than a year ago or one point better on a like for like basis.

Operating profits of £360m were up 15% with underlying PBT up 27%. Profit after tax was £206m up from £91m a year ago driven by the increased underwriting profit, lower interest costs and lower non-operating charges.

Our underlying EPS at 23.3p is up 31% with annualised return on tangible equity of 16.6%.

And finally, TNAV was down 3% with first half profit more than offset by mark to market movement and the payment of last year's dividend.

I'll now go through each of the areas in a bit more detail starting with the premium. Overall group net written premiums of £3.4bn were up 11% at reported exchange and up 3% at constant exchange rates.

Volumes were up 1%, with rates up 2%, retention rates are encouraging with overall group retention ticking up slightly to 81% reflecting improvements in all of the regions.

A very brief comment on each of them. In Scandinavia premiums were up 10% with nine points of foreign exchange and two point of rate increase. We saw growth in



Sweden and Norway, whilst premiums were down slightly in Denmark. Overall volumes across the region were down marginally.

In Canada, premiums were up 20% with 15 points of foreign exchange, two points of volume growth and one point of rate increase. There was also a two point benefit from lower reinsurance costs, similar to that report at the first quarter, but unwinding as the year progresses. Growth reflected good performance in the broker channel across both Personal and Commercial lines.

UK and International premiums were up 7% with four points of foreign exchange, one point of volume growth and two points of rate increase. The UK growth at 5% at constant exchange, included four points of volume growth and one point of rate increase.

We saw continued strong growth in our Motor telematics proposition and targeted growth in our Marine and Commercial property portfolios.

Irish premiums were down 8% at constant FX reflecting the ongoing remediation activities, whilst premiums in the Middle East were up 9%.

If I turn now to the underwriting performance. We've continued to see improvements in underwriting performance in the first half. On a like for like basis, excluding disposals, the group combined ratio of 93.2% was one point better than a year ago.

The attritional loss ratio was 0.3 points better at constant exchange and there was improvement in all regions, but particularly in Scandinavia.

We continue to target improvements in the ratio, but at slower rate year-on-year as we've said before.

The expense ratio improved by 0.3 points, driven by lower ratios in Scandinavia and Canada and the UK ratio was impacted by accounting for the Flood Re levy, although total controllable expenses in the UK were down.

And finally volatile items of weather large and prior year profits were slightly better versus the same period last year, but as usual impacted each region differently.

Looking at the headline combined ratios and our key regions, Scandinavia delivered a very strong 81.9%, Canada 94.8% and the UK and International 98% or 95.4% excluding Ogden. At an underlying level all three regions continue to make good progress towards the medium term combined ratio ambitions.

If I turn out to loss ratio, in Scandinavia the loss ratio was nearly six points better than last year, driven by a strong improvement in the attritional loss ratio of 1.4 points and strong positive PYD. The balance of weather in large were broadly neutral versus a year ago.



In Canada, the loss ratio was higher than last year although this is driven by prior year reserve releases which although positive were lower than a year ago. The balance of weather and large losses were two points better due mainly to the impact of the Fort McMurray wildfires in the first half of last year.

The attritional loss ratio was 0.2 points lower than a year ago on an underlying basis and as a reminder of first half 2016 ratio was particularly strong due to benign attritional weather experience.

The UK and International loss ratio was 0.4 points better than last year excluding the impact of Ogden. The attritional loss ratio was slightly improved overall although with work to do in UK Household. Weather and large loss is taken together were 1.6 points higher, driven elevated large losses in UK Commercial. And finally prior year reserve releases were strong providing a 1.9 point benefit, excluding Ogden.

In summary, further good progress on attritional loss ratios although there are some areas to focus on going forward, there are encouraging trends across most of our businesses.

On volatile items as already mentioned the balance of weather large in prior year was slightly better versus a year ago at constant exchange rates. Weather experienced in the round was relatively benign across the Group.

Large loss activity was elevated particularly in the UK and International and in the Canada. There are no specific trends and so large losses should revert to more normal patterns but we will continue to watch it carefully.

Prior year reserve releases were strong even after absorbing the impact of Ogden with the majority of the releases coming from the last three accident years. And you will recall that at 2016 year end, we increased our reserve margin to 5.5% in anticipation of the Ogden ruling. This was released during the first half to partly cover the eventual impact. As a result, our reserve margin has returned a normal level of 5%.

And finally, our Group aggregate reinsurance retentions are approximately one third of way towards the recovery level, due mainly to the benign weather experience.

Coming now to the cost base, we continue to make excellent progress in reducing our cost base. At half year we'd achieved around £330m of gross annualised cost savings, up from the £290m we reported at the 2016 year end. With the Group delivering 8% gross cost reductions versus a year ago. Overall, we remain on track to deliver greater than £400m of cost savings by 2018.

The Group's earned controllable expense ratio continues to track downwards and stood at 22.2% for the first half, representing 1.4 point improvement over a year ago. Productivity improvements are partly driven this. And as you heard earlier, like for like headcount is down 8% over the past year. Our ambition remains to get the controllable cost ratio to below 20% overtime.



Turning now to Investments, as a reminder our strategy remains unchanged to protect capital for both policy holders and shareholders. This means the portfolio dominated by high quality, fixed income with 98% investment grade and 71% rated AA or above. First half Investment income was £171m lower than a year ago due to the Latin America and legacy disposals together with ongoing reinvestment at lower yield. The average reinvestment rate of 1.6% achieved across the first half reflects the mix of assets that has come up for reinvestment during our period.

Based on current forward yields and FX we're expecting investment income of circa £350m for the 2017 full year.

Unrealised bonds, gains reduced by around £140m over the first half, partly due to the realised gains from the legacy disposals and partly from the bond pull to par. And at June 30th, the unrealised gains reserves stood at £487m. We expect this to largely unwind over the next 3.5 years. And at current yields we anticipate pull to par of around £90m in the second half of this year, £150m in 2018 and £110m in 2019.

Moving on to non-operating items, interest costs were £30m, the reduction from a year ago reflects the debt deleveraging options we've taken. Also there were interest cost for the newly issued restricted Tier 1 notes of £3m in the first half, these are reflected in the statement of changes in equity and therefore outside the P&L are required by the accounting rules.

Other non-operating items were largely as per previous guidance and you can see the details of these on the slide and also in your packs.

The tax charge was £57m with an effective tax rate of 21.6% and largely comprises tax on overseas profits. The underlying tax rate in the first half was 22.4% and given the scale of unrecognised UK tax assets this could trend downwards towards 20% over the next few years.

Turning now to capital, our capital position remains strong with our Solvency II coverage ratio of 163%, which sits just above the target range of 130% to 160%. Coverage is up five points since 2016 year end, I won't talk through the rec on the slide in detail, but you can see that the main drivers are organic capital generation and the positive impact of legacy disposal, partly offset by the impact of our debt restructuring, the dividend accrual and the bond pull to par.

And on that point, it's worth reminding you that pull to par impacts on our bond portfolio will remain a drag on our net capital generation for another couple of years. Finally, our core Tier I capital coverage stood at 94% up from 86% at the year end.

Moving onto dividend, we're pleased to declare today an interim dividend of 6.6 pence up 32% from last year. Our dividend policy is unchanged, we target a growing dividend and a base payout ratio to 40% to 50% of earnings, but we will continue to be disciplined around this considering both capital stock and free net capital generation before any move beyond our base payout range.



Finally in summary, we're pleased with the first half results which demonstrate further performance gains and progress on our self-help levers. We are not complacent. We know there is more we can do to improve and we're absolutely determined that we will do that.

The market remains challenging, but the priorities are unchanged. We're confident that the self-help measures in terms of driving excellence in customer service, underwriting improvement and a relentless focus in cost will enable us to drive towards outperformance. We're on the right path, but there is still plenty more to go for.

Thank you very much with that. I'll hand back to Stephen.

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Questions and Answers

Stephen Hester, Group Chief Executive

Terrific. Thank you very much, Scott. Why don't we go straight to Q&A? Over here.

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Arjan van Veen, UBS

Obviously improving your cost ratio is going to be easier if your top line is growing faster, so my question is more around the underlying trends in the top line premium growth. If I look at the first quarter versus the second quarter, Canada looks to be improving if I take out the reinsurance. Scandinavia may be a little bit weaker. You highlighted Denmark just now. And the UK also a bit weaker, but you did call out some potential seasonality in the first quarter. So, can you maybe run us through a little bit how you see that underlying momentum improving?

You called out some improvements in Canada, some initiatives you're doing that is helping the top line growth. And if you give us a bit more colour in terms of - do you feel the underlying momentum's improving, or do you still see that being tough in terms of driving the top line? So maybe give a bit more colour country by country or region by region.

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Stephen Hester, Group Chief Executive

Yeah, thank you for the question. I believe that the underlying momentum is positive in all of our businesses, which is to say that where we're specifically trying to grow volumes and believe that we have the proposition to do it, we're seeing in aggregate gains in both retention and new business. And we can see a pipeline of further customer improvements over the next two or three years that can help solidify that.

The two cautionary notes that I would put against it - or three perhaps. One is, you know, we shouldn't get carried away with short-term volatility. It can mean nothing in terms of one month versus another month, or one quarter versus another quarter. But I



think the two more substantive points is number one, you know, we're not in easy general insurance markets. You know, nowhere are the markets offering high volume growth, and people who are producing high volume growth are taking big risks in terms of the underwriting result biting them one or two years later.

And so, a normal growth rate in these markets is going to be a low growth rate in terms of volume unless you're willing to take some risks, which we're not.

And the second - and related to that - is we remain by far the most focused on our sustainable profitability, and there continue to be some areas that pop up where we're going to take portfolio pruning actions which might mean that the things we're trying to grow are still growing, but there may be some things that don't grow. You know, there's, for example, the UK scheme that we will be exiting in the second half of the year that has been part of the cause of some of our large losses in the second quarter which will hit our UK premiums. But that's deliberate, and in each of our markets there's be some elements of those.

And so we would like modest underlying volume growth, except where we are deliberately doing something different, and that's sort of our general posture on it.

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Arjan van Veen, UBS

Can I follow up just with a silly question on UK Home? I think, if we recall, in the first quarter you were growing that, and obviously the attritional loss ratio you called out is deteriorating. One of your peers yesterday said the same thing, and they're putting through pricing action to address that and to see lower volume. Is that - could we assume you're doing similar things there on UK Home?

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Stephen Hester, Group Chief Executive

Yes and why don't I ask Steve to just have - I mean, obviously you all heard the attritional loss ratio story from DLG yesterday, but Steve can tell you pretty much the same as they told you as well.

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Steve Lewis, Chief Executive, UK & International

I think it's basically the same story. I think this is a market-wide issue. At one level, it's intuitive; it's around modern building techniques. If you look at the issues, and I think it's intuitive for all of us, all houses built today have more bathrooms. There's a tendency to move from fixed units to wet rooms. We see issues in plug and play piping, use of flexi-hosing. And it's not actually just an issue that we're seeing in the UK market; you see it in other territories. So, there was recently an article by the lead insurer in Australia, IAG, on flexi-hosing and the impact on escape of water. And what we're seeing is basically increasing cost of repair. Again, people moving away from



carpets and stone flooring to laminates and wood, embedded piping. And all of that goes to a more costly repair. And we're seeing increase in frequency as well.

And so, like in any rational market - I use the word carefully - rational market, we should see the market move to price. We saw the first green shoots of that in Q2. Now, irrespective of that, to Stephen's point, if the market doesn't move, we will continue to move even if it means we actually trade top line to protect bottom line profitability. And that's fundamentally what we've started to move on.

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Stephen Hester, Group Chief Executive

Thank you, Steve. I think - if I may just make a related point, because, you know, clearly, we had an Ogden hit. We can say there was an attritional household hit. What I hope we will see - and you will appreciate more and more as each year goes by - is the inherent resilience and strength of our business model. You know, 4% of our premiums or 3% of our premiums are UK Motor. Maybe it's 10% - not even 10%, it's less than 10% is UK Household. And so, I hope that we can demonstrate that we're in a position where we can take blips and yet still produce good overall performance, very strong overall performance. And that's obviously what we believe will increasingly be recognised as high quality resilient cash flows as we go into the future.

Let's see, over here, down here.

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Dhruv Gahlaut ,HSBC

Three questions. Firstly, given capital is looking in a comfortable position still, earnings are moving in the right direction, as in what stops the group to at least increase the pay-out ratio to the top end of the base ranges, and even if you don't go above that?

Secondly, just sticking with the UK Home, is it possible to know what the claim inflation is running at on that book versus where the price inflation is - and you mentioned green shoots? How much were you able to put through in Q2 there?

Thirdly, in terms of the Scandi PYD as in fairly punchy number, as in could you give some comment in terms of what's driving that PYD at this point?

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Stephen Hester, Group Chief Executive

Steve, do you just want to quickly deal with the inflationary point?

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Steve Lewis, Chief Executive, UK & International

Yes, sure. So, I think the main driver is escape of water; it's the biggest peril within Household. Actually, it's been inflating broadly 12-14% over the last two to three years.



I think the thing that's changed is that actually frequency of loss has been on somewhat of a decline probably through to the end of 2015, as an offset to the actual inflationary cost of repair. What we see in '16 is actually that stepped-up cost of repair probably up towards about 15-16%. But actually, frequency of loss is level to increased, and so you've no longer got an offset, and that requires a level of now pricing action.

We've moved to price in the first quarter. Clearly it depends on portfolios and time lag relative to price to market. We've still more price to take to correct the issues that we're seeing. But it's not just a pricing issue.

We're also taking indemnity actions to adjust our actual model, to also address the cost of inflation that we're seeing as well, so it's a two-fold approach in the way we're addressing this issue.

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Dhruv Gahlaut ,HSBC

So just to be clear, as in the price is still below wherever you would want it to be?

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Steve Lewis, Chief Executive, UK & International

Price is below where we want it to be. We're moving there; we have a trajectory and a planned set of pricing actions that we're already locking in that will address the issues as we look forward. Okay?

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Stephen Hester, Group Chief Executive

On your last question on Scandi PYD, there was no lumpy area; it was spread across quite a range of portfolios. I never regard these things as automatically repeatable, but there's nothing weird or strange or one big area that's produced it. It wasn't a write-back of PA where we took a big hit on the previous, you know, two years earlier.

In terms of the dividend point, I agree it's disgraceful to only increase dividends 32%. But what I think we should do is just repeat the position, because the position really hasn't changed at all. And I'll spend a little time on it just to make sure that people recognise that it is a repetition of what we said before.

We completely recognise that an important part, especially of insurance company investment, is income. And that's the nature of what insurance companies hopefully are over time, which is Steady Eddies. We sadly have not historically been a Steady Eddy and we need to turn ourselves into that eventually. And a) we recognise that, and b) we believe that our model is and will produce very high quality repeatable cash flows. And we believe that our free cash flow, before we do things, whether those be acquisition things or return to shareholders - our free cash flow, we still think in the medium term is beginning with a 7 as a percent of earnings per sale, 70, 70+%.



And so therefore that gives us a pot of money from which to consider shareholder distributions or other uses. But as you know from our strategy, the other uses are likely to be relatively infrequent occurrences, if at all.

And so, none of that has changed in terms of our belief that we will produce strong cash flows and that a good amount of those cash flows will be used for shareholders.

The but on the other side of it is that we - again, as I've said many times before - are absolutely determined to re-establish this company's reputation or maybe to establish it. Maybe it's not even a re-establish. To establish this company's reputation for high quality, repeatable profitability and cash flows.

And we're absolutely determined that that should lead - and not follow - dividends. And we believe that over time we will earn the respect and extra value from our investors by demonstrating discipline, by demonstrating that we're not going to be bullied by the market, which currently overvalues dividends and undervalues quality of earnings. And, as a consequence of that, we're not going to be bullied to go to fast too early on dividends, and we accept that there may be some people who are disappointed by that in a market that cares less about repeatable earnings and more about dividends.

And so, our policy remains - we don't want to have a regular pay-out more than 40-50%; the natural volatility of the 40-50% is really because you can have bad weather, good weather, you might be aiming for something and it's off, so it's sort of a little trivial to us where it sits in there. And certainly, at the half year we're not going to make judgements about what the second half is when we can have December weather and so on and so forth. So, we think more carefully about it the year end than we do in the first half, where we try and have a conservative position subject to second half volatility.

The gap between our long-term belief in our free cash flows, or medium-term belief in our free cash flows and 40-50% I've said many, many times requires two things to be true. One for us to believe we have the right stock of capital or have a surplus above the right stock of capital. And the second to generating free cash flow. We also have said many, many times that we didn't expect to generate free cash flow in 2017 - or at least the free cash flow we were generating we were going to use in part to reduce debt, which I believe is good in terms of capital resilience, capital quality and earnings; in part for our last year of restructuring charges which are producing - or helping us to produce - the gains in the P&L that you've seen, and in part for the pull to par on our bond portfolio.

Now two of those three drags go away in 2018, so if everything else is equal, you'd expect the only drag on free cash flow generation to be pull to par next year, so you'd expect next year to be the first year where we are in a stronger free cash flow generation position, which is why I've always said I think first year is the first time that we would logically consider whether and to what extent there is room for additional pay-outs. And so that position is completely unchanged. We're absolutely confident that this will be a very strong dividend paying stock, and we're absolutely defiant that it's not going to be before we're ready and before the track record is rock solid in terms of cash flow generation.



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Greig Paterson, KBW

Three questions. One is on this pull to par effect on free cash flow. I mean, solvency to capital generation doesn't have a pull to par in it. It's a nonsense that there's some kind of discontinuous event somewhere, and I do appreciate that I, for instance, have got a bias in terms of high investment income and you have to net it off. But if you're looking at the underlying capital generation, sort of '17, '18, '19, it should not have this discontinuous event. Yet you keep referring to the pull to par effect. So, I wonder if you could just square that circle for me?

Second point is - you mentioned that any company that's growing very strongly in this market must be taking on risks. It's my understanding that you're telematics sales have actually taken off dramatically. I was wondering why that would break your rule that you mentioned about growing but not taking on more risk.

And the third thing is - in terms of the attritional loss ratio - and that increased I think it was .3 percentage points year on year; it was below my expectations. I was wondering, in terms of for the full year and 2018 whether we should expect a higher percentage point increase - if there was some kind of funny in the attritional loss ratios in the denominator. And specifically, I'm interested in this indirect weather, i.e. your medium and small weather and large claims that are in the attritional loss ratio. I'm wondering if you just can talk to 18, 17 just so we got to understand are we on trend or we're not on trend.

And I'll throw in a sticky fourth question - sorry.

The large losses of 11.4% versus your 5-year average of 8.3 - I was wondering - have you guys got any concern that maybe something's gone wrong with your underwriting or maybe your reinsurance programme needs to be tightened up? Or is this just a completely unbelievable - ?

.....

Stephen Hester, Group Chief Executive

Now just stop there, 'cos I'm really forgetting. I'm going to ask Scott to do the attritionals in a second. Let me answer - let me take two together, which is a like - proper suspicion of our underwriting results, telematics and large losses.

So, I think that - if we didn't know it already - what Ireland should have taught us is when something goes well, you look at it with as much suspicion as when something is going badly. And so - you're right, although our overall UK Motor top line is not particularly dramatic relative to other people, it is growing much better in our telematics proposition. And so, we are very suspicious of it - not suspicious because we've got any reasons, but we're all over it - we're studying it really, really hard. The nature of the telematics product obviously gives you way more information about the quality of your underwriting immediately, which normal motor product doesn't.



So, we believe that we're not making major mistakes. It's a peanut from the company, so even if we were making mistakes, it's not going to matter for the company, but it matters to us. And so, for the moment it feels like we've genuinely got a technological advance that you could say - what's unique about telematics? But we do see, to have some product advantages in the market. And we think that we have enough data by the nature of the product to suggest that we're not doing anything too foolish, although we're watching it really carefully and thinking about it really carefully.

The same, in a different context, for large losses. We worry - we should never get into a position where we only worry about attritional loss ratios, because that could lead you to write business with low attritional loss ratios and high large loss propensity, in which case, you know, you're still messed up and you can't dismiss it as pure volatility. So, we worry a lot about our volatile items as well as about our attritional loss ratios.

So, I think all we can say is that we have scrutinised in great detail the large loss areas in the first half, and mostly they occurred in the second quarter. And we can't yet - and we may never - hopefully we will never - find any pattern. The great majority of the loss is business that's been with us for more than five years, and therefore it's not business we've just put onto the books. And it's dispersed across different portfolios.

So, at the moment it seems like random warp volatility, just as weather went the other way around. But of course, you know, each quarter will prove or disprove that theory as we go forward.

Scott, do you want to take the attritional?

.....

Scott Egan, Group Chief Financial Officer

Yes. So, the attritional loss ratio - and we've tried to be very clear - it was 0.3% down on constant FX. And so obviously, if you go back to the report, if there's an FX effect, which we think is misleading and therefore that's why we call it a constant FX.

Your second point on attritionals was around indirect weather where we mentioned in Canada, which we flagged pretty well last year, that again, in the randomness of the world, there was higher ambient temperatures in the round in Canada last year, and so we saw less what I would call normal claims for things like burst pipes, etc. than we would normally see. We tried to be very explicit and transparent about that this year, and all we're doing is correcting it for this year for what would be a more normal year for Canadian weather in the round.

And so, again, we're just trying to be transparent as to what is underlying performance versus what is caused by distortions, whether it be in FX or in weather patterns.

.....

Greig Paterson, KBW



18 17 is normal?

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Scott Egan, Group Chief Financial Officer

Yeah - in the round. Obviously, look, it differs by provinces, so you know, it's a big country. But in the round, absolutely, we would term it a normal weather.

.....

Stephen Hester, Group Chief Executive

Your fourth point was about pull to par and Solvency II, and I run the risk of you being a greater expert on Solvency II than me. But I'll give you my understanding of it. I believe we are showing it correctly and describing it correctly, and it is simply the case that we could put it a different way - not all of our earnings generate Solvency II capital because an element of our earnings - an element of our investment earnings - is offset by the reduction in the investment portfolio, because Solvency II marks your investment portfolio to market just as it marks your liability to portfolio to market.

Our liability portfolio, at the long end, is mark to market in accounting terms, but not at the short end. And so those differences mean that the extent to which our investment income is offset by pull to par does create a drag on capital generation - or use of capital, if you want to put it another way round.

But if we get in any more detail, you'll run out of my space, and so I'm certainly happy, after the event, to put our experts with you and take you through the Solvency II.

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Greig Paterson, KBW

Just the one point. I appreciate that, but what I'm trying to say is this. If you strip those two events out, there's no discontinuity from '17 to '18, right? When you adjust for those two factors and you're looking at the underlying capital generation. And the commentary sort of implies that there is some kind of discontinuity.

And so I don't see -

.....

Stephen Hester, Group Chief Executive

I'm sorry. I don't mean to say there is a discontinuity. What I thought I said on uses of capital are that this year we have an unusual use of capital in terms of our debt retirement, although we had a legacy offset to that in terms of generation of capital. We have the last year of restructuring charges. And neither of those two recur.

We also have this year a pull to par on bonds and that does recur. So, I'm saying - of the three uses of capital beyond dividend this year, two of the three don't recur next year. That was the point I was making. But the pull to par is much the same.



Now, of course, it doesn't take much volatility in the interest rates for that to change a lot. So, if UK interest rates were to go up - and obviously the UK is the only major market where interest rates have not gone up year to date, so if interest rates do go up in the UK, that pull to par disappears rather quickly and you generate more capital. So, we'll have to see how that happens. It also would help our pension position clearly if that happens. So, we'll have - our capital generation is somewhat leveraged to UK interest rates.

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Andy Hughes, Macquarie Group

Three questions. The first one is about the underlying earnings in Canada, the attritional loss ratio improvements. So, in Q1 I think you said there was a 4% improvement in net premium at reduced reinsurance free insurance costs, which when annualised, it kind of should be 1% benefit to the attritional loss ratio in Canada, obviously. But the attritional loss ratio in Canada didn't improve by anywhere near that amount. So, does that mean that, excluding the reduced reinsurance costs, the attritional loss ratio in Canada deteriorated? And does that flow through into the second half of the year?

And on the UK, the loss for the large scheme, if it's going to make a material difference to the large losses, it's got to be kind of a relatively big scheme, I imagine in terms of premium income. Is this something - could you give us a rough idea of how big that scheme is that you're planning on winding ...

.....

Stephen Hester, Group Chief Executive

Steve, £20m? £30m of premium income. So, in the big scheme of things, it's rounding error.

.....

Andy Hughes, Macquarie Group

Okay. And so in to the Household attritional loss ratio, is this something you're guiding to continue into H2? It very much sounds like it is a continuation into H2. And how long before that returns, with your pricing action, to a normalised level? Thank you.

Stephen Hester, Group Chief Executive

On Canada, the main reason, apart from just oscillation, why there was some - the only area where there's some pressure on the attritional loss ratio was in Motor - Canada Motor, and that's largely because Johnson, which was our biggest Motor writing, had to reduce its prices in Ontario last year, and that's coming through the earned this year now. As it happens, the Ontario cycle appears to have switched, and we're expecting to increase our prices in Ontario in the second half of this year. But aside from that, that's the only, if you like, weird thing beyond attritionals that going on in the attritionals. So, we are expecting the second half attritionals in Canada to be better than the first half attritionals.



On the UK, escape of water, we do expect that to still hurt our attritionals in the second half, and to hurt our attritionals by rather less next year, as obviously our pricing increases works through from written into earned. Although it remains the case, as we did in the first half this year, that we still believe we can make progress notwithstanding that headwind.

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Andrew Crean, Autonomous

Two questions, if I can. Firstly, how fast do you think you'll get your controlled cost ratio below 20% from 22.2%, because that looks to be one of the key drivers of further profit growth?

And secondly, can you talk us through what brings the earnings - I think you talked about free cash flow being 70% plus of earnings. Could you tell us what the delta is on that, and whether that will change?

.....

Stephen Hester, Group Chief Executive

Sorry, by delta you mean the different between 70 and 100?

.....

Andrew Crean, Autonomous

Yes. What are the key issues there? And is that likely to change over time?

.....

Stephen Hester, Group Chief Executive

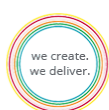
On the cost, I think my genuine answer is I don't know how quickly we will get under 20%, and that's the subject of some vigorous arm wrestling that goes on every year between me and some of my colleagues who are sitting on the front bench and elsewhere.

[Laughter]

If all went swimmingly, then on a written basis we might be there 2019 and on an earned basis 2020. If all went less swimmingly, it would be '21 or '22, I think, taking the company as a whole. But none of that is a forecast, that's a sort of blue sky prediction.

In terms of your second question, I've completely forgotten what it was, so perhaps you could just remind me.

Oh, the 70 to 100, yeah. Again, the sorts of things that it could be, because this is not - I don't think it's a definitive thing - if our pension scheme were in more surplus than it is



now, then pension contributions would cost us capital. They don't today, because until your scheme is in surplus equal to the weighting in your SCR, the improvement in surplus goes through to your capital. But my - I'm sort of cautionary thinking cash contributions to pension might at some point cost us capital, even though as it happens it isn't this year. At some point, it may be that our SCR goes up if we grow our business, although the diversification benefits we get from growth and the weight of the pension scheme and the calculation isn't making that a very sensitive thing. If we prove to be successful in spending money in technology, we might spend a little bit more on capex and depreciation in some years as we renew the estate. So, there's sort of - I'll call some dribs and drabs that I was kind of rounding to give you the figure I was giving you.

Over here, at the front.

.....

Oliver Steel, Deutsche Bank

So, first of all the UK expense ratio lifted, year on year, which I thought was a bit surprising, so perhaps you can just take us through what caused that.

Secondly, the investment income guidance you've given is - I mean, implies a considerably lower investment income result in the second half of the year. Could you explain that? And also, would you like to extend your guidance out to 2018 and '19 as well?

And then thirdly, just to check, at the first quarter you talked about the attritional loss ratio improving, and I think you said in every territory, but I can't quite remember the language. Now I think in retrospect you clearly adjusted for the Canadian underlying trend and probably were merging the UK and international together, but just to confirm, was there any difference in trend in that attritional loss ratio between the first and second quarters?

.....

Stephen Hester, Group Chief Executive

I'll ask Scott to take the first two, but just on your last one, the main impact of escape of water showed through in Q2. So that was the thing that got worse in Q2. All of our other business lines were fine in Q2, so that was the only item, and that wasn't of itself dramatic. So, you're right, we were taking account of the attritionals.

Scott.

.....

Scott Egan, Group Chief Financial Officer

Yes, the two other things, Oliver, I mentioned - if you compare the UK expense ratio this half to last half, we have the accounting for flood re, so that really is the majority of the difference, yeah.



No, the impact of it - the net impact of it this year versus last year is because it ...

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Stephen Hester, Group Chief Executive

... comes into the earnings ...

.....

Scott Egan, Group Chief Financial Officer

... across our costs.

I think your second point was around investment income in H2. Two big things that are affecting that - obviously the debt buyback action, etc. that we took effectively means we've got less, you know, less float in the second half year. And obviously the final sort of legacy execution happened a few months into the year, and so for those two reasons we've got less investment float and therefore that's purely the only thing that's happening apart from the normal reinvestment rate stuff which over time will go down. 2018 and 2019 we haven't given the explicit guidance. We will do it again at full year, but it would not be materially different from the guidance that we've previously given at the end of 2016.

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Ed Morris, JPMorgan

Three quick questions, please. First on Scandinavia, I'm interested in the trade-off between premium growth and profitability, cos on the one hand it seems that the company's sort of moving towards targeting best in class; on the other hand, profitability there is very good and it would seem that you might be able to add some premium which, in absolute terms, might still grow profit. So just how you think about that, please.

Two more questions. UK Home. As the large affinity contract starts next year, can you just remind us what the impact of that is on expense ratio and combined ratio, and whether you think that should improve year on year as that comes in?

And lastly, Brexit preparations. Is there anything you still feel you need to do? One of your Lloyd's peers has talked about some capital dis-synergies from having to establish an entity. Is that a consideration for RSA?

.....

Stephen Hester, Group Chief Executive

On your last one, I think it's a rounding error, so it shouldn't - you know, touch wood, and so on.



On Scandi, if you look at our - let's look at Trygg as the cleanest of the quoted comparators. Everyone's got a slightly different business mix. I think you'll see their premiums haven't grown at all in four or five years and the - one of the things that is clear in the Scandinavian market is that the insurance companies are much more disciplined in their behaviour and their trade-off of volume competition versus profitability then in some other markets. And the converse is that if you were to suddenly want to start taking someone else's market share, you'd probably end up starting a price war that everyone loses from. And so by and large, that hasn't happened in Scandinavia as much as it has happened in some other countries.

And certainly, from our standpoint, while we would like to nudge our volumes up, we want to do that through better capability delivery, not through lower pricing. And we're prepared to be patient in that trade-off because it takes time for us to improve our capabilities; it takes time for customers to recognise that we've improved our capabilities and to nibble away at the volume equation. And we think that if we went on a mad dash for growth in Scandinavia, all we'd do is hurt everyone's margins. And we don't see the benefit of doing that.

And you had a third question, and I can't remember. Scott, do you want to have a crack at that?

.....

Scott Egan, Group Chief Financial Officer

Yes, so, I think we still expect it to come on towards the end of the year - that's our best view as we sit here now. In terms of the profitability, which I think was really your question, I think we'd reiterate what we said before is that we will price it to achieve the sort of returns in capital that we would expect to achieve from any household business or in fact any other part of our business that we would try to sell, you know, no different ...

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Ed Morris, JPMorgan

On a year on year basis?

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Scott Egan, Group Chief Financial Officer

The premium, Steve, would be ?

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Steve Lewis, Chief Executive, UK & International

The premiums are worth about £180m, £190m, so just putting that on top of a net earned premium basis, about £2.7bn, so it increases by about a couple of hundred million and then the ratios ...



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Stephen Hester, Group Chief Executive

But that won't all be earned next year.

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Steve Lewis, Chief Executive, UK & International

No, absolutely so in 2018 you get half of that flowing through next year and then £200m additional premium.

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Stephen Hester, Group Chief Executive

But other things being equal, clearly it does help the expense ratio.

.....

Steve Lewis, Chief Executive, UK & International

Correct.

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Thomas Seidl, Bernstein

My first question on price in the UK, we talked a lot about Home. How do you think about the rate change you achieved in the other segments, to what extent do they cover claims inflation and what does that mean for the outlook on the attritional for those other segment?

Secondly, although on UK Home how competitive do you think you're on price comparison because there is an increasing amount of business now sold through price comparison?

And third, maybe you can give us an update on the pension contributions, you de-risked the pension assets, interest rates are lot lower than three years ago, so what is your outlook on pension contribution. Is it going to increase from 65, or is it going to be stable or is it going to go down?

.....

Stephen Hester, Group Chief Executive

I'll ask Steve in a second to talk about UK pricing and inflation and so on.

On pensions, I think the short answer is we don't know because next year - we don't have a new evaluation until next year and then - it's probably in reality 2019 before we have a serious outcome with the pension trustees. What I would say is going against us is the point you've made at the moment gilt yields lower than they were at the last triennial, which would imply more cash cost. On the other hand, who knows where they



will be in years' time - because that moved up obviously quite a lot in from the low point in the quarter.

Going for us is probably longevity trends and you've seen a few other companies commenting on this producing a bit of tailwind. And so, where those two balance out, come negotiation 2019, I don't know. If you were asking me to guess, I would think we might increase a little bit our cash contributions, but it's really far too premature to make that judgment.

Steve, do you want to have a crack at the other one?

.....

Steve Lewis, Chief Executive, UK & International

So I think we've covered household, hopefully to death. So in terms of the other lines, if we look at Motor I mean it's just an issue in the context by Personal Lines and Commercial Lines, obviously the Ogden change is a big influencing factor. To carry Ogden as it is today, that's ahead of any outcome on consultation tomorrow, but in terms of what's required today we need about five points on price across both Commercial and Personal Lines in order to cover Ogden.

As we stand today, we're carrying about 12 points on price, both in terms of Personal Lines and Commercial Lines. That's both to cover inflation because we are seeing high parts of inflation clearly in terms of Motor, which is reasonably significant. Where we are at this moment in time though is we're carrying enough price both in terms of covering Ogden and parts inflation and still improving the attritional performance of our Motor books both in Commercial and also in Personal. And you see that posted in our combined ratio results.

The other line obviously Personal Lines is Pet, it is a medical line, it does have a level of inflation to it, that's running at around between 7 to 9% depending the on portfolio. And again we're carrying that sort of price and again staying disciplined and actually, our PIF count is slightly down as we carry the right sort of price to address those sorts of inflationary pressures.

And across the rest of the portfolio it's still relatively modest, but one of the things we're actually doing is taking a forward view on just how is the likes of Brexit inflation and other parts of inflation impacting the UK and clearly taking the view on that. Where we stand today, we're carrying sufficient price to cover the inflationary trends that we're seeing.

.....

Thomas Seidl, Bernstein

Any reason why the Ogden impact is lower than others report in the market in 5%, others report, 6%, 7%, sometimes 8%?



Steve Lewis, Chief Executive, UK & International

So 5% is relative to our book, as you know, we're not as adversely impacted as others. It also depends on what retentions you've got, what reinsurance cost that you believe you have. And as you look across the market some people are very, very low retentions and rely heavily on reinsurance, others take much higher retention, we're sort of mid-range in that respect. And that's why the pricing aspect is different between different competitors.

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Thomas Seidl, Bernstein

So the 5% is net of reinsurance?

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Steve Lewis, Chief Executive, UK & International

Yes, it is actually our net cost, obviously it's different on liability, it's more like 6 to 7%, but just to give you a flavour.

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Andy Hughes, Macquarie Group

I just want to ask about your 50p, 55p, earnings forecast and how you feel about that in the context results?

I was quite interested because in the kind of dragging you back to the Annual Report, I think in there it sort of makes comment about the LTIP and says the LTIP targets are based on the internal operational targets of the business. And there obviously much lower ROTE than the 50p, 55p. So maybe you could square the difference between the two in terms of where the internal operational target are versus 50p, 55p, just to be clear about, whether 50p, 55p is embedding something on top of the operational targets? Thank you.

.....

Stephen Hester, Group Chief Executive

We have a range of targets that we discuss both internally and with the Board representing different degrees of stretch. The most conservative end of the range is what we plan capital off, the most aggressive end of the range is what we try to get the management teams to aim for, and with the Board we discuss the full range and it's not quite a scientific as I'm making it sound - but try to probability weight outcomes. And so that's how we do our internal planning and that's what reflected.

And in the same way, if we think about how people are paid you could be paid an on target amount if you did a decent job, you could be paid more than an on target amount if you're thought to be doing a good job, or better than good job, and if you do a disappointing job, clearly goes through the other end of the range.



So I think that most people would say that the job we've done so far has been better than an okay job, the share price would certainly suggest that. And so consequently I think it wasn't unreasonable that we got better than on target compensation last year. It's our job to try and make that continue and that's what we will try to do. And so, that's the answer to the compensation.

In terms of outlook, you know clearly we don't give profit forecasts and we shouldn't give profit forecast. But I think it's fair to say that it remains our ambition for the second half to be better than the first half and it remains our ambition for next year to be showing the kinds of improvements that we've always hoped for next year. And if our ambition can get better still, it will get better still. And so I think that there is a very good reason for our ambition to be set somewhere in the 50s for next year and we'll see, what actually happens. But - obviously we've got volatility that can go up and down and can help us and harm us. I think more importantly I literally - I can see no end in sight to the ways we can improve this business, no end in sight.

The caveat to that is number one - we're in a market which is going to be very demanding of everyone in terms of competition and therefore the potential for giving some of your improvements away to the marketplace. Although at the moment we're improving faster relative to others, so hopefully we can keep that going.

And secondly, you know we're humans and we will mess up sometimes, we hope that we'll mess up less often than we create value, but that's a question of how the track record extends and every six months we get wiser about our own track record and you get wiser out it too.

Any more? Well again, thank you very much for joining us. You know where to find us if you have follow ups. And we very much hope to be standing up again in six months' time with a year of gains. Thank you.

.....

END

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