



**2013 Preliminary Results  
26 February 2014**



# Agenda and presenters

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Key messages	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	Paul Geddes - CEO
Summary and outlook	Paul Geddes - CEO
Questions and answers	

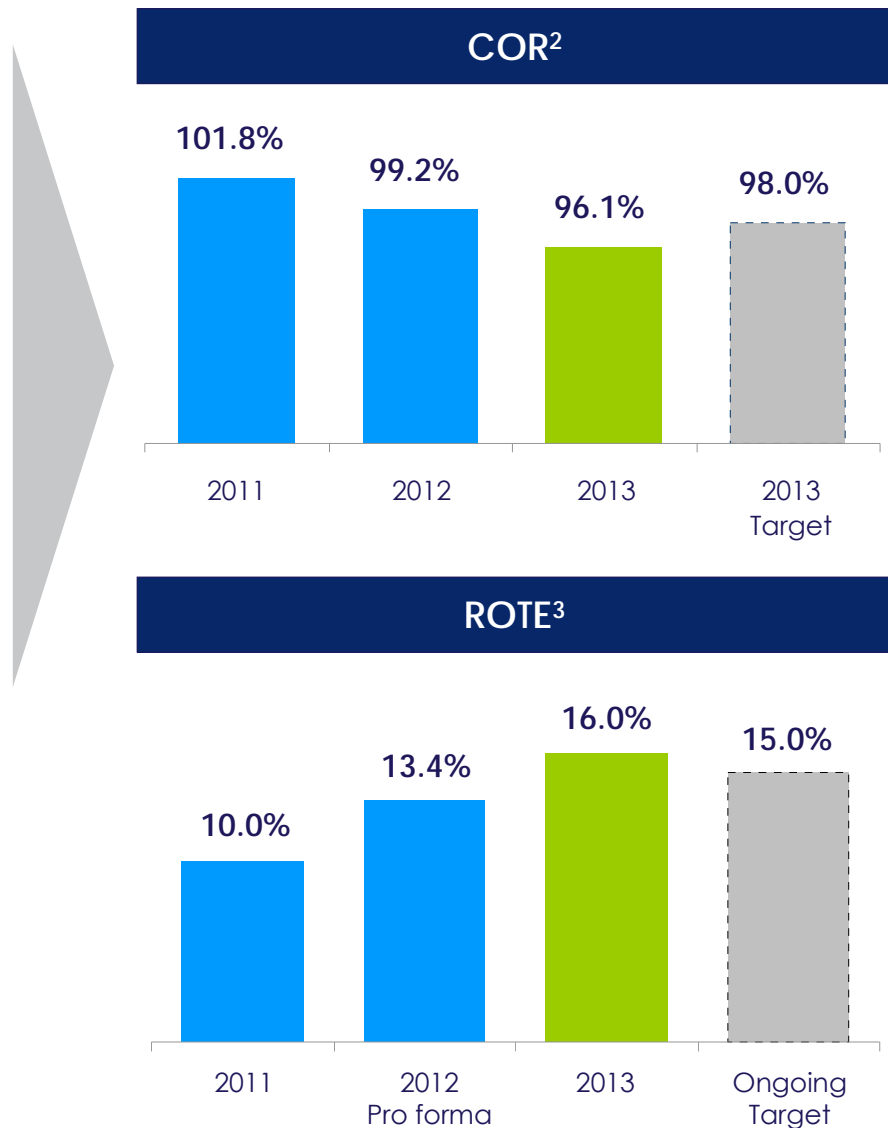
# Agenda and presenters

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# Key messages

- 1 Operating profit<sup>1</sup> of £526.5m, up 14.2%; profit before tax of £423.9m, up 70.2%
- 2 5% growth in final dividend plus a second special dividend of 4.0p – total dividends of 20.6p for 2013
- 3 Performance reflects focus on value over volume together with benefits from our transformation plan
- 4 Markets remain highly competitive; guidance of 95% - 97% COR for 2014 (normalising for weather)
- 5 Preliminary estimate of YTD Home flood and storm claims of £70-90m and approx. £20m for Commercial<sup>4</sup>



1 Operating profit from Ongoing operations  
 2 Combined operating ratio from Ongoing operations  
 3 RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%).  
 4 To 22 February 2014

# Agenda and presenters

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# Financial highlights

## Observations

- 1 GWP of £3,826.6m down 4.1% versus 2012
- 2 14.2% increase in operating profit from ongoing operations
- 3 COR of 96.1%, a 3.1ppt improvement
  - £110m improvement in underwriting profit
- 4 RoTE of 16.0%, a 2.6ppt improvement
- 5 Final dividend of 8.4 pence per share, reflecting 5% growth and a further special dividend of 4.0 pence per share, taking total dividends to 20.6 pence per share

(£m unless stated)	4Q 13	4Q 12	FY 13	FY 12
<b>Ongoing operations</b>				
Gross written premium <b>1</b>	873.0	905.4	3,826.6	3,990.6
Underwriting profit/(loss)	15.8	19.8	138.2	28.2
Instalment and other income	42.7	51.5	180.2	198.3
Investment return	50.2	42.0	208.1	234.7
<b>Operating profit – Ongoing operations <b>2</b></b>	<b>108.7</b>	<b>113.3</b>	<b>526.5</b>	<b>461.2</b>
Profit before tax	90.9	60.2	423.9	249.1
Net income / profit after tax	69.7	42.5	312.8	184.3
<i>Of which Ongoing operations<sup>1</sup></i>	<i>76.3</i>	<i>79.2</i>	<i>375.2</i>	<i>326.5</i>
Combined operating ratio <b>3</b>	98.2%	97.9%	96.1%	99.2%
Investment return <sup>2</sup>	-	-	2.5%	2.8%
RoTE <sup>3</sup> <b>4</b>	-	-	16.0%	13.4%
Adjusted EPS <sup>4</sup> – diluted	-	-	25.0p	21.8p
Regular dividends per share <b>5</b>	-	-	12.6p	12.0p
Special dividends per share	-	-	8.0p	-

1 Profit from Ongoing operation less finance costs and tax (UK standard tax rate 23.25%; 2012 24.5%)

2 Includes realised gains and losses and unrealised gains and losses to the income statement

3 RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%; 2012 24.5%). Pro-forma RoTE assumes that the capital actions taken by the Group prior to IPO (£1bn dividend and £500m debt issue occurred on 1 January 2012)

4 Adjusted EPS calculated using profit from Ongoing operations after tax (see 1)

# Stable current year underwriting performance

## Loss ratio analysis - ongoing operations

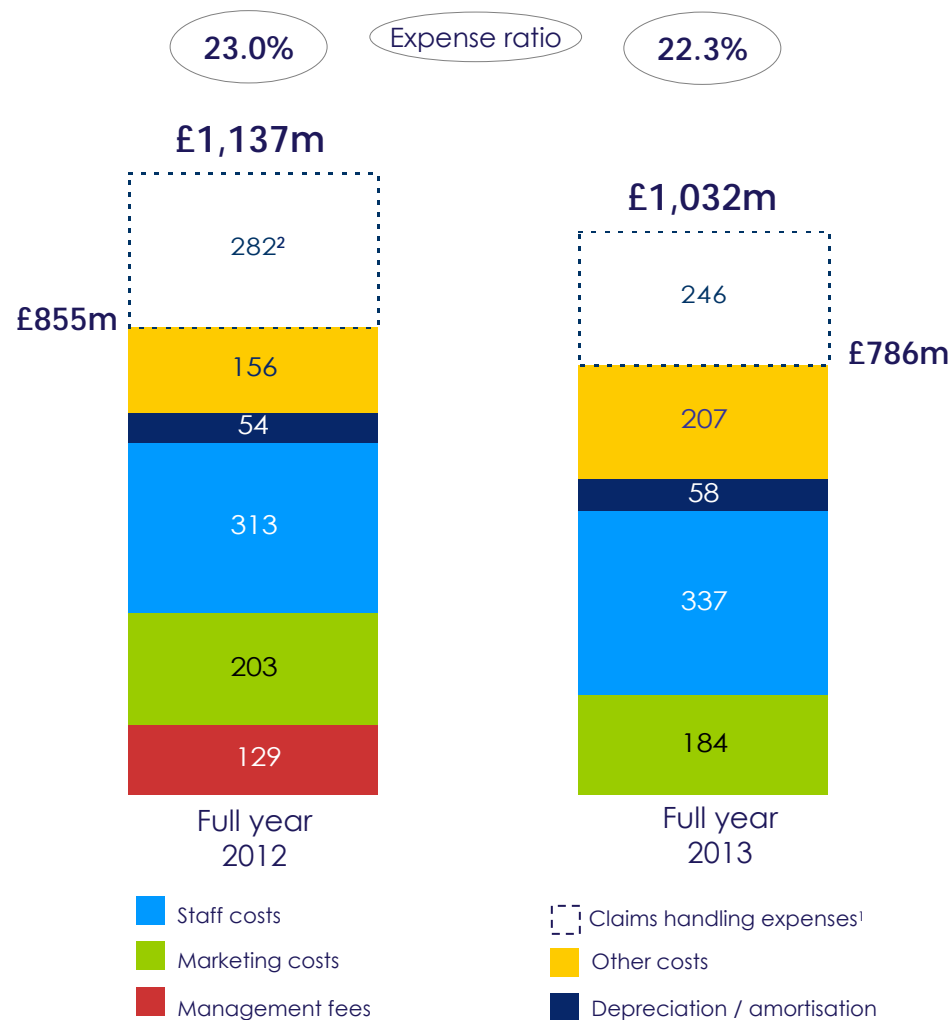


# Improving expense ratio

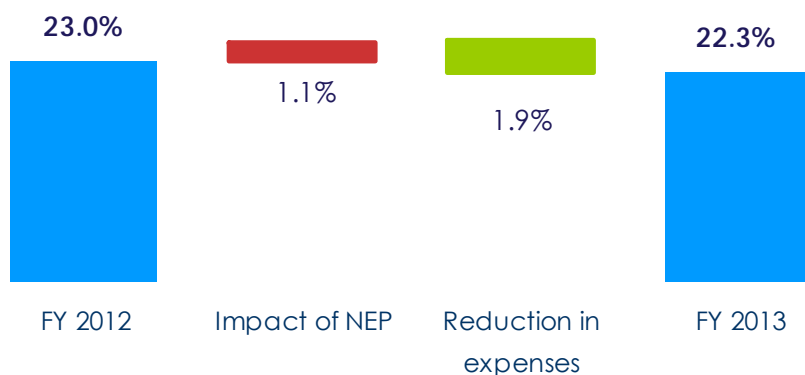
## Observations

- Expense ratio down 0.7ppts to 22.3%
- Operating expenses down 9.2% or £105m to £1,032m
- Q4 2013 costs of £248m
- Good progress towards total cost target of approximately £1,000m in 2014

## Expense analysis - ongoing operations



## Expense ratio movement - ongoing operations



<sup>1</sup>

Included in loss ratio

<sup>2</sup>

Reduction in 2012 claims handling costs of c. £8m compared with the figure reported due to a reallocation between Ongoing and Run-off



# Motor highlights

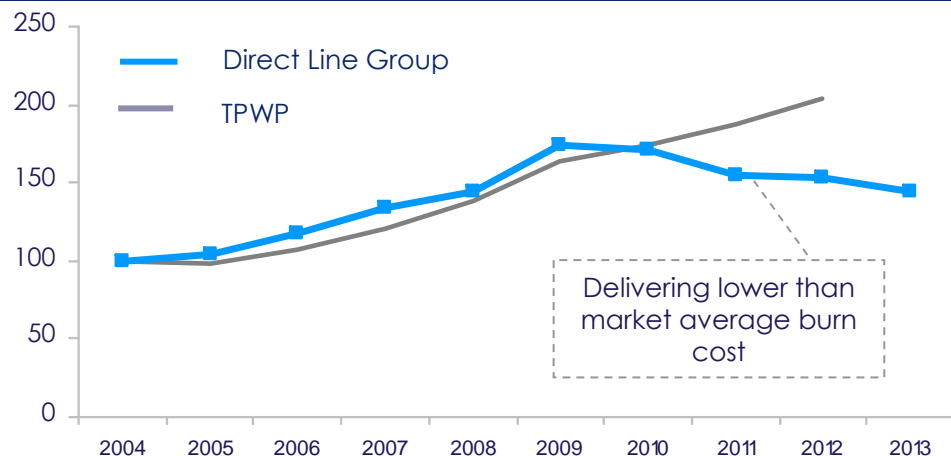
Results		Observations		
(£m unless stated)		FY 2013	FY 2012	
In-force policies (000s) <sup>1</sup>	1	3,762	4,050	1 IFPs down 7.1% since December 2012, or 5.4% adjusting for van reclassification; broadly stable since Q2 2013
Gross written premium <sup>1</sup>	2	1,421.1	1,623.5	2 GWP down 12.5% versus 2012 or 10.8% adjusting for van reclassification
Net earned premium		1,444.8	1,629.2	
Loss ratio – current year		85.3%	85.4%	
Loss ratio – prior years		(20.2%)	(10.8%)	
Loss ratio	3	65.1%	74.6%	3 9.5ppt improvement in loss ratio
Commission ratio		2.5%	2.0%	
Expense ratio		25.6%	25.0%	
<b>Combined operating ratio</b>		<b>93.2%</b>	<b>101.6%</b>	4 £124.4m improvement in underwriting profit <ul style="list-style-type: none"> <li>8.4ppt improvement in combined operating ratio</li> </ul>
Underwriting profit / (loss)	4	98.1	(26.3)	
<i>Of which prior year releases</i>		<i>291.9</i>	<i>174.3</i>	
Instalment and other income <sup>2</sup>	5	126.8	148.1	5 Instalment and other income down £21.3m due to reduced volumes and the banning of solicitors' referral fees
Investment return		122.8	140.0	
<b>Operating profit</b>	6	<b>347.7</b>	<b>261.8</b>	6 32.8% improvement in operating profit

<sup>1</sup> Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £19.8m FY 2013, £29.8m FY 2012. IFPs: 61k Dec 2013, 74k Dec 2012). New business written in Commercial division since September 2010

<sup>2</sup> Tracker disposed in February 2014 – 2013 result includes Tracker related income and expenses - £18.4m in other income and £19.8m in other expenses (included in expense ratio)

# Motor claims trends

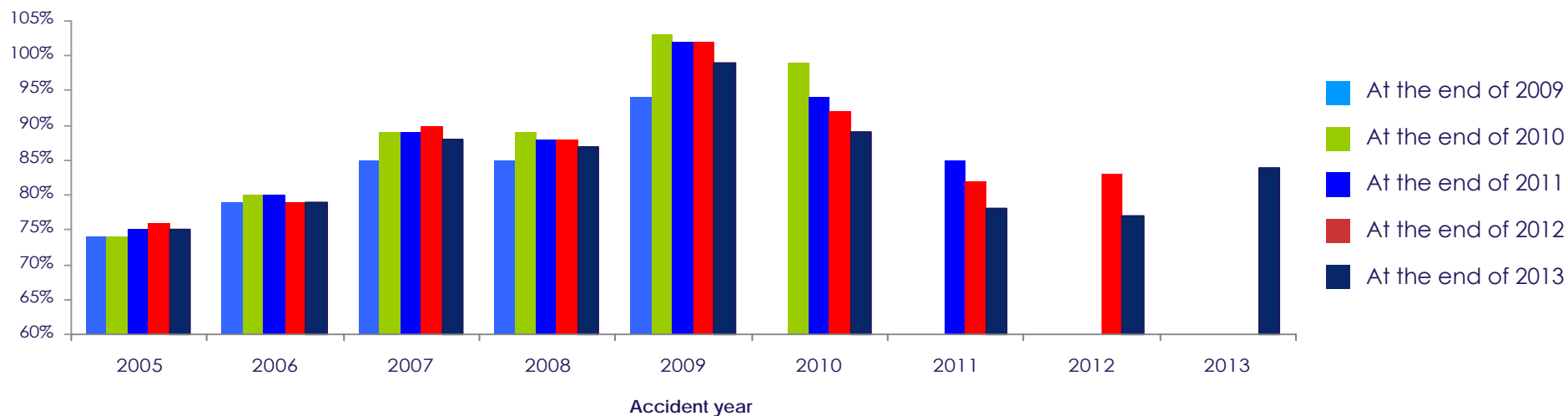
## BI capped<sup>1</sup> burn cost vs TPWP<sup>2</sup> (indexed)



## BI capped severity inflation

	2013 vs. 2012	2012 vs. 2011	2011 vs. 2010	2010 vs. 2009
Inflation at latest settlement rate point	(12.9%)	1.0%	(3.5%)	(6.4%)
Inflation in booked best estimate <sup>3</sup>	(4.5%)	(0.3%)	0.0%	(2.6%)
<b>Indexed (2009 = 100)</b>				
Inflation at settlement point	79.5	91.2	90.3	93.6
Inflation in booked best estimate <sup>3</sup>	92.8	97.1	97.4	97.4

## Motor booked loss ratio development (gross<sup>4</sup>)



1 Small bodily injury claims capped at £50k (in 1999)  
 2 TPWP: IFOA Third Party working party preliminary report 2013. The measures are settlement speed adjusted excluding nils  
 3 Excludes margin  
 4 Based on management best estimate, gross of reinsurance and excludes claims handling costs

# Home highlights

## Results

(£m unless stated)		FY 2013	FY 2012
In-force policies (000s)	1	3,719	4,239
Gross written premium	2	943.1	989.0
Net earned premium		908.9	950.8
Loss ratio – current year incl. weather	3	58.7%	62.3%
Loss ratio – current year attritional		51.1%	51.3%
Loss ratio – prior years		(4.8%)	(3.9%)
Loss ratio		53.9%	58.4%
Commission ratio		19.6%	16.2%
Expense ratio		20.3%	22.0%
Combined operating ratio	4	93.8%	96.6%
Underwriting profit / (loss)		56.2	32.7
<i>Of which prior year releases</i>		43.3	37.4
Instalment and other income		25.9	26.5
Investment return		24.1	34.1
Operating profit	5	106.2	93.3

## Observations

- 1 IFPs down 12.3% since December 2012 mainly due to removal of HR24<sup>1</sup> from some packaged bank accounts; underlying fall of 2%
- 2 GWP down 4.6% versus the prior year
- 3 Current year attritional loss ratio of 51.1% in line with the prior year
  - 2013 weather-related claims of £69m versus £105m in 2012
  - £43.3m of prior year reserve releases due to positive claims development
- 4 2.8ppt improvement in combined operating ratio
- 5 £12.9m improvement in operating profit

<sup>1</sup> Home response policies removed from some packaged bank accounts during 1H 2013, circa 420k policies

# Rescue and other personal lines<sup>1</sup> highlights

## Results

## Observations

(£m unless stated)		FY 2013	FY 2012
In-force policies (000s) <sup>1</sup>	1	8,801	9,431
Gross written premium <sup>1</sup>	2	383.4	389.8
Net earned premium		365.8	382.8
Loss ratio – current year		62.5%	57.2%
Loss ratio – prior years		(2.4%)	(6.3%)
Loss ratio	3	60.1%	50.9%
Commission ratio		7.5%	6.0%
Expense ratio		24.8%	25.8%
<b>Combined operating ratio</b>		<b>92.4%</b>	<b>82.7%</b>
Underwriting profit		27.9	66.2
<i>Of which prior year releases</i>		9.0	23.9
Instalment and other income		10.4	10.7
Investment return		8.2	7.5
<b>Operating profit</b>	4	<b>46.5</b>	<b>84.4</b>
<i>Of which Rescue</i>	5	38.1	46.9

- 1 Reduction in IFPs due to reduced volumes in packaged bank accounts, partially offset by growth in Green Flag direct sales
- 2 1.6% reduction in GWP; 4.4% increase in Rescue GWP
- 3 Loss ratio increased by c. 9.2ppts to 60.1% due to non repeat of positive one-offs in 2012
- 4 Excluding Creditor<sup>2</sup> and Life<sup>3</sup> profit and other one-offs, profit was around £37m in 2013, in line with the prior year
- 5 £9m reduction in Rescue profit due to non repeat of one-offs in 2012 and higher marketing spend in 2013

<sup>1</sup> ROPL is made up of a number of products, including Rescue, Pet, Travel, Creditor and Life

<sup>2</sup> Creditor is in run-off

<sup>3</sup> Life business disposed in November 2013. Generated £6.4m profit in 2013

# Commercial highlights

## Results

(£m unless stated)		FY 2013	FY 2012
In-force policies (000s)	1	583	466
Gross written premium	2	474.5	435.6
Net earned premium		434.6	402.8
Loss ratio – current year		74.1%	77.0%
Loss ratio – prior years		(11.8%)	(13.9%)
Loss ratio	3	62.3%	63.1%
Commission ratio		21.2%	21.6%
Expense ratio		23.3%	23.5%
Combined operating ratio	4	106.8%	108.2%
Underwriting loss		(29.6)	(33.1)
<i>Of which prior year releases</i>		51.6	56.2
Instalment and other income		9.5	5.9
Investment return		29.6	29.4
Operating profit / (loss)	5	9.5	2.2

## Observations

- 1 25.1% growth in IFPs mainly driven by Direct Line for Business, including van transfer from Motor
- 2 8.9% increase in GWP mainly due to the transfer of the Van business (underlying growth 2%)
- 3 0.8ppt loss ratio improvement
  - 2.9ppt improvement in current year
  - Continue to reserve prudently and expect positive reserve releases
- 4 COR improved to 106.8% with reduction in expense and commission ratio
  - COR normalised for weather claims approximately 104%
- 5 Operating profit of £9.5m, up £7.3m versus the prior year despite higher weather related claims in 2013

<sup>1</sup> Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £19.8m FY 2013, £29.8m FY 2012. IFPs: 61k Dec 2013, 74k Dec 2012). New business written in Commercial division since September 2010

# International highlights

## Results

(£m unless stated)		FY 2013	FY 2012
<b>In-force policies (000s)</b>	<b>1</b>	1,610	1,462
Gross written premium		604.5	552.7
Net earned premium		366.5	343.1
<b>Loss ratio – current year</b>	<b>2</b>	88.0%	86.9%
Loss ratio – prior years		(10.7%)	(8.8%)
Loss ratio		77.3%	78.1%
Commission ratio		15.8%	12.1%
Expense ratio		10.8%	13.1%
<b>Combined operating ratio</b>	<b>3</b>	<b>103.9%</b>	<b>103.3%</b>
<i>Of which Italy</i>		101.6%	102.9%
<i>Of which Germany</i>		109.8%	104.6%
<b>Underwriting loss</b>		<b>(14.4)</b>	<b>(11.3)</b>
<i>Of which prior year releases</i>		39.3	30.2
Instalment and other income		7.6	7.1
Investment return		23.4	23.7
<b>Operating profit</b>	<b>4</b>	<b>16.6</b>	<b>19.5</b>
<i>Of which Italy</i>		14.1	14.0
<i>Of which Germany</i>		2.5	5.5

## Observations

- 1** IFPs up 10.1% and GWP up 9.4%, driven by strong performance in German 1 January renewals at the beginning of 2013
- 2** International current year loss ratio includes circa. 2ppts of weather related costs from hail storms in Germany
- 3** Overall COR broadly flat
- 4** Operating profit down £2.9m to £16.6m
  - Profit in Germany down £3m, with circa £8m of higher weather related costs events
  - Profit in Italy broadly flat reflecting discipline in challenging market

# Investments

## Observations

- Ongoing investment return of £208m with a yield including net realised gains of 2.5%
- Reduction compared with 2012 mainly due to lower gains arising from portfolio restructuring in 2012 and lower AUM
- Target allocation in credit reached in 1H 2013 and continue to build out property portfolio
- Securitised credit introduced in Q4 2013
- Income yield of 2.1% modestly higher than 2012 (2.0%)

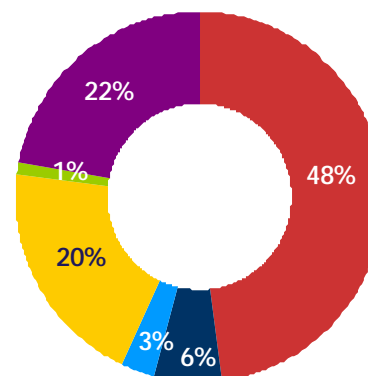
## Investment return - ongoing operations (£m)

	FY 13	FY 12	Q4 13	Q4 12
Investment income	175.5	179.9	46.3	42.2
Net realised and unrealised gains <sup>1</sup>	32.6	54.8	3.9	(0.2)
<b>Total</b>	<b>208.1</b>	<b>234.7</b>	<b>50.2</b>	<b>42.0</b>

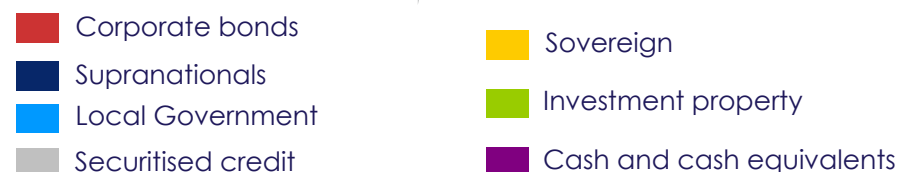
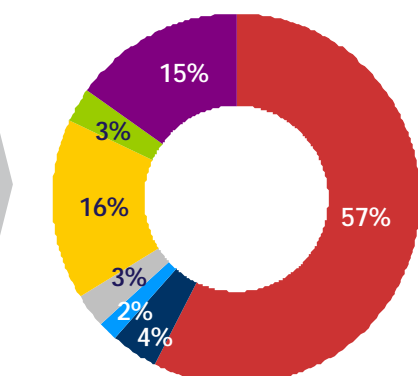
<sup>1</sup> Unrealised gains relate to derivative hedges and property

## Investment assets by type

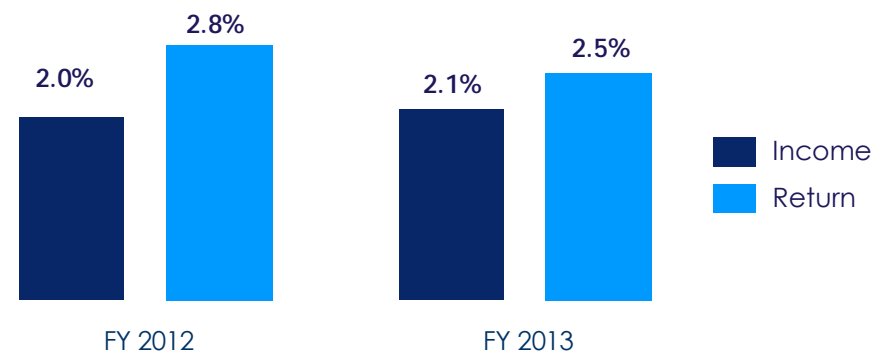
31 Dec 12: 9.4bn



31 Dec 13: £8.6bn



## Group investment yields



# Investment yield outlook

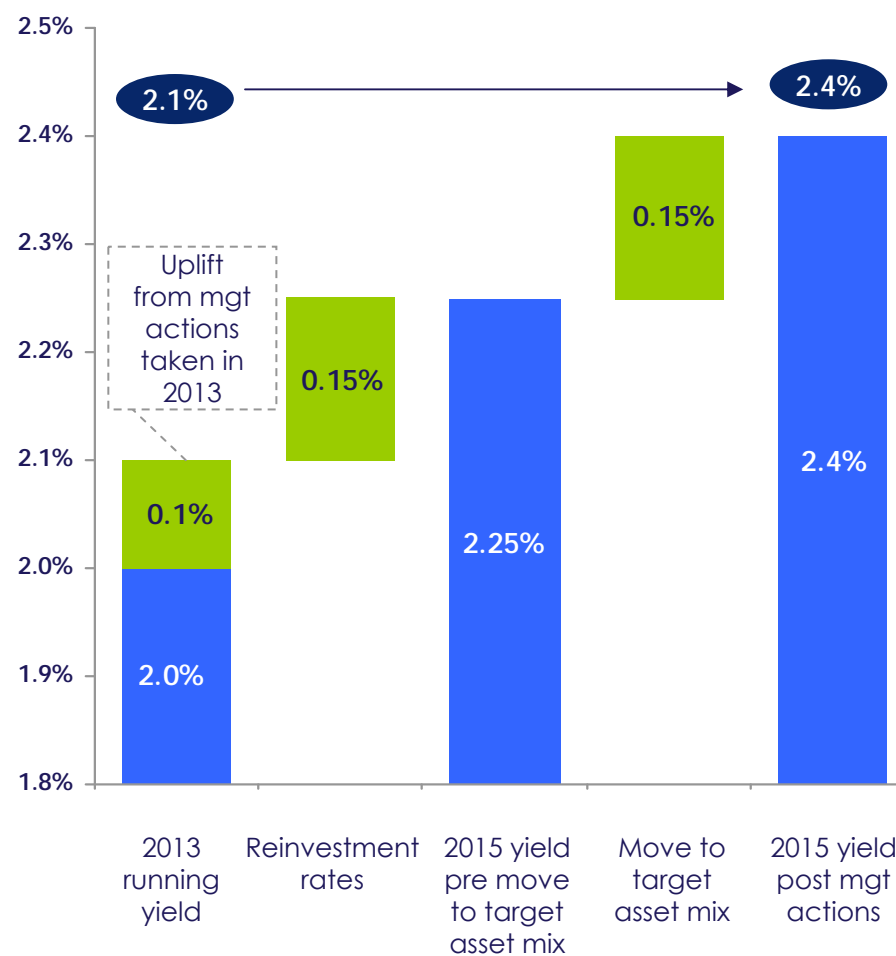
## Income yield

31 Dec 13	Allocation	Income yield	Duration
Credit	63.2%	2.6%	2.7yrs
Securitised credit	2.7%	0.8%	0.4yrs
Sovereign	16.4%	1.9%	1.6yrs
Cash and cash equivalents	15.1%	0.4%	-
Investment property	2.6%	6.5%	-
<b>Total</b>	<b>100.0%</b>	<b>2.1%</b>	<b>2.0yrs</b>

## Observations

- Reinvestment rates have benefited from move to target asset mix and increase in rates
- Revised asset mix includes include 6% target for securitised credit and increased weighting to BBB corporates

## Income yield outlook



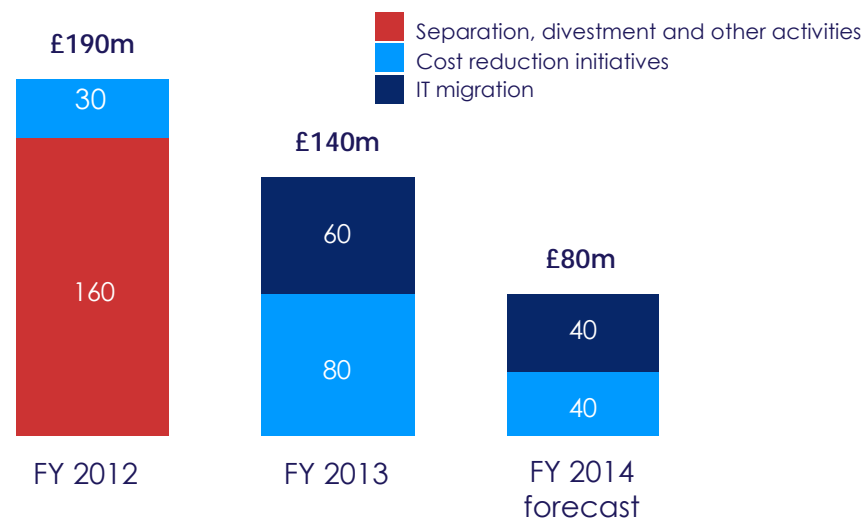


# Operating profit reconciliation

## Observations

- Run-off segment profit of £63.6m due mainly to favourable prior year development
- Run-off segment expected to be profitable but lower than 2013 level going forward
- Restructuring and other one-off costs of £140.5m in 2013 in line with guidance with costs expected to be £80m in 2014

## Restructuring and other one-off costs breakdown



## Operating profit

£m	FY 2013	FY 2012
Operating profit - ongoing operations	526.5	461.2
Run-off	63.6	6.1
Restructuring and other one-off costs	(140.5)	(189.5)
<b>Operating profit</b>	<b>449.6</b>	<b>277.8</b>
Finance costs	(37.7)	(28.7)
Gain on disposal of Direct Line Life	12.0	-
<b>Profit before tax</b>	<b>423.9</b>	<b>249.1</b>
Tax	(111.1)	(64.8)
<b>Profit after tax / net income</b>	<b>312.8</b>	<b>184.3</b>
EPS - reported (pence)	20.9	12.3
EPS - adjusted <sup>1</sup> (pence)	25.0	21.8

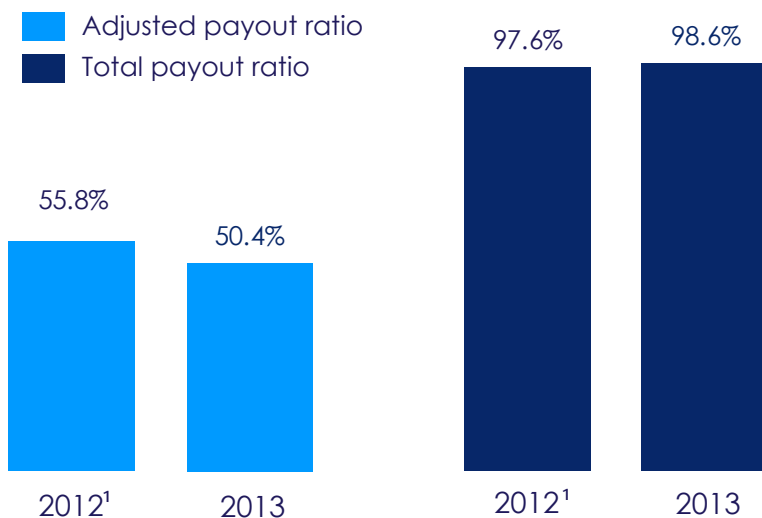
<sup>1</sup> Adjusted EPS calculated using profit from Ongoing operations less finance costs (UK standard tax rate 23.25%; 2012 24.5%) (see appendix for calculation)

# Dividend growth in line with guidance

## Observations

- Recommending a final dividend of 8.4 pence per share representing 5% growth on 2012
- Declaring second special dividend of 4.0 pence per share relating to profit from Run-off segment and disposal of Tracker
- Total dividends of 20.6 pence per share

## Dividend payout ratios



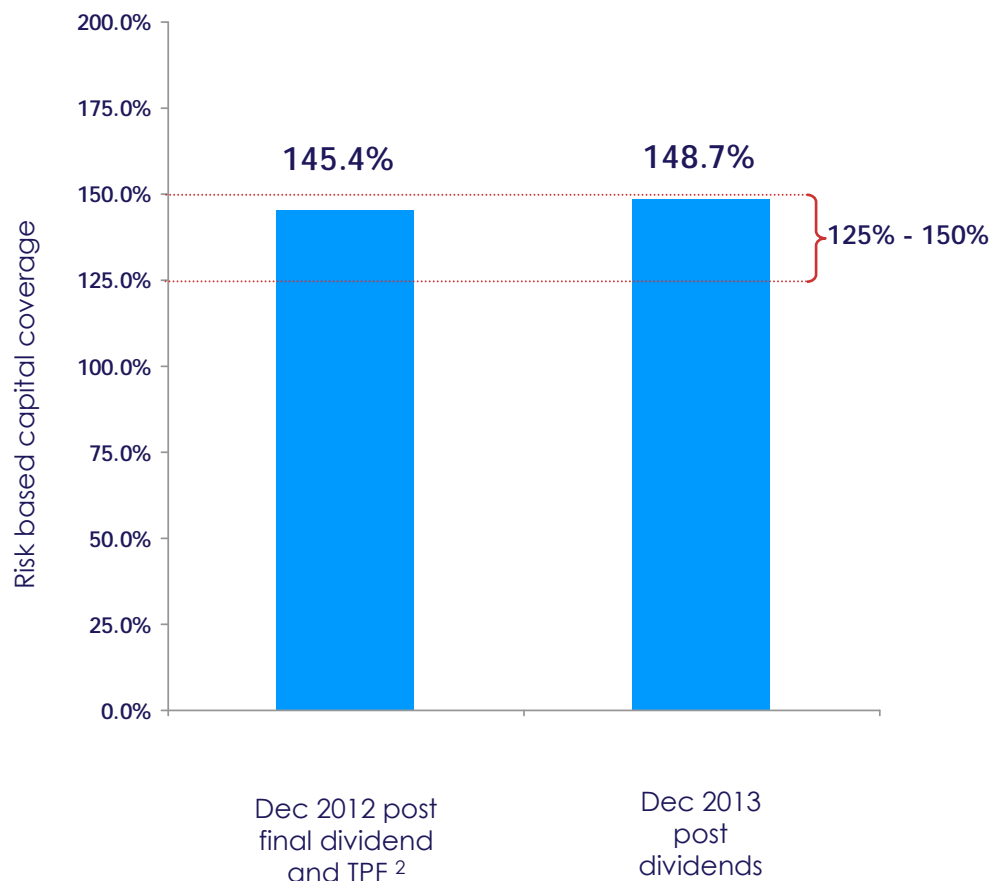
## Dividend growth and payout ratios

Pence per share	2013	2012
<b>Regular dividends</b>		
Interim dividend	4.2	-
Final dividend	8.4	8.0
<b>Total regular dividends</b>	<b>12.6</b>	<b>12.0<sup>1</sup></b>
Regular dividend growth	5%	-
<b>Special dividends</b>		
Disposal of Life business	4.0	-
Run-off segment profit/disposal of Tracker	4.0	-
<b>Total special dividends</b>	<b>8.0</b>	<b>-</b>
<b>Total dividends</b>	<b>20.6</b>	<b>12.0<sup>1</sup></b>

<sup>1</sup> 2012 pro-forma dividend  
<sup>2</sup> Calculated using adjusted EPS (see appendix for calculation)

# Development of capital coverage

## Development of risk based capital coverage



## Observations

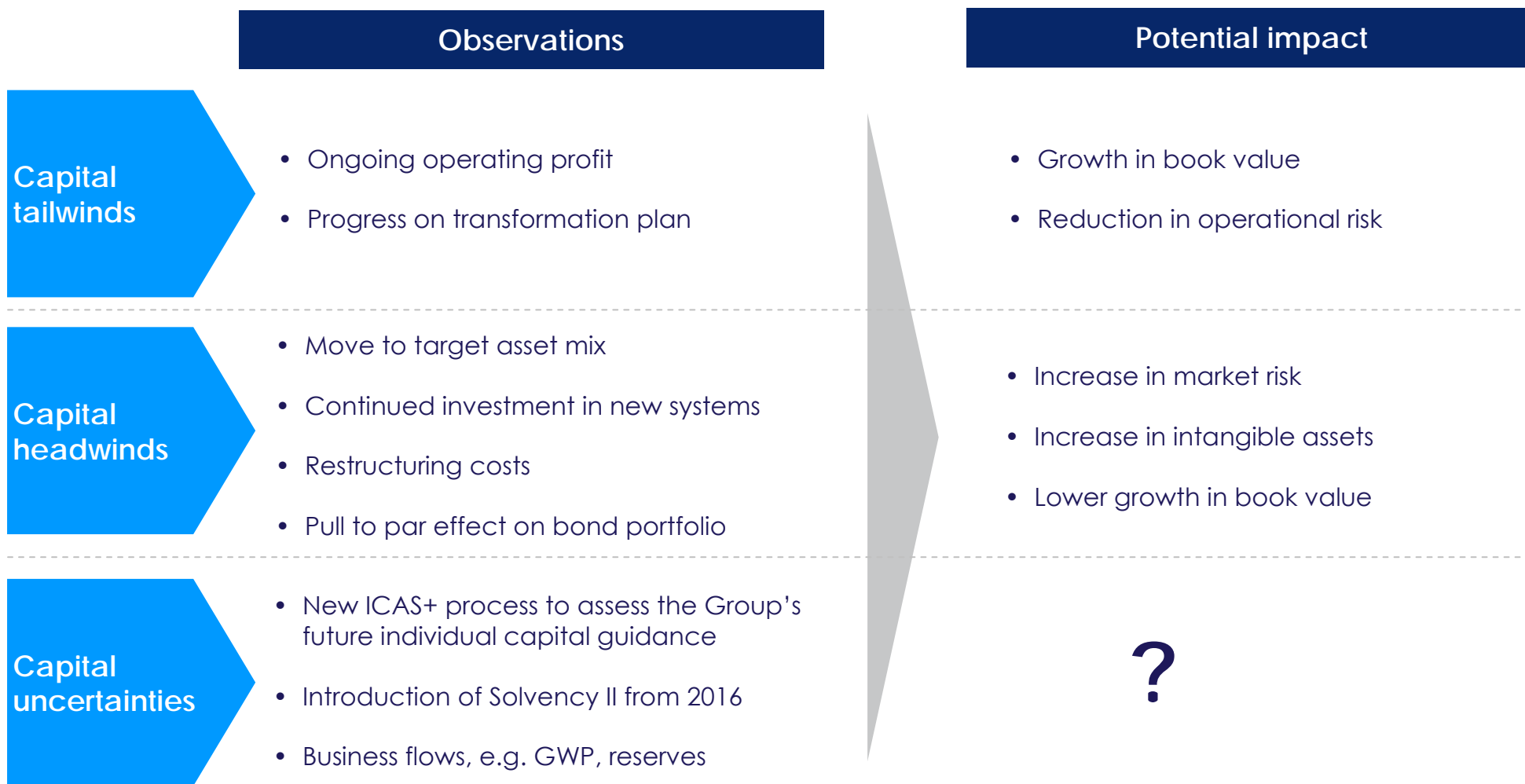
- Post final 2013 regular dividend and special dividend, the risk based capital coverage becomes 148.7%, at upper end of 125%-150% target range
- Leverage of 15.7% post final dividends
- Consider return of capital if RBC surplus expected to remain above 150% for a prolonged period

Post dividends	2013	2012
Leverage ratio <sup>1</sup>	15.7%	16.3%
IGD coverage	272%	268%
Risk based capital coverage	148.7%	145.4%

**Capital leverage remains within target range post dividends**

19 <sup>1</sup> Total financial debt as a percentage of total capital employed  
<sup>2</sup> TPF Note and £3.5 million of solvency capital provided by TPF in relation to the TPF life insurance business reclassified from non-controlling interest to subordinated liabilities and fully repaid on 8 January 2013

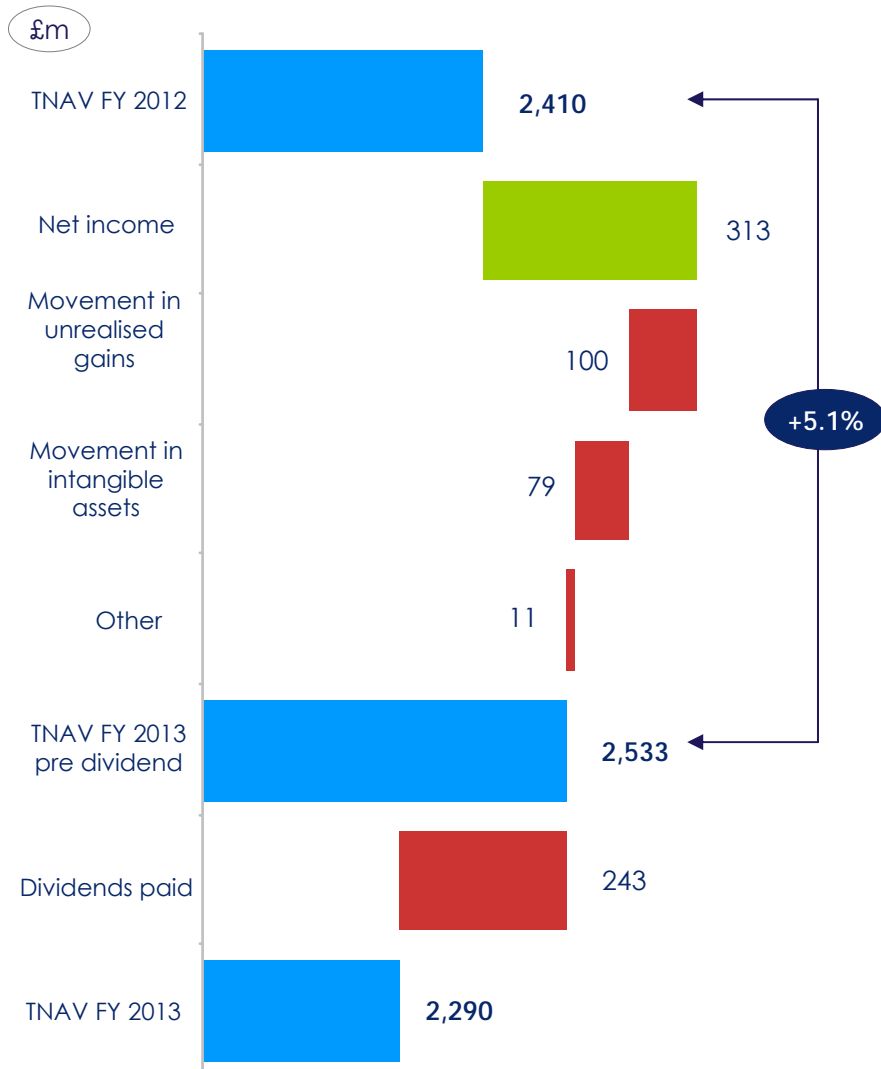
# Capital drivers in 2014 and beyond



Current capital position seen as appropriate; position to be reviewed as clarity improves

# Book value and TNAV

## Movement in tangible net asset value



## NAV and TNAV per share

Pence	2013	2012
Net asset value per share	186.6	189.1
Tangible net asset value per share	153.2	161.0

## Observations

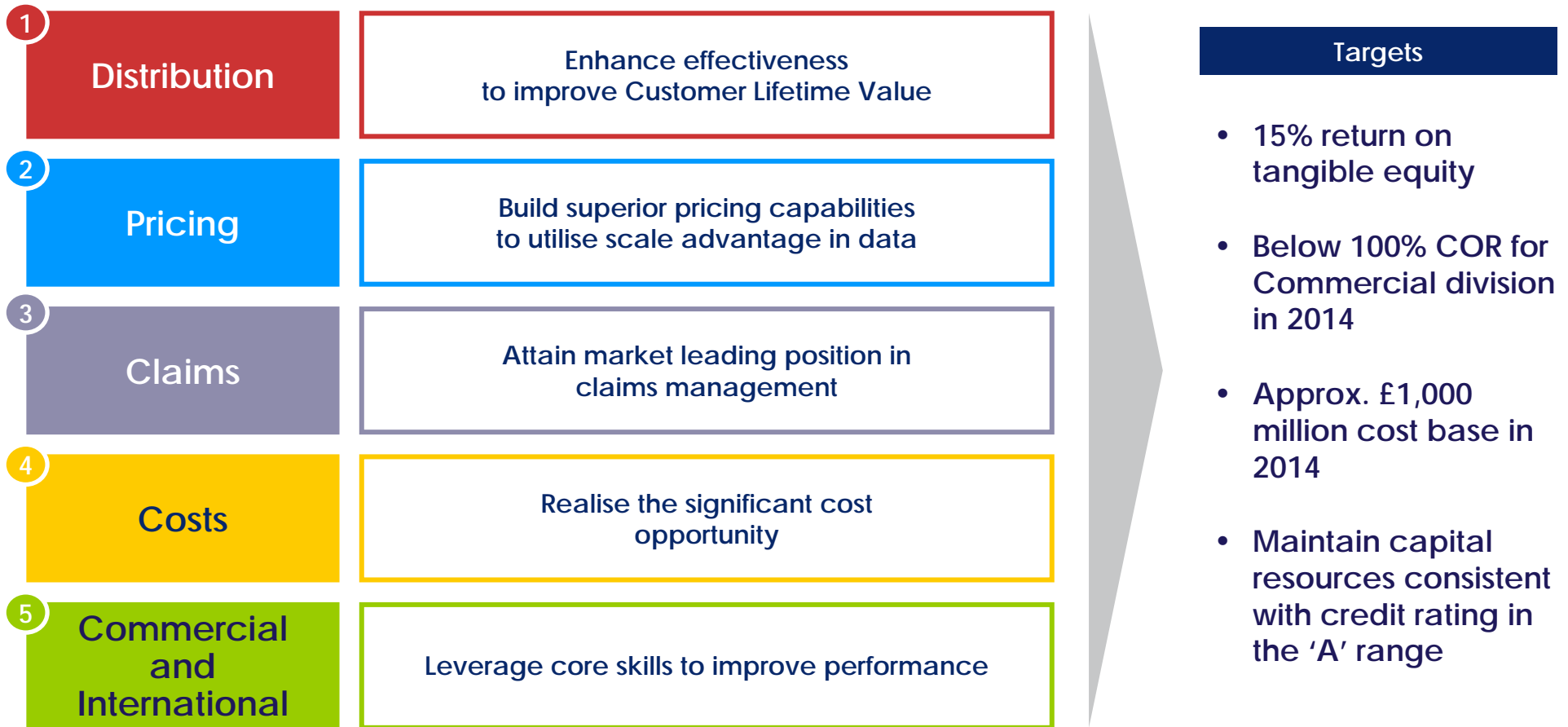
- Headline reduction in TNAV mainly due to dividends paid
- Net income partially offset by movements in unrealised gains and intangibles
- £59m of net unrealised gains at the year end
- Excluding dividends, underlying TNAV growth 5.1%

# Agenda and presenters

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Summary and outlook	Paul Geddes - CEO
Questions and answers	Paul Geddes - CEO

# We are transforming Direct Line Group through five strategic priorities



Clear strategic plans in place to achieve our targets

# 1 Distribution

## What we said last year

### Priorities for 2013 and beyond

- Refresh marketing campaigns and customer proposition
- Improve digital capability
- Focus on customer retention and cross sales
- Deploy improved pricing capabilities

## 2013 progress

- ✓ Reduced marketing spend while differentiating product offerings
- ✓ Developed and launched two Telematics propositions – black box and smartphone app
- ✓ Investment in digital content platform and web tool analytics

## Priorities for 2014

- Complete the roll-out of our new smartphone and tablet optimised websites and leverage the new digital platform
- To continue to develop and differentiate the Direct Line customer proposition
- To evolve the Telematics propositions based on customer feedback and performance



Focus on digital capability and customer value



# Ad break

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## 2 Pricing

### What we said last year

#### Priorities for 2013 and beyond

- Continue to optimise the rating engine to improve technical pricing
  - Faster links to external data
  - Real-time deployment of pricing changes
- Implement enhanced renewal pricing strategies
- Leverage pricing sophistication to target more areas of the market

### 2013 progress

- ✓ Launched updated technical pricing models in Motor, with further granularity
- ✓ Used improved rating models to optimise exposure in higher premium segments
- ✓ Implemented enhanced renewal management capabilities in Motor and Home

### Priorities for 2014

- 30 major programmes due to be delivered in 2014
- A number of specific pricing initiatives to enhance trading capability on PCWs
- Use Telematics experience and data to support technical pricing

Leverage our substantial data

### 3 Claims

#### What we said last year

##### Priorities for 2013 and beyond

- Maintain momentum on claims transformation programme in Motor and Home
- Extend to Commercial and apply learnings to International
- Proactively embrace regulatory change in the coming years

#### 2013 progress

- ✓ Completed claims transformation in Motor and Home with ClaimCenter rollout and new operating model, including the use of social networking techniques to combat fraud
- ✓ Making full use of our claims fulfilment network to offer improved customer propositions (e.g. car replacement service)
- ✓ Laying the foundations for DLG Legal Services

#### Priorities for 2014

- Continue to improve customers' experience by rolling out further claims initiatives e.g. using smartphone technology
- Further enhance claims leakage and fraud identification
- Generate further efficiency through the repair network

Maintain claims performance in the top quartile of the sector

## 4 Costs

### What we said last year

#### Priorities for 2013 and beyond

- Delivery of cost saving programme in line with target
- Continue to build on cost ambitions through reinforcing culture of efficiency
- Leverage off IT system changes to enhance digital capability and automation
  - Lower costs and improved service

### 2013 progress

- ✓ Achieved cost reduction target set at the time of IPO and taken further steps to improve efficiency throughout the organisation, particularly in head office
- ✓ Built new data centres in conjunction with Capgemini
- ✓ Started roll-out of new voice and desk-top tools to improve efficiency throughout the organisation

### Priorities for 2014

- Make substantial progress on the migration of IT applications, reducing dependency on RBS Group systems
- Build a low-cost self-service digital infrastructure
- Reduce total costs to approximately £1,000 million

Delivery of cost savings well advanced

# 5a Commercial

## What we said last year

### Priorities for 2013 and beyond

- Continue to drive growth to micro and SME segments
  - Complete roll out of NIG's eTrading platform
- Deliver savings and efficiency associated with restructuring of regional office network and consolidation of back office operations
- Leverage data from personal lines to enhance pricing and underwriting decisions

## 2013 progress

- ✓ Full cycle eTrading platform launched
- ✓ Delivered efficiencies through consolidation of underwriting centres and separating trading activities
- ✓ Rolled-out new claims system for van (ClaimCenter)



## Priorities for 2014

- Achieve COR target of below 100%<sup>1</sup>
- Embed and extract value from ClaimCenter and etrade roll-out
- Develop Van proposition including Telematics and Churchill brand



Targeting COR of below 100% in 2014

<sup>1</sup> Assumes normal level of claims from weather events and large losses

## 5b International

### What we said last year

#### Priorities for 2013 and beyond

- Drive operational efficiencies and further leverage pan-European expertise in pricing, claims and digital
- Focus on profitability in Italy
  - Careful approach to new business given economic conditions
- Accelerate German IFP growth
  - Opportunity in PCWs and partners
  - Over 100k new IFPs incepting on 1 Jan 13; IFPs now in excess of 500k

### 2013 progress

- ✓ Implemented ClaimCenter in Italy
- ✓ Improved profitability in Italy with a lower COR
- ✓ Significant growth in premiums in Germany for both year on business and Jan 2013 year end business



### Priorities for 2014

- Further drive efficiencies in International
- Implement a new rating engine in Italy
- Maintain progress in German year-end business
  - Over 9% growth in IFPs in Jan 2014



Focus on profitability in Italy, maintaining growth in Germany

# Agenda and presenters

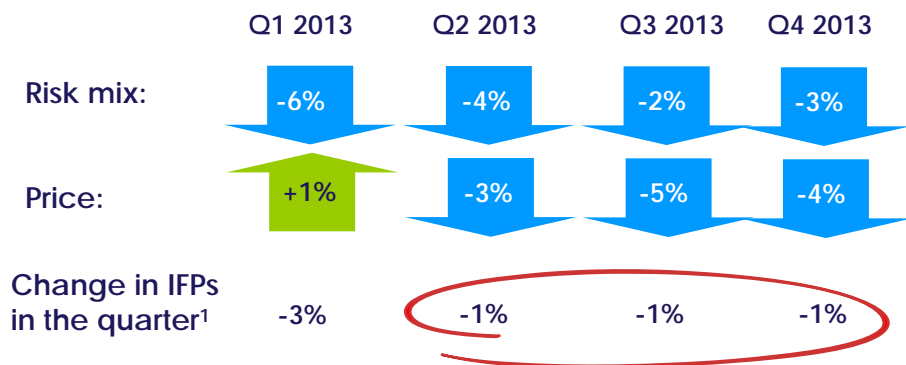
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Key messages	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	Paul Geddes - CEO
<b>Summary and outlook</b>	<b>Paul Geddes - CEO</b>
Questions and answers	Paul Geddes - CEO

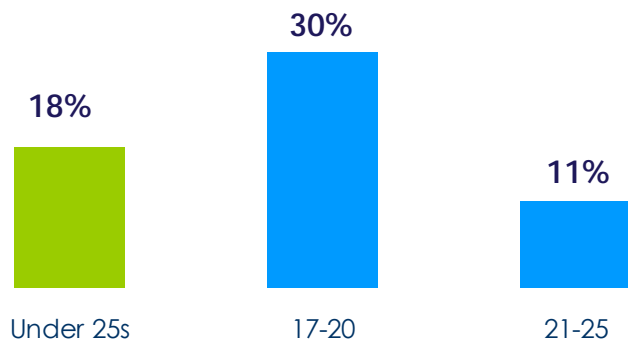
# UK motor market remains competitive

## Motor average premium movement

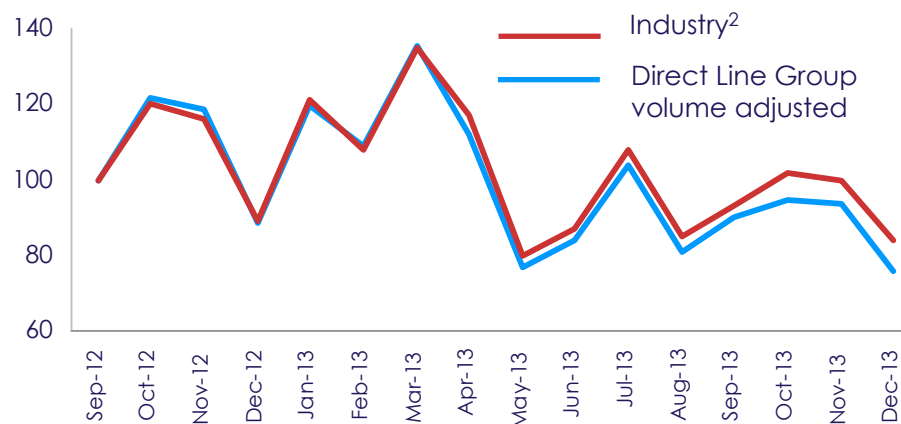
UK Motor year on year



## Telematics penetration in Q4 (Direct Line)



## RTA portal volumes (indexed)



## Q1 observations

- Market remains highly competitive
- Continue our strategy of pricing based on our claims experience
- Motor GWP in Q1 2014 expected to be approx 10% lower than Q1 2013

## Maintaining underwriting discipline

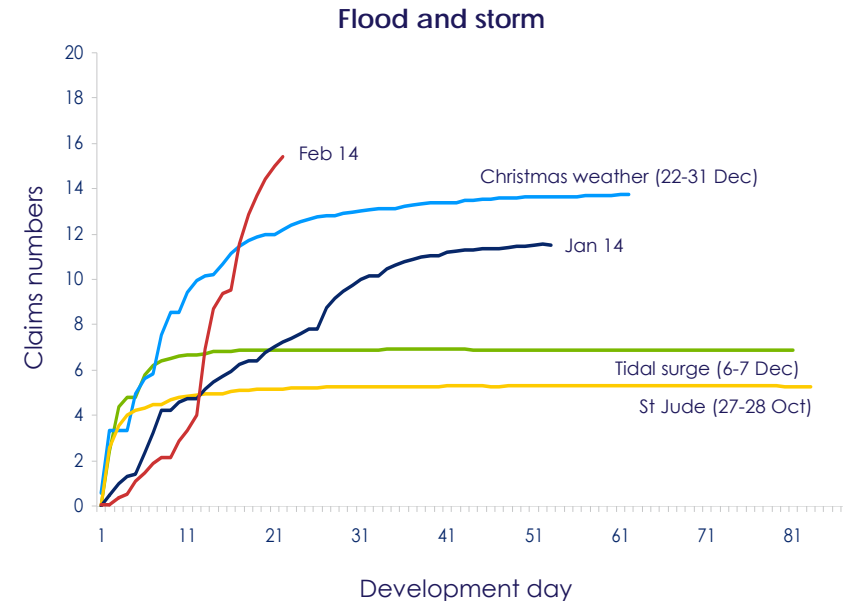
<sup>1</sup> Adjusted for Van transfer into Commercial  
<sup>2</sup> Portal Source [http://claimsportal.org.uk/media/158934/rt-a-ad-hoc-moj-portal-mi-and-graphs-31\\_12\\_13-ver.1.0.xlsx](http://claimsportal.org.uk/media/158934/rt-a-ad-hoc-moj-portal-mi-and-graphs-31_12_13-ver.1.0.xlsx)



# UK weather events

Event	Key facts	Mix
<p>Home claims</p> <p>£64m</p> <p>St Jude storm (Oct 2013)</p>	<ul style="list-style-type: none"> <li>All storm claims, no flood</li> <li>Low severity</li> <li>Circa. £1,000 per claim</li> </ul>	
<p>Tidal surge (early Dec 2013)</p>	<ul style="list-style-type: none"> <li>Combination of flood and storm claims</li> <li>High flood severity</li> <li>Flooding exacerbated by salt water damage</li> </ul>	
<p>Christmas weather (late Dec 2013)</p>	<ul style="list-style-type: none"> <li>Combination of flood and storm claims</li> <li>Lower severity than tidal surge albeit pushed up by southern England location</li> </ul>	
<p>Storms and floods (Jan and Feb 2014)</p>	<ul style="list-style-type: none"> <li>Flood volumes are currently less than 1/10<sup>th</sup> of 2007</li> <li>Preliminary view £70-90m of Home claims as at 22 Feb, with approx £20m of Commercial claims</li> <li>Elevated ground water levels means the potential for future claims has increased</li> </ul>	

## Home - weather event notifications



## Catastrophe reinsurance

- £150m per event retention; £1,300m upper limit
- 'Hours' clause:
  - 7 consecutive days for flood
  - 3 consecutive days for storm

# UK regulatory update

## What's happening?

### Whiplash

- (UK) Minister of State for Justice outlined further plans to be in place by July 2014:
  - Independent medical examination and reporting
  - Improved communication between insurers and lawyers
  - Better data

### Competition Commission

- CC investigation focused on determining whether any feature, or combination of features, of the UK private motor insurance markets prevents, restricts or distorts competition.
- CC has identified potential detriment and published notice of possible remedies

### Flood Re

- Industry and UK Government aim to establish Flood Re by summer 2015
- Until then, insurers have agreed voluntarily to meet the commitments set out in the ABI Statement of Principles on the Provision of Flood Insurance

### Road safety

- The UK Government talked about a range of measures aimed at improving road safety for young drivers
- Graduated driver licencing is the umbrella term for a range of measures including:
  - Extended learning periods for new drivers
  - A review of driving ages

## What's happening?

### Add ons

- FCA market study looking at whether there are common features of the add-on market that weaken competition or drive poor consumer outcomes
- FCA expected to publish its report during Q1 2014

### Referral fees

- Solicitors' referral fees were banned from April 2013 as part of the LASPO reforms
- The CC is considering measures to control the cost of temporary replacement vehicles (TRVs), including banning fees

### Motor legal expenses insurance

- Thematic review in 2013 which looked at the positioning and wording of motor legal expenses insurance (MLEI)
- DLG switched MLEI from default in to opt in ahead of regulatory action
- The FCA confirmed MLEI will be reviewed again in 2014

### Consumer credit

- The FCA takes over responsibility for Consumer Credit from the OFT on 1 April 2014
- The FCA has defined all insurance companies as 'high risk' for the purposes of providing credit

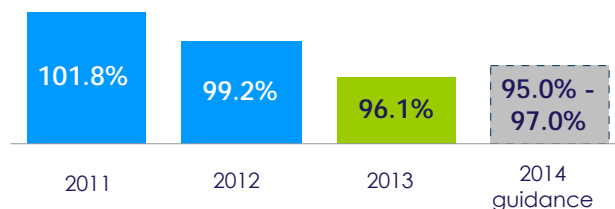
Supportive of a level playing field

# 2014 outlook and guidance

## Targets/guidance

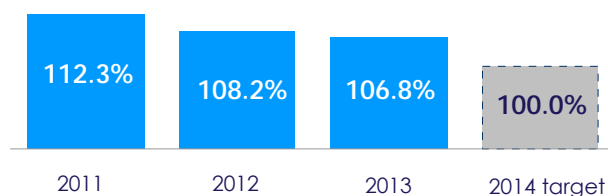
## Observations

COR<sup>1</sup>



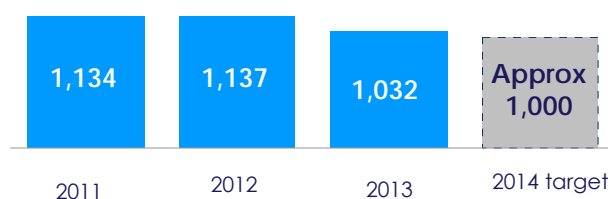
- Assumes normal claims from weather events

Commercial COR



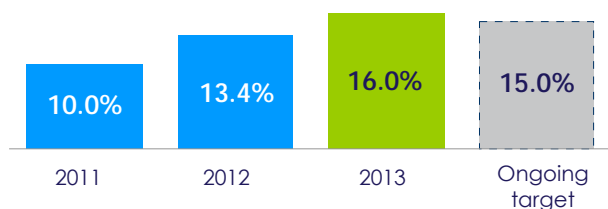
- Assumes normal claims from weather events and large losses

Total cost base<sup>2</sup> £m



- Q4 total cost base of £248m
- Target includes underlying inflation and impact of investment spend

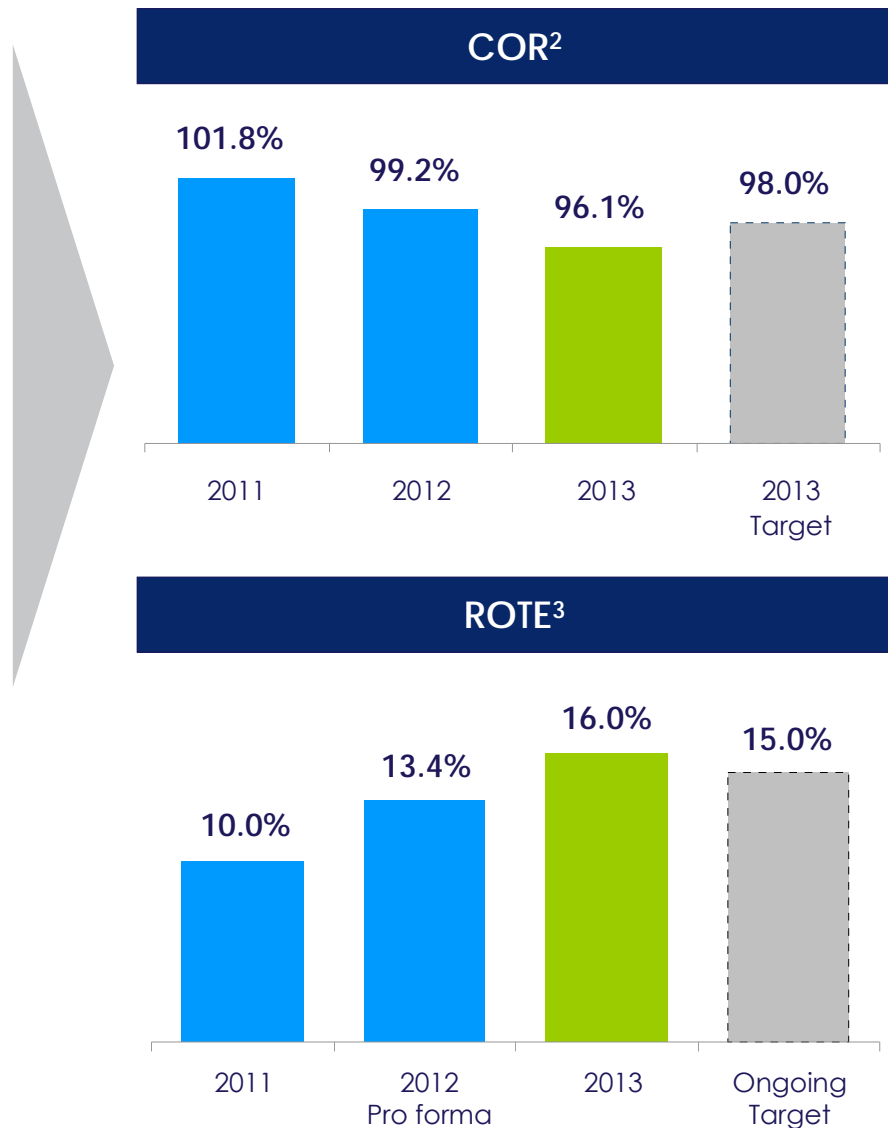
RoTE<sup>3</sup>



35<sup>3</sup> <sup>1</sup> Combined operating ratio from Ongoing operations  
<sup>2</sup> Ongoing operating expenses including claims handling costs  
<sup>3</sup> RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%; 2012 24.5%). Pro-forma RoTE assumes that the capital actions taken by the Group prior to IPO (£1bn dividend and £500m debt issue occurred on 1 January 2012)

# Key messages

- 1 Operating profit<sup>1</sup> of £526.5m, up 14.2%; profit before tax of £423.9m, up 70.2%
- 2 5% growth in final dividend plus a second special dividend of 4.0p – total dividends of 20.6p for 2013
- 3 Performance reflects focus on value over volume together with benefits from our transformation plan
- 4 Markets remain highly competitive guidance of 95% - 97% COR for 2014 (normalising for weather)
- 5 Preliminary estimate of YTD Home flood and storm claims of £70-90m and approx. £20m for Commercial<sup>4</sup>



36 <sup>1</sup> Operating profit from Ongoing operations  
<sup>2</sup> Combined operating ratio from Ongoing operations  
<sup>3</sup> RoTE is adjusted profit after tax from ongoing operations divided by the Group's average tangible shareholders' equity. Profit after tax is adjusted to exclude run-off operations and restructuring and other one-off costs and is stated after charging tax (using UK standard tax rate of 23.25%).  
<sup>4</sup> To 22 February 2014

# Agenda and presenters

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Key messages	Paul Geddes - CEO
Financials	John Reizenstein - CFO
Strategic update	Paul Geddes - CEO
Summary and outlook	Paul Geddes - CEO
<b>Questions and answers</b>	<b>Paul Geddes - CEO</b>

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# Appendices

# Instalment and other operating income

## Observations

- Instalment and other operating income of £180.2m down £18.1m from 2012
- Reduction mainly due to the cessation of solicitors' referral fee income from 1 April 2013
- Instalment income reduction broadly reflects premium trends
- Revenue from vehicle recovery and repair services includes c. £18m of Tracker income

## Instalment and other operating income

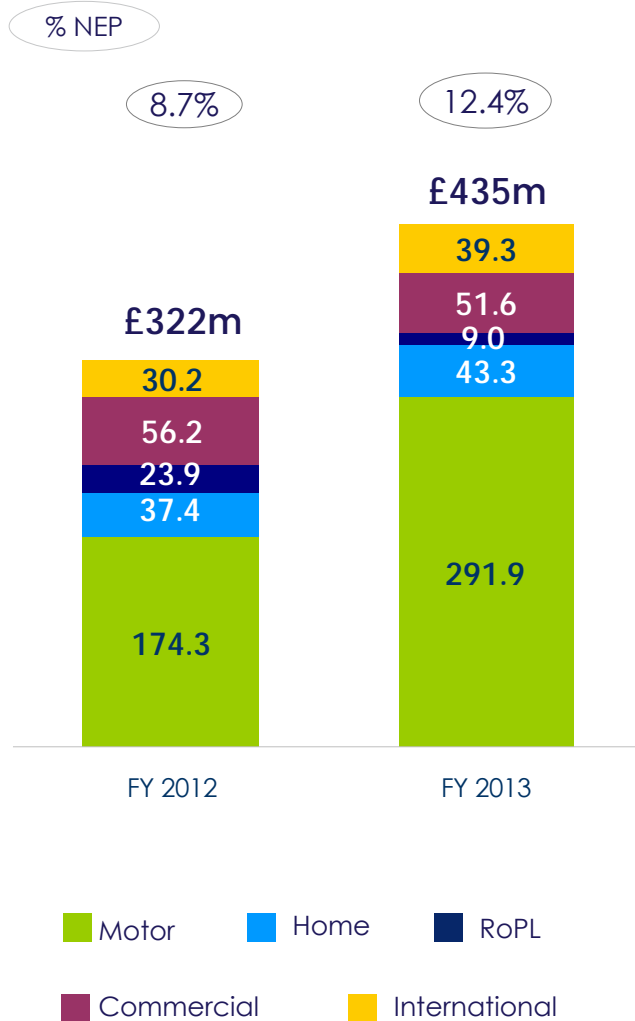
(£m)	FY 2013	FY 2012
Instalment income	117.8	125.4
Other operating income	62.4	72.9
<b>Total – ongoing operations</b>	<b>180.2</b>	<b>198.3</b>

## Breakdown of other operating income

(£m)	FY 2013	FY 2012
Solicitors' referral fee income	6.9	21.1
Vehicle replacement referral fee income	15.7	17.2
Revenue from vehicle recovery and repair services	31.8	25.9
Fee income from insurance intermediary services	1.7	1.9
Other income	6.3	6.8
<b>Other operating income</b>	<b>62.4</b>	<b>72.9</b>

# Continuation of favourable prior year reserve releases

## Reserve releases by division<sup>1</sup>



## Observations

- Increased prior year releases for ongoing operations of £435m compared with £322m in 2012
- Favourable run-off from recent accident years primarily due to underwriting actions and claims transformation in Motor
- Reserving assumptions remain conservative
- Assuming underlying trends continue, expect significant reserve releases in 2014, particularly in Motor

## Releases by quarter

Ongoing operations £m	2013	2012
Q1 2013	123.2	123.0
Q2 2013	116.0	105.4
Q3 2013	71.9	58.4
Q4 2013	124.0	35.2
<b>Full year</b>	<b>435.1</b>	<b>322.0</b>

UK Motor £m	2013	2012
H1 2013	148.6	108.5
H2 2013	143.3	65.8
<b>Full year</b>	<b>291.9</b>	<b>174.3</b>

<sup>1</sup> All figures are net of reinsurance



# Competitive market conditions reflected in IFPs and GWP

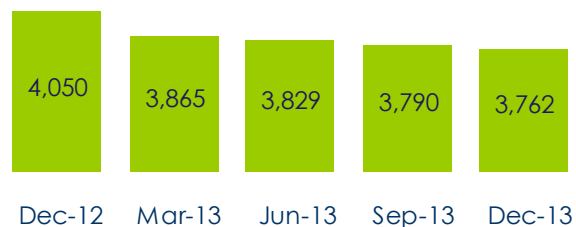
## IFPs/ Quarterly IFPs – ongoing operations

	31 Dec 12	30 Jun 13	31 Dec 13
Motor	4,050	3,829	3,762
Home <sup>2</sup>	4,239	3,753	3,719
Rescue and other personal lines	9,431	9,014	8,801
Commercial	466	561	583
International	1,462	1,586	1,610
<b>Total</b>	<b>19,648</b>	<b>18,743</b>	<b>18,475</b>

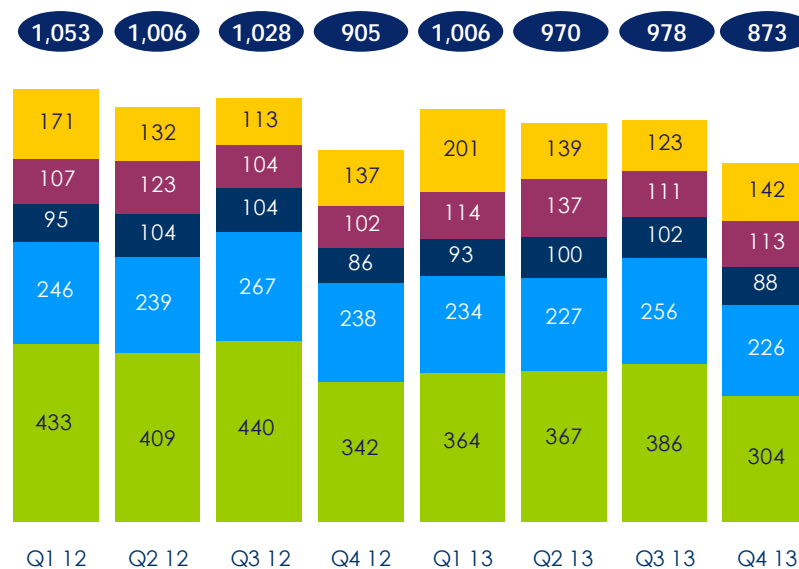
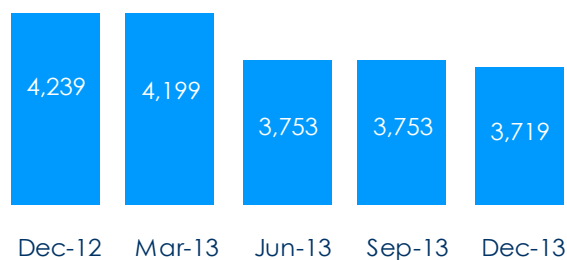
## GWP - ongoing operations adjusted for van<sup>1</sup> (£m)

	3Q vs. prior year	4Q vs. prior year	FY vs. prior year <sup>3</sup>
Motor	(10.6%)	(9.1%)	(10.8%)
Home	(4.0%)	(4.8%)	(4.6%)
Rescue and other personal lines	(1.9%)	2.0%	(1.6%)
Commercial	(0.6%)	2.8%	2.0%
International	8.9%	3.2%	9.4%
<b>Total</b>	<b>(4.8%)</b>	<b>(3.6%)</b>	<b>(4.1%)</b>

### Quarterly IFPs - Motor



### Quarterly IFPs - Home



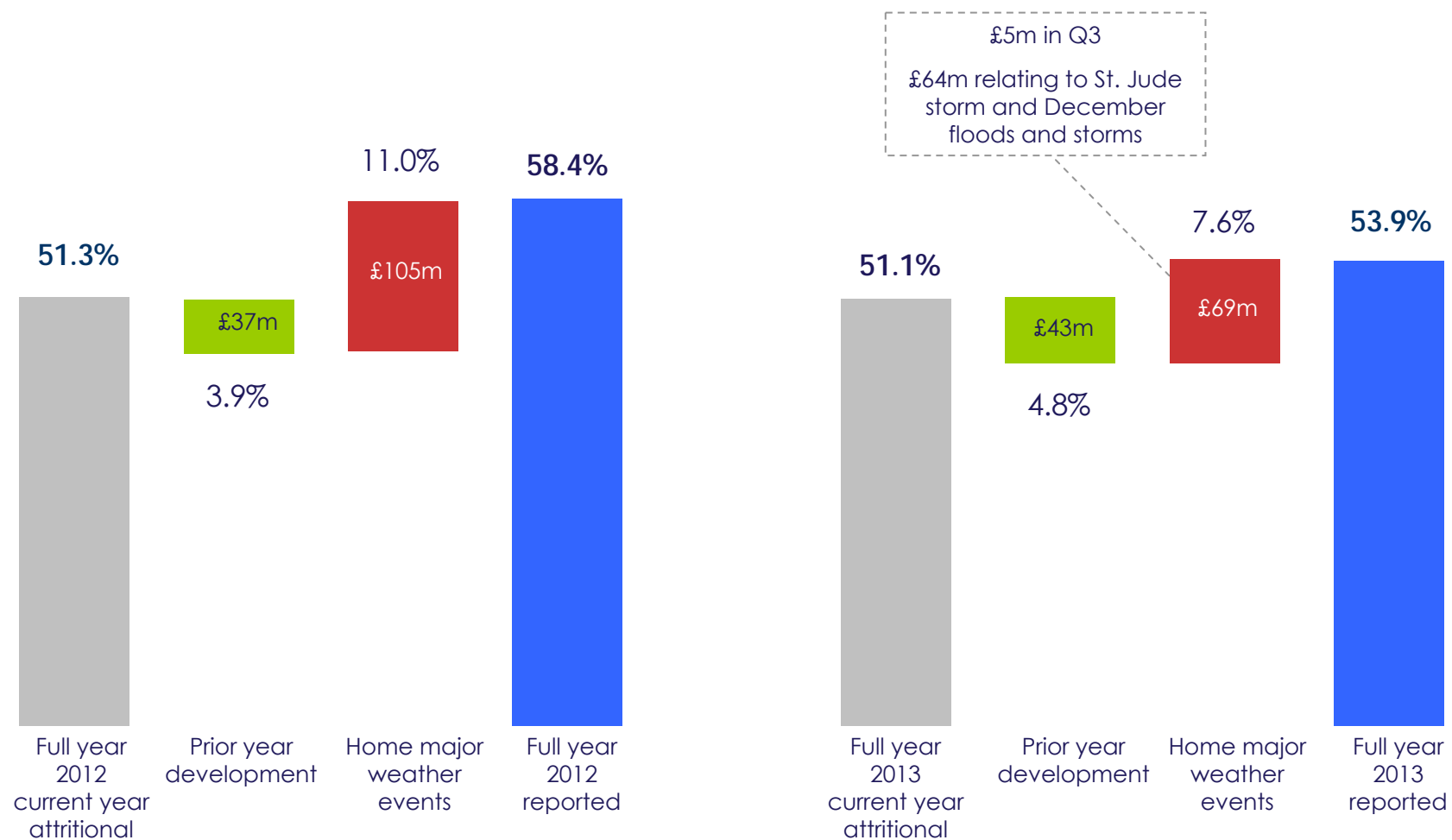
<sup>1</sup> DL4B Van now reported in Commercial  
<sup>2</sup> Home Response policies removed from some packaged bank accounts during 1H 2013. Circa. 420k policies  
<sup>3</sup> Adjustment made to GWP and IFPs for DL4B Van historically reported in personal lines Motor (GWP: £19.8m FY 2013, £29.8m FY 2012. IFPs: 61k Dec 2013, 74k Dec 2012). New business written in Commercial segment from September 2010

# Stability in Home attritional loss ratio

## Loss ratio analysis - ongoing operations

FY 2012

FY 2013



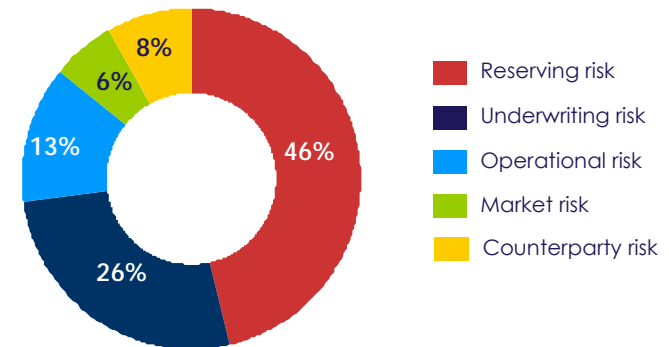
# Capital management update

## Capital Management Policy

- Objective of ensuring appropriate level of capitalisation and solvency with respect to Board, regulatory and rating agency requirements
- Capital management set with reference to internal risk based capital model
- Regulatory capital minimum requirements to be covered at all times
- Capital risk appetite consistent with maintaining credit ratings within the 'A' range
- Aim to grow the regular dividend annually in real terms

## Risk Based Capital

- A risk based capital model is used to determine capital requirements for the Group as part of its Internal Capital Assessment (ICA)
- The model is calibrated to a 99.5% confidence interval over a one year period.
- The risk based capital model has been enhanced and will meet Solvency II requirements
- Direct Line Group seeks to hold capital coverage in the range of 125% -150% of risk based capital requirements



## Reinsurance

- Reinsurance used to reduce capital requirements by:
  - UK Motor excess of loss retention reduced to £1m for 2014
  - UK Property catastrophe excess of loss retention of £150m with limit of £1.3bn
  - Italian motor quota share arrangements in place

# UK regulatory update – claims

	What's happening?	Our response
Whiplash	<ul style="list-style-type: none"><li>• MOJ reforms announced in 2013</li><li>• Justice minister outlined further plans to be place by July 2014:<ul style="list-style-type: none"><li>• Independent medical examination and reporting - looking at accreditation of experts, better reports and fixed fees for reports</li><li>• Improved communication between insurers and lawyers</li><li>• Better data – improved data collection and improved sharing of fraud data between lawyers and insurers</li></ul></li></ul>	<ul style="list-style-type: none"><li>• We welcome the reforms</li><li>• Disappointed by MOJ decision not to increase small claims track to £5k</li><li>• Considerable amount of detail to work through with the ABI</li><li>• Timetable for implementation appears challenging</li></ul>
Competition Commission	<ul style="list-style-type: none"><li>• The CC investigation focused on determining whether any feature, or combination of features, of the private motor insurance markets prevents, restricts or distorts competition. Main focus areas:<ul style="list-style-type: none"><li>• Garage repair costs</li><li>• Credit hire</li><li>• PCW most favoured nation clauses</li><li>• CC has identified potential detriment as part of its provisional findings, and published a notice of possible remedies</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Formal responses submitted</li><li>• Multiparty hearing scheduled for 26 Feb</li><li>• CC must consider cost of implementation vs cost to the industry and ultimately the customer</li><li>• In favour of some measures but not all – key detriment is credit hire</li></ul>
Road safety	<ul style="list-style-type: none"><li>• The Government talked some time ago about a range of measures aimed at improving road safety for young drivers</li><li>• Graduated driver licencing is the umbrella term for a range of measures including:<ul style="list-style-type: none"><li>• Extending learning periods for new drivers</li><li>• A review of driving ages</li><li>• Potential restrictions for a period after passing the test (e.g. on the number of passengers)</li></ul></li></ul>	<ul style="list-style-type: none"><li>• We were disappointed that the Government chose not to publish a green paper</li><li>• We continue to lobby the Department for Transport to improve road safety for young drivers</li><li>• Proven international evidence of substantive improvements</li></ul>

# UK regulatory update – other income

	What's happening?	Our response
Add ons	<ul style="list-style-type: none"> <li>FCA market study looking at whether there are common features of the add-on market that weaken competition or drive poor consumer outcomes</li> <li>FCA intends to publish its report during Q1 2014</li> </ul>	<ul style="list-style-type: none"> <li>Engaged with the regulator</li> <li>We welcome a high regulatory baseline</li> </ul>
Referral fees	<ul style="list-style-type: none"> <li>Solicitors' referral fees were banned from April 2013 as part of the LASPO reforms</li> <li>The CC are considering measures to control the cost of temporary replacement vehicles (TRVs) including banning fees</li> </ul>	<ul style="list-style-type: none"> <li>Actively engaged with the CC</li> <li>In favour of reducing credit hire rates and durations, which may lead to a reduction and ultimate removal of fees</li> <li>Not in favour of outright ban in isolation</li> </ul>
Motor legal expenses insurance	<ul style="list-style-type: none"> <li>Thematic review looked at the positioning and wording of motor legal expenses insurance (MLEI). Review concluded:               <ul style="list-style-type: none"> <li>MLEI is a complex product, but can be useful for consumers</li> <li>Firms need to review practices, particularly relating to sales processes and quality of explanation.</li> </ul> </li> <li>The FCA confirmed MLEI will be reviewed again in 2014</li> </ul>	<ul style="list-style-type: none"> <li>Our customers value this product</li> <li>Our practices were already in line with the FCA's recommendations</li> </ul>
Consumer credit	<ul style="list-style-type: none"> <li>The FCA takes over responsibility for Consumer Credit from the OFT on 1 April 2014</li> <li>The FCA has defined all insurance companies as 'high risk' for the purposes of providing credit</li> </ul>	<ul style="list-style-type: none"> <li>We continue to lobby HMT and FCA to ensure the GI sector receives a proportionate, pragmatic and risk based approach to the regulation of consumer credit</li> </ul>

# Regulatory update – Flood Re

## What's happening?

### Background

- Memorandum of Understanding agreed between the Government and insurance industry in June 2013
- Flood Re confirmed as the preferred solution to availability and affordability of flood insurance

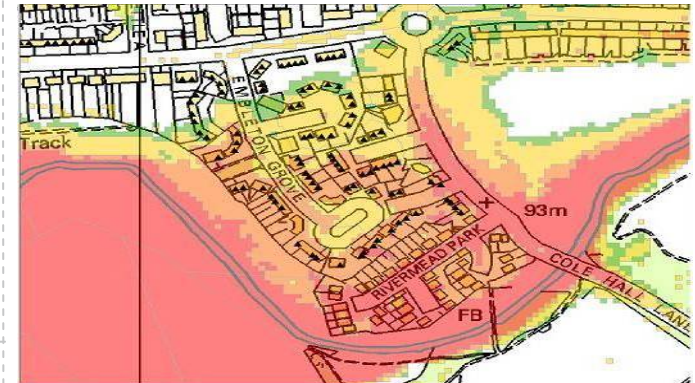
### Details

- Flood Re is not-for-profit mutual scheme that offers reinsurance for flood losses on risks ceded to it by home insurers
- In addition to premiums ceded, Flood Re will be funded by a levy on all home insurers, equating to £10.50 on an annual household premium
- Certain proposed exceptions – properties built from Jan 2009, properties in the highest council tax bands and commercial property

### Timing

- Industry and Government aim to establish Flood Re by summer 2015
- Until then, insurers have agreed to voluntarily meet the commitments set out in the ABI Statement of Principals on the Provision of Flood Insurance
- DLG is working to understand the implications of Flood Re although the impact on insurers is expected to be neutral

## Geospatial tool



- Accurate modelling of risks and review of events
- Manage accumulation
- Leverage data / modelling for Commercial risks
- Enable overlays of additional data sets

# Segmental performance: 2013

£m	Motor	Home	Rescue and other personal lines	Commercial	International	Total Ongoing
GWP	1,421.1	943.1	383.4	474.5	604.5	3,826.6
Net earned premium	1,444.8	908.9	365.8	434.6	366.5	3,520.6
Net claims – current year	(1,232.1)	(533.7)	(228.8)	(322.2)	(322.7)	(2,639.5)
Net claims – prior years	291.9	43.3	9.0	51.6	39.3	435.1
Commission expenses	(36.3)	(177.9)	(27.3)	(92.2)	(57.9)	(391.6)
Operating expenses	(370.2)	(184.4)	(90.8)	(101.4)	(39.6)	(786.4)
<b>Underwriting result</b>	<b>98.1</b>	<b>56.2</b>	<b>27.9</b>	<b>(29.6)</b>	<b>(14.4)</b>	<b>138.2</b>
Investment return	122.8	24.1	8.2	29.6	23.4	208.1
Instalment income and other operating income	126.8	25.9	10.4	9.5	7.6	180.2
<b>Operating profit/(loss)</b>	<b>347.7</b>	<b>106.2</b>	<b>46.5</b>	<b>9.5</b>	<b>16.6</b>	<b>526.5</b>
Loss ratio - CY	85.3%	58.7%	62.5%	74.1%	88.0%	75.0%
Loss ratio - PY	(20.2%)	(4.8%)	(2.4%)	(11.8%)	(10.7%)	(12.4%)
Commission ratio	2.5%	19.6%	7.5%	21.2%	15.8%	11.2%
Expense ratio	25.6%	20.3%	24.8%	23.2%	10.8%	22.3%
<b>Combined operating ratio</b>	<b>93.2%</b>	<b>93.8%</b>	<b>92.4%</b>	<b>106.8%</b>	<b>103.9%</b>	<b>96.1%</b>

# Segmental performance: 2012

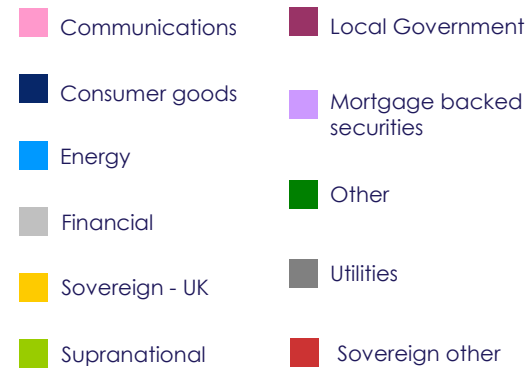
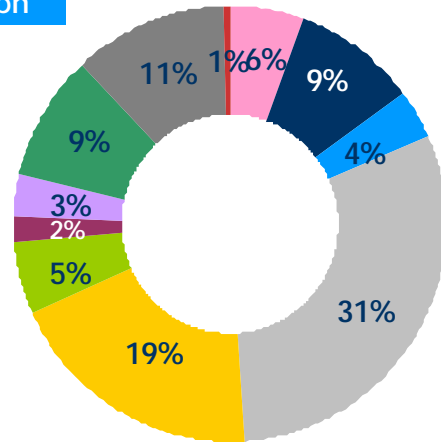
£m	Motor	Home	Rescue and other personal lines	Commercial	International	Total Ongoing
GWP	1,623.5	989.0	389.8	435.6	552.7	3,990.6
Net earned premium	1,629.2	950.8	382.8	402.8	343.1	3,708.7
Net claims – current year	(1,390.8)	(592.1)	(218.8)	(310.3)	(298.2)	(2,810.2)
Net claims – prior years	174.3	37.4	23.9	56.2	30.2	322.0
Commission expenses	(31.9)	(154.2)	(22.9)	(87.0)	(41.5)	(337.5)
Operating expenses	(407.1)	(209.2)	(98.8)	(94.8)	(44.9)	(854.8)
<b>Underwriting result</b>	<b>(26.3)</b>	<b>32.7</b>	<b>66.2</b>	<b>(33.1)</b>	<b>(11.3)</b>	<b>28.2</b>
Investment return	140.0	34.1	7.5	29.4	23.7	234.7
Instalment income and other operating income	148.1	26.5	10.7	5.9	7.1	198.3
<b>Operating profit/(loss)</b>	<b>261.8</b>	<b>93.3</b>	<b>84.4</b>	<b>2.2</b>	<b>19.5</b>	<b>461.2</b>
Loss ratio - CY	85.4%	62.3%	57.2%	77.0%	86.9%	75.8%
Loss ratio - PY	(10.8%)	(3.9%)	(6.3%)	(13.9%)	(8.8%)	(8.7%)
Commission ratio	2.0%	16.2%	6.0%	21.6%	12.1%	9.1%
Expense ratio	25.0%	22.0%	25.8%	23.5%	13.1%	23.0%
<b>Combined operating ratio</b>	<b>101.6%</b>	<b>96.6%</b>	<b>82.7%</b>	<b>108.2%</b>	<b>103.3%</b>	<b>99.2%</b>



# Fixed income portfolio

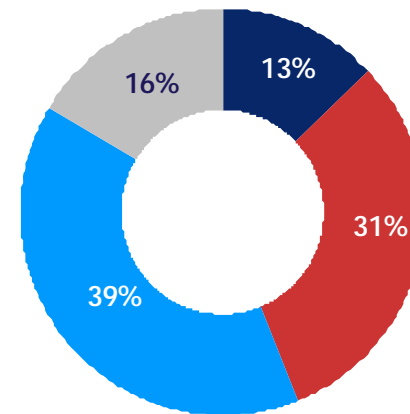
## Fixed income by sector

Total debt securities £7.0bn



## Fixed income by rating

Total debt securities £7.0bn



# Fixed income portfolio

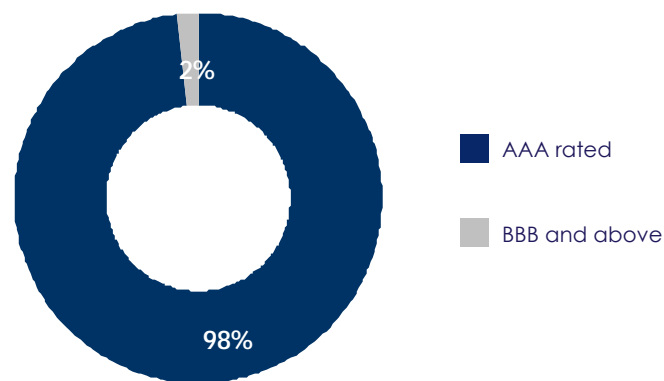
## Sovereign exposure by country

Key Eurozone countries £m	31 Dec 13
Germany	-
France	1.8
Netherlands	4.3
Ireland	-
Spain	-
Italy	20.4
Belgium	4.4
Austria	-
<b>TOTAL</b>	<b>30.8</b>

## Corporate exposure by country

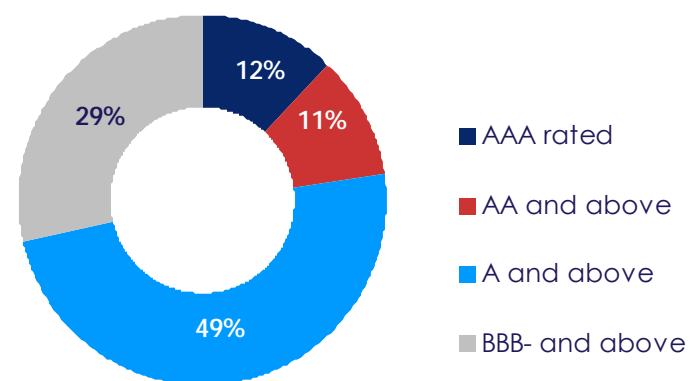
Key Eurozone countries £m	31 Dec 13
Germany	267.4
France	263.3
Netherlands	53.9
Ireland	0.3
Spain	23.2
Italy	39.3
Belgium	47.0
Finland	7.1
<b>TOTAL</b>	<b>701.5</b>

## Sovereign exposure by rating



Total sovereign £1.4bn

## Corporate exposure by rating



Total corporate £3.5bn

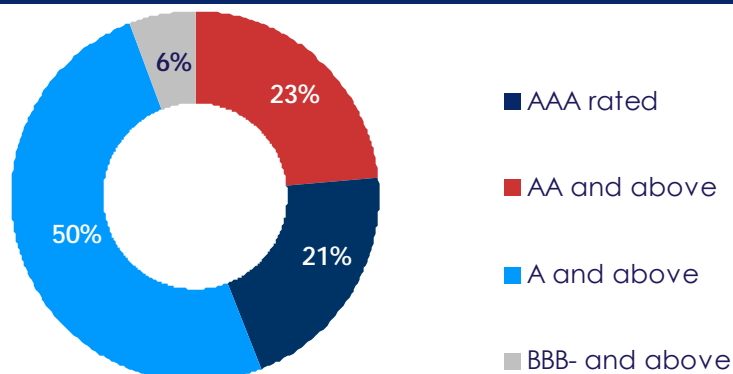
# Fixed income portfolio

## Bank and other financial institutions exposure

£m	31 Dec 13
Secured	135.9
Unsecured	1,297.3
Subordinated	191.9
<b>Total banks</b>	<b>1,625.2</b>
Investment hedge derivatives	39.8
Other financial institutions	469.6
<b>Total</b>	<b>2,134.5</b>

Key Eurozone countries £m	31 Dec 13
Germany	197.7
France	118.1
Netherlands	173.4
Ireland	3.8
Spain	8.0
Italy	10.0
Belgium	1.8
Finland	6.2
Portugal	-
Greece	-
<b>TOTAL</b>	<b>519.0</b>

## Bank and other financial institutions by rating



Total bank and FI £2.1bn

RBS Group Exposure £m	31 Dec 13
Cash	64.7
Short term deposits	-
Overdrafts	(55.1)
Term deposits	35.0
Interest rate swaps	(17.0)
FX derivatives	(1.5)
<b>Total</b>	<b>26.2</b>
RBS Group debt held	48.6
<b>Total cash and investment transaction</b>	<b>74.8</b>

# RoTE calculation

## RoTE calculation

(£m)	2013	2012
Ongoing operating profit	526.5	461.2
Less: Finance costs	(37.7)	(28.7)
Profit before tax (ongoing operations)	488.8	432.5
Less: tax <sup>1</sup>	(113.6)	(106.0)
<b>Profit after tax</b>	<b>375.2</b>	<b>326.5</b>
Invested tangible equity b/f	2,410.1	3,246.1
Invested tangible equity c/f	2,289.9	2,410.1
<b>Average invested tangible equity</b>	<b>2,350.0</b>	<b>2,828.1</b>
<b>Return on tangible equity</b>	<b>16.0%</b>	<b>11.5%</b>

## Adjusted EPS calculation

(£m)	2013	2012
Ongoing operating profit	526.5	461.2
Less: Finance costs	(37.7)	(28.7)
Profit before tax (ongoing operations)	488.8	432.5
Less: tax <sup>1</sup>	(113.6)	(106.0)
<b>Profit after tax</b>	<b>375.2</b>	<b>326.5</b>
Weighted average number of shares	1,500.0	1,500.0
<b>Adjusted EPS (pence)</b>	<b>25.1</b>	<b>21.8</b>
Weighted ave number of shares (diluted)	1,501.2	1,500.0
<b>Adjusted EPS (diluted) (pence)</b>	<b>25.0</b>	<b>21.8</b>

# General disclaimer

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## Forward-looking statements

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