Prudential Plc Interim Results Presentation
27th July 2005

Mark Tucker
Group Chief Executive

INTRODUCTION

Good morning, It's great to be here and to see so many familiar faces.

First I'd like to run you through the highlights of today's results before handing over to Philip to talk about the detail.

Then I'll come back to spend a few minutes talking about my views of each of our businesses given the perspective of the 2 years I have been away and the short time I've been back.

And up front let me say that I'm confident of the markets we are in and the opportunities we have ahead of us.

Finally, I'll lay out my priorities for the business which we'll be expanding on when we report the Q3 new business figures in October.

Our interim results show that the Group is performing well.

FINANCIAL HIGHLIGHTS

Overall, we have delivered a strong sales increase and improved our margin to 37%.

In the UK we generated headline growth of 50%. If you take out the Phoenix Life transaction growth was a strong 10% and that's in a market we believe has grown by only 2%-3% this half.

In the US we had good retail sales with variable annuities increasing by 21%.

And I'm pleased to say that in Asia we grew sales by 39% in the second quarter taking first half sales up by 26% on last year.

Our achieved operating profit was ahead by 31% Philip will talk about the components of this in more detail shortly.

We've also increased the dividend by 2.1% to 5.3p with the dividend policy remaining unchanged.

I'll now hand over to Philip to talk in more detail about the numbers.

Philip Broadley
Group Finance Director

INTRODUCTION

Good morning, it is a pleasure to present an analysis of our financial results to you this morning.

As you will have seen from our press release we have reported today very strong results on all measures and we have continued to build momentum in all of our businesses.

Mark has already commented on the key financial highlights for the first half. So, I would just like to mention that our growth in total achieved profits before tax is up 26% on the prior year. Total profits on the achieved basis have benefited from good investment performance, offset by changes in economic assumptions and the impairment of purchased goodwill in respect of the Japan Life business, which has given rise to a charge of £95m.

Statutory operating profits were also up 25% on the prior period.

As in March, I have focused the presentation today on half a dozen or so key items of the results to really concentrate on the key drivers and trends to help you in your understanding of the results.

Starting then with sales.

APE SALES

Sales from all our businesses have we believe out-performed market growth rates.

The primary drivers of growth for the UK business were strong sales of unit-linked bonds, bulk annuities and individual annuities. Market growth in the first half of 2005 is unlikely to be in excess of 5 per cent and we do not anticipate a significant improvement in the second half of the year. Competition within the protection and individual annuity markets intensified in the second quarter and we expect this to continue. However, we expect to continue to outperform the market in the second half of the year and remain confident that we can achieve overall growth of 10% in 2005.

We have mentioned before that we do expect to see significant bulk annuity sales of the scale of Royal London last year or Phoenix Life & Pensions this year from time to time.

Jackson National Life's new business premium of £275m shows an 18% increase on last year. The focus of Jackson's activities has been on retail sales, particularly variable annuities. Retail APE sales were up 11% in dollar terms on the prior year with variable annuities continuing to show strong momentum growing at 21%.

We believe that as market data becomes available it will confirm Jackson growing faster than the market which we believe was broadly flat in the first half of the year. JNL remains well positioned to outperform the market over the full year.

In Asia, sales in the second quarter continue to build on the trends we saw earlier in the year. APE sales for the first half of 2005 were £313m up 26%. Sales in Q2 alone were £170m, up 39% on the same quarter of 2004. Strong growth continued to come from newer markets such as Korea and India supported by our base in the established markets of South Asia. Our businesses in Indonesia and China also had strong sales growth.

Sales in Japan have been disappointing and this has led us to decide on the partial impairment of the carrying value of purchased goodwill as I have mentioned.

For the group as a whole, we have also seen good growth in the half in inward fund flows that together with investment gains means that funds under management have grown £17bn to £214bn.

NBAP

This chart shows new business achieved profits for the first half of the year together with trends in margin.

At a Group level in the first half of 2005 the overall margin increased by 1% point, from 36% to 37% but I would like to look at each BU in more detail.

UK MARGIN

The UK margin overall was 30%, up from 25% at the half year last year. The increase in margin primarily reflects favourable sales mix and the positive effect of economic assumptions changes offset by lower annuity yield margins.

The favourable sales mix reflects the increased annuity sales, including the PLP bulk annuity transaction and lower sales of less profitable pensions offset by increased unit-linked bond sales.

The margin also benefits from the positive effects of DWP rebates received in the first quarter and the PLP large bulk in the second.

These transactions are particular features of this half.

Notwithstanding the current performance achieved in the first half of 2005, we continue to expect some reduction in overall margin from the 2004 year end level for the full-year 2005 due to the changing product mix as Prudential UK builds its shareholder-backed business

JNL MARGIN

The margin in the first half of the year shows a 3% points increase primarily as a result of improved product profitability.

Fixed annuity margin has remained in line with last year. While we have maintained target spread we are earning it off a lower fund earned rate as yields remain low. We have more than earned our target spread of 155 basis points grading to 175 basis points over five years.

The variable annuity margin has shown an improvement through the effects of changes in pricing for Perspective II that we instituted in May 2004 have had full effect throughout the period.

In addition GIC margins have increased due to longer average maturities for contracts sold in 2005.

ASIA MARGIN

New business achieved profit margin in Asia has been affected by geographic mix, product mix and a change of assumptions.

The 5% points decrease in the margin from 2004 full year to 2005 half year is driven by:

- ***a change in geographic mix (reduction of 2% points) largely due to a higher proportion of new business from the relatively lower margin markets of Korea and India;***
- ***a change of product mix (reduction of 1% point) with an increased proportion of lower margin products in Taiwan and Singapore; and***
- ***a change of assumptions (reduction of 2% points) primarily driven by low interest rates in Taiwan.***

We expect to be able to maintain the aggregate margin in Asia at or around current levels given our planned mix of business in 2005.

IN-FORCE

The overall result from our in-force business has increased 26%, with a particularly strong performance from Jackson National Life.

Overall, the net Group effect of assumption changes is a positive £16m, with a net positive experience variance of £39m.

Looking at each business unit in turn, in the UK the fall in in-force profits primarily relates to a strengthening of persistency assumptions across a number of products, primarily in respect of with-profits business.

I also mentioned then that we expected the effect of our bonus announcement in late February to have a positive effect on persistency. In the case of PruBond, which accounts for a significant proportion of the assumption change, we expected surrenders to fall after the bonus declaration in February 2005. In the event, following the bonus declaration customers have continued to surrender their policies leading to a strengthening of the assumption by 40 per cent.

The persistency assumption changes reflect Prudential's current experience and, post tax, represents 3 per cent of the overall embedded value of the UK business. We will continue to actively manage the conservation of the in-force book.

Jackson National Life's in-force result has benefited from a £141m assumption change relating to the present value of premium increases introduced on two blocks of in-force term life business to reflect current experience in line with the product terms. It also benefits from a positive spread variance of £44m as we continue to be able to earn more than our target spreads. You will recall that we discussed on 2nd June an altered basis for longer-term returns for fixed income securities, which is presented today for the first time. There is more detail about this change in the press release and supplementary schedules.

In force operating profits in Asia of £74 million for the first half of 2005 represent an increase of 90 per cent over the same period for 2004, which included changes of assumptions.

IFRS PROFIT

As you know this is the first time that we are presenting statutory results on an IFRS basis which we introduced on 2nd June.

In the UK, IFRS operating profit was up 22 per cent reflecting an £8 million increase in profit from the with-profits fund reflecting bonus rates announced in February 2005 and an increase in annuity sales.

The US operations' result was up 12 per cent at CER, reflecting increased spread and fee income offset by higher DAC amortisation, together with increased profits from PPMA. Remember also the 2004 half year result benefited from two one off items that improved the result by £27m.

In determining JNL's IFRS results longer-term returns for fixed income securities also reflect the altered basis of dealing with investment gains and losses.

In Asia, IFRS profits, excluding regional head office costs, increased to £110 million from £60 million in 2004. This includes a contribution of net £34 million from exceptional items, of which the largest is the one-off reserve release due to the introduction of a risk based capital regulatory framework in Singapore. This result also reflects the steady increase in operating profit generation by our established life insurance operations (Singapore, Malaysia and Hong Kong) of £57m, as well as our Indonesian and Vietnamese life businesses starting to make meaningful contributions.

M&G has once again delivered a strong performance benefiting from improved market levels and higher funds under management. Its underlying profit of £68m compares to an underlying profit of £59m in the same period last year, a 15% increase. However, adjusting the 2004 result for the £7 million of one-off items that were disclosed last year, profits improved by £16 million or 31 per cent, over the same period of last year.

Egg has separately reported its half year results today which include an operating profit of £23m for its core UK business offset by a restructuring charge of £10m.

As we discussed on the 2nd June the most significant impact of the move to IFRS reporting for us is the effect of accounting for derivatives at JNL. For 2005, profits on JNL's derivatives book contributed £36million to the £94 million of total short-term fluctuations in investment returns. This compares with profits of £92m profit in 2004. Prudential has chosen not to seek to attempt to hedge account under IAS 39 for these derivatives.

To do so would have required changes to the way JNL manage its assets and liabilities which the Group believes would not be in the economic interests of the business. This revaluation of derivatives does, however, introduce more volatility to the results.

CASH FLOW

Looking now at the holding company cash flow I will as usual run through all of the elements shown on the slide and give you some pointers for the remainder of the year.

The UK life fund transfer reflects the shareholders' interest in bonuses declared in respect of 2004 and paid to us in the first half. As previously reported this is an amount of £198m, of which £194m is via the UK and £4m via Asia, in respect of the HK branch.

The special dividend of £100m that I have previously mentioned will be paid over in the second half of the year, as will remittances from JNL estimated to be US$150m.

For 2005 we expect full year remittances from Asia to exceed the level of last year.

The tax received represents Group release surrendered to the holding company and the corporate activities represent the cost of the Group head office. The cash flow before the investment in our long term business was £13m.

The group invested £89 million during the first half of the year, including £9 million in its UK operations and £80 million in Asia.

The capital usage of the UK business in the first half has been in line with our plans, and in line with the comments Mark Wood made to you in April, we expect the UK capital requirement for the year to be about £250m. The UK business has drawn only £9m of capital from the holding company in the first half as it has been managing capital efficiently within the various shareholder backed companies. We do expect the UK to draw significantly more capital in the second half but within the plans outlined.

Net capital investment in Asia in 2004 was £91 million and is expected to remain broadly the same in 2005.

Earlier in July we raised US$300m of hybrid debt priced at 6.5% via a US retail offer. The proceeds of this issue that qualify as regulatory capital will be used to repay non-qualifying 2007 senior debt when it matures.

Turning now to IRRs.

IRRs

The weighted average post-tax Internal Rate of Return (IRR) on the capital allocated to new business growth in the UK for the first half of 2005 was 13 per cent. This remains in line with the target of 14 per cent for the 2007 financial year.

IRRs for the US and Asia remain as previously reported.

AP SHAREHOLDERS' FUNDS

Finally, I would like to spend a moment analysing the various elements making up the movement in achieved profits shareholders funds.

On an annualised basis, NBAP represents 9% of opening achieved profits shareholders' funds and it continues to be a feature of Prudential's performance that the proportion of new business achieved profits relative to AP shareholders' funds is higher than its peer group, reflecting the continued growth of new business.

I have talked about the other elements of the operating profit.

Short term fluctuations in investment returns of £305m includes £275m in respect of the UK and the actual returns on the UK life fund of 7.4%, ahead of the long term assumed rate of 3.3%.

In Asia, the negative economic assumption change is £230m and primarily reflects the effect of lower bond yields in Taiwan.

Due to the effect of the stronger dollar, foreign exchange movement is positive £242m.

As you know, this half year set of results is the last occasion on which we will be reporting under AP and we will be providing more detail to you on European Embedded Value, particularly sensitivities, in a press release that we will issue later in the year.

I would just like to draw your attention to some additional information provided in the supplementary schedules today. For the first time you will find in your pack further analysis in respect of the movements between net worth and value of in-force and I hope you find this additional disclosure useful.

With that I will hand over to Mark who will talk about our ambitions for building on these results.

Mark Tucker
Group Chief Executive

INTRODUCTION

Most of you know that I've worked in all of the businesses across the markets in which we operate.

I've spent my first two and a bit months back at the Pru refamiliarising myself with those businesses and before setting out my key priorities for you I'll say a few words about my impressions of each business.

First, let me set some context.

I have been on board for a little over two months and as you can see from the results, the businesses are performing well.

With this in mind, I've no intention of charging in and making dramatic changes. That's neither my style nor my intent.

What does that mean in terms of Egg, JNL, and in terms of Asia or the UK?

It means I'm not rushing into making any quick decisions and I won't be making announcements today about any part of the Group. What I will be doing is spending the next few months carefully considering the direction of the Group in terms of where we think we are best able to create sustainable competitive advantage and drive increased value for shareholders over time. I'll be coming back to share my evolving thinking with you at Q3 new business.

So, within that context, let me turn to each of the businesses.

UK INSURANCE

Over the last four years there's been a significant change in our UK insurance operations.

Having come back from two years away and now visited all of our UK sites the scale and quality of that change really jumps out at me!

Today we're in a much stronger position to make the most of changes in the market.

I have talked already about the impressive sales growth delivered by the UK business in the first half.

We are also capitalising on our strengths in areas like annuities and will make sure that we maintain our levels of return.

But we also have to look to continue the development of other areas of the business such as unit-linked bonds and protection. But the focus <u>has</u> to be on profitability and achieving IRR targets.

We have a leading position in corporate pensions but we still have a lot of work to do in the pensions area in driving through efficiencies to deliver profitable growth.

We have materially improved our service levels. And clearly that's key for cementing strong distribution relationships.

We continue to build the partnerships channel which recorded growth of 33% this half excluding large bulks.

And we retain very strong relationships with Employee Benefit consultants who are key intermediaries in the corporate pensions and bulk annuities market.

We have been successful in developing our multi-tie relationships, although the transition to multi-tie has been slower than generally anticipated, but it's early days.

As the market goes through a period of transition over the next 18-24 months .... we'll be monitoring the returns from these relationships very closely.

Last but not least, as part of our initiative to improve returns in the individual pensions business work is already well underway to take advantage of the opportunities presented by A-Day.

Indeed, the business is on track to grow at 10% this year, and to deliver 14% IRR by 2007.

M&G

I started my career in PPM, M&G's predecessor and there is no doubt that M&G continues to be a very good business. Its underlying profits are 15% higher than last year.

M&G has consistently delivered strong investment performance and successfully diversified its product range.

It has continued to build on its unique strengths in retail fund management, institutional fixed income pooled life and pensions, property and private finance.

And, our M&G colleagues have achieved this strong profit growth whilst maintaining focus on investment performance, and managing the cost base tightly.

EGG

Egg has a strong and unique franchise in the UK Its operating profit was £13 million in the first half for the core UK business.

The UK credit card business performed well. It produced balance growth of 5% year to date compared to 2% growth in the industry.

Costs are improving down by £10 million, that's around 8%, compared to the first half in 2004 and the cost/income ratio has improved to 44% from 51% last year. In part that improvement is due to the restructuring exercise completed this quarter.

The challenge has been to align their cost base to their strategy which is re-focused on the core UK business.

Importantly, credit quality remains strong. As expected the impairment charge reduced slightly in the second quarter.

I will work with them to make sure they continue to focus on delivery.

As with all our businesses we remain very focused on optimising Egg's performance and delivering value to the Group's shareholders.

JACKSON NATIONAL LIFE

As you can see from today's results Jackson continues to deliver good performance.

When I worked there some twelve years ago it was really just a fixed annuity provider. Now it has a significant presence in variable annuities. We are second in terms of net flows and 13th in terms of new sales.

Jackson continues to be a top ten player in fixed annuities but these now make up only 21% of its retail sales.

Jackson has continued to be an innovator. Perspective II is a good example of product innovation and the technology infrastructure that sits behind this gives us a clear competitive advantage.

The Life of Georgia acquisition completed in May of this year provides an opportunity to integrate a higher-cost book into Jackson's low cost platform. The integration will be completed by the end of this year.

At the Analyst visit to Lansing and Chicago in the first week of November you'll hear much more about the business and how it fits within the US market. We have got an excellent trip planned for you.

ASIA

Asia remains a strong performer. APE sales growth in the first half was an encouraging 26% and the outlook remains favourable.

The fund management business has seen excellent growth in FUM to £9.7 billion and now has operations in 8 markets in the region.

The potential in the region and the basic drivers for growth, remain as compelling as ever.

Over the last 2 years, we've made good progress in Korea, India and in China in particular. Our more mature markets such as Hong Kong, Singapore and Malaysia continue to grow, and as Philip said generate capital.

Korea has materially increased its contribution to the region Japan on the Life side has been a more challenging environment, as Philip has covered.

We are continuing to work on extracting regional synergies. Our first Operations hub in KL, which a number of you heard about last November, opened a few months ago.

I'm also pleased to see that we've signed up a number of new distribution partners since I left, such as ESun Bank in Taiwan, SingPost and Maybank in Singapore.

We've got to continue to build on our distribution partnerships and then leverage the products we sell across these channels.

The funds management business is making good progress with Japan and Korea now building material scale in terms of funds under management and a new operation in Vietnam.

I remain optimistic about our Asian business.

PRIORITIES

I'd now like to take a few minutes to outline my priorities for the Group.

As is I said at the start I plan to talk more about my evolving thinking when we report our third quarter new business in October.

But as you can already see we've created a lot of momentum across each of our businesses. I firmly believe there is great potential for profitable growth across all of the markets in which we operate.

We're putting a clear focus on execution and delivery. And my first priority is to maintain and sustain that clarity of purpose.

We've got to build on our advances in capital management to make sure that we genuinely make the best of the benefits we can get from off-setting risk profiles.

And we'll have to focus our capital to support growth that is profitable.

Capital discipline is and always will be a priority for the Group and for me personally.

But we cannot simply be satisfied by the opportunities we see today. We'll have to look toward the longer term and keep our eye on the markets as they continue to evolve.

We've got to anticipate the changing needs of our customers we've got to understand how to apply changes in technology for maximum effect and we've got to be involved proactively in the regulatory agenda.

With all of this in mind I'm focusing my attention more and more on making sure that the actions we are taking today will help lay the foundation for an even stronger position in the future.

As you would expect finding a way to further accelerate profitable growth and delivering new and innovative solutions for our customers is the way we will deliver value for our shareholders.

Delivering value for our shareholders is what I view my job is about. A focus on the longer term is a key priority in achieving that objective.

There are some additional priorities on my mind.

The first is tapping into what I believe are under-exploited opportunities opportunities to leverage the Group's scale and scope to bring greater efficiency and effectiveness to our operations.

One area which is already clear to me is the Group's approach to IT. This work has now been accelerated

I believe there are other synergies to be gained. And, we'll be putting a real effort into better understanding these opportunities and putting in place actions necessary to deliver benefits from them.

Finally, at the heart of our success will always be our people. I've spent a big part of the last several weeks re-familiarizing myself with all of the Group's operations and our teams in the different businesses.

It is clear to me that we have people with great expertise and enormous commitment.
I want to continue to build on this strong foundation and that gives me confidence in the Group's continued growth.

I also believe that we can achieve the growth and return on the targets that we have set out across each of our businesses and I'm optimistic about the prospects for the overall business in the longer-term.

QUESTIONS

We'd be happy to take questions. Please wait for the microphone and state your name and the name of your company.

What we would like to do is take questions from as many of you as possible. We'll come back to you if you have more questions and there is time.