# Prudential plc 2005 Full Year Results – Analyst script

**Mark Tucker, Group Chief Executive Officer:**

Good morning and welcome to our 2005 Results presentation.

The Executive team as usual are in the front row and they are all really looking forward to the Q&A session. For the first time today we have Nick Prettejohn with us who has joined as Chief Executive of the UK insurance business and has also taken responsibility for Egg, as its new Chairman.

**SLIDE 2 – FY 2005 RESULTS**

You've all seen the headline profit numbers, so I only want to make a few brief introductory comments. The business is growing strongly. We have delivered double digit growth in all KPIs. The results demonstrate progress we are making in aggressively expanding the Group

We have plans and priorities to drive growth harder and to increase returns

2005 was a busy year and in 2006 there is much more to come. I'll be back after Philip to talk a little more about "drivers" behind the numbers and the priorities we have going forward.

**Philip Broadley, Group Financial Officer:**

Like Mark I am delighted with our results. All of our business units face genuine competition in the markets they operate in but all have moved forward strongly. Today I want to show you how the figures shown in this morning's press release reflect this performance.

I'll talk to you about five or so key themes arising from the results to help in your understanding of the key drivers and trends in 2005, and give you some pointers for 2006.

I will be focusing on our:

- new business profit, associated margins and IRR,
- significant items in our in-force operating result,
- trends within the IFRS operating profit,
- a review of holding company cashflow, and
- Finally a discussion on capital items, including return on embedded value and our regulatory capital position.

But before all of that, first some headlines: As Mark mentioned all of the main metrics have moved forward strongly with new business profit up 15% on the back of sales growth of the same amount and I would also like to draw your attention to the growth in total EEV operating profit up 33% to over £1,7bnand IFRS profit which is up significantly by 36%to £957 million.

Our dividend policy remains unchanged and the dividend announced today results in a full year dividend of 16.32p up 3% on the year. With the strong growth in IFRS profits the dividend is covered 1.7 times on a normalised tax basis.

**SLIDE 3 - EEV BASIS: NEW BUSINESS PROFIT AND MARGINS**

So we start with a story of strong new business growth and steady margin, as shown here.

Our overall New business profit increased 15% in 2005 as shown here, primarily driven by increased profits in both the US and Asia.

At a group level, margin, as a percentage of APE, increased slightly to 41%, although there were more changes at the business unit level. An increase in margin for the US was offset by declines in both the UK and Asia, I will discuss these further over the next few slides.

Before I do that I will briefly touch on the new second measure of margin based on a percentage of present value of new business premiums. This is the preferred method of disclosing margin under the EEV principles, and from the half year we will start providing commentary on this basis. We will also continue to provide APE margin analysis for the foreseeable future.

However, in 2005, as the ratio of single premium business to regular premium business is similar to last year the drivers of PVNBP margin trends are similar to those for conventional margins.

Over the next three slides I am going to talk you through both margin and IRR for each business unit.

I would like to spend a moment discussing the effect of changing our equity risk premium and how this is dealt with under EEV. By increasing the equity risk premium, which we have done as a result of advice from the Portfolio Management Group, who advise us on strategic asset allocation, there is a higher investment earnings amount. But this is offset by an increase in the discount rate as multiplied by the beta that we apply under EEV methodology. When you put all of this together you have new business profits which overall across the group are lower by about £20m; an opening in-force lower by about £40m; further offset by the higher impact of the higher unwind of about £80 million across the group. So there are three elements at play here, but when combined, broadly the effects on the results overall are somewhat neutral.

**SLIDE 4 - UK MARGIN AND IRR**

Starting first with the UK, where, as expected, the new business profit margin fell 3 percentage points over the course of 2005, this was due to a shift in product mix as a result of the expanding shareholder backed business, although as we advised at interims and again at Q3 there continues to be competitive pressure on margins across a range of products which we have substantially resisted.

The weighted average post-tax Internal Rate of Return (IRR) on the capital allocated to new business growth in the UK for 2005was 14 per cent, meeting the 2007 target set at the time of the rights issue. This increase was achieved by broadly maintaining or improving individual product IRR's during the year coupled with a favourable product mix.

**SLIDE 5 - JACKSON MARGIN AND IRR**

The Jackson margin increased from 32% in 2004 to 41% this year driven by a number of factors:

- An improved variable annuity margin reflecting a full year benefit associated with the re-pricing, in May 2004, of Jackson's unbundled variable annuity product 'Perspective II' The margin here also benefits from economic assumption changes, including the increase in the equity risk premium and also a higher average policy size.
- Institutional margins also improved reflecting the longer average duration of contracts sold during the year.
- An increase in the long term spread assumption for fixed index annuities from 175 to 190 bps reflects the current spread being achieved on this business.
- There was a favourable product mix of new business overall: with the growth of Variable Annuity sales as a proportion of products sold.

- All these positives were offset by a slight fall in margin on fixed annuities due to an increase in the risk discount rate.

The average IRR on new business written by Jackson was 15 per cent which reflects Jackson's strong pricing discipline, favourable product mix and changes in economic assumptions. We are pleased with the successful integration of Life of Georgia and are confident that we will achieve the target IRR of 12% for this transaction.

**SLIDE 6 - ASIA MARGIN AND IRR**

Full year Asia new business margins have developed as expected. You will have seen in this morning's press release we are now giving more information on Asia to help your understanding of our three largest sales markets, as well as India which will continue to increase in importance in the year ahead.

In deciding how much additional information to provide on Asia we have balanced our desire to help you to fully understand the drivers of our Asian business against commercial sensitivities. With this additional disclosure, I hope we will help you to understand the profitability of our business and the value being created.

Overall the regional NBP margin has been affected by a change in product and geographic mix which has caused a 5 percentage points decrease in overall Asia margin from 2004 full year, and this is in line with what we said at the half year.

The table shown here highlights the geographic mix. The margin in Korea increased slightly on 2004 due to a shift toward linked business partially offset by an increase in the risk discount rate.

In Taiwan a change in product mix towards lower margin but capital efficient linked business resulted in a fall of NB margin to 51%. This unit linked product now being sold for investment purposes, has a lower element of protection riders attached to it than more traditional unit linked products. It is also worth noting that unit linked products now account for 73% of sales in Taiwan compared to 49% a year ago.

We manage each country in Asia for profitable growth but we do not target or manage to a margin for the region overall.

With the exception of Taiwan, where we have increased the proportion of lower margin unit linked sales including the new retirement focussed product, all markets have increased their New Business Profit earned in 2005 over prior year.

In Asia we have target IRRs on new business at a country level of 10 percentage points over the country risk discount rate. Risk discount rates vary from 5 per cent to 18 per cent depending on the risks in each country market. And in aggregate, IRR on new business exceeded 20 per cent on average risk discount rates for 2005 of 9.8 per cent. We have exceeded the target in each of Asia's markets in 2005 except for Thailand and Japan.

**SLIDE 7 - IN-FORCE PROFIT**

Total in-force profit has increased 48% on 2004 with Jackson National Life as the primary driver of growth. The overall net effect of assumption changes is a negative £54m with net positive experience variances of £132m.

The Jackson result includes a £140m positive impact for the assumption change made at the half year for re-pricing term business. It also benefits from the continued out performance of our target spread with an £89m positive spread variance which contains about £60m of non-recurring items.

In the UK, the fall in in-force profits primarily reflects the strengthening in persistency assumptions, made at the half year. We continue to manage actively the conservation of the in-force book and current experience is running within assumptions.

Also included within the change in operating assumptions is a charge of £47m primarily in relation to the cost of capital which supports annuities. During the year we carried out a review of our mortality experience. We strengthened male assumptions and weakened female assumptions for mortality in line with what we are actually seeing, and the affect of this on EEV has been broadly neutral. However, for regulatory purposes, consistent with our prudent approach we have chosen to strengthen male assumptions only. This gives rise to a cost of capital impact for EEV purposes included within the assumption change line on the slide.

Other charges of £46 million in the UK include £45 million of costs associated with complying with new regulatory requirements such as Sarbanes Oxley, and also product development and distribution development. There is also a negative £19 million expense variance, but, we believe the announced cost savings from UKIO and Egg's collaboration together with other initiatives will lead to a lowering of the absolute cost base going forward. These two items were also offset by a £18 million profit on a variety of other items.

Operating variances in Asia were a positive £10m after including £14m of restructuring costs in Japan.

**SLIDE 8 - IFRS PROFIT**

Moving onto the third theme, statutory operating profits. Total IFRS operating profit for the Group as a whole was up 36% on 2004 with significant growth across all insurance businesses and M&G.

In the UK IFRS profit grew 35% to £400m due to increased profits attributable to the with-profits business reflecting improved terminal bonus rates; increased profits arising from annuity business which are predominantly shareholder backed now; and also profit arising from the Phoenix Life and Pensions transaction completed in June 2005.

The 27 per cent growth in operating profit for Jackson primarily reflects £119 million higher spread income and record variable annuity fee income due to significant growth in separate account assets and the return earned on them. Within the spread income are several non-recurring items together equalling £60m which I spoke about earlier.

Asia saw a 51% increase in operating profit to £187m benefiting from a net £30m of one-offs, and Asia now accounts for 20% of Group IFRS profits. This reflects the steady increase in profits from the long-established life markets of Singapore, Malaysia and Hong Kong with total operating profits of £127m. This compares to £61m from these three countries in 2001 – a doubling in 4 years. In addition, other operations such as Indonesia and Vietnam are starting to make meaningful contributions to statutory profit.

You will find more information about the nature of our insurance business, its cashflows and so on in the press release as part of our full IFRS disclosures.

M&G continued its strong performance with a 20% increase in profits to £163m including £17m of carried interest from realisations by PPM Capital although this is likely to be non-recurring. The results from M&G continue the strong upward trend over the past few years. It is due to effective cost control in a period of rising markets, strong net new business and the successful development of revenue streams from other activities.

Total profit from all asset management business across the group was £195m.

Operating profit for Egg was £44 million, compared with £61 million last year and this result is after restructuring and transaction costs.

The ‘Other’ caption here includes net interest payable of £175m, head office costs, including Asia, of £100m and positive investment returns of £87m.

**SLIDE 9 - HOLDING COMPANY CASH FLOW**

Holding company cashflow was very much in line with the guidance I have given you at various times in the year. I will now run through its key components

As reported before, the life fund transfer fell in 2005 to £194m. This reflects our share of 2004 bonuses paid in 2005.

The UK paid up their final special dividend of £100m in 2005 following two earlier payments of £100m in 2003 and 2004, and there is a small amount, £3m, in relation to dividends from other UK insurance companies in the group.

Jackson's regulatory capital increased $434m in 2005 after remitting $150m to the holding company and you will see a sterling equivalent on the chart, a 25% increase on the 2004 capital remittance on a constant exchange rate basis. Whilst Asia also increased its cash remittances by 9%.

You’ll notice that the capital remittance from M&G has fallen from £84m in 2004 to £62m in 2005. This was due to a higher level of reinvestment in new activities during 2005 together with a remittance of surplus cash in 2004.

Tax received represents group relief surrendered to the holding company and the corporate activities this year primarily represent cash flows in respect of group head office costs.

**SLIDE 10 - HOLDING COMPANY CASH FLOW (CONT’D)**

The amount invested in the UK business is in line with our expectations at the time of the rights issue supporting the ongoing growth of the shareholder backed business.

The gross investments in Asia of £169m together with the increased level of remittances gives us a net investment in Asia of £96m as expected and in line with 2004.

This gives the holding company a total outflow of £298m compared to £171m last year before the rights issue proceeds. I will now go on to discuss trends we expect to see in our cash flow in 2006.

**SLIDE 11 - CASH FLOW**

You will recognise this slide from October last year. It breaks down the sources of capital, shown at the top of the slide and the uses of capital at the bottom. I will now take you through each element.

The rights issue proceeds have been used to date predominantly to back growth of the UK shareholder backed business. To date £772m remains to be deployed.

The life fund transfer to be paid in 2006 will be £223 million, including the Hong Kong branch, an increase of £29m on last year as a result of the bonus declarations announced in January.

M&G remittances are expected to increase as profits continue to grow.

As previously mentioned Jackson remitted $150m last year, this remittance reflects its strong growth and increasingly capital efficient mix of business. Going forward we expect that Jackson's remittances will continue to grow as more capital is released from its in-force book.

Importantly the growing level of in-force business in each of our Asian markets increasingly provides the capital to fund organic growth at individual country levels. As we aggregate the plans for each of our Asian businesses across the region we continue to expect that the Asian region as a whole will be cash positive in 2006.

Egg will support the development of its balance sheet from its own resources and has completed its capital restructuring enabling it to pay a dividend in due course.

The key uses of cash flow going forward are:

- First, the continued support of the UK shareholder-backed business, which as the in-force book continues to grow is expected to move to the top half of this slide having become cash generative. Cash invested to support the UK business in 2006 will be less than 2005, up to about £230m depending on the mix of business written and the opportunities available.
- Second, to service our debt.
- And the Third, is to provide dividends. The proposed final dividend together with the interim dividend already paid makes a total dividend payment of £393m for the year.

A quick reminder of the regulatory capital position under the Financial Conglomerate Directive. We are now in the process of finalising our regulatory returns and our surplus at the end of 2005 is estimated to be £825m, in line with previous estimates and compares to £845m last year.

**SLIDE 12 - EEV SHAREHOLDERS' FUNDS**

The chart here shows the movement in EEV shareholders funds. There has been strong growth of 20% over the year to £10.3bn at reported exchange rates.

New business profit continues to be a key drive representing 10% of opening shareholders funds. It's a feature of Prudential's performance that new business profit relative to opening shareholders funds is high, reflecting the growth of new business particularly in Asia.

In the middle of the chart you will see £1bn of uplift from actual investment performance achieved, above our long run expectations. The majority of which is attributable to the UK life fund which achieved a return of 20% over the year.

The next column along shows the negative impact of changes in economic assumptions. This principally includes £265m for Asia reflecting a change in the fund earned rate assumption in Taiwan made at the half year and which we discussed in October. We assume a phased progression of bond rates from 2%, today, to 5.5% at the end of 2012. This has the effect of creating an average fund earned rate that trends from 2.3% to 5.4% in 2013 fluctuating around a target of 5.9% thereafter. The fund earned rate actually falls below 2.3% for seven years to allow for the market value depreciation of bonds as the yields rise and also allowing for EEV dynamic lapse methodology.

It's also worth noting that the EV of our Asian business as a whole is £2.0bn. We have generated significant embedded value across the region offset by a negative EV in Taiwan of £311m arising from the negative spread in the back book, and the cost of holding economic capital against it as we have described. We have also disclosed today an analysis of Embedded Value within Asia. As you will see from it the sensitivity of our Embedded value, the effect of interest rate change is concentrated in Taiwan.

Indeed, a fall in interest rates of 1% throughout the region would lower embedded value by only 6%.

This strong result has increased our embedded value per share to 432p and gearing levels were broadly in line with last year at 13.5%.

Putting all of this together our Return on embedded value increased to 15.7% or circa 14% using a normalised tax rate. This compares to 13% a year ago, demonstrating that we are investing capital effectively at good returns.

Against this backdrop of the excellent results I shall hand over to Mark who will talk about our plans for the future.

**SLIDE 13 AND 14 – A GROWTH BUSINESS**

I want to take some time now to look in more detail at my priorities for the Group and growth in particular. I expect us to continue to deliver significant growth.

This means combining strong business growth - particularly in Asia and the US - with a focus on higher returns through greater operational and capital efficiency.

In the short term we'll do this by growing mainly organically and building on our current strengths. In particular, we will capitalise on opportunities to provide retirement services and build our life and pensions, fund management and retail banking businesses.

The strategic work we conducted last October has given us a very clear picture of the opportunities in each of our markets and the priorities we have to drive growth harder in areas where we see attractive returns.

And we also know that we need to continue to extract much greater value from working together as a Group.

**SLIDE 15 – UK OPERATIONS**

Turning first to the UK, as I said earlier, we now have new leadership in place looking after both Prudential UK and Egg.

These are two wonderful franchises. Nick only joined the team in January and, as you would expect, has spent the last couple of months familiarising himself with the business and the team. What I've asked him to do is to get the insurance and banking business in the UK to really focus on where they can maximise returns and best deliver sustainable value for both customers and shareholders.

We've made a good start already by hitting the 14% IRR target. We will continue to invest where we can see both optimum value added and potential efficiency gains. We will also be taking a hard look at the cost base of these businesses as well as their growth opportunities.

Let me turn now to the life & pensions part of our UK business. We still see clear opportunities in the annuity market. Our skills and capabilities in the post-retirement market make this is a key area for us. This is a high return part of the market and we saw good growth here in 2005.

We have built real scale, improved returns and at the same time we've reduced the average duration of the book. Going forward there is likely to be additional and increased competition in the bulk and individual annuity market and we are well prepared for that.

In the bulk market in particular, we have some significant and important advantages. No-one should underestimate the importance, particularly to Trustees, of a strong brand, the advantages of a broad proprietary base of mortality data. The on-going experience and large scale administration systems required. Systems that we have already invested in and, all of this combined with our expertise and experience and a sizeable existing book. Not only is the market growing but as you can see we are very well equipped to compete.

In the individual annuity market we have a strong flow of internal vestings and we have increasing diversity of distribution. We continue to look at ways to innovate here to avoid commoditisation and to maintain growth and margins.

Given our depth of experience and expertise, we also have good opportunities in Corporate Pensions but this is an area where profitability has to be improved.

We've also been developing our position in the Lifetime Mortgage market where we launched a product in late 2005 and so far the level of interest have been encouraging.

As I said in December, I also see good opportunities to drive through a much closer working relationship between UKIO and Egg. Plans on cost savings are moving ahead well, in line with our expectations. We started the process of taking costs out with the delisting of Egg on 20th February.

On the revenue side, we are also moving forward well and have already taken an important first step by starting to sell PruHealth products to Egg customers. Early signs are encouraging.

With regard to Egg, our priority is simply this, now that we have resolved the uncertainty of ownership, Egg can and must focus on growing profitably.

In the UK, as across the Group, we are targeting profitable growth, remaining clearly focused on improving returns. We will not commit capital if we do not see the returns that we want emerging over a reasonable timeframe.

**SLIDE 16 – US INSURANCE OPERATIONS**

And now the US. A business which is in a great position for profitable growth. Jackson is already a significant cash-generative business and has a market position that will give us continued profitable growth in the largest retirement market by far in the world.

We have developed competitive advantages in the key growth sectors of the market and the team are very focused on ensuring that it stays ahead of the pack. As Clark and his guys set out in their presentations in Lansing and Chicago in November the main area of focus for the future will be the Variable Annuity market and in particular accessing the flows of the 77 million 'baby boomers' as they head for retirement over the coming years.

Product innovation is critical to success in the US. The statistics you see on the screen that 70% of overall retail sales in 2005 came from new products and features is testimony to the flexibility of the Jackson infrastructure And also to the team's ability to identify and develop products that rapidly respond to market needs. Our leadership in product innovation in the US, as well as our sophisticated risk management practices, puts us in a strong position to grow. Already in 2006 Jackson has launched another tranche of VA product features. There'll be more to come later in the year. In addition there have been new developments to the Fixed Index Annuity product range.

Distribution reach is also key. Jackson has already achieved considerable success in the independent broker channel with a 9% share of VA sales. Perspective II was the number one product in 2005 by gross sales. We will continue to drive home these advantages and also look to grow further in our chosen channels and in particular, regional broker dealers and the bank channel.

In addition to the excellent results delivered by Jackson last year, the team were simultaneously engaged on integrating the Life of Georgia book getting 1.5 million policies on to their systems in only 8 months. That is a fantastic achievement by any standards. This is a real example of a successful “consolidation management team” in action and as we’ve said before, we will be looking to do more bolt-ons where we see appropriate returns. Jackson is truly in a great position to take advantage of the baby boomer retirement market.

Their key priority for 2006 is to build on the momentum they delivered in 2005.

**SLIDE 17 – ASIA INSURANCE OPERATIONS**

And now let me talk about our Asian business. The Asian market continues to offer us significant opportunities for profitable growth. We have got unrivalled exposure and weighting versus our peer group. Compound annual growth in overall new business has been 24% since 1994.

We’ve created customer relationships that stick and now have over 7 million customers in Asia. We have also been driving strong growth in funds under management which exceeded £28 billion at the end of 2005. We continue to see great opportunities and growth prospects in front of us and we’ll meet our challenging growth targets as well as delivering our commitment for this business to be cash positive in 2006.

The focus on what we are doing in Asia continues to be in three primary areas: product, distribution and cost efficiency.

Our product approach is simple and is driven by one fundamental consideration: wherever possible we focus on unit-linked. These products offer higher returns and greater capital efficiency and this is one of my top priorities for the Group. We were the first to launch unit-linked in many of the Asian markets and we now have offerings in 10 of the 12 markets that we operate in. The reason that we don’t currently offer unit-linked products in the other two markets, Thailand and in Vietnam, is because the product isn’t as yet regulated. But we are talking to their governments about introducing the products.

We’ve transformed our product portfolio unit-linked sales now representing 63% of APE sales and I expect this to increase further. The unit-linked business is backed by our asset management team in Asia and Ajay and his team are producing excellent investment performance.

As for cost efficiency, you may also recall from your visit to Asia just over a year ago that our Malaysian processing hub is now operational. Since then we have approved the establishment of our second hub in China, as we rapidly consolidate our back offices. In addition, we have been centralising our IT development in Asia.

These are just a few examples of the greater efficiencies we are working on delivering across the region.

**SLIDE 18 – ASIA INSURANCE OPERATIONS: DISTRIBUTION**

We will drive distribution harder, in the four key areas you can see on the top half of the slide. 170,000 agents across the region provide us with a powerful proprietary distribution, distribution that currently contributes 75% of sales. This is the dominant channel across the region and I expect it to remain so for the foreseeable future.

We've grown our agency presence in the rapidly expanding markets of India and China. In India, where we celebrated are 5th anniversary in 2005, we've now got 70,000 agents, an increase of nearly 20,000 over last year and in China we expanded from 7,500 to over 10,000 agents in 2005 and I expect to see this pace continue.

Just on China specifically, we are operational in 10 Chinese cities, and have recently been granted a licence in Jinan in the prosperous Shandong province which has a population of 92 million people. In Guangzhou, where we launched at the end of 2000 we have achieved a 16% agency market share. And in Beijing, where operations began in 2003, we've already captured a 5% agency market share. So, as you can see, we are building meaningful and material positions in China.

But, growing agent numbers isn't good enough on its own! We need to have a strong focus on agent productivity. We will do this by building on the strength, depth and experience of our agency management and introducing new proprietary tools, such as Sales Force Automation. This is something that is already delivering results, with agent productivity increasing by around 3% in 2005.

I've also charged the team with really stepping up materially the contribution from banking relationships. Bank distribution relationships give us an important and incremental sales and service opportunity. We have already got about 40 banking relationships across the region today. We've been particularly successful in Hong Kong, Korea and India but there's plenty more untapped potential from our existing banking agreements as well from forging new banking relationships across the region as a whole.

Direct and broker based distribution will also begin to grow across the region. Growth here will be incremental to other channels. And our successful multi-distribution experience in Korea will help us to exploit the developing opportunities in other markets, particularly Singapore, Taiwan, Malaysia and, of course, China.

There is enormous potential across Asia for the PCA team to go after and I remain very excited by the opportunities we have. Indeed, we restructured the business in the third quarter of 2005, including appointing four new Managing Directors to oversee our 12 life operations.

This is just one reflection of the scale of the business today, and our determination to ensure we retain our focus and drive the business even harder.

**SLIDE 19 – ASSET MANAGEMENT**

Moving on to Asset Management. On all the key measures our asset management businesses across the Group have had an excellent year. We achieved profit before tax totalling just under £200 million. And we've also produced sustained growth in external funds under management.

M&G have increased underlying profits significantly since 2001 when equity market levels on average were much the same as in 2005. And their retail funds have risen to the top of the industry performance tables during 2005. Over 90% of M&G's equity funds are above their benchmarks over three years.

Michael and his team are also building on their strengths to develop their business outside the UK and their European distribution arm has grown with €2bn now under management. M&G delivered gross sales of nearly £8bn and net sales of £4bn; both new records in their 75 year history.

In Asia underlying external funds under management were 29% ahead with strong performances particularly in both Japan and Korea.

We continue to add significant value through the management of our internal funds. We estimate for example that our UK Life Fund performance has run at 3% per annum ahead of our peers over the last 3 years. The value created by this out-performance is immense and the contribution of our asset management operations here should not be underestimated.

We are planning a session for you on 19th May that will look at asset management across the Group. We'll look at where we see opportunities within each business; how the management teams plan to capitalise on that; and how the businesses are increasingly working together.

**SLIDE 20 – BUILDING PROFITABLE GROWTH & EFFICIENCY ACROSS THE GROUP**

I expect each of our businesses, whilst continuing to pursue profitable growth to also improve the efficiency of their operations.

You can already see this in many areas including the Asian hub that we have established in Malaysia, and the second hub we are establishing in China and in the processing centre in India.

You can see JNL using its efficient cost-base for bolt-ons.

And Nick is taking a very close look at the cost base in the UK.

I'm also looking beyond the individual businesses to see where we can drive even greater group level efficiency. As you have seen in recent months, we have brought UKIO and Egg together and we are also building a single global IT infrastructure. Combined these two initiatives will save £65 million per annum and this is just the beginning.

Across the Group over the last 6 months, we've also really started to accelerate our thinking on risk appetite and risk adjusted performance measurement. This work will form a key part of our planning and capital allocation processes going forward.

From a financial perspective, we're more actively managing the balance sheet. One example of this is the $300 million of qualifying subordinated securities which we raised at favourable rates.

And we'll use the strength of the Group balance sheet to lower the funding costs of Egg. As we've said before, we also have significant diversification benefits across the Group on an economic capital basis.

One of my top priorities is to embed a strong performance oriented culture and to maintain and sustain a real pressure on delivery and this is starting to come through in the results we have announced this morning.

**SLIDE 21 – CONCLUSION**

To sum up I'm pleased with these results. I see them as a platform for growth. They should be looked at in the context of the future opportunities we have which I believe are significant.

This business does have a new momentum and we now have both the focus and energy to drive profitable growth harder.

My colleagues and I would now be very happy to take your questions.