

Acquisition of the Egg Minority Presentation

1st December 2005

Mark Tucker, Group Chief Executive, Prudential plc

Header slide (slide 1)

I said on the 26th October that we had taken the decision to retain and develop Egg in the Group and that Egg has an integral role to play as we develop a broader positioning in the retail financial services sector in the UK.

I also said that we would consider carefully the financial and commercial case for acquiring the minority shareholding in Egg.

This work has now been completed and, as you will be aware, we have this morning announced an offer to acquire the minority, which the Independent Committee of the Egg Board intends to unanimously recommend.

We believe that the acquisition of the minority is an important step in progressing our UK strategy.

In addition, the acquisition will lead to substantial cost savings and opportunities for revenue synergies.

As part of our consideration of whether to buy the minority, we looked in detail at those benefits which we could achieve under the existing structure. Although these were not inconsiderable, we are very clear that bringing Egg fully into the Group will greatly facilitate and accelerate the delivery of those synergies which might otherwise possibly have been achieved; and also increase the size of the overall opportunity, both in terms of cost savings and revenue opportunities.

Agenda (slide 2)

I would like to cover a number of areas this morning as you can see on the slide.

Summary (slide 3)

This transaction will accelerate our UK strategy and I believe will create significant value for Prudential's shareholders.

The combined strength of our UK life and pensions business, M&G and Egg provides us with significantly greater opportunities in the UK retail financial services market than is available to any one of them in isolation.

The businesses are highly complementary and between them they have a comprehensive product range to meet the needs of UK consumers throughout their lifecycle. As part of this range, Egg provides exposure to

higher margin banking products – products that we intend to make integral to our overall customer proposition as we move forward.

As a proven direct to consumer brand, Egg also offers the opportunity for a step change in the Group's direct distribution to complement its already strong position in the intermediary channel.

As well as accelerating our strategy in the UK, this is a financially attractive transaction that will lead to substantial cost savings and opportunities for revenue synergies.

In terms of revenue synergies - we believe there is a major opportunity from the businesses working together in a co-ordinated and targeted way that combines banking, life and pensions and retail fund management. We have identified tangible initial opportunities both to improve product penetration and increase sales from our total UK marketable customer base.

Working across the businesses to develop a broader product and customer proposition will also provide the opportunity to attract new customers to each of the individual brands. The resolution of the ownership position of Egg will also enable us to continue to invest for the future in external new customer acquisition activities in a way and to an extent that it would not have been able to as a stand alone business.

I believe there is considerable upside here and I will talk later about some specific initiatives that we will pursue in 2006.

As regards cost savings, we expect these to be substantial. By bringing Egg fully into the Group, we will be able to achieve scale benefits and to drive efficiencies to maximise cost savings. We expect to achieve £40 million of annualised cost savings by 2007.

The transaction is expected to be accretive to operating EPS on both an IFRS and EEV basis from 2006 and enhance the Group's FCD capital surplus, underscoring the financial attractions of the transaction.

The Offer (slide 4)

To summarise the terms of the offer:

- As I mentioned, the offer will be recommended by Egg.
- The offer will be subject only to the condition that new Prudential shares are admitted to list on Official List of the UKLA and trading on the London Stock Exchange. There will be no other conditions.
- In due course, the Board of Egg will apply to de-list Egg shares. I expect this application to be made after the first closing date of the offer in mid-January
- The offer values each Egg share at 118 pence and the minority in total at approximately £211 million.

- The consideration for the offer will be entirely in Prudential shares. New Prudential shares issued will be approximately 1.7% of Prudential's current shares in issue.

Prudential in the UK (slide 5)

As I said on 26th October, our aim in the UK is to build a broader positioning in the retail financial services market whilst continuing to develop distribution of our existing product lines.

We already have a strong footprint and in our life and pensions business, M&G and Egg we have three strong and complementary businesses in different segments of the market. Through working together to capitalise on the product capabilities, customer relationships and brand strength of our UK businesses, we can add significant value over and above what could be achieved by the individual businesses in isolation.

Prudential in the UK (slide 6)

Between the Group's UK businesses, we have some 4.8 million marketable customers. Importantly, and this is one of the key opportunities for us, there is very limited overlap amongst these customers.

Since 2000, Egg has demonstrated an ability to win new, younger customers rapidly at below industry average acquisition costs. This younger customer base is complementary to the customer base of both M&G and our UK life and pensions business.

It is important that we do more to capture customers earlier in their lives and then build on our relationship with them through time to provide them with a broader range of products. Making Egg an integral part of the Group helps us do this.

There are clear opportunities to further develop sales from this overall customer base through providing a wider range of products to satisfy customer demand. Additionally, Egg has a powerful consumer focused brand which presents an opportunity to win new customers and access new markets, an option that has not previously been pursued actively.

Prudential in the UK (slide 7)

From a product perspective – across our UK businesses, we have the product capabilities and expertise to provide a comprehensive range of financial products to meet the changing requirements of customers as they move through the different phases of their lives. The opportunity is to exploit this more fully across the existing customer base and to provide new avenues for growth by attracting new customers

Revenue benefits (slide 8)

Looking ahead we have identified a number of clear, initial opportunities to increase revenues starting from 2006:

For example, marrying the strength of the Prudential brand amongst our customers and the IFA community with Egg's product manufacturing skills, we will provide Egg manufactured, but Prudential branded, mortgage products to the life and pensions customer base and further into the IFA community;

In addition, the Egg customer base has shown a high propensity to buy health cover historically from third party suppliers - we will look to compete actively here with PruHealth;

We will promote Egg branded credit cards and personal loans into the life and pensions and M&G customer base;

There is also the opportunity for Egg manufactured deposit and savings products under the Prudential brand to capture maturing policy proceeds and then to convert these into other Group products; and M&G branded investment products into both the Egg and life and pensions customers.

Cost savings (slide 9)

Turning to cost savings, acquiring the minority will facilitate the realisation of significant cost savings. Following a detailed review including verification by external advisers, we expect annualised pre tax cost savings of £40 million by the end of 2007.

Savings will come from closer collaboration in a number of areas including, for example, the co-ordination of UK marketing activities and IT to ensure that spending is as effective as possible and also to obtain scale benefits.

We will also rationalise project and development spend and generate greater efficiency in customer services and administration areas.

In addition, we will be able to eliminate Egg's plc costs and gain benefits from closer co-ordination of Treasury activities.

Financial effects (slide 10)

In overall terms, we expect the transaction to be accretive to both IFRS and EEV operating EPS from 2006.

There will be a one-off cost of achieving the cost savings amounting to £50 million which will be provided for in 2006 as an exceptional cost and will therefore be below the line as regards operating earnings.

The transaction will also have a beneficial impact on the Group's capital surplus position under the Financial Conglomerates Directive.

Conclusion (slide 11)

In summary, this transaction represents a 'win' for the shareholders of both Prudential and Egg.

For Prudential, it offers an exciting opportunity to broaden its UK positioning and extend its product capability and access to new and complementary customer segments.

The transaction is also financially attractive as it will realise opportunities for revenue benefits and substantial cost savings and be accretive to operating earnings from 2006.

At the same time it is I suggest a very advantageous transaction for the Egg minority shareholders. After a period of intense uncertainty about Egg's future, this offers an exit route with an attractive premium to the standalone value of Egg. In addition, in receiving Prudential shares as consideration, Egg shareholders have the opportunity to participate in future value creation and dividends payable by the enlarged Prudential Group, including the benefit of cost and revenue synergies not otherwise available to Egg as a stand-alone business.

It is, I say again, a deal that represents a 'win' for both groups of shareholders.

Thank you.