

# Agenda

|                      |                                   |                          |
|----------------------|-----------------------------------|--------------------------|
| <b>9:05 - 9:30</b>   | <b>Overview</b>                   | <b>Michael McLintock</b> |
| <b>9:30 - 10:00</b>  | <b>Finance</b>                    | <b>Philip Johnson</b>    |
| <b>10:00 - 10:30</b> | <b>UK Retail</b>                  | <b>Gary Shaughnessy</b>  |
|                      | <i><b>Break</b></i>               |                          |
| <b>10:45 - 11:00</b> | <b>Equities and International</b> | <b>Michael McLintock</b> |
| <b>11:00 - 11:15</b> | <b>Property</b>                   | <b>Martin Moore</b>      |
| <b>11:15 - 11:45</b> | <b>Fixed Income</b>               | <b>Simon Pilcher</b>     |
| <b>11:45 - 12:00</b> | <b>Conclusion and Q&amp;A</b>     | <b>Michael McLintock</b> |

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# Contents

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- Explain M&G's recent financial performance
- Detail our FUM, revenue and costs
- Provide the P&L by business unit
- Outline the nature of the Life Fund fee and how we earn performance related fees

# Market context

## FT All Share daily closes



- Average market level:

|        |        |
|--------|--------|
| – 2000 | = 3014 |
| – 2001 | = 2614 |
| – 2002 | = 2232 |
| – 2003 | = 1944 |

- Income change on 2000 equivalent:

|        |          |
|--------|----------|
| – 2001 | = (£16m) |
| – 2002 | = (£32m) |
| – 2003 | = (£43m) |

# Market context

## Operating in favourable conditions

Corporate bond index\* daily closes



- High level approximation for our Fixed Income revenues
- c. £18m of income added from favourable market movements since 2000 equivalent

\* UCP0 Ster Corp All Stk index

# Cost savings

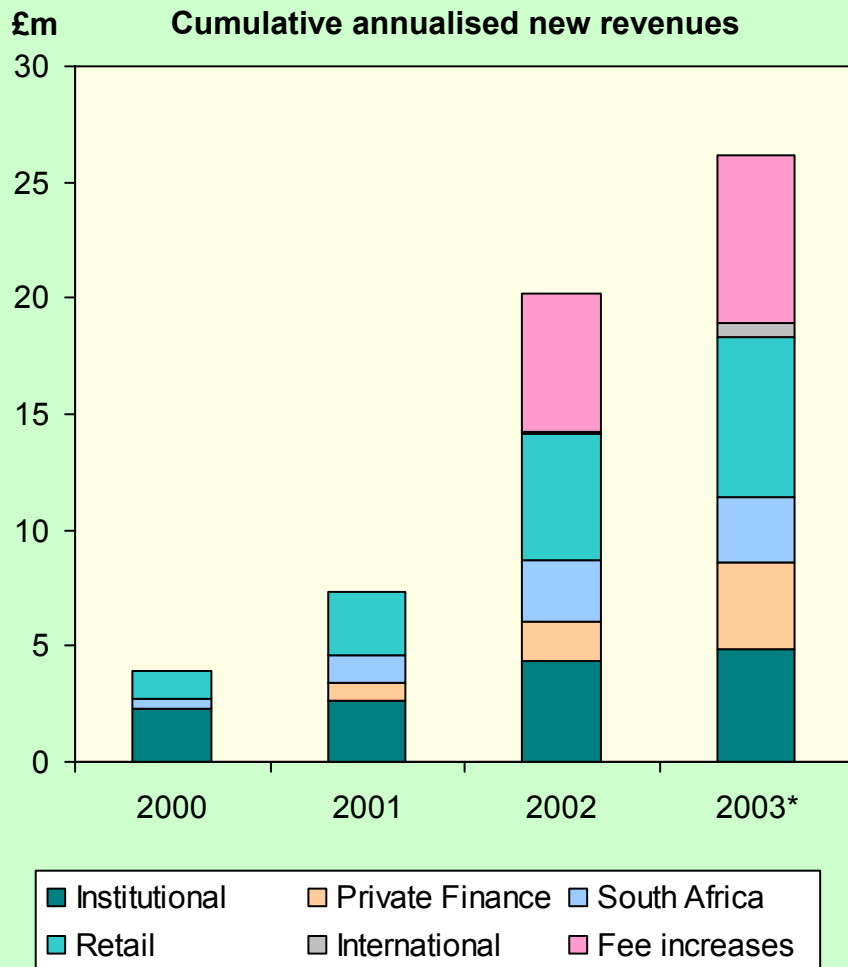
## Reducing cost without impacting business effectiveness



- Equities reduced number of specialist fund managers and built pan-European analyst team
  - Taken £7.2m (or 25%) of front office cost out
- Outsourcing customer administration
  - Infrastructure and systems development savings of £12.6m (or 33% of relevant function)
- Retail marketing
  - Reduced spend by £5m (or 50%) whilst net sales increased
- International
  - Costs reduced by £3.5m (30% of direct cost base)

# Impact of net new business

Value more important than volume



- New revenue added by consistently positive net inflows and targeted fee increases

# New products and markets

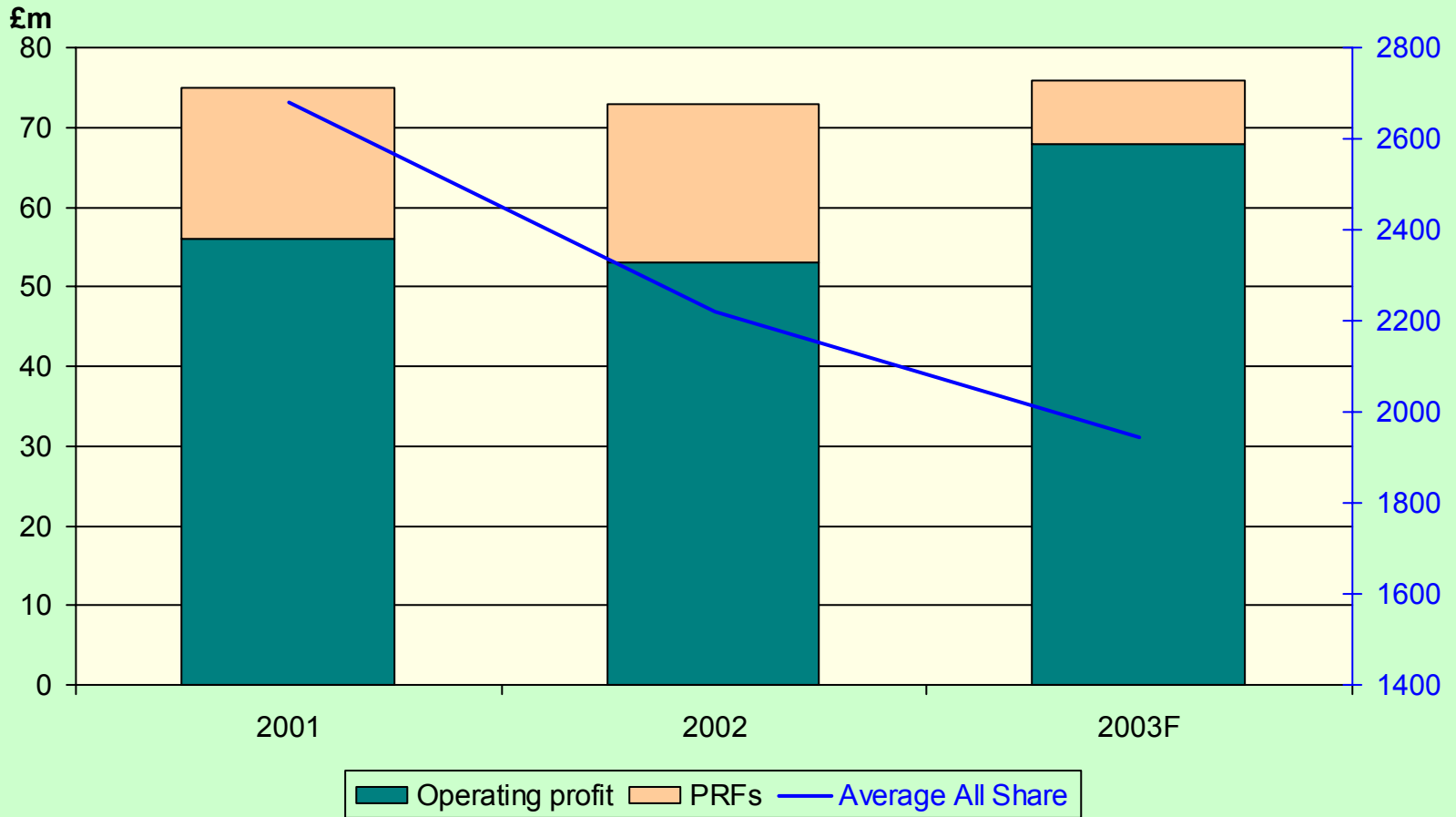
## A few examples



- Prudential Finance
  - £12m contribution in 2003 from a business that didn't exist until mid-2001
- Private Finance
  - £3m contribution from business that didn't exist in 2000
- South Africa
  - Throwing off £2m p.a. from an original investment of just £300k

# M&G results

## Robust profitability performance





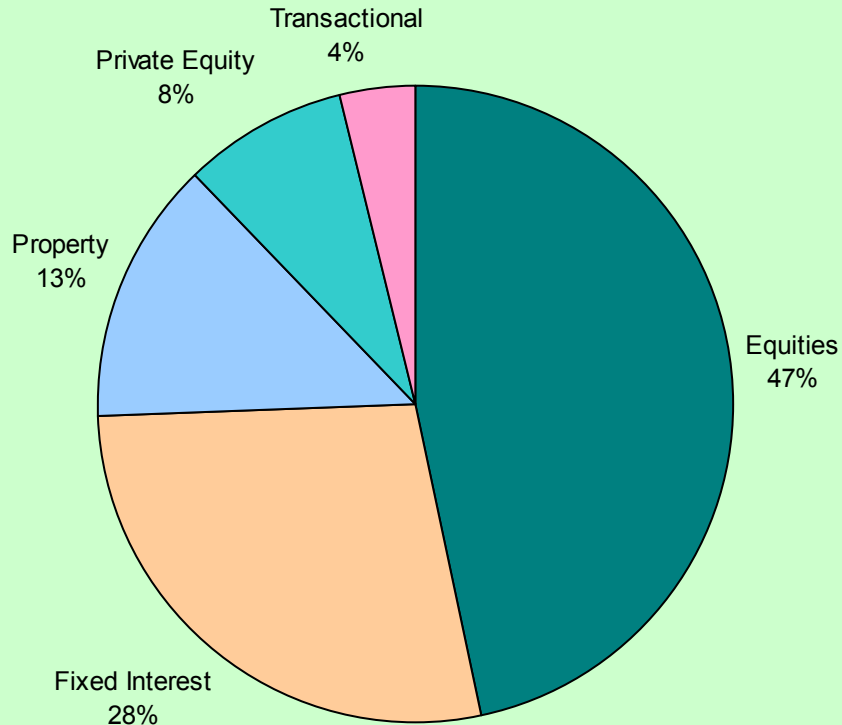
# Funds under management

| n                     | FUM £b |
|-----------------------|--------|
| UK equities           | 30.7   |
| Overseas equities     | 7.8    |
| UK fixed income       | 47.7   |
| Overseas fixed income | 5.7    |
| Property              | 12.5   |
| Private equity        | 0.7    |
|                       | <hr/>  |
|                       | 105.1  |

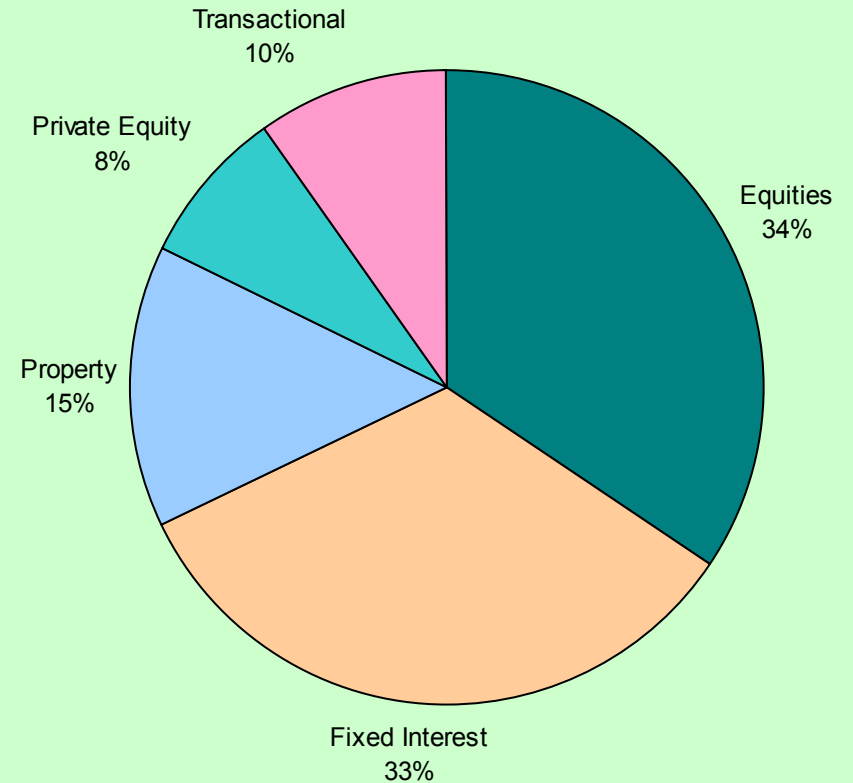
# Revenues

## Reduced reliance on Equities

2001 revenues



2003\* revenues

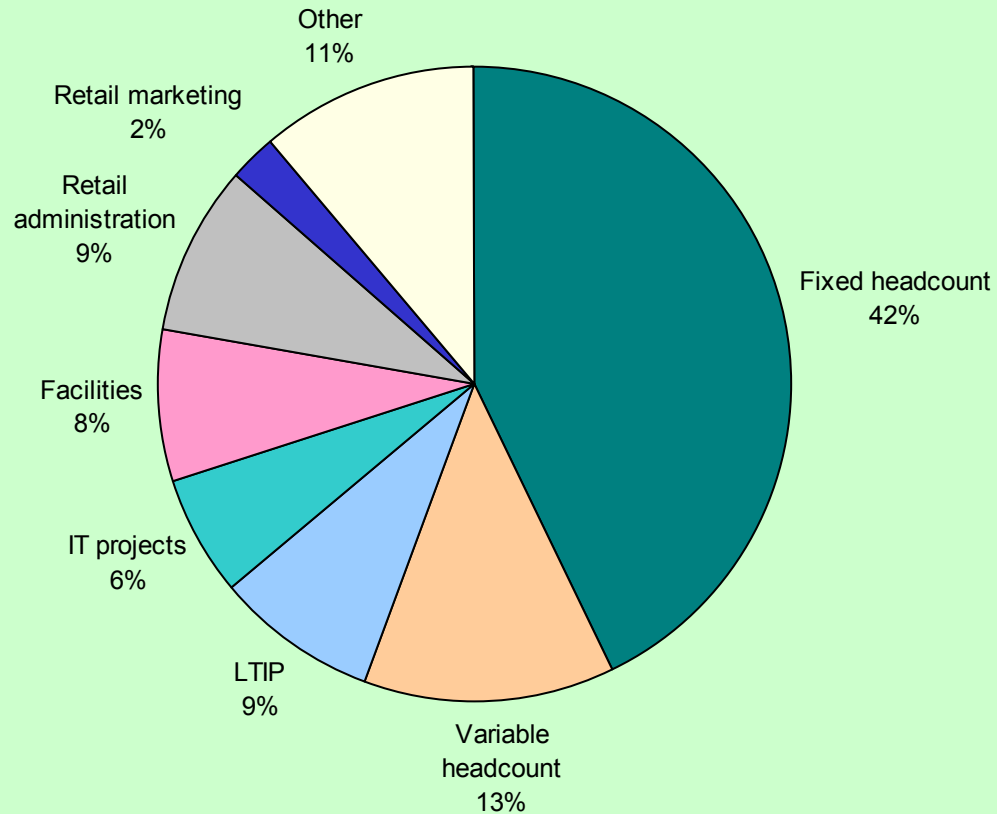


**A well diversified business**

\* Forecast for full year 2003

# Costs\*

## Analysis by type



# Profits

|                          | 2001<br>£m | 2002<br>£m | 2003F<br>£m |
|--------------------------|------------|------------|-------------|
| Equity revenue           | 129        | 112        | 102         |
| Fixed Income revenue     | 77         | 83         | 93          |
| Property revenue         | 37         | 38         | 41          |
| Private equity revenue   | 23         | 23         | 23          |
| Transactional revenue    | 11         | 18         | 28          |
| <b>Total revenue</b>     | <b>277</b> | <b>274</b> | <b>287</b>  |
| Staff costs              | (131)      | (127)      | (141)       |
| Other costs              | (114)      | (100)      | (88)        |
| Outsourcing project      | -          | (13)       | (7)         |
| Investment income        | 24         | 19         | 17          |
| <b>Profit before tax</b> | <b>56</b>  | <b>51</b>  | <b>68</b>   |

# Profits up 27%

## Business unit analysis of growth

|                           | 2001<br>£m | 2002<br>£m | 2003F<br>£m |
|---------------------------|------------|------------|-------------|
| Fixed Income              | 28         | 30         | 37          |
| Equities                  | 9          | 7          | 6           |
| Retail                    | 19         | 23         | 26          |
| International             | (12)       | (15)       | (11)        |
| Property                  | 10         | 10         | 14          |
| Ventures                  | 7          | 6          | 5           |
| South Africa              | 2          | 2          | 2           |
| Central                   | (7)        | (12)       | (12)        |
| <b>Profit before PRF*</b> | <b>56</b>  | <b>51</b>  | <b>68</b>   |

\*Performance related fee

# Internal fund fees

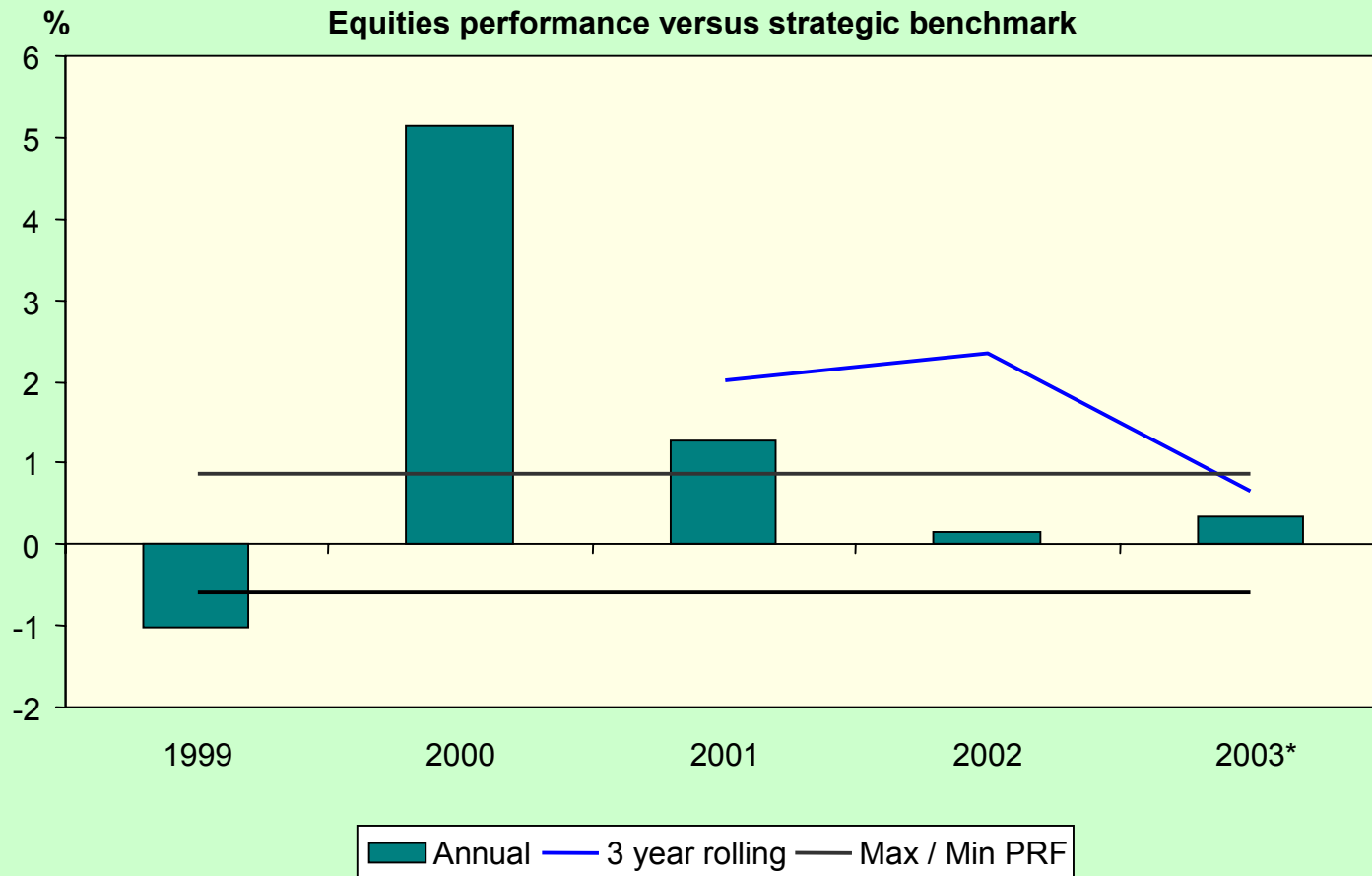
- Life Fund base fee determined by market pricing, subject to two tests
  - Fees are at a discount to reflect our tied relationship
  - Shareholders do not make excessive profits
- Different fees for different asset classes
- Performance related fee (PRF) factored off the base fee
- Annuity funds based on same principles

# Performance related fees

- Life Fund
  - Asymmetric PRF paid on our three year performance against benchmark
  - Performance measured with reference to tracking error targets set by the client
  - Calculated separately on our four main portfolios (UK equities, European equities, Fixed Income and Property)
- Annuities
  - Asymmetric PRF's for PAL and PRIL determined by annual performance
  - Three elements combine to gear base fee: value added by new business, value added by existing business and matching

# UK equities PRF

2000 performance generated exceptional PRFs

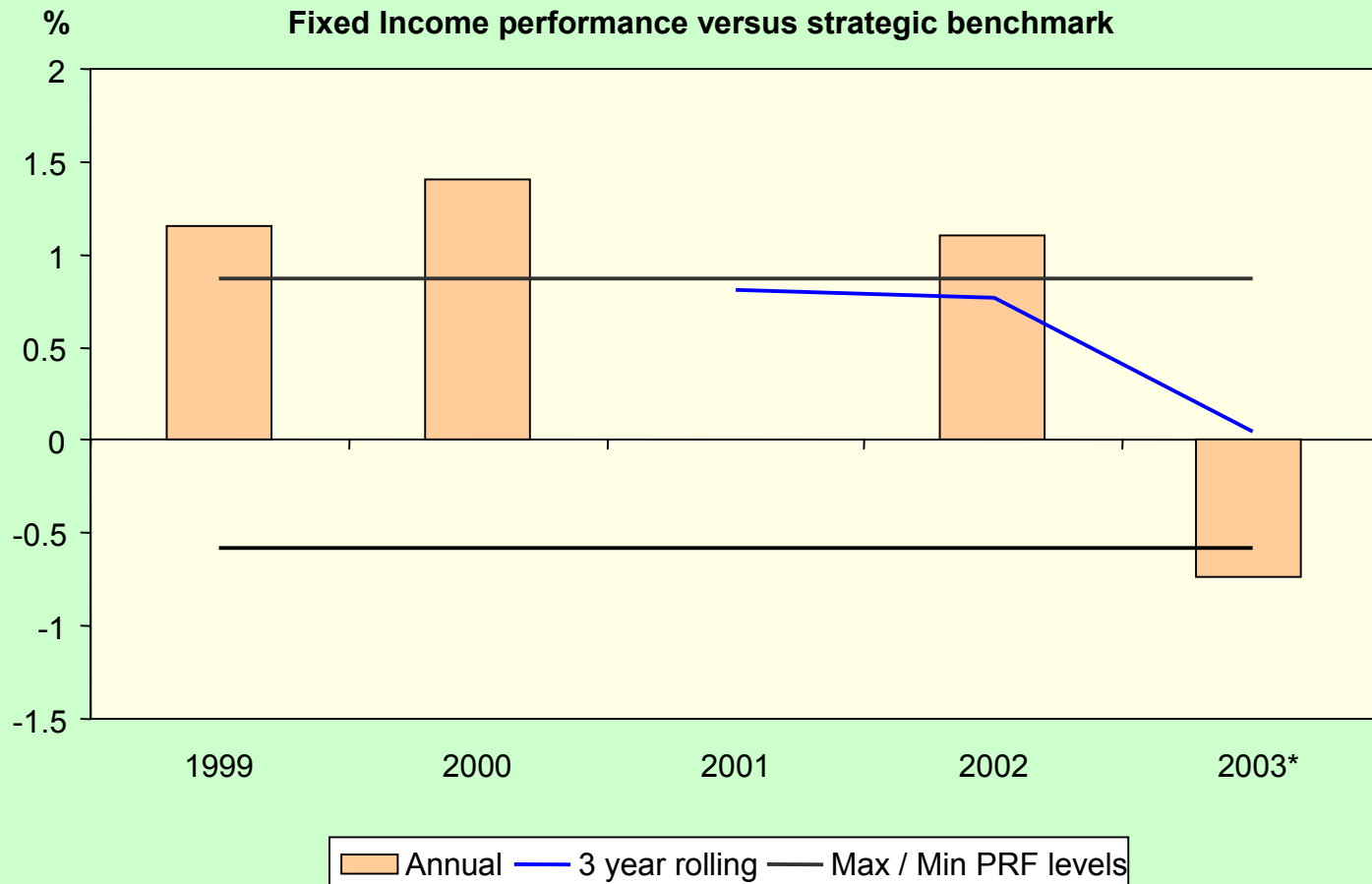


\* Based on performance to 31.10.03



# Fixed Income PRF

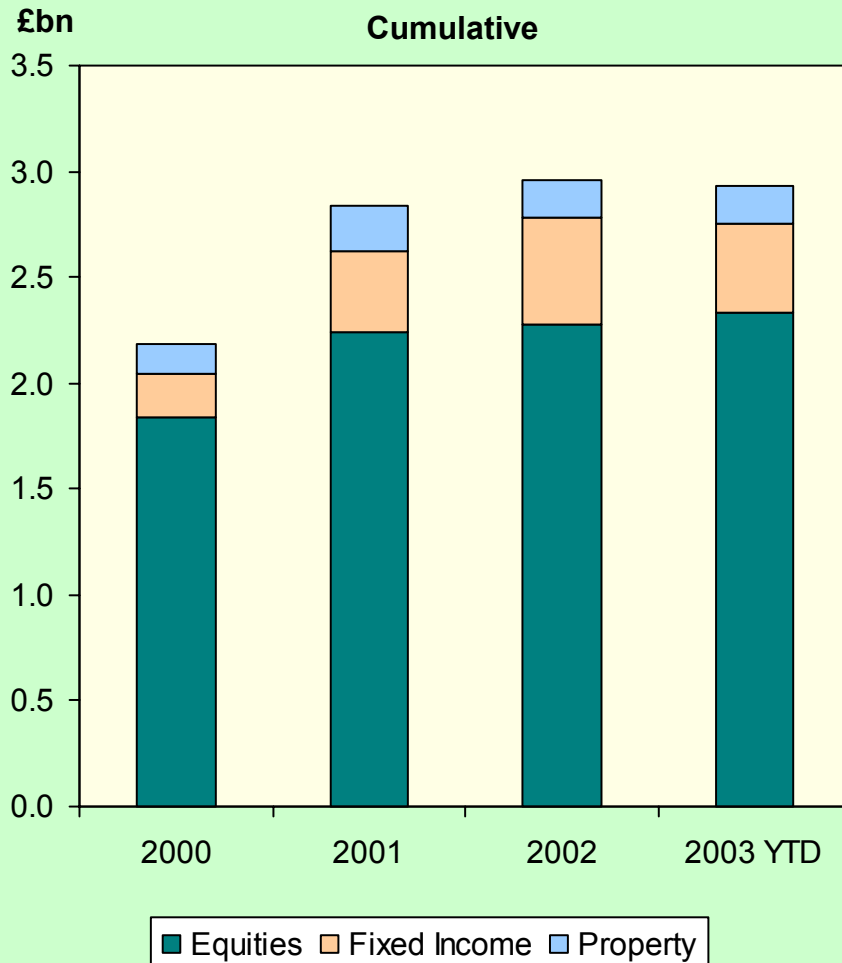
2003 result impacted by high yield rebound



\* Based on performance to 31.10.03

# Value added to Life Fund

## Unrecognised but hugely important



- £3bn of value added to Life Fund assets since the start of 2000
  - £300m of shareholder value on 90:10 basis
  - Extra assets bring £1.5m of annual income to M&G as a consequence
- £50m of PRFs earned since 2000

# Profits

Strong underlying profit growth

|                   | 2001<br>£m | 2002<br>£m | 2003F<br>£m | 01-03<br>% change |
|-------------------|------------|------------|-------------|-------------------|
| Underlying profit | 56         | 51         | 68          | +21%              |
| PRF*              | 19         | 20         | 8           |                   |
| Profit before tax | <u>75</u>  | <u>71</u>  | <u>76</u>   | +1%               |
| Average FTAS      | 2681       | 2221       | 1944        | -27%              |

\* 2003 PRF based on assumption of "on target" performance for the rest of 2003

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# Summary

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- Strong profit performance against backdrop of falling markets
- Positive progress on developing the business
- Diversified business performing in all areas
- Management team committed to further growth