Transcript of Prudential plc 2004 Full Year Results Presentation

SIR DAVID CLEMENTI
CHAIRMAN

SLIDE 3

"Good morning, everyone. Thank you for coming along to our results meeting today. In a moment I will hand over to Philip and Jonathan, but first a few words on today's results.
The figures for 2004 represent a strong set of results by the Group. The UK's sales for last year showed our early success in building shareholder-backed sales, increasing our market share and establishing important distribution deals. And you can see that this was not done at the expense of margin and profitability. We recognise that we need to continue to deliver.

In the US, Jackson National Life has a strong and well-established position in its core areas of fixed and variable annuities, and is expanding its life business. Jackson is funding its own growth, and it also returning cash to the centre. This is a good, value-creating business.

In Asia we have businesses across 12 countries. They delivered another strong result in 2004, again showing the quality and strength of the portfolio of businesses we have built there. It is worth stressing that it is a portfolio. Progress among them will vary since the characteristics, including regulatory environment, demographics and potential, differ substantially between them.

Behind each of these life businesses stand our fund management operations. In the UK, M&G has delivered a very good year, with another impressive increase in profits. Arguably more important is that underlying this has been another excellent year for the relative performance of the funds we manage, notably the funds we manage for our own policyholders. Last week we were able to announce strong bonus levels across all our with-profits products.

A few words on Egg. Egg has closed its loss-making French business and is very much focused on delivering value from its profitable UK operations. Not selling Egg last year was a disappointment but, although we do not see it as a long term core component of Prudential's business, we are determined to ensure that the business is managed so as to both protect, and indeed build on, the value of our investment in it.

To turn briefly to the rights issue in October: the Board believes it was right to raise additional equity. Having raised the new capital, we now have to ensure that we deliver on our promises. The Board believes the strategy and the potential returns are soundly-based on reasonable assumptions about the operating environment we are likely to face.

A clear message that we heard at the time of the issue and since was that we needed to improve how we communicate our strategy. The Board recognises this. Whilst we are confident about the outlook, we intend to explain the direction we are following, and the reasons behind our confidence.

A second message related to explaining the capital implications of our chosen path; and providing confidence that we can deliver the anticipated profitable growth across the group without further recourse to our shareholders. With this in mind, Jonathan will explain in today's presentation how capital will be managed across the group over the coming years.

This morning you will not only hear about the 2004 results, but also more on the strategy and the financing requirements of our business. On 20 April, Mark Wood and his team will be going into more detail about our UK business ambitions and why we are convinced we can achieve at least the returns outlined at the time of the rights issue. Then, on 2 June, Philip Broadley and the finance team will present on accounting under IFRS and European Embedded Value, and regulatory and economic capital.

I hope that today's results and presentation will permit shareholders to take a balanced view of the Group. From the Board's standpoint there are three messages which we think underlie the presentation:

1. The 2004 figures represent a strong set of results.

2. We should continue to build value in our three main insurance businesses – in the UK, the US and Asia; and in the fund management businesses which sit alongside them.

3. We are confident that our present capital situation puts us in a strong position to deliver sustainable and profitable growth.

Today we have delivered a good set of results. Our focus is very much on continuing to do so. With that, let me hand over to Philip.

PHILIP BROADLEY
GROUP FINANCE DIRECTOR

SLIDE 5

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 across each of our businesses.

As we reported on 26 January, group insurance APE sales at £1.846m showed an increase of 26% over 2003 and established a new record from which we expect to grow further.

New business profit margin has been broadly maintained at a group level at 37% leading to an increase in new business achieved profit of 23% to £688m, in turn a new record.

An improved in-force result, and a particularly strong contribution from M&G lead to a [39%] increase in the achieved basis operating profit to £1124m. Total profits on the AP basis have further benefited from strong investment performance ahead of our long run assumption. So total achieved profits before tax of £1521m show an 82% increase on the prior year. There has also been a strong performance on the MSB basis with operating profits up 49%. As you will see in a moment all of our businesses have contributed to this growth.

SLIDE 6

I have focused the presentation this year on half a dozen or so key themes in the results. I hope this will assist you in understanding what has driven the improvements in 2004 and help you to understand the confidence that we have in the group's ability to grow its business and profitability in the future from this base.

In a moment I'll talk a little bit more about the various measures of top line performance; go on to talk about achieved profits margins; look at the in-force result but particularly focused on UK persistency; discuss the trends in statutory profits; review all of the elements of the holding company cashflow; discuss returns on capital and finally look at achieved profits shareholders' funds.

SLIDE 7

So to begin with Sales: This slide shows APE, new business premiums for each of our three long-term insurance businesses as we reported on 26 January.

To remind you: the UK and Europe grew 40% including the Royal London bulk annuity of £111m. You have now had the opportunity to compare our performance against those of the major companies in the sector and you will have seen that we grew faster than the market primarily as a result of growth in both individual and bulk annuities as well as the contribution of our partnerships distribution channel more generally.

Going forward, we expect the UK market to grow at around 5% per annum and we should be able to grow at around twice that rate. We do expect to see further bulk annuity sales of the scale of Royal London from time to time which will make meaningful quarter on quarter comparisons more difficult.

In the United States, Jackson National Life's total sales were up 21%.

The full year industry data shows Jackson growing somewhat faster than the market. In 2005, we expect modest overall market growth in the US of about 4% but believe that Jackson's mix of products and its distribution will enable it to grow about double that of the market.

In Asia, after a strong performance in the fourth quarter, sales for the year were up 14%. We believe the opportunities in our newer markets, (including China, India and Korea) coupled with the base in the established markets of South Asia and Singapore will enable us to continue to grow top line new business volumes strongly.

The market always focuses on new business sales so it also worth commenting on two other measures that are often overlooked but which I think are important to understanding the long-term development of the group.

Gross written premium increased 19% to £16.4bn reflecting the steady inflow of regular premium business in the UK and Asia. GWP represents the actual inflow of premiums into the funds we manage. As a result of these strong net inflows and investment market returns the total funds under management by the group increased nearly £20bn to £187bn.

SLIDE 8

This chart shows new business achieved profits over the last four years split by region and also the new business margin by region and overall for the group.

After a decline in 2003 new business profits have returned to strong growth in 2004 and I have spoken already about our expectations for new business premiums in 2005 that should drive further growth in new business profits.

I will talk about expectations for our margins by region in a moment. At a group level our overall margin has been broadly maintained over the last two years by careful management of product and distribution mix within each business and across the three regions.

SLIDE 9

We have maintained a UK margin at 27% in 2004 while growing sales despite a slightly lower fund earned rate. We have achieved this by effective management of product and distribution mix, with increased sales of individual and bulk annuities written with shareholder provided capital offsetting lower sales of with-profit products.

Margins on bulk annuities are generally higher than those on the individual annuity product reflecting lower distribution costs and the benefit of being able to price individual lives but the margin earned in 2003 was exceptional.

We saw some decline in the corporate pension margin this year as a result of customers favouring unit linked options rather than with-profits.

We are achieving strong growth in the UK, through both new and existing products, and developing new distribution opportunities. Having completed the £200m cost saving programme, we have maintained a focus on capital management and achieved further cost efficiencies. This is reflected in our ability to maintain overall new business margins in 2004.

Although we will continue to focus on management of sales mix, we expect to see some modest reduction in our overall margin over the next couple of years as we widen our product range in the UK and these new product offerings reach scale.

SLIDE 10

In Jackson National Life the overall new business profit is dependent on earning spread and tight control of cost.

The fixed annuity margin has declined over the last two years for while we have maintained our target spread this is off a lower fund earned rate as yields have declined.

By the way, this year we have more than earned our target spread of 155 basis points grading to 175 over five years on both new business and in-force and we have a favourable spread variance from this in the in-force result. Given current experience we do not need to change our spread or credit default assumptions.

The variable annuity margin has shown a small improvement as a result of changes in pricing that we instituted early in 2004. However, we take a conservative approach in recognising the fee income we earn from selling the benefit features that customers elect on our perspective two products.

Jackson National Life's expense ratio has fallen 3 basis points from 2002 to stand at 46 basis points at the end of 2004. We believe that we benefit from Jackson's considerable expense advantage relative to its principal competitors enabling us to maintain these attractive margins.

Jackson's margins for 2005 will depend on the mix of business written but we would expect with our plans to maintain margin at this overall level.

SLIDE 11

We reported an improvement in new business achieved profit margin for Prudential Corporation Asia at the half year and this has continued. It is a result of careful management of product mix to offset the growth of our business in newer markets, where margins tend to be less than those in South Asia.

The improvement in the margin includes a positive impact of 5 percentage points reflecting country mix and 3 percentage points of product mix offset by strengthening of a number of operating and economic assumptions around the region of minus 6 percentage points. A number of you write in your reports that you are concerned about the impact of European competitors on our new business margins. We are responding to this competition on the ground and in those countries where major competitor base includes some large European companies we have been able to maintain or improve margin this year. We have achieved this by maintaining our focus on the profitability of our products while continuing to grow new business premiums.

We expect to continue to manage our margin successfully and to maintain current levels in the medium-term.

SLIDE 12

The overall result from our in-force business has increased 51% to £460m, with a particularly strong performance from Jackson.

In the UK it is worth commenting on the unwind of the discount. The yield on the reference 15-year gilt has moved a lot this year. 2003 full year numbers were prepared on an RDR of 7.4%; this had increased to 7.7% at the half year but fell back to 7.2%. This means that the full year unwind is less than might be expected. It is an automatic result of active assumption setting.

I will talk about about UK persistency in detail in a moment. Jackson's in-force result benefits from a favourable spread variance of £43m with our actual spread running ahead of our assumption as a result of our ability to manage crediting rates through our annual reset mechanism.

It is been a good year for the credit markets in the US and we realised gains over the year of £48m. You will remember that we average bond losses over five years and charge the excess over our default assumption as a variance. Because of the good performance this year the

charge of £56m shows a reduction of £10m on the prior year. We have also benefited from a favourable legal settlement as mentioned at the half year.

To remind you: Asia's in-force result shows an increase in the unwind of the discount as our in-force business grows offset by changes to operating assumptions that we described at the half year. The £56m charge includes changes to expense assumptions in Vietnam and strengthening of persistency assumption in Singapore. Over the last 4 years the balance of assumption changes is a positive £15m and we remain comfortable with our assumptions across the region.

SLIDE 13

The UK inforce results includes a £66m pre-tax charge in respect of a persistency change.

We have been talking to you for some time about persistency experience in the UK, particularly the behaviour of the closed block of with-profits personal pensions business sold prior to 2001 by the direct sales force.

Considerable attention has been devoted to the management of persistency across all products during the course of the year. We have concluded that with our current experience we can continue to use the current persistency assumptions for all products except the closed personal pensions business.

For this line of business only we have decided to reset the persistency assumption at the average of our experience over the last three years, that is in the period since the direct salesforce was closed.

The results of the new conservation measures that we began in the second half of last year have had a beneficial effect on persistency in the fourth quarter which we expect we can maintain or improve. The new assumption is 40% heavier than previously reported. It is worth mentioning, for those who are less familiar with the achieved profits methodology, that this assumption change represents our estimate of the lower present value today of this personal pensions business, the cash flows from which we will continue to receive for many years to come. Post-Tax, the assumption change represents about 1% of the overall post-tax embedded value of the UK business and as it relates to a closed block of business it does not affect our view of the profitability of the business that we are currently selling.

We expect the effect of the bonus announcement issued last week to have a positive effect on persistency as annual bonuses have been generally maintained for the first time in many years. Annual statements sent to customers in the next few months will show significant improvements in claim values, reinforcing our communication about the strength of our fund's performance.

SLIDE 14

Turning now to modified statutory profit, where the operating result overall is improved 49% to £603m. The improvement in the contribution from the UK insurance operations reflects a fourfold increase in the statutory profits earned from our annuities business offset by a reduction in the gross value of the life fund shareholder transfer. To clarify: on a modified statutory basis annuities are profitable in the year they are written although this profit is released in cash over a number of years as the various statutory reserves can be released.

The basis of determining annuity profitability requires more time to explain than I have today and we will cover it in detail at the UK presentation on 20 April.

Jackson National Life has seen an increase in statutory profits arising from improvements in fee income, lower credit losses and the benefit of the litigation settlement already referred to. Statutory profit continues to grow in Asia as the in-force book increases in scale. For the last few years we have separately disclosed the statutory profits from Hong Kong, Singapore and Malaysia combined which now represent £110m of the total compared to £86m last year. The balance of MSB is made up of four other countries in Asia that are now profitable, Taiwan, Vietnam, Indonesia and Philippines, partially offset by the five remaining countries where statutory losses are still being incurred as the businesses develop.

M&G has delivered an outstanding result this year benefiting from improved market levels and higher funds under management. We expect it to continue to perform strongly but, as you know, its result does include £27m of items reported at the half year that we do not expect to re-occur. You should take account of these in setting your expectations for 2005.

Egg's operating result includes the provision for impairment in FD that it announced last week. There are various other items below the operating profit line including the profit on disposal of JFB and the closure costs of Egg France that are described in more detail in the press release and supporting schedules.

This is of course the last year that we will be reporting on a modified statutory basis so it is perhaps fitting that MSB should bow out on something of a high.

From July this year we will be reporting our results under International Financial Reporting Standards, including IFRS 4, the so-called phase 1 model for Insurance Accounting.

We have promised you a technical session on 2 June to discuss the effect of these changes and other accounting and capital developments. In practice we think phase 1 will have little effect on the accounting for our insurance business. Our current estimate is that about 85% of the group's insurance business will continue to be accounted for under UK GAAP as it will meet the test of carrying significant insurance risk. But we look forward to talking to you more about that in June.

SLIDE 15

Looking now at the holding company cashflow, I'll run through all of the elements shown on this slide and give you some pointers for 2005 because the trends in our cash flow are increasingly different from the trends in MSB

The UK life fund transfer reflects the shareholders' interest in bonuses declared in 2003, and paid to us in 2004.

With the bonus declaration made on 22 February we would expect the shareholder transfer in respect of 2004 payable in 2005 to be £198m. Thereafter given the current strong position of the fund, our expectations for future investment returns and expected levels of claims and maturities we would expect to see modest growth in this amount.

The UK also paid up a special dividend of £100m reflecting the proceeds of previous corporate activity within the UK business, and as previously reported there is one more payment of the same amount expected in 2005.

Jackson National Life increased its remittances to US120m, the sterling equivalent being shown here, and these remittances will increase to US150m in 2005.

Remittances from Asia continue to grow as more of the individual countries get to a stage of maturity where they are generating surplus capital.

M&G is able to pay over most of its post-tax profit in the form of a dividend to the holding company.

The level of scrip dividend take-up for both the 2003 final and 2004 interim dividends was very much ahead of previous levels, in part due to the change in the basis of the election offered to shareholders. It is difficult to predict the level of take-up of this option in the future as it is to a large extent dependent upon expectations of market conditions during the period of the election. The tax received represents group relief surrendered to the holding company and the corporate activities this year represents only the cost of the group head office net of interest receivable. The cashflow before the investment in our long-term businesses was £176m.

SLIDE 16

We have significantly increased the amount invested to support the growth of our UK business in line with our expectations at the time of the Rights Issue. We do expect to continue with our investment in the UK as outlined in the Rights Issue prospectus. Royal London presented a particular opportunity in 2004 and we brought forward an allocation of capital to support it.

The gross investments in Asia of £158m together with the increased level of remittances that I have spoken about gives us a net investment in Asia last year of £94m, in line with our previously reported target. We expect a net investment at similar levels this year before Asia becomes cash positive in 2006 while continuing to fund growth in Asia.

The proposed final dividend of 10.65p, together with the interim dividend already paid makes a total dividend for the year of 15.84p, after adjusting for the bonus element of the Rights Issue, an increase of 3%. The dividend has been set after considering the opportunities to invest in those areas if our business offering attractive growth prospects, our financial flexibility and the development of our statutory profits over the medium to long term.

SLIDE 17

We have given guidance before on our targeted return on capital in our various presentations about our business units. We haven't pulled it together in one place before and I thought it would be helpful to do so today. We will give regular updates on our performance against our IRR targets.

For the UK and Europe we set out our expected IRRs for 2007 at the time of the Rights Issue. With our mix of business and sales levels in 2004 we actually achieved an average IRR of 12% with returns from unit-linked bonds in particular higher than we anticipated as a result of strong sales volume.

Corporate pensions have seen a greater level of sales of unit-linked products than we expected rather than with-profits that require no shareholder capital.

We have seen a good start for our new protection product with a higher level of bank business than we expected giving us a better IRR than we expected at this early stage.

The overall IRR is enhanced by the return on annuities that is already at its target level.
We remain committed to delivering on the 2007 targets to deliver the overall targeted IRR of 14% and our progress towards this target depends both on volumes and product mix.

SLIDE 18

For Jackson National Life: we earned in 2004 an average IRR on our mix of new business of 13% which we believe to be above returns being earned currently in the US industry and shows again the benefit of our efficient operation

Today is the first opportunity to talk to you about the Life of Georgia acquisition since we announced it in November.

We expect Jackson to achieve a minimum IRR of 13% on this transaction. The minimum being calculated, after allowing for tax, and a modest level of expense savings.

The capital which was provided from Jackson's retained earnings will be returned over a pay-back period of about five years.

In addition to providing an attractive return, the acquisition of Life of Georgia will double the total number of life and annuity policies in-force today and will enable us to achieve growth in our life business at a higher return and a faster rate than would be achievable organically.

There are some asset and liability management benefits too, as the U$1.6bn of life liabilities and the assets that support them, that we will acquire and which will be added to the general account, are of longer duration than our fixed annuity business.

We expect to obtain some benefits from the distribution capability acquired with the transaction.

SLIDE 19

In Asia we have target IRRs at a country level of at least 10 percentage points over the country risk discount rate. These vary from 5% to 19% depending upon the maturity of the market and the average for the region as a whole is above 20%. It's worth pointing out that these target rates of return are average rates for the country, and that the marginal return on capital on a particular product could be above or below the target in many markets. That said we continue to deploy capital to grow our business profitably in Asia as fast as the opportunities and our distribution capability allows.

We have, however, achieved or exceeded the target in each of Asia's markets in 2004 except for Thailand and Japan and achieved the overall goal. In Japan the returns on capital are below our target, a result of restructuring and withdrawing from some business lines in 2003. While the operation is now somewhat more efficient it will take some time for the business to deliver material new business volume to achieve its target.

SLIDE 20

We will be required to publish our FGD solvency position at the end of 2005 but the FSA has not yet decided on the form that public reporting by the industry will take.

On 2 June we will tell you more about the nature of the valuation.

Today let me just remind you what the FGD requires. It is an aggregation of the individual capital positions of all of the regulated entities across the group - less all of the group non-hybrid debt.

The UK, the US and Singapore and Hong Kong are designated territories: meaning that their regulatory capital surpluses can be brought in to the calculation without change. We are required to recalculate the regulatory position using UK rules for all of the other Asian countries. The UK rules can give rise to some very different outcomes from those that apply locally for reasons that we can explain in more detail on 2 June.

The UK Life Fund is not included in the FGD calculation at all so we can ascribe no value to the future shareholder transfer we reasonably expect to receive and which is important to the group from an economic capital perspective.

You will see later in Jonathan's presentation that JNL has substantial capital and is very strongly capitalised from a regulatory perspective. This surplus capital can be used in the calculation to support other operations, principally Asia.

We are now finalising our year end regulatory returns. Our current estimate of our FGD position is that at the end of the year we have a surplus of at least £800m – as you would expect given the comments we made at the time of the rights issue, after allowing for the issue proceeds subsequently received.

SLIDE 21

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

I have already commented on the elements of our new business achieved profits figure of £688m (the second column from the left). It represents 9.8% of opening achieved profits shareholders' funds. It has been a feature of Prudential's performance in recent years that the proportion of new business achieved profits relative to AP shareholders' funds is higher than its peer group, reflecting the growth of new business particularly in Asia.

In the middle of the chart you will see the short-term fluctuation in investment returns, it represents this year's investment earnings over and above our long-term assumptions, and at £679m is perhaps a higher number than might have been anticipated. There are three elements to it. The UK contributes £402m, where our actual life-fund return of 13.4% comfortably exceeds a long-term assumed rate of 6.5%.

Jackson National Life adds £207m to the total as a result of our actual realised gains from our bond portfolio of £49m being ahead of the five year averaged loss of £113m. There is also a £46m positive contribution from Asia reflecting rising equity markets and falling bond yields in a number of markets.

Economic assumption changes, the next column along, result from the annual setting of investment assumptions required by the active basis and comprise a number of changes to assumptions in all businesses, details of which are in the supplementary schedules, but are smaller than in recent years.

After adjusting for the rights issue proceeds our closing shareholder funds on an AP basis are close to £8.6bn leading to an improvement in our gearing to 13% giving us financial flexibility to respond to market changes and to maintain our regulatory capital position under the new European directives.

With that, I will hand over to Jonathan who will tell you how we intend to build on this financial performance.

JONATHAN BLOOMER
GROUP CHIEF EXECUTIVE

SLIDE 23

Philip's presentation shows you that all our business units are performing well on all measures and in what we believe is a sustainable manner — we have maintained our focus on value not simply volume.

I want to talk about how we intend to continue to build value.

But, before I talk about each of the businesses specifically, I will start by talking about capital and cashflow, and the main assumptions behind them, since they are key in illustrating how we plan to deliver profitable growth within our capital means.

SLIDE 24

As you can see, at the moment three units generate capital for the centre: the UK life fund, M&G and Jackson. Two businesses are absorbing capital: Asia this year before moving to net generation of capital next year. And clearly we are investing in developing the UK shareholder business over the next few years.

Egg does not require capital to develop its UK businesses and does not yet pay a dividend. We allocate capital ensuring that business units can meet hurdle rates of return. The rate of capital utilisation along with growth targets, profitability and value creation are then embedded in the relevant incentive schemes.

The capital investment we are making in the UK shareholder-backed business will be around £250 million in 2005, and is expected to decrease over time, falling to around £150 million by 2007.

We have said that Jackson National Life remitted US$120 million to the centre in 2004. In 2005, we expect this amount to be US$150 million, and for it to continue to rise thereafter. Clearly the cashflow position of the group as a whole improves as the funding to build the UK shareholder-backed business falls, and as the remittances from the United States, Asia and M&G increase over time. We have taken these developments into account in setting our growth plans.

SLIDE 25

Let me comment on some of the other key assumptions behind these growth plans.
Our growth expectations for the future are not based around a sudden surge in consumer saving in the United States or the UK, but for modest market growth of 4% and 5% respectively. In addition, our central planning assumption is that equity and debt markets will remain stable over the medium-term.

Not trying to predict equity market performance over the next 2 or 3 years here, but for planning purposes we are assuming average equity market returns of around 8.5% per annum. A normalised level of credit losses (2004 saw lower than normal levels of credit losses) and limited, gradual interest rate rises – particularly in the United States.

We are also planning for a relatively stable regulatory environment around the world. There have clearly been significant changes in the UK in recent years - I think the majority of the major ones that will effect us are now through the system. 2004 was also a year of regulatory challenge in the United States – and, although I believe that there will continue to be real changes in this area in the US, I do not think at the moment that there is anything particularly significant for our business.

The planned business mix is the final critical component of the eventual out-turn given the capital intensity of some of our products and different relative rates of return.

SLIDE 26

Within these assumptions, we also manage the business to balance the returns available in each of our markets with the associated risks. The operations of the group around the world do have diversified risks and on an economic capital basis this leads to a lower requirement for capital. Philip will talk more about this at our presentation on 2nd June. Whilst talking about group capital, I should say that we estimate that our group cost of capital is currently 8.7%. Our businesses have different capital characteristics and different risk profiles:

In the US, Jackson is a more mature business which we are managing to ensure it can return cash to the group whilst growing. We particularly manage the growth rate of the fixed annuity with its higher capital requirements. And on the risk side, we have done considerable work to reduce the risk in the investment portfolio.

In Asia, the growth rates and risk profiles of the various countries we operate in are very different. Although the diversity of our operations is a major relative strength, we seek higher rates of return on our capital because, in general, it is a riskier place to do business - in the last few years we have had currency crisis, SARs and issues with Indonesian regulations. We have, however, invested consistently over the last 10 years to build considerable value and shortly we will see it move to a net cash return.

In the UK, the operations are now in good shape, and we are seizing the opportunity presented by the changing environment to invest in building a shareholder backed business. As this business matures, the older policies will generate cash to support new business and it will go cash positive in time as well as building substantial value.

Overall, we are confident that the group's capital situation puts us in a strong position to deliver sustainable and profitable growth within our capital means.

Growth within our capital means.

SLIDE 27

Although the UK is the third largest market in the world, from 2001-2003 it was shrinking by almost 6% per annum.

During this period, we did a lot of work internally to get our UK business into shape. The UK team has done an excellent job to reduce the cost base, improve operational efficiency, introduce new products and broaden distribution.

And then, in 2004 we saw a number of positive developments, and the market started to return to growth.

The positive changes in the market place included a much more constructive tone from the government with regard to long term savings, and a final decision on price caps which at 1.5% allowed for a reasonable return.

In addition, the changes to capital requirements and other market factors put real pressure on some life offices and led to more rational competition in the market place.
We also started to see a much clearer picture as to how distribution will develop, and a real opportunity for us to be successful in the new environment.

SLIDE 28

It will be important in the future to have access to a number of distribution channels. A key shift in our business has been to grow the breadth of our distribution. You can see from this chart the balance of sales across our four key channels today.

The business to business channel had a strong performance, particularly in corporate pensions, and has a very strong bulk annuity pipeline.

Partnerships also had a very good year, both including and excluding Royal London. We expect this channel to continue to develop strongly adding major new partners such as Lloyds and Alliance and Leicester.

In Direct to Consumer it is early days, and there is good potential given our existing 7m customer base.

In Intermediaries there were good performances in UL bonds, individual annuities, and good signs for our offshore WP bond, although there will be significant change in this channel as multi-ties progress. We believe we are well-placed to benefit from the changes.

SLIDE 29

The development of multi-tie panels will favour financially strong players with great brands and a good, broad product range. After the rights issue, we qualify on all counts.

This slide shows the make up of the IFA market place and the members on the key panels that have currently announced their multi-tie arrangements. You can see that we have done extremely well.

It will take a while for these new arrangements to come into force and we expect 2005 to be a transitional year, particularly as individual advisors will only move over to a multi-tie approach gradually. Over time, however, the multi-ties will funnel volumes through the panel providers and this will lead to market concentration.

I think it is now accepted that the major companies have a significant opportunity to take market share profitably over the next few years.

We expect to grow by about 10% from the base established in 2004, which compares with the industry expectation for UK market growth of around 5% for 2005.

I am confident that within the UK market we can deliver sustainable and profitable growth, given our brand, distribution strength, scale economics and product portfolio.

SLIDE 30

Egg reported its results last week.

In its core UK business it made an operating profit of £74m last year. This is despite increased competition in the credit card and personal loan markets, and rising interest rates.
In Q4 their performance was particularly good, and their share of the credit card market in the UK increased to 6%.

Egg's credit quality remains good, with increased provision levels reflecting the continuing growth in their unsecured lending porfolio, the stage in the life cycle of the card and loan books, and the increasing proportion of personal loans in the book.

Egg is now firmly focused on the development of its core UK business. Their exit from France is running ahead of schedule, and the exit of their investments business and of Funds Direct brings their attention firmly back to the UK banking business.

During 2005, Egg intends to undertake a restructuring of share capital and reserves with a view to eliminating its profit and loss deficit against the share premium account and capital reserve. Whilst complex, the process has no impact on either statutory shareholders' funds or their regulatory capital - it is purely an offset of accumulated losses against other reserves within shareholders' funds.

The purpose of the exercise is to allow the payment of dividends as and when sufficient distributable reserves have been generated, and the Egg board considers it to be in the best interests of the company. You might consider this as housekeeping required to clear a path for paying dividends in the future.

They have a number of initiatives in place to secure more value from their existing unsecured lending business, as well as broadening their product range to capitalise on the strength of their brand, and the trust they have among their young and affluent customer base.
Egg have started well in 2005.

SLIDE 31

The core part of our business is managing those assets that we collect through our range of products. In the UK, M&G is delivering high quality returns to policyholders and retail investors. M&G has its own clear strategy for profitable growth, despite the difficult markets of the last few years.

They are focused on growing assets where they have clear competitive advantage, for example in fixed income and property, as well as equities, whilst maintaining a very clear focus on the cost base.

The M&G brand also provides us with alternative access to a retail customer base in the UK and increasingly in other parts of the world as we offer M&G retail funds in continental Europe and Asian market places.

SLIDE 32

As I said, M&G is providing excellent investment results to our policyholders and retail investors alike.

This slide shows the out-performance of the UK with-profits fund against competitors over the last 6 years. Overall, over these 6 years this has added some 14 % points to the life fund's investment performance

This has allowed us to hold annual bonuses and start to increase some maturing bonuses, as we announced last week.

In addition, retail equity fund performance remains good - we are seeing very good 3 year track records on key funds this year.

SLIDE 33

Over the last 10 years, Jackson has tripled assets, premiums and capital with a net investment from the Group over that period of just $11million.

It has done this by organic growth rather than by acquisition, and it is one of the US industry's fastest growing companies.

Jackson has a stable and highly competent management team, whose focus is on delivery, as you can see from their excellent track record.

As with all our businesses, they have concentrated on profitable growth rather than simply on market share. Their success has delivered excellent market positions in key product areas and distribution channels. Jackson's Perspective II variable annuity was the best-selling VA contract in the US last year.

In 2004, Jackson was the number 10 writer of all annuity premiums with a 3% market share, ahead of companies like Prudential of the US and Hancock/ManuLife.

Jackson also maintains an expense advantage relative to its competitors. The top 25 annuity writers have an average expense ratio of 74 basis points. JNL's is 46bps. This 28 bps advantage translates into pricing options and earnings power

Additional growth, whether organic or through "bolt on" transactions like LOG will deliver further reductions in unit costs, further improvement in expense ratios and continue above-market returns on capital.

SLIDE 34

In addition to expense leadership, Jackson is an industry leader in product distribution. It has proved it can establish strong positions with new products in new distribution channels.
As a result of the regulatory climate the US market is changing, and this should present us with further distribution opportunities, such with wirehouses - a channel we have not previously used, or the opportunity to enlarge our own broker-dealer distribution.

Jackson is well positioned to react to changes in the distribution landscape and I would point out that 90% of its sales today come from products developed in the last 24 months.
To summarise the US: Jackson is generating capital to fund its own growth and for the group, while delivering above market growth, at below market costs and therefore above market returns. This business creates value for the group, and for shareholders

SLIDE 35

Lastly, let me turn to Asia where we have an extremely strong position and track record of delivery. Insurance premiums have grown by a compound 26% since 1994 and assets have grown at 34% compound. We have done this whilst sustaining our margins above 50%.
As a result of this growth, we have easily the best position in Asia of most of our international competitors. Most of our international competitors would be in one or two countries – indeed, our incremental growth each year would be larger than the total scale of their operations. All of this helps us to maintain our leadership position.

Other advantages that will allow us to sustain this position include our brand, which is recognisable across the region allowing us to attract customers and high quality people for our business. I have said before that it is the quality of this team that is so important to performance in this region.

We also now have the scale to start to drive real efficiencies across the region thereby reducing costs and further protecting our margins.
Growth in 2004, at 14%, was lower than we normally expect from the region as a result of our pull back from low margin businesses in Japan and Singapore. We do expect to grow faster than 14% this year and in the future.

Clearly, given the high returns we have in this business, we are keen to grow it as quickly as possible. We have never constrained the growth in the region by restricting the capital available. We have, however, been careful to manage the growth rate in the business to ensure its quality. Every year we recruit and train many thousands of agents ensuring that as we build the business, we maintain control of compliance and risk management.
In addition, we avoid the temptation simply to go for more volume by taking on low margin business which would provide a return on the marginal capital below our required targets. This

is why we did what we did last year in Japan and there are several other markets where we have simply not offered low margin products at the expense of quality of earnings.
Let me just turn to one particular market which attracts a lot of attention at present and where we have a lot going on – China.

SLIDE 36

Although China is still a relatively small part of our Asian business – it generated £17 million of APE last year – it grew at 70% in 2004 and I am confident we will see high growth rates going forwards. We are the second largest foreign player in China in terms of sales, and the largest joint venture.

We are one of the leading foreign players in China with a strong platform after only 4 years. We have 3 operations already opened in Guangzhou, Beijing and Suzhou and will open our 4th office in Shanghai in the second quarter. As you will have seen we have recently had 2 more city licences granted in Guangdong province, close to our first Chinese operation in Guangzhou. We will continue to look for footholds in additional provinces but we are extremely pleased with our existing presence in Guangdong which is a key growth region in China with a population of some 86 million and the largest GDP amongst all the provinces with a highly affluent, and large, consumer market.

In addition to these individual licences we have recently been awarded a Group Life Licence for the same cities. This will become increasingly important as the private sector grows and employers look for ways to attract and retain people.

We expect to receive further licences this year including one to open a mutual fund joint venture with our partner CITIC as we continue to push for growth in this exciting market.

Particularly in China, the key to future growth is our ability to attract, train and, most importantly keep, people for our operations. We do gain considerable benefit from our regional presence and management pools but clearly, given the number of people we need, the vast majority will be local. In addition, we must also continue to work hard to gain new licences, building on our relationship with both the main Chinese insurance regulator and each of the provincial regulators all the while strengthening and deepening our relationship with our joint venture partner.

China is a tough and challenging environment but we are very well positioned to win and look forward to further and strong growth.

SLIDE 37

Standing back, overall the group has excellent positions in three attractive markets, where, as a result of considerable hard work by our management teams over the last few years, each business is performing well.

The businesses benefit from being part of the same group.
For example, we are using product developments across different markets, introducing versions of the American variable annuity within Asia and the UK, as well as offering retail funds across a range of markets.

Increasingly, with developments in communications, we are taking advantage of our scale to take costs out of technology – we do not need to build individual factories or data centres in each market in which we operate and there are substantial savings to come from this area. We also have to ensure we gain tangible benefits from the diversification of our operations by type and geography to ensure that we make the optimum use of our capital and returns available on it.

SLIDE 38

Each of our business is performing well today and in markets where they can deliver sustainable and profitable growth for the future. For each, we have achievable growth plans in place, driven from our capital allocation process, which will allow us to grow in a controlled manner meeting our target returns.

We start 2005 in a confident mood. We have made a number of commitments and set out some key milestones for the future: our whole focus is on delivering these.