Prudential
Moderators: Mark Tucker, Philip Broadley, Nick Prettejohn
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Mark Tucker: Good morning and welcome back to the Pru. I have got a number of my colleagues here with me, in the front row Clark, Mark, Nick and of course Philip and I think they're all here for the questions at the end and, as you will hear in a few minutes both from Philip and from Nick, about what's happening in the business. Before handing over to Philip what I would like to do first is give you a brief overview of our businesses, and let me first start with Asia.

With sales on the life side up 27% on a PVNBP basis and up 35% on an APE basis in the first half, it's been a really great start to the year in Asia. Our asset management business in the region has also achieved record net sales and has reached new levels of profitability. Of huge importance, as Philip will talk about in more detail later, our Asian operations are not only funding high growth but they are now also generating surplus cash that has already and will of course continue to be remitted to the group.

In the UK while overall sales were down against tough comparative figures last year, we are encouraged by the fact that both retail sales and overall margins held steady in the first half of the year. Nick joined us in January and over the last few months he and his team have been working very hard at restructuring and refocusing the business, and as you will have seen in this morning's announcement he has also taken our cost initiatives to the next level.

At Egg we have had a challenging first half of the year. Clearly we have not come out unscathed in the difficult operating conditions in the unsecured lending market, but we anticipated this at the time of the buyout four months ago and the clear and decisive action that we have taken subsequently means that we are confident that the second half of this year will be profitable.

In the US Clark and his team have built on excellent first quarter sales and Jackson remains in a great position to take full advantage of the retirement income wave. Record sales and profitability and strong cash generation are the hallmarks of their success there. On the asset management side we've seen outstanding performance and that's lead to a strong growth in profitability. This is true both in the UK with M&G and also with our business in Asia. So all in all a strong and very encouraging first six months both operationally and financially.

That, in a very brief nutshell, is where we are. Let me just take you through in a couple of seconds our plan for this morning. First Philip will take you through the financials with a key focus on cash and capital. I will then come back to talk about the business highlights of the first six months and our priorities going forward. Nick will then spend a few minutes looking at our UK businesses; he will talk about our priorities and the very important steps that he and his team have been taking over the last few months. Let's hand over and start with Philip.

Philip Broadley: Good morning everyone, there are two parts to my presentation this morning. First I will talk you through the highlights of the results and then I will take a look at capital flows in each of the businesses to show you how we view our capital and how we anticipate funding our growth in the future. Mark has just mentioned the operational highlights of the past six months; let's just look at how this translates into results.

You will have had a chance I hope to have a look at the release so I will just focus on a few key points. Sales on a PVNBP basis have been lead by the strong performance in Asia and the US, up 27% and 12% respectively. The story on an APE basis is similar. An improvement in margins at a group level means that new business profits are up 17% again on the PVNBP basis and that reflects the regional mix of new business sales and also positive margin trends in the US and Asia that I'll come on to talk about. Net inflows for both of our retail asset management businesses have been very strong with M&G's net retail inflow four times and Asia's three times that of a year ago. EEV operating profit is up 17% before restructuring costs in the UK, in addition to the growth in new business profits the in-force result is up 28% reflecting the growth in unwind of the discount as the growing embedded value is unwinding at higher interest rates and the effect of variance is small.

IFRS operating profit is down 4% but remember that the 2005 operating result contained one-off profits in Asia for the first half of a net £34 million and also 2006 has seen a loss from Egg. The EEV and IFRS operating results include around £18 million of restructuring costs for the UK and Egg. We now expect the full year restructuring costs to be £55 million taking account of the further cost reduction programme that Nick will describe later.

So let's move on to talk about sales and margin a bit more closely and my comments will be on a PVNBP basis. UK sales were down 12% overall, retail sales were up 1% but the total of bulk annuity sales was lower than last time. Margin in the UK was flat on the first half of last year reflecting an adverse mix mainly due to a lower proportion of bulk annuity sales, partly offset by higher annuity yield margins.

While retail margins have increased, bulk annuity margins have declined reflecting increased competition but, as Nick will talk about later, the UK business remains focused on value over volume. Jackson's sales are up 12% with margins improving on last year. Variable annuity sales continue to grow strongly and the latest information shows that Jackson is continuing to grow market share. The variable annuity margin has improved over last year through improved product pricing and because we increased the equity risk premium assumption at the end of last year. Margins on other products have fallen as a consequence of the higher risk discount rate, but the mix effect lifts margins overall.

Asia's sales overall have grown by 27%. Our Indian joint venture has led the growth, but Korea has continued its fast growth rate and Singapore grew at 32% in the half. Margin in Asia is up on a PVNBP basis and we have seen a strong sales growth in the lower margin countries of Korea and India, but this adverse country mix effect has been offset by a favourable product mix, with 66% of sales in the first half being unit linked compared to 55% last time.

The unwind of the discount at £527 million compares to £375 million a year ago. The unwind is being calculated off a higher opening embedded value but it's probably worth drawing attention to the quite significant increases in risk free rates over the last 12 months. For example the rates increased from 4.2% to 4.7% in the UK and from 4% to 5.2% in the US. You will see that assumption changes are small, experience variances and other items are a net positive £18 million and you will see that in the UK persistency is showing a small positive on our current assumptions. In the US we are continuing to benefit from actual spread being ahead of actual target and we expect that to continue in the second half although perhaps not quite as strongly as in the first. Asia's actual experience is also in line with current assumptions; the in-force result in the UK is reduced by a number of items including service company losses, continued regulatory costs and losses in Pru Health.

Embedded value shareholders funds have grown 6% since 31st December and now stand at £10.9 billion. The new business profit as a percentage of opening embedded value was 4.9% reflecting the high growth of our new business profits in Asia. Short term fluctuations in investment returns, with a positive £32 million reflecting the actual returns in the life fund of 4.2% are slightly ahead of the long term assumption.

It's probably worth talking a bit about economic assumption changes as they're a positive £435 million overall. This includes a significant positive movement in the accounting value of our group pension funds of £246 million. The increases in asset values contribution we've made to the fund and the higher interest rate applied to discounting liabilities means that in the first half of the year the shareholders' share of the pension fund deficit was eliminated on an accounting basis, and at 30th June the pension fund was overall showing a small surplus of £8 million.

There's also a positive movement in the mark-to-market of our debt of £168 million and economic assumptions show a movement of £21 million reflecting the effect of rising interest rates on embedded value, positive in the UK, negative in the US and Asia.

Finally, a word on Taiwan. The long term interest rates have risen by about 25 basis points in the first half of the year in line with our assumptions, and the effect of interest rate rises on bond prices will lower our actual fund earned rate, and this is built into the grading assumptions as I described to you before.

Turning now to IFRS profit where in the UK it's up 10% before the restructuring costs. The UK insurance business benefits from higher expected life fund earnings and increased profits from annuities. US statutory profits continue to grow, they're up 28% benefiting from higher spread and higher fee income.

As I mentioned earlier, the 2005 Asia result benefited from £34 million of one-off items, so the underlying Asia result benefited from £34 million of one-off items, so the underlying growth of 16% in profits continues to reflect the development of our businesses across the region. The life assurance result for Hong Kong, Malaysia and Singapore which I report combined in this half is £73 million compared with an underlying profit of £65 million 12 months ago, and it's also worth mentioning that the Asian funds management business has seen a large rise in profits. These profits have grown 20% with higher funds under management and a close control of costs. From the line there on the slide entitled 'other' includes the effects of lower net interest income as the rights issue proceeds are invested by the holding company in the UK business.

Let me talk specifically for a moment about Egg and its performance in the first half. Net interest income was up £17 million with the benefit of our re-pricing of cards last year flowing through into income. The card book itself grew in the first five months, credit card balances up by 3% when the industry has been contracting as customers have repaid debt. In the first quarter of the year

Egg's marketing has been strong with 153,000 new cards achieved in Q1, a record quarter with a 0% balance transfer offer. The £10 million additional cost of that offer under IFRS is charged to the profit and loss account in the first half and that will be released in the second half. On personal loans the returns in the current market conditions are not attractive and we've made a strategic decision to reduce new loan volumes reflecting both the reduction in credit quality available and the declining appetite across the industry for unsecured lending in current conditions. In the first half we sold 53,000 new loans compared to 90,000 for the same period last year, and this affects non-interest income as they are reduced fees when the business is taken out.

The bad debt charge is £49 million higher than a year ago and Egg's not alone in having seen deterioration in credit quality in the first half, and in our experience it's particularly evident in loans written in 2004. We expect that Egg will return to profit in the second half of 2006.

One of the benefits from acquiring the Egg minority is that we're now able to restructure how we hold our investment in Egg Banking plc within the group. By reorganising the corporate structure at minimal cost we expect to be able to achieve a regulatory capital benefit of around £120 million. Clearly there's a benefit from making this re-organisation; we can improve our regulatory capital resources without having to raise new capital with ongoing service and costs, and after including the benefit of this reorganisation we currently estimate that our FCD position at the end of 2006 will be over £800 million, the exact position at the end of the year of course depending on market levels at that date. Nick will talk more about Egg later.

When we presented the results of our strategy review last October, both Mark and I commented that we believed that we have sufficient capital to achieve our planned growth over the medium term. Since then we've been asked a number of times to explain why we have this view, so what I'd like to do this morning is spend some time working through the capital flows in our insurance business. We do give information about these capital flows in our embedded value reporting at the moment. Many of you will be familiar with that but I'd like to explain how we interpret this information and then go on to talk about capital formation and usage in each of the business units so you can see how each of the businesses is supporting its growth.

So with that introduction I want to walk through the flow of capital which probably makes it easier for me to stand here and make a few gestures at the screen from time to time to show you how that's reported under EEV, but let me first of all define three important terms which do get picked up and used in our schedules. First of all the required capital which backs the commitments we make to policy holders in terms of product features. Anything we have over and above the required capital is free surplus available for investment or remittance back to plc. Required capital and the free surplus together make up net worth in the statutory shareholders' funds and outside that statutory net worth you have the value of in-force which is the present value of the cash flows we expect to receive over time.

I now want to go through how capital circulates around those three boxes and I think that's best done by illustrating first of all the piece of new business and then what happens to the contract over its life and finally what happens on surrender or maturity. So here you see the same three boxes in year one and the effect of writing a new contract. First of all we make a transfer from pre-surplus into required capital to back the commitments we're making to policy holders. Additionally capital is lost from pre-surplus from acquiring the new business either in the form or commissions or from setting up technical provisions. So the effect of writing a piece of business is that the free surplus goes down, the required capital goes up and then the value of the in-force increases as I say with the present value of the business written, and the overall effect of writing a contract is to increase EB shareholders' funds overall.

So if you think of that first slide as being year one, here's year two as we get into the life of the contract. So if we work now from the in-force back the other way, the value of the in-force increases with the unwind of discount, effectively an arithmetic exercise but the annual surplus that then emerges can be transferred back into free surplus. Then from the free surplus we need to make a small incremental increase in capital to reflect the change in liabilities over that one year, let's say it's 100 units of liability, we perhaps pay an annual bonus which is guaranteed of four, there's a small incremental amount of capital required to back that additional four. Both the free surplus and the required capital then earn investment return, so overall you'd be expecting in year two the free surplus to grow, required capital to go up and the value of the in-force to unwind.

The final slide here shows what happens on maturity. You get the final release, your surplus from net worth back into free surplus and the required capital being released finally. Now the reason I spent some time going through all of that is that these flows are shown in aggregate in our EEV disclosures, you'll find them in Schedule 10 of the supplementary schedules. To illustrate how they work with numbers let's now just have a look at what we presented today. This is an expanded version of one line in Schedule 10, but the three boxes I've just described, free surplus, required capital and value in-force are the headings in that schedule. What I've done here is to split out the totals, 361 reduction in free surplus etc, that line into each of the three business units. So you can see the equivalent movements in those three items at a business unit level. So to support the new business we've written this half there's a transfer out of free surplus into required capital of £240 million, money paid away will lead to a reduction in net worth of £121 million, but at the same time the value of in-force business grows by the expected earnings from that business an amount of £471 million, so the overall effect of our activity in the first half of the year is to add to embedded value £350 million. You can then see how much capital from free surplus is required to write a given level of sales and we've shown that for you in the bottom half of the chart with a capital requirement by business unit. So just taking Asia as an example, every £100 million of PVNBP sales in Asia requires £2.7 million of capital. Other businesses are more capital intensive but across the group as a whole, £100 million of PVNBP sales requires less than £4 million of capital. We then look at what's been generated by the in-force to support that, you again see a line from the schedules. This shows a level of in-force profit that's being released into free surplus which can then be used to back new business. For Jackson for example it demonstrates what we've said previously, that Jackson's more than able to fund the growth from the release of its in-force book.

So after that general explanation let's go on to talk about each of the businesses and their capital requirements over the next few years. Here, first of all is Asia. Since 1995 it's consumed a net capital of £512 million for organic growth and £543 million from acquisitions, and this has been funded by cash injections from plc. Cash requirements have reduced steadily over the last four years and driving it has been the growth of established market cash flows with an increasing contribution from maturing markets. It's also being supported by the growth of more efficient unit linked products which, as I mentioned earlier, accounted for 66% of sales across the region in the first half. Asia became a net cash contributor to the group in the first half of the year and we expect this to be the case for the full year, but having met the cash flow positive target I'm sure many of you are now interested in how we expect Asia to develop over the next few years and this next slide gives you an indication of that. This shows the possible pattern of cash generation in Asia in the period from 2006 to 2010. Let me stress absolutely at the outset that this is not a forecast of what the cash position will be in any particular year. We're not attempting to forecast either our growth rates or the exact mix of business, but if we were to continue to write business at the same mix that we saw in 2005, about 58% of unit linked product, then the cash flow profile at a 10% growth rate would be the blue line at the top of the chart. If we were to grow at 50% then the cash flow generation each year is shown by the red line at the bottom of the chart. So while we cannot predict actual growth rates nor product mix, you can see that if we were to achieve a 50% growth rate in Asia per annum over each of the next four years at a mix slightly more capital intensive than that which we're currently writing, we'd still be generating £200 million a year from Asia in 2010.

Now the reasons for this are that Singapore, Hong Kong and Malaysia are profitable in statutory terms and have been delivering cash for some time, and using an illustrative growth rate of 30%

in aggregate for these three markets we expect them to generate cash of about £90 million this year. We've also said before that Indonesia and Vietnam are now generating profits and positive cash flows. Our growth markets, Korea, India and China is where new business strain is expected to continue to grow in the short term but by 2009 the cash generated collectively by these countries' in-force business is expected to more than cover their new business requirements. Finally for Taiwan, as again I've said before, we would expect that to be cash flow positive during 2010 even if interest rates do not move from their current levels.

Now there are rather a lot of columns on this next chart so you'll probably need to look at it later. It's an update of a chart we showed you at the analysts' meeting in Chicago last year and it shows how Jackson's funding its capital growth through strong statutory earnings. It updates the position and covers the 18 month period from January 2005 to 30th June this year. So over that 18 month period statutory net income, columns B and J, have increased by almost $700 million; the run-off from the back book which are columns C and K by almost $500 million, so that's $1.2 billion generated which has supported a dividend of $150 million in 2005, that's column G, a capital backing Life of Georgia, column E; and the capital for new business which is the total for F and M. After all of that excess capital has grown by $200 million.

The one insurance business that will consume capital in 2006 is our growing UK shareholder backed business. What I've done here on the left hand side of the chart is to split out from the reported figures for the UK the sales that are backed by shareholder capital from 2001 up to and including the first half of 2006. You'll see these have increased markedly, particularly with the level of annuity business we now write for the shareholder account. The actual capital injected into the UK from '01 to '05 is on the right hand side shown in red. We currently expect to invest up to £230 million in the UK business in 2006 and up to £150 million in 2007, those are the two blue bars on the right hand side of the chart. Obviously the actual capital levels of investment we make will depend on the amount of business that we write and we remain focused on the target internal rate of return in deploying capital. We would expect capital injections in the UK to fall beyond 2007 as the shareholder backed business continues to grow and there is therefore more of a release from in-force to free surplus, but overall nearly £400 million of capital raised at the time of the rights issue has now been injected into the UK shareholder backed business.

Finally moving on from group capital I will conclude by making some comments about cash flow. I showed you this chart in March which sets out the expected cash position of our different businesses. The picture at the half year is very much as anticipated then so I'll just focus on two changes. Asia remitted a net £5 million to the holding company in the first half and that will grow over time now as I've shown. There's a new box on the chart in the far right hand side which is the UK general insurance business. We've not spoken about the general insurance business and results presentations for a while, but when we sold the business in 2001 to Churchill we received an upfront payment of cash in respect of commission income. We expect total commissions to exceed that amount paid in advance by the end of next year and therefore cash payments under this arrangement will resume from 2008, and we'd expect to be receiving more than £30 million a year in cash – that will depend on new business volumes and persistency rates.

So all of those cash flows at the top are available to meet the capital requirements of the UK shareholder backed business that I have described, service our debt and meet our dividend. Finally on the subject of dividend, the interim dividend this morning was 5.42p, representing an increase of 2.3%, and has been set in line with the existing dividend policy.

With that I'll hand over to Mark.

Mark Tucker: Thanks Philip. At the prelims I spent some time talking about our priorities. They are set out together on this slide and this slide should be familiar to you. You've seen all these components before so I won't dwell on them, but what I do want to do is go through each of our businesses separately and then hand you over to Nick to talk about the UK.

Let's start with Asia. It's been a really excellent six months for PCA both in a financial and operational sense. The compelling momentum of this business is clearly evident. We saw strong growth in our established markets but it was also really pleasing to see both Vietnam and Japan up in the second quarter compared to last year. That's the first time for both for two years.

We've received four new licences in China this year and that brings our total to 14. The latest licence was granted to us just last Friday for Hangzhou, the largest city in the Zhejiang province. The Zhejiang province is roughly the size of the UK if that gives you an indication in population terms of that opportunity.

We've also received a licence for takaful business in Malaysia, and for those that don't know, takaful is the term for Muslim compliant projects. Our takaful JV is on target to start up in the third quarter.

During the first six months we reached number one in the Indonesian life market, a really terrific achievement over the January period. These are just a few of the many highlights of the first half in Asia.

On the distribution side, our multi distribution focus in the region continues to reap substantial rewards. As you can see from this side, Tied Agency remains PCA's core distribution channel. As I said in March, we're making a pan-region effort to drive best practices into all our markets with a particular focus on productivity, and it's really starting to work. A 32% increase in agent sales on a 20% increase in agency force numbers.

Of course our strong brand and culture, powerful infrastructure and depth of agency management experience and expertise are all important competitive advantages and we'll continue to do everything we can to capitalise on them.

Let me just give you one example of that. Just last week I got back from a short visit to India where one of our four regional managing directors and a leader in the region on agency productivity had just spent a week with the Indian life team taking them through the agency lessons that we've learnt in the last decade in Asia. This is just one of the many initiatives continually taking place in the region, and this sharing of experience and expertise follows the same regional and local mantra that is prevalent right the way through PCA.

Last but not least, for us direct and telemarketing are small today in Asia, but we see great potential in demand and strong product margins. We've put a new regional team in place, a team that is putting in the systems and call centre operations to take our direct distribution to the next level and make this a bigger piece of our business.

The diversity and quality of our distribution right across the region is one of Prudential's strongest advantages in Asia. One of our other key competitive advantages is our product focus, it's now even stronger with a newly established product centre of excellence which is just another example of how PCA is taking its expertise and best practices and making sure it benefits all of our businesses.

As you know well, we've pioneered the use of unit linked products across the region for the last 15 years. These products are capital efficient and high margin, and, as Philip has said, they made up 66% of our sales in the first half of this year. That is far ahead of any pan-regional competitor. These products are sold in 10 out of the 12 countries we now operate in. With the launch in Vietnam we hope later this year, the number of countries will be up to 11. Just in case you're wondering, the 12th is Thailand where the industry remains in consultation and discussion with the regulator.

Stepping back from that and what we're planning to do on 1st December is give you a full and detailed update on PCA, so please put that date in your diaries. We had a long debate internally about the location of that and we toyed with the exotic locations of Bali and all sorts of other locations in Asia at this time of the year, and we came to the firm conclusion that the best place would be London. So cold, wet and windy London on 1st December is the date for the Asia presentation.

Moving on to the US, it's been a really tremendous first half of the year for Jackson National, where the picture as you can see is one of strong and profitable growth. As I said in March, we've also seen continued product innovation. We've seen it for instance in the launch of a new suite of GMWBs and our flagship Perspective II, the A product, and we've seen it in a reconfiguration of the fixed index annuity product line. We've also continued to extend distribution with continuing penetration into the independent broker dealer channel and expanded distribution relationships with UBS and AIG.

Finally, regulatory capital in Jackson as Philip said earlier increased by approximately $300 million in the first half of this year. This carries on from the favourable results that we saw last year when capital increased by $430 million, even after paying $150 million dividend and for the Life of Georgia acquisition.

As you can see from this slide, we've got strength in depth right across the annuity range with leading positions in VA's fixed index annuities and additional fixed annuities. This breadth of offering leaves us very well placed to sell profitable products at all points of the economic cycle. It is worth making just one more important point here. Fixed index annuities provide a natural hedge to the guaranteed benefit obligations in variable annuities, and that makes it more efficient and economical for us to hedge both our VA and our FIA product portfolios. That's a clear and important benefit that does not exist in less diversified annuity companies. But over the long haul we continue to believe that variable annuities are better positioned than both FAs and FIAs relative to the needs of the market, so our top priority continues to be to make the most of our competitive advantage and competitive position in the VA market.

Looking a bit more closely at variable annuities, we've achieved record sales quarter on quarter, our VA market share has gone from 2.5% to 4.2% since the beginning of 2004. It's also very important to look at the distribution channels we play in. Our share in the independent broker dealer channel has gone from 5.4% to 10.4% over the same period. This 10.4% share is number three in that channel, pretty close and right behind number one, Pru Skandia with a share of 11.8% and number two Manulife Hancock with a share of 10.8%, so you can see the top three bunching is pretty close.

A continuing trend in the industry from transaction based products and distribution to a focus on delivering advice plays right into JNL's long term positioning. Last but not least – and it won't surprise any of you that came to Lancing last year – JNL's excellent infrastructure and service has one again been recognised with a world class service award from SGM.

On this powerful platform we continue to look for opportunities to build and grow in the US, and as we've said before we are actively looking for bolt-on acquisitions. All in all a very exciting story and a very exciting opportunity for us in the US.

Moving on to asset management. On all measures our asset management businesses in the UK and Asia are performing exceptionally well. At M&G the key indicators of investment performance, net sales and profits are all extremely strong. Sales performance in the first half has been absolutely outstanding. Total net sales of £3.6 billion are a record first half result, and at the retail level net sales of £1.7 billion meant that we had already sold 30% more by the end of June than we had in the whole of last year.

Our further expansion into Europe also remains strong, and in Asia we launched the first of many to come mutual funds in China with a great and successful retail push. We've also seen our asset management company in India become number one in their country, and it's worth us spending a couple of seconds talking about that. You'll remember when we entered the mutual fund market in India in 1998, our market share by March 1998 had risen to 0.241%. We were at that time the 14th largest player in the market and the 14th largest player in the country, and UTI, which had dominated the market from its existence in 1964, was a very strong number one. Last month in June 2006 we had an 11.3% market share and we'd overtaken UTI to become number one in the country, a truly tremendous achievement.

As you can see from this slide, the successful investment performance translates into increasing profits. On the bottom left you can see underlying profit growth at M&G at 34%, and in the bottom right in Asia after a very challenging first half last year we've really begun to see the profitability come through in India, Japan and Korea. This is on the back of record net flows of £1.7 billion in the first half of the year, as Philip said a tripling over the last year. I think it's important to mention here of that £1.7 billion, £1.4 billion was in long term funds as opposed to the money market funds that I think Asia is often associated with, so this is high quality funds.

As I said in March, key to this success is the investment management performance. You can see from this side that it's been exceptional, and what I'd like to do is spend a few seconds just talking through a couple of these. Over three years 77% of M&G retail funds beat the UK sector average, and over one year all major M&G UK and global equity funds were top decile. You can see the performance alongside that of the life fund and the performance of Asia gives us tremendous consistency and a wonderful base to bring profitability from.

Moving on to the last bullet on the slide and as Michael Leander and Ajay mentioned at the asset management day back in May, there is an ever increasing collaboration between our asset management businesses. I have listed out a few examples here of the many cross-feed initiatives now in place.

To end this section I should make these points which I know is something that Michael would like me to say. The first half of 2006 has been a remarkably strong one for our asset management businesses, and while prospects continue and remain enormously exciting, in view of market conditions you should not be surprised if performance does not always fully match the level seen in the first half.

Finally the UK. I summarised the UK earlier by saying that while overall sales were down against tough comparative figures last year, we are very encouraged by the fact that retail sales and margins for the first half of the year have steadied. We've been doing a lot of work on the UK businesses and I don't want to steal Nick's thunder here because he and his team have been making enormous progress. So let me at this stage pass over to Nick to take you through the UK and I'll come back right at the end.

Nick Prettejohn: Thanks Mark. I joined a business in January this year that has major assets, real brand strength in Prudential and Egg; financial strength; access to business via multiple distribution channels, through intermediaries, through partnerships and direct; a considerable investment and particularly asset allocation capability; and significant granular mortality expertise, but also a business that had some major areas to address; a functionally based management structure that was getting in the way of the business; too much cost; and a need for innovation in some key areas. So the immediate priorities have been to change the organisation's structure; to focus the team on moving the business forward; take a hard look at the cost base; undertake a critical review of the true economics of the business – both product and distribution; start to do what had not been done before which was to leverage the significant skills and products from across the group; and maintain the focus on returns. So, what's been done?

First the business has been re-organised. We've replaced the existing functional structure with four businesses under clear leadership. Income in retirement under Andy Briggs whom many of you know; wealth and health under Gary Shaughnessy who's joined the team from M&G; banking under Mark Nancarrow, the CEO of Egg who also takes responsibility for our direct to consumer distribution efforts; and mature life and pensions also under Gary Shaughnessy.

This is a strong team, blending experience in the UK business with talent from elsewhere in the group, and, in the case of Ian Wright and Jennifer Board, from the outside. The structure creates clear accountability throughout the business by creating genuine P&L responsibility. It's enabled the integration of UKIO and Egg since the completion of the deal a couple of months ago to occur faster and more effectively. The two businesses have been brought together and now share single finance, HR, risk, operations and marketing functions that's reduced duplication. Critically it now enables us to focus on the distinct sources of value in the legacy business, and it's created the environment in which people can innovate. Overall it will help to achieve a much needed change towards a fundamentally more agile culture within the business, and that change is essential for the success in the future.

Secondly, the integration of UKIO and Egg has in many ways been the catalyst for further and wider cost reduction. Nearly 20% of the combined costs of UKIO and Egg will have come out by 2009. This represents a saving of £150 million per annum and £100 million of this will be shareholder savings. The results of this wider cost reduction effort include the £40 million target set when the acquisition of the minority stake was announced, and those cost savings are being achieved by site rationalisation such as the recently announced proposals to close Belfast, Bristol and Holborn; the changes to the structure following integration that I've talked about; and a focus on discretionary spend. These savings have a positive impact on IFRS and cash, they are EEV neutral, and the cost of implementation will be £110 million including the £50 million already announced. I do not see this as the end of the cost reduction potential. We will be seeking further savings over the next three years although these savings will, it's fair to say, be harder to achieve, and they'll be driven in large part I think by the separation of the new business operations from mature life and pensions which creates a harsher spotlight on the relative costs of each activity for the newly appointed management teams.

Now I'd like to take a look at each of the business areas and give you a brief assessment of the situation in each of them as I see it and describe what the priorities are for each of them. First, income in retirement which overall represents about 75% of our new business EEV. There will be continued and strong demand in this market. In the retail market we have a strong position in individual annuities which represent more than half of our value from this business area. Our granular mortality expertise is a real source of advantage in this business. The vestings from our pension book and from our partnership deal provide a powerful engine of value. Internal vestings represent around 50% of our individual annuity volume, and over 20% of our individual annuity volume in the first half came from the partnership's vesting deals we have written over the last couple of years. We've also doubled our volume of profit annuities as people see the attractions of a broader range of assets than bonds. We'll also continue to create value in the retail market from our newly launched lifetime mortgage product. A large proportion of people's assets at retirement are in property and we see this as an opportunity.

In the wholesale market we will seek to innovate, for instance continuing to develop new product propositions in the bulk market such as the structured buy-out, and working more closely with M&G on investment strategy. We need to tighten up our processes for instance in our management of quotes for the bulk business. We are actively exploring different partnership models for participation in the wholesale market to get value from the deal initiation that comes from our brand strength, our structuring capability and our mortality expertise as well as for employing our capital. We have not written many bulk deals in the first half and there have been real competitive pressures, but we continue to have a healthy pipeline of bulk and back book opportunities, and our brand is a real, long term asset in what is a long term business. We have a leading position which we will seek to develop further through innovation, and while I've spoken a lot about costs in the UK business as a whole, in the bulk market cost is not the primary issue. Pricing in that market is driven by assessment of longevity risk and assumptions about future investment returns. We will write business only at economic pricing levels that properly reflect the risk being assumed. Income and retirement then remains at the very centre of our plans for the UK.

Wealth and health which includes our pensions, bonds, health, protection and insurance business is around 45% of our premium but only 15% of value. Therefore we will be highly selective in our approach here, targeting only specific pockets of value. For instance there are material differences in the profitability of dealing with different elements of our intermediary population, and we're working closely with Jackson and the team there to learn from their experience in segmenting that population.

We will continue to develop through health which is progressing well towards our target of 100,000 lives by year end and benefits from continuing product innovation. The Pru health model creates real advantage by using lifestyle and vitality to improve underwriting claims costs and persistency, and in protection we're currently launching a new highly differentiated product offering greater and severity based over with a small number of advisors as well as direct.

We' seek to leverage the outstanding track record of our asset allocation team by developing products based on their expertise, and we will see to develop our direct to consumer business leveraging the skills and existing customer relationships from Egg for instance by selling through health and M&G products to Egg customers, and we will continue to manage down cost. Fundamentally in wealth and health we face a challenge to get our costs down if much of the business we currently write is to be attractively profitable. What we will not do is participate in the churning of business to generate short term volume.

So we see profitable opportunities in wealth and health but we will be highly selective and returns driven. In banking we have a strong card business with excellent if under-leveraged customer relationships, but the profits of the business have been driven by PPI from the loans business and the cost base has been too high. The business has not diversified successfully in product terms to make the most of our brand and customer relationship assets. Card will remain a priority and we will continue to grow the card book without compromising our credit policy, although it should be noted this has a negative short term IFRS impact. Encouragingly the Egg balances have performed well versus the market in the first half and we are deliberately reducing our planned loans exposure by cutting volume by around 40%, managing some value even though the impact on the P&L in the short term is negative. The integration of Egg and UKIO will already reduce the Egg's standalone cost base by over 10% and we will seek further reduction, meanwhile we'll focus on the customer, both the retention of existing customers and in the long term development of a broader relationship with them. In the short term we'll learn by testing initiatives in this area and the bringing of Pru Direct under Mark Nancorrow's leadership makes this development much easier.

So we continue to see significant value in the banking business as a standalone source of banking profits as well as part of our wide customer and distribution strategy. We've taken a significant step by separating out the mature, life and pensions business. The drivers of value in this business are cost and retention of customers, and once again we face a cost challenge here. The business represents approximately 60% of the UK life and pensions business cost base, and we believe that the costs are relatively high versus some other especially closed book specialist operators. We will reduce cost further, reviewing customer service and contact levels and the internal support for that business. There is significant value to be gained from focusing on persistency and the retention or roll-over of business, for instance internal vestings and the capture of maturities proceeds.

In summary then some important steps have been taken in the past few months: a significant restructuring of the business and cost reduction beyond the target set at the time of the full Egg buyout announcement; and we see profitable opportunities in each business area. Retirement income will be a continuing priority and focus. We have a strong position and a major continuing source of value in the individual annuity business and we will continue to seek bulk and back book deals at economic pricing levels. We will participate selectively in the wealth and health market, we'll continue to develop the card business both as a standalone business and as an opportunity to develop wider direct relationships with the customer and there will be a strong focus on value in the mature business which will be increasingly managed as a distinct business with its own set of value drivers and a focus on costs. Looking forward we'll pursue these profitable opportunities with an abiding emphasis on value, not volume using the skills, assets and products from across the group to maximise that value wherever we can.

Mark Tucker: Thanks Nick. To end up with just one final slide before we leave to Q&As. I think you can see that all in all it's been a strong and very encouraging first six months both operationally and financially. We've seen a 17% increase in both EEV operating profit and new business profit, and if you look at just the insurance businesses, that's a figure of a 22% increase over the six month period. All of us see, feel and know that the pace and momentum is increasing right across the group. I hope also with both Philip's and Nick's explanations and expanded detail you get a better sense of both the capital and the cash flow and also what's happening in the UK business, and you can see overall in terms of cash and capital that we have enough to fund all of our organic growth. I hope you can also see that overall across our businesses we are creating value and have significant scope to create much, much more.

Thanks for listening to our presentations and I think what we'd like to do now will be the team will take any questions you have. Jon, your hand moved up before I even said anything.

Jon Hocking, Morgan Stanley: Can I ask a few questions on the UK business if I may? Firstly given the cost initiatives you've announced today, by '09 when you're at the full run rate of cost saves, where do you see the full cost base of the UK business? I think you indicated that beyond the costs you've announced this morning it gets harder to achieve cost save so do you think you are at a competitive level across those markets in the UK business?

The second question on costs, in the wealth and health business is there not a little bit of a chicken and egg situation there that you can't achieve decent margins with the current scale of the business given the margin discipline unless you've seen further unit cost reductions. I don't really see how you get to be competitive in things like unit linked bonds and protection given the unit cost imperative there.

Finally on the bulk market I'm just a little bit surprised about the margin pressure comments coming so early in the first half given that my understanding that a lot of the new competitors aren't really at the stage yet where they're actively quoting for business. Is that something that we should assume will continue to deteriorate as the new entrants get up and running later into '06 and '07? Thanks.

Mark Tucker: I think that Nick can deal I hope with all of them with our support. I think on the 2009 cost base I think as you say quite rightly across the different buckets they're clearly different opportunities and I think we can talk about where we think we are competitively advantaged in those different buckets, and I think Nick, rather than me going through, I'm happy for you to take them on

Nick Prettejohn: On the question of costs I think the answer is that we have taken out the £150 million. We still see there is some way to go in some areas of the business in order for us to be cost competitive. I made my comments about the mature business where I think there is in my mind a significant differential between our costs in the mature business and what's being achieved by some of the specialist operators. I think we still will face a cost challenge in some areas of the wealth and health business. I think our cost challenge is less as I said in my earlier remarks in the annuities business, so we will continue to need to reduce our costs over the course of the next three years above and beyond the £150 million that we've talked about today.

Looking specifically at the wealth and health business and your chicken and egg in wealth and health, what I'm extremely reluctant to do in the wealth and health business is try to solve our cost problem by trying to grow volume. We will maintain our focus on margin in that business. I do not see any virtue in continuing to buy volume for instance in the unit linked bond area, paying out large amounts of commission and suffering poor persistency. So as far as I'm concerned it will be an issue of maintaining margin discipline and continuing to focus on cost, and in the protection area we have very explicitly stepped away from and reduced our exposure significantly to the commoditised end of the protection market and our protection volumes have come down very significantly. The new protection product that we have is priced at a high price point and needs to be in order to make the requisite return on capital that we're looking for.

As far as the bulks area is concerned, there has been real competitive pressure during the course of the last six months. The competition has been out there quoting for business often at materially lower levels than the lowest levels that we think it's proper to do business. So if I look at recent deals, there have been deals where our lowest price has been 7%, 10% or even 15% higher than deals at which competitors have been quoting. We don't believe that those levels can represent an appropriate return on capital for that business given the risk that's being assumed. We will not write business at those competitive levels. Long term I believe that the marketplace in the bulks and back book area is a good one for us, there's real demand, there's a real need for the things that we can do but we will only write business in the short run where we think the price that is being charged accurately reflects the risk associated with the deal.

Mark Tucker: Just one additional point, I think on the cost base that the one area on the bulk side where we're not disadvantaged, is on cost. So I think we actually have a cost advantage there. I think clearly it then comes down to mortality and the investment side. I think again with the mortality base, the granularity there that Nick spoke about and also the power of energy behind the investment side, we think we're in a strong position.

Farooq Hanif: Hi, Farooq Hanif from Credit Suisse. I've got two questions; I'll start on the bulks question actually seeing as you just talked about it. Yesterday one of your competitors talked about how they're not really seeing competitive pressures and I wonder if this is all to do with what parts of the market different people are competing in or looking at. Could you just talk a bit more about that and how you are possibly different from one of your major competitors if you are at all? The second question is on the cash flow, you've given a very candid non-forecast/forecast of the Asian potential cash flows. I'm just thinking, the numbers that you've shown overall for the group explaining how the cash works, especially the strong cash flow you're getting out of Jackson and overall you are actually making a positive cash flow in the group but a negative holding company cash flow, could you just give us a feel qualitatively for how Jackson could grow and how the overall position looks going forward in terms of cash that is?

Mark Tucker: Nick, the bulks?

Nick Prettejohn: The bulks question first, yes, I think it's fair to say that people tend to sort of bracket the bulks market as one rather than actually being composed of somewhat different segments, and I'm sure you're referring to our old established competitor in the bulk market in your question rather than one of the new boys on the block. There is a marked difference in our approach versus our other established competitor, and that is that they tend to write business with a much higher percentage of deferred annuitance. Now we believe for a number of reasons that there are significantly greater risks associated with that business, reinvestment risk, increased mortality uncertainty and mismatching risk, so our approach to that market has been different from our established competitors.

Mark Tucker: Philip, on the cash flow?

Philip Broadley: I think your question was specifically Farooq about JNL. I think hopefully from that slide on the surplus capital that Jackson is generating you will have some sense of its ability to fund further growth with its capital resources given the analysis we gave you at the meeting last November in terms of the capital intensity of fixed annuity and variable annuity business. Jackson could fund a higher level of growth with the surplus capital with it that it's got and I think we've given you the information to project what those growth rates might be.

Mark Tucker: Farooq, do you want to just come back on anything you've got there?

Farooq Hanif: In terms of bulks, what about size of schemes that you quote for versus your established competitor; and secondly with Jackson, it's actually quite difficult to do the numbers but you've sort of given a kind of gradient for how Asia's going. Will Jackson be better, the same or worse than that?

Nick Prettejohn: On the size question I wouldn't say there's a significant difference in the competitive environment between large and smaller deals. It's more a question of the risk profile of those deals.

Philip Broadley: On Jackson you've got a track record now of Jackson's growing dividend. We've said that we expect Jackson's dividend this year to be $180 million – you can therefore see how that's been growing over the last few years notwithstanding the strong growth in Jackson's retail sales, so I think from there if you're trying to as I think from your question model the group's cash flow over the medium term, I think I've given you all of the non-forecast elements as you put it, so go away and do a forecast.

James Pearce: Morning, it's James Pearce from Cazenove. Three things: first could you expand a little bit about the M&G outlook, I think you were sounding slightly cautious on it – was that about performance or profit or both?

Mark Tucker: Sorry James, could you speak up a little bit?

James Pearce: On M&G, could you expand on your outlook comments, were they about performance or profit or both? Second, it says that the cost savings in the UK would be embedded value neutral – could you expand on why that's the case after having taken some benefit for the December cost saves? Third on the UK, I've been coming to these for quite a long time and every couple of years someone restructures the Pru's UK life business. It just strikes me that isn't it time to take capital out of the UK and put it into the growing segments where you've got good numbers? How do we know that in two years' time we won't be back to square one on the UK life business?

Mark Tucker: Let me deal in reverse order and to ask Philip to deal with the cost position in the UK and the neutral position. I think the restructuring every couple of years, I think clearly when you bring a new chief executive in, you want that chief executive to look at the business, to examine the business and to take things forward both in my case and clearly in Nick's case, and I think you don't want to limit any chief executive having an open and clear look at that business. Nick has promised me that he'll be here for at least the next 25 years, so I think the aim is clearly to…it is a long term focus, I think we have been through a few chief executives but we intend to stop that.

In terms of the first point, the outlook. On the outlook I think it's not to do with performance, I think it's a market position. I think it's just the exceptional markets in the first half. I think you guys are in the same position as us, can those markets be sustained at these levels? I think that's our only concern, there's no implicit warning or anything else in there. The profitability of the business of M&G remains strong and we feel it will be going forward.

Philip Broadley: I think on the EEV point we talk in the release about the cost savings being £100 million from the shareholder business, £50 million from the policy holder business. If you think further in terms of that £100 million as being half for the benefit of Egg, half for the insurance or covered business and then also think about the likely trends in the reduction of policies, so policy count reduction within the mature life and pensions business that Nick's described, then in saying that they're EEV neutral we're anticipating the likely development of unit costs and therefore at this stage we think it's appropriate to describe this as EEV neutral.

Mark Tucker: I think the other point, James, is that it's EEV neutral but it's both cash flow and IFRS positive so you will see the flow through on both of those elements, and it's important to look right across that picture.

Questioner: A quick question on the Scottish Amicable deal: could you just confirm that was done at an arm's length basis and therefore there was a real transfer about the other?

Mark Tucker: Absolutely. It was done on an arm's length basis, it was a zero hundred fund, we had no economic interest. It was done on an arm's length basis.

Andrew Crean: Andrew Crean at Citigroup, a couple of questions. Given all this strong cash flow, when's the dividend going to increase is the first question, what are the smoke signals that we should be looking at? Secondly I do want to come back to this issue of the rights issue a couple of years ago when I think you said you needed £700 million because it increases Pru's ability to seize the opportunity in UK sales growth created by depolarisation and clearer government policy on savings products and increased awareness of the need to save. Clearly you are investing in the business now but it's a very different rate of growth. It comes back to this question of where is the £700 million now being deployed? I can see that you can say 'well, we have deployed money into the business but you would have been deploying money into the UK business even if you'd had a flat strategy at the time of the rights issue. Clearly you've got a rate of growth and a rate of capital commitment into the UK business which is less than you'd anticipated a couple of years ago, so the question stands: where's the money being deployed?

Mark Tucker: I think in terms of the cash flow, what I hope Philip demonstrated clearly today was that we have the cash and the capital to fund our growth. I think in terms of being specific about dividend increases there's been no change in dividend policy announced as a result of this and I don't think you'd expect it to be – at this stage anyway. I think we have substantial opportunities to invest the capital, we'll continue to look at those. The dividend policy will evolve over time but there's certainly no signal or no change to our existing policy at this point.

In terms of the rights issue I think again one of Philip's slides was enormously helpful which looked at the shareholder back sales since 2002, since 2003/4 all the way through and certainly since the rights issue, and you can see those sales have almost doubled, the shareholder back sales which was one of the main purposes of the rights issue have been in that position. We've invested £400 million. We said at the time of the rights issue that we'd invest in building a shareholder back business, it's totally aligned with doing that. Opportunities have changed and I think as markets change and as markets evolve, and whether it's moving in Jackson over time from being a fixed annuity provider to being a provider right across the annuity spectrum or moving in Asia in both product and distribution you have to evolve with the market and I think that's what we've done in the UK and I think that's what we'll continue to do.

But the focus and what we've said in terms of the rights issue with regard to investment is building a shareholder back business, having the capital for India and having a regulatory buffer – all of those things remain in place.

Roger Hill: Roger Hill at UBS, two questions. Firstly I wonder if the restructuring in the UK could take us towards the point where you could sell off the back book to a specialist such as Resolution and shift the mix of business rather more fundamentally. Second question, I wonder if Clark could give some comments about new competitors turning up in the US possibly sparing us references to pigs and pythons but a more general answer would be interesting.

Mark Tucker: Let's leave Clark and his animal analogies until a bit later and ask Nick to look at the back book and the mature.

Nick Prettejohn: I'll fire away from the farmyard. The number one priority with our mature business has to be to continue to reduce cost and focus on retention and rollover opportunities, so those are our major priorities with that business. We will look at a full spectrum of strategic options for that business while we're doing that, and that would range at one end of the spectrum for divestiture of part or all of the book as you're suggesting; and at the other end of the spectrum we will also keep an open mind about whether it's the basis for a consolidation of other mature businesses. So we will look at the full spectrum of that but that is very much the second order versus the number one priority which is to focus on cost and to focus on those retention and rollover opportunities.

Mark Tucker: Clark, could you talk about fixed annuities in the US?

Clark Manning: Any particular entrance in mind? Jackson is focused on variable annuities as far as being the primary growth engine for US retirement savings in the future. The recently announced deal doesn't change our position in any league table that we look at. Fixed index annuities have a place in the portfolio and have a place in our portfolio and a valuable place. If you think about over the course of an economic cycle if interest rates are high and the equity markets aren't performing real well then customers will look to fixed annuities. In most normal environments they're going to want the market exposure from a variable annuity with some mix of guarantees. Where fixed index annuities have bridged the gap between those two is in a situation where if you have low interest rates so that fixed annuities are not attractive but concerns about the future direction of the equity markets then under most scenarios a fixed index annuity is going to give a better return to the client than will a fixed annuity where they're just locking in the current level of interest rate. So if you think about where we've been in the US economically, it was a very good time for fixed index annuities. I think going forward they'll continue to straddle the other two product types, fill that middle ground I should say rather than straddle. There are certain challenges in that market right now, you should probably know the fixed index annuity market was down 20% in the first quarter in the US. I think part of it just is the cycle moves on and interest rates move up and CDs look more attractive for people who want fixed income. I think part of it is the regulatory scrutiny that fixed index annuities have come under. There have been some questions about whether fixed index annuities are going to be registered in the US, I'm guessing that they won't be but the NASD did put out a notice to broker dealers that they advised them to supervise the sale of fixed index annuities by their registered reps and normally if the NASD, given where the US regulatory situation has been in the last couple of years, if the NASD suggests something the broker dealers generally hop pretty well, and they've done that. That's very consistent with where Jackson has been positioning itself. We're the number one seller of fixed index annuities through broker dealers and through banks and we've gone with more simple product structures and lower commission product structures than a lot of the rest of that industry, and we also were the first company and as far as I know still the only company that files its fixed index annuity marketing material with the NASD even though we don't have to. It's a gold standard competitive approach in that industry and we think that's consistent with where that market is going. Some of the broker dealers approve products now for sales by their reps even though those products may be sold around the broker dealer just exercising their supervisory responsibilities or capping commissions at like 7% and things like that.

So that market is changing quite a bit and the States are starting to step up I think their scrutiny. So that's going to be a different market going forward, I think still a valuable market but a different market than it has been in the past. As far as new entrants, bring them on, we're happy to compete with them. Our position, we were getting guff about being sub-scale a couple of years ago, but bring 'em on. The deal hasn't changed our position in any league table and we think we have the attributes to compete with all of them.

Bruno Paulson: Bruno Paulson, Sandford Bernstein. Firstly a plea, you mentioned the Schedule 10 with the cash flows and then you dropped a veil to give us then by country – certainly I'd appreciate it if that could be a general release in the future. Two questions; first quickly is there any indication anywhere in the business of any impact from the uncertain recent equity markets; and secondly specifically in the UK you've done this insurer to insurer transfer, you've sold some annuities to yourself, an innovative idea. There's a very large 90/10 conventional annuity book – are there any plans to sell that at any point or by contrast is it ruled out in any way?

Mark Tucker: In terms of Schedule 10 what we've tried to do is continue to accelerate disclosure and give you a wider view. I think we'll clearly look at opportunities and we genuinely are trying to be more open and clear on all of the elements of cash and capital. In terms of your question on the impact of the equity market, no part of our business at this time has been affected by the markets and you probably wouldn't expect it to be. I think if there will be an impact there's probably a 3-4 month lag on that impact. As an example of no impact June was a record VA month in Jackson, in terms of sales and certainly in Asia and the UK on the M&G side we've seen no indication of that.

In terms of the UK to the UK I think the issue here – and perhaps Philip can add in – the issue here is around economic interest and arm's length deals, and clearly a deal with a zero hundred fund where it's run by an independent group of directors where we have no economic interest which was Scottish Amicable compared to the life fund is a completely different vehicle. So the answer to your question is no, there's no intention. It was a unique situation given the arm's length nature of it. Philip?

Philip Broadley: I think the Scottish Amicable closed fund is in a position similar to a number of other funds with whom we have done a few transactions. It is a fund in run-off and therefore a growing level of non-par liabilities and from a risk management point of view, Scottish Amicable board had to consider that position and the options available to it. I think Powell's in a different position.

Jon Hocking: Can I just ask another question on the UK? If we're looking at shareholder funds growth in the UK going forward, you've mentioned the cost issue the business has and the scale issue and some of the retail products; if you look at the interdependence of the mature business and the annuity business, the retirement income business, you're saying about half of the profits in the annuity business are coming from individual annuities and the internal vestings are probably about half of that and presumably those individual annuities are higher margin, and given the mature book is running off and you've got the margin pressure in bulk business with the cost issues, is this a business we should actually expect in totality to grow shareholders' funds at an appreciable rate going forward or is this a question of managing and recovering the EEV we've already seen on the balance sheet.

Philip Broadley: I guess the first place to go in answering that question is the issue about declining volumes in the mature business and the pass over into the individual annuity business. Actually what we see looking forward at the profile of the maturity of our direct sales force pension book is an increasing opportunity in terms of internal vestings for the foreseeable future, and that's why I described it as being such a powerful engine of future value. Just on that very specific point that is not a part of the business that will be all other things being equal in decline rather it actually represents a growing opportunity.

Andrew Crean: Andrew Crean at Citigroup, a couple of questions. What proportion of the UK embedded value is in what you describe as the closed fund block? Secondly on persistency in the UK, you said that I think you had a £6 million profit on the basis of current assumptions. Do those current assumptions take into account potential lapsing from the consolidation as a result of pensions A-day, is that something which is yet to be factored into your assumption sets for persistency?

Philip Broadley: I'm trying to see if I have the number handy for the first part of the question, I may have to come back on that. On the second one on persistency, as you will recall we've strengthened the pensions assumption by 40% this time last year and that reflected our experience over a while in terms of business previously written by the DSS in the period since then and including the period since A-day. We're comfortable with the experience running within that assumption, and in strengthening the assumption last year we were trying to ensure that we were anticipating future developments. I will continued to flick through the schedules to see if I can find your EEV number Andrew.

Matt Lilley: It's Matt Lilley from Lehman. A couple of very quick questions, first of all the take-up on your scrip dividend appeared quite low, was that intentional or was that a disappointment, what do you expect that to do in the future? Back to the UK again, let me just get this clear, are you saying that the cost savings will be EEV neutral before or after the restructuring charges? Finally on VA you've been very successful obviously in the US expanding the VA business – have you got any plans to export that to other countries like Japan or the UK?

Mark Tucker: I think Philip can do the middle part of the UK cost savings, the scrip dividend, the price was set in the average price in the week that Aviva bid for us, so I think clearly for shareholders it was not the most attractive pricing week. That's the only reason for the low take up. In terms of VAs, yes, we're doing a lot of work and we've had a number of people looking both through our product centre of excellence in Asia bringing VAs out into the Asian region and also with Nick and some of his colleagues looking at opportunities in the UK, so as Nick has said and I think as Mark and Ajay have said previously we are expanding the whole view of products across the group and seeing where we can share something that we are doing actively with something that takes time to get into action. But I think there's active and enthusiastic debate going on.

Philip Broadley: Matt, anticipating that I was going to get the first question I was busy scribbling down the dates of the reference period for the scrip so I actually missed the second question, I'm sorry, can you give it to me again?

Matt Lilley: The UK cost savings you said would be EEV neutral – is that before or after the restructuring charges?

Philip Broadley: That is after the restructuring charges.

Mark Tucker: Ok, is there any last question? Thank you very much for coming and there's drinks outside.