PRUDENTIAL PLC 2010 FULL YEAR RESULTS PRESENTATION - TRANSCRIPT
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LONDON STOCK EXCHANGE

Harvey McGrath:

Welcome. Delighted as Chairman to welcome you to the presentation of Prudential's 2010 Full Year Results.

As you will have seen from the figures that we released this morning, our growth, our profitability, our cash generation, and our capital position are all stronger than ever.

I'd like to right up front give real credit to Tidjane and to all the Executive Team for delivering such an exceptional performance. That the strategic direction of the Group is the right one I think is clear. But as you all know, operational delivery is critical and operational delivery has been very strong.

As a Board, we remain very focused on ensuring that all the elements are in place to continue to deliver long-term sustainable shareholder value. And so we're very pleased to be announcing that in the context of the very strong Group performance that we are rebasing the full year dividend upwards by 4% per share - - 4 pence per share for a 20% increase. We're also dropping the scrip dividend and replacing it with a dividend reinvestment plan. Going forward, we will maintain our focus on delivering a growing dividend from this new higher base.

So with that preamble, it's my pleasure to hand over to Tidjane and Nic to take you through the detail of today's results. Thank you.

Tidjane Thiam:

This is very high tech. I'm waiting. Okay. Good morning, everyone. I will take you through the highlights of our 2010 results, which I believe show that we are on track to achieve the objectives that were presented to many of you on December 1st. Then Nic will cover with a degree of detail our financials, and he has a number of new disclosures, which I hope you will find useful, and I'll come back at the end to talk about outlook and the rest of the year, and then we'll take your questions. The Executive Team is well represented in the room. I believe you met a number of them at the Investor Day and at the dinner. Many of them are here again today, and I hope that we will all have a productive dialogue this morning, but please get comfortable because we have about 60 slides, so it's going to take a while to get through. Apologies.

But let's start with the headline figures. 2010, as you know by now, has been a strong year for Prudential. Picking out a few numbers, fast growing new business sales with APE of 23% and a very strong Q4, and I'm sure we'll come back to that during the Q&A, but very good growth in sales. New business profits up 25% to over 2 billion for the first time. We have delivered materially higher IFRS operating profit, something we have been focused on, up 24% for the year to just under 2 billion, and EEV operating profit up 20% on '09 to 3.8 billion, and IFRS profit after tax has also increased significantly to 1.4 billion. I believe it was 112% increase. We have continued our very strong free surplus generation at 1.7 billion after reinvestment, 2.4 before, 1.7 billion after reinvestment, and Nic will give you more colour on that; and we'll insist on something we have discussed in prior years, which is fungibility. We've done I think some additional work, because that's the issue with the free surplus, show you have fungibility. Great transition to remittances from the business, which have been 935 million this year; and our balance sheet strength with an IGD surplus of 4.3 billion, so above 4 billion, and shareholders' equity on both accounting measures at a significantly increased level. And finally, but perhaps most importantly, we are announcing today a rebasing upwards, as Harvey said, of our dividend with a 20% increase compared to 2009. And in addition, we are cancelling the scrip dividend, as Harvey said, and

introducing a DRIP. This decision by our Board reflects both a successful transformation in our cash generation ability and our confidence, but that transformation is sustainable over the medium- and long-term.

So what I would like to do now is to give you another view of these results, then comment on the performance by business; and I'll spend some time on Asia, the U.S., the U.K., and asset management in that order, and finish by talking about the 2013 objectives we defined on December 1st.

So let's start with the first of our two objectives. The headline is Growth and Cash. I start with growth. In life insurance at the top here, as I said, new business sales were up 23% to 3.5 billion, with a particularly strong final quarter exceeding the 1 billion mark and up 18% on what was an already very strong 2009 fourth quarter towards the end of the '08/09 period. Our full year of growth was fuelled by the strong sales momentum we have in Asia, and I'll come back to that later, and was also evident in our life net flows. In 2010, we produced 9.7 billion of net flows, almost 10 billion, up 35% on the previous year. This is a very important metric for any life company, measuring whether the company actually grows or not, so net flow matter very much to us, and I'll come back to it in a second. In asset management, our net flows for the period were 8.9 billion, our second best year ever, following an exceptional 2009. At the end of 2010, total external funds under management, which is another important metric, were comfortably above 100 billion at 111.4, up 24%. So both in life and asset management, our strategy generating strong organic growth; however, we all know that growth is only good if it is profitable, so let's move now to how we measure value creation and profit in the Group.

These three charts, which you've seen many times now, have one more bar, the red bar here, and capture our five-year performance on the free measures of EEV, IFRS, and capital generation, with free surplus at the bottom. Delivering on these three metrics at the same time is challenging for any insurance company. So taking a closer look now at each of these, we have grown new business profit at 20% compound, with a significant pickup in the last two years to over 30% annualised, as you can see here. IFRS profits have grown at 16% compound, with a significant acceleration also from '08), particularly in Asia. And underlying free surplus from the back book, net of new business strain, which is I believe a reasonable proxy for capital generation, has grown at 31% per annum, with a similar acceleration since 2008. Each element of the portfolio has played a key role in this evolution. Asia and the U.S. have both generated strong profitable growth. The U.K. has continued to produce strong reliable and high cash flows and our asset management businesses in the U.K. and in Asia have contributed both growth and cash. So this performance across the board demonstrates that our strategy is working.

So I'll use again the chart I used on December 1st as a reminder what is the strategy: to accelerate growth in Asia; build on our strength in the U.S.; participate selectively in the U.K., and the important word here is selectively, focus and balancing their new business with cash and capital generation; and, four, to make the most of our asset management business, because a lot of what we promised to customers is investment returns and we have the ability in the Group to deliver that. We have also defined three key principles in 2008, which we implement systematically. We said a more balanced approach to performance management across EV, IFRS, and cash. We have an increasing emphasis and declared since 2008 on IFRS and on cash. We focus on allocating capital to the highest return and shortest payback opportunities, and we take a more proactive approach to managing risk in our capital position. And in December, we announced the appointment of John Foley, who is sitting here, as Group Chief Risk Officer and an Executive Director on the Board. The decision to make the position of Group CRO a Board role underlines the importance of risk management to the Group. And in addition, we have established a Group Risk Committee chaired by our non-Executive Director Howard Davies.

So back to capital allocation. This possibly is my favourite chart in this morning's presentation. We worked hard on this. It's at the heart of what we do and we want to spend a few minutes talking to you for some of the changes we implemented to generate these results, which mean that we have increased new business profit by 68% with 19% less capital consumed. I mean that summarises everything we've been doing for three years. It's internally we call it "more for less," but I think it works. We have taken a number of actions to achieve these results. Starting with Asia, as you know, it is our declared preferred destination for capital. We have steadily increased the amount invested in Asia, you see in red here at the bottom on the left, maintaining high IRRs on the capital investment. So Barry... Where's Barry? Barry operates without a capital constraint from the Group for organic investment. That is very important to us. He captures absolutely all the growth he can. The only constraint we impose on him is that his investment must be value creating, have a high IRR, and a short payback. In addition to this increasing investment, we have taken specific actions to deal with a number of situations. In Japan, we stopped writing new business. In Korea, we have refocused the business, and we'll talk about that later. And in both instances, shareholders' economics have been materially improved, clearly demonstrating that we lead by our principle of value over volume. In the U.S., we have opportunistically increased investments into variable annuities when many of our competitors were struggling with balance sheet problems. And over the last few years, Jackson has been managing the cycle very effectively. We have simply chosen to grow at a time when there was an insufficient supply of a product driving very high returns and when market levels also made some of the guarantees we sell less onerous. And if and when economic behaviours re-emerge in the sector, we will not lose that discipline and we will not hesitate to give up market share. In the U.K. also, probably an undersold story, we have done a lot and we have become increasingly selective in our participation. With Rob we've closed the equity release business. We have applied a much higher hurdle to writing bulk annuities, but not just in terms of IRR, in terms of payback too, and that was very important. We have expanded in which profits to meet the post crisis demand as the risk appetite of consumers has reduced, and we have refocused our corporate pensions business. As a result, it's the blue bar here, it's probably the most significant change. We have reduced the new business strain in the U.K. by 228 million, whilst increasing new business profit by 92 million, and this reduction in strain has significantly increased our financial flexibility. So bringing all of this together, we have achieved a step up in the return of capital of Prudential over the last few years. The composition of the Group provides us with significant optionality when it comes to new business investment, and this is evidenced by our opportunistic expansion in the U.S. variable annuities where we have supported Jackson at a point in the cycle when capital was scarce, resource raising capital in mid '09 in Asia 750 million, but returns were attractive. Prudential is now working its franchises harder than it ever has done in the past.

So after this overview, I'm now going to move to the next section of my presentation and talk about each of the businesses, starting with Asia. In Asia, what we have is a strong broad business with a large and highly productive agency force, a significant and unique bancassurance footprint and a well recognised and trusted brand. The long-term growth available to us in Asia is hard to quantify today. The markets in which we operate are supply constrained, i.e., our growth is mainly constrained by our ability to distribute the product. Penetration is still low. We are one of the largest players in Asia in terms of new business written, but we have 11 million customers in the region. We're very proud of that. But when you know that the Asian middle class is estimated at 1.9 billion, we have not yet reached the scale where demand is likely to be an issue. So as a result, there is significant headroom within these markets for several companies, not only Prudential but several companies to grow. Typically 60% of our sales are still to people who have never held a life insurance policy before, so new adopters, people who buy for the first time. So we don't grow by taking market share from others. That is just a misconception. We grow by growing the market. The main constraint of our growth therefore, I repeat, is our ability to distribute the product and to

touch these people. Our sales force is a key determinant of our profitability for two things, the percentage of regular premium and the persistency. We have 93% of regular premium. That flows directly from the bottom line, and the persistency is very strong, and we cannot compromise those two things. And if we expanded that sales force beyond what is the natural growth of a sales force, we would absolutely disturb our business model, and that is our main constraint to grow. The size of the opportunity does not mean that it is easy to succeed. We have seen several insurers try over the last decade. The key to our success again has been the strength of our people. The operational delivery of the PCA team across the region has been unmatched, and we continue to seek further improvement in each country. In agency, our largest channel, we have delivered further improvements in productivity in 2010, and this really important. Agency APE increased by 26%; and while our agency force continues to grow, it grew by 7.5%, 18 points of this 26 are productivity improvements. Productivity improvement, so our agents selling more per case, more APE per case and more cases per month. It's very high quality growth therefore. In Bancassurance, which is the other big channel, we have also grown at more than 25% in 2010, driven by effective management of existing partners and also consistently adding new partners across the region. The UOB deal, we've talked a lot about, but we signed at the beginning of 2010. It has outperformed our expectations and delivering APE of over 30 million in 2010, which is as many as - - as much so as many of our countries in Asia. Our relationship with Standard Chartered continues to perform very well, with a particularly strong recovery in Hong Kong, which has been very helpful this year. And there are many others, but we don't necessarily announce Permata in Indonesia and many other deals across the region.

So the strong delivery by Barry and his team is best perhaps best shown on this slide, and for once I wanted to go quarter-by-quarter rather than year-by-year because it's a story best told that way. First of all, you can see that '08 and '09, this business has proven its resilience. People have predicted huge lapses or collapse of the business, well it hasn't happened. If you go back to 2007, which is the last undisturbed year before the crisis and our best year ever until 2010, 2010 is simply 44% higher than 2007. So we are today 44% higher than the pre crisis level. And importantly, margins have not decreased in that period, so we've continued to both grow volume and grow margins, producing new business profits that are 70% higher. You can see that in 2010, we delivered record APE in each quarter. Actually each quarter was above 300 million, and that is the first time, and we have actually delivered more than 350 in every quarter, first time in the history of our company. And the strong performance in the fourth quarter of '09, I think that surprised you. It was an exceptional quarter, and it shows here, and we thought it would be a very high benchmark for the fourth quarter of 2010 where I think that Barry and his team outdid themselves again and established a new record for our quarterly sales in Asia. What I've done here is I've split the APE so that you can see India in grey at the top and the much commented upon recent regulatory changes in India will pose a challenge for 2011. There's no question about that. However, longer-term, we do believe that those changes will be positive, encouraging life insurers to provide higher levels of protection, a product line where we have considerable expertise and a strong track record of performance. So back to Q4. Q4 on Q4 was up 8% for Asia a whole, but 18% without India, which proves the value of the large and diversified platform that is more than capable of absorbing short-term challenges that will inevitably arise from time-to-time, such as that which is happening in India. So the quarter-on-quarter momentum that we have across Asia is very powerful and we believe bodes well for 2011 and beyond.

Now let's just have a quick look at a country-by-country picture. You can see strong growth in all but one of our markets in 2010 and that's Korea, and I flagged that and that was deliberate. In Hong Kong and Singapore, two of the supposedly more mature markets in our portfolio, we have delivered growth of 19% and 37%, and I think 19% is AER. I think in CER, it's 18% in Hong Kong. So it's not exchange rate. It's real. Singapore is particularly worth highlighting, as their growth was boosted by a fast activation of the UOB Bancassurance relationship and also by product

innovation. We have what we call a new product index. We measure every year of a percentage of the APE that is due to new products, i.e., products that didn't exist at the beginning of the year, and that index is 42% in Hong Kong. So the view also that there's no innovation in Asia and we're just selling old stale traditional products is just not true. There's a lot of innovation. That's a key part of what we do and of the growth. And we have the two stars really of Indonesia and Malaysia which saw powerful organic growth with strong delivery by the local management team and both countries benefit from strong Takaful sales, Islamic insurance sales, presenting around 20% of the APE in both countries. And finally, you have the more nascent businesses of Vietnam, Thailand, and the Philippines, which all show a great promise - we were number one in the Philippines for the first time ever, ahead of Philam this year - as they moved towards becoming more material contributors to PCA. In Korea, which is the only market that reduced it sales volume in 2010, and we talk to you in prior presentations about the lapses there and the issues we had. We have taken action to right size the business, pulling back from unprofitable distribution, because that was the main issue, unprofitable distribution channels with habits such as events commissions, never a very good thing. And going forward, now that we have restructured the business, we will look to grow our Korean business from this base level because we have achieved now margins in excess of 40%, with which we're quite happy. Across the region, we have number one market position, at the bottom of the chart, in Indonesia, Malaysia, Vietnam, the Philippines, and other places, so our ambition is market leadership. But to reveal a bit of our internal jargon, we talk about rational market leadership, which is a way we like, so we always prioritise value over volume.

Another way to look at our results in Asia, this is important. It's about diversification. In 2005, Hong Kong and Singapore, which we hear a lot about, represented 64% of our Asian embedded value. That's kind of the old Pru business in Asia. About two-thirds of the embedded value was Hong Kong and Singapore. They remain hugely important today, and they're performing absolutely fine. Their combined EV has more than doubled on this chart over five years. However despite this very strong performance, their contribution to the Asian EV has gone from 64 to 42%, and that's a fundamental change in our position in Asia. The reason for this is that we have been very successful in building out new businesses in the more nascent markets of Southeast Asia. First, we brought Malaysia on stream and its EEV has more than tripled in the last five years. Then Indonesia has emerged as the fourth leg of our Asian story; and we have been able to roll out an efficient and productive model across the islands of Indonesia, reaching out to the country's rapidly growing middle class population with about 75,000 agents now. And some of you were in Jakarta with us in April '08 and saw some of that. And you can see the impact of that strategy in the EV growth of Indonesia shown on this slide. So our ability to build and grow new businesses across Asia is key to our success. For our nascent businesses, which are in the grey, the upper bar of the top here Vietnam, Thailand, and Philippines, the PCA Central Management Team's role is to act like an incubator, supporting the local management teams and enabling them to grow and to flourish. So we look forward to the time when the fifth and sixth legs of our Asian business emerge, and I think Barry and I haven't really decided what it will be called then, some kind of a six leg animal. That's what we're aiming for. And Vietnam actually is probably the closest to that point. The numbers coming out of Vietnam is really the next in line after Hong Kong, Singapore, Malaysia, Indonesia, and Vietnam. I think it's very likely and doing very well. So this ongoing trend of increasing geographical spread improves the resilience and the quality of our earnings and positions us well to capitalise on the rising middle class phenomenon that is taking place across the region.

If we look back over time, you can see that PSA has consistently grown its top line over the last decade. This is a strong track record and it evidences the head start that we have on many of our competitors who are only now turning to Asia. However, having significant volumes and high market share counts for little, if one fails to convert such a position into returns for shareholders, and on the right-hand side you can see how over the last few years we have moved from

previously delivering only growth in new business to now delivering growth in both new business and IFRS and IFRS profits. Where is Andrew Crean? He may be embarrassed. But I remember a very early conversation when I was CFO about this and he kind of convinced me to focus on IFRS; and I said, "Well we'll do something about it." So we've been on that path for a number of years and I think we've reasonable results with Barry and his team. You see that we absolutely changing the business performance on that metric and we believe that it is key to our valuation and the share price as we discussed on December 1st and that's why we set the target of doubling the IFRS profits in Asia. I think it's very important.

There are two key factors which have contributed significantly to our growth in Asia and IFRS profit over the last few years. The first on the left here is growth in reserves, and we have more than doubled our Asian reserves in less than four years, more than doubled the reserves in less than four years. Excluding the Taiwan business we sold in early 2009, reserves have actually tripled over the same period. The second factor is the health and protection product strategy that was initiated by Barry in 2006, in late '06. You can see here how the health and protection share of APE has significantly ramped up over the last few years, in blue at the bottom. It is a true success story and is a credit to our Asia Management Team. Looking forward, we expect to at least maintain this high percentage of premiums coming from health and protection and the famous riders we sell with the associated margins. And maybe I'll stop for a second here and I say that these margins are high. It's an optical effect of accounting for a risk product under life. We believe that the returns on capital are perfectly acceptable. They're not abnormal returns. They're high, but they're acceptable. So in summary on Asia, we have built powerful momentum across the region and the growth (opportunities available to us are vast. The operational focus and delivery of Barry and his team, combined with a considerable experience of Asia, means that we are ideally positioned to capture this growth on highly attractive terms for our shareholders. And the recent objectives we announced are a demonstration of our confidence in the region, and we believe that our performance in 2010 puts us firmly on track towards those goals.

So let's move now to the U.S. Jackson is a business which has been transformed over the last decade, as you can see in these slides. This is a statutory admitted assets. It has delivered strong organic growth over the long-term, with assets doubling in the last seven years and quadrupling over the last 15. 2010 was another outstanding year for Jackson delivering 833 million of IFRS operating profit. To put things in perspective, this is in 2010 for Jackson alone almost as much as we, Prudential as a Group, delivered in 2006 for all of our businesses together. Over the last decade, we have grown our variable annuity business both to improve the quality and diversity of Jackson's earning and to ensure that we are meeting the needs of our policyholders by offering a range of products that deliver effective retirement solutions. It is interesting to note on this chart that at the end of the year, the separate accounting, blue, is for the first time larger than the general account. That is a key point for a business that historically used to be a fixed annuity shop. So success in the U.S. is a tremendous reflection on Clark, Mike, and the Jackson Team, and I hope that you'll forgive me if salute Clark very strongly for his last appearance among us and for all the tremendous value creation he has brought to this Group along the years - thanks Clark. Jackson's success in variable annuities is the result of a long-term distribution led strategy focused on the independent broker dealers and agents channel combined with a disciplined and conservative approach to pricing and hedging. Jackson's hedging program has held firm in 2008 and 2009 despite what is arguably been the most challenging financial environment for over 70 years.

On the next side, I'll just talk about demography a little bit. Baby boomers control half of the wealth of the U.S., about 7.6 trillion U.S. dollars. With 10,000 retirees a day for the next 20 years, there is going to be significant demand for the solutions that Jackson is able to provide. You can also see in blue here, this is the structure of the Jackson book, how closely this book is aligned with that demographic and asset ownership structure. It's absolutely super imposed, and that's not by

coincidence. We are deliberately targeting sales to a baby boomer population. Our pre retirement customers are looking for certainty and peace of mind as they approach retirement age. Workers retiring in the last couple of years who had invested their savings in mutual funds or in their house are likely to have either had to delay their retirement or accept a lower standard of living, something not very nice. Had they invested in a variable annuity, their personal financial position would have looked considerably healthier. A pre crisis focus on the upside potential of products and of investments have shifted now with downside protection taking precedence, and the next slide I think illustrates this very, very strongly.

What this shows you is the demand for downside protection, the downside protection that we sell, the GMWB. It’s the take-up rate of GMWBs in ourselves. It's gone from 13% in 2005 to 82% in 2010. That is a phenomenal shift. At the same time, the percentage share of variable annuities that we sell basically with no guarantees, which are basically just a tax advantage, mutual fund has declined in blue here, from 14% to 1%. So almost everybody today takes a guarantee and the GMWB in terms of take up has completely changed. So this phenomenon combined with a shift in demand for downside protection bodes well for the economics of the business, because it's just supply and demand at work as demand is increasing very strongly that Jackson will write in the coming years. As for the volumes, this will naturally depend on the competitive environment. So we are now poised at an interesting point in the cycle in the U.S. I know that many of you are wondering how our volumes will evolve from here in 2011 and beyond. Let us be clear. If market conditions return to uneconomic behaviour as we've seen in 2008, we will curtail our appetite for growth just as we did in 2008. Jackson is focused on increasing net flows, that is the key driver of long-term asset growth and of profits. And as I showed on the earlier slide, so in terms of growth of assets, which is really what matters to us at the end, we look forward to further growth from Jackson.

I'm moving now to the U.K. In the U.K., as in our other chosen markets, we put value ahead of volume and are focused on shareholder value creation and cash generation rather than growth. A return on our capital invested in the U.K. has increased sixfold since 2008. We are now investing only a limited amount of capital in the U.K., are now delivering higher new business profit. At the same time, we continue to produce strong IFRS results, very important for debt cover and dividend cover, and Rob and the team delivered 719 million of IFRS operating profit in 2010 or around 650, excluding a large bulk annuity transaction that we announced a few months ago. On this slide, you can see our bulk annuity activity in red over the last few years. In particular, you can see the returns for the large deal we completed in 2010, so we will continue to be opportunistic in that market and that deal evidences the sort of returns we would look to generate on such deals in the future to find them attractive. Recognising the role of the U.K. within the Group, we have aligned, fully aligned the incentives of the U.K. Management Team with our strategic objectives in this market - the generation of stable cash flows and high IFRS profit with continued capital strength. Rob and the team continue to deliver well against these objectives. And they also drive a sustained and continuous effort for increased productivity. We achieved the original 195 million expense saving target set out in 2007, six months early, and we will achieve a further 75 million of expense savings by 2013 and are already making good progress towards - - have made good progress toward that objective in 2010.

So finally on the U.K. looking at cash flow, the with-profit transfer was down from 284 million to 202 million from '09 to '10 reflecting a low annual bonus as you know. The surplus within the with-profits fund stood at 6.8 billion at the end of 2010. I think it was at 5.9 at the interims, so it's a stronger position, and this robust position should ensure ongoing strong cash flow from the with-profits fund. The total underlying cash transfer of the U.K. business to the Group has increased as the shareholder business on the left has gained scale. This has been supplemented by additional one-off transfers in '09 and '10, which we have a singled out here. At an underlying level, you're talking

about 300 million for 2010, and we are confident we'll make good progress towards the objective of 350 by 2013 that we gave you. So in summary, the U.K. continues to deliver a sustained reliable profit and cash flow at a level that we are looking to maintain.

So moving finally to asset management, M&G has had another very strong year. It's a continuation of a long track record of success for Michael and the team. The last decade has not been very good for western equity markets, it's fair to say. Despite this, M&G has continued to go from strength to strength, in particular over the last five years external assets under management have more than doubled and M&G's IFRS operating profit of 246 million is the highest it's ever been. We have seen an acceleration of M&G's performance over the last two years, particularly in the U.K. retail market, very important for the margins, where M&G has now ranked number one for net flows for the last nine consecutive quarters. The split of M&G inflows would show you that we have significant capability across all asset classes and that has enabled M&G to capture significant flows as demand or appetite from investor move from one asset class to another.

Finally, a word on asset management in Asia, where, as I said before, I think there is significant upside. We have passed a key milestone in 2010, which is 50 billion, £50 billion of funds under management, sorry. After this 50 billion, 18 are external non-money market assets with good margins, up from 14 billion in 2009. And in 2010, Graham Mason and the team delivered 72 million of IFRS operating profit, up 31% in '09. Rising affluence across Asia will continue to drive strong growth for Asian asset managers, and we believe that we are well placed to tap into this growth. We have several key strategy initiatives mentioned on this slide underway across the region and expect to continue to make strong progress in 2011.

So now let's move on to just a quick update on the growth and cash objectives we unveiled in December. Over the period to 2013, as you know, we're aiming to double Asia's IFRS profit and new business value from the 2009 level and increase net remittances to accumulated £3.8 billion over 2010/2013 period.

Regarding Asia in particular, as we have discussed, we have just completed the first year in a four-year program, but we believe that Asia's IFRS profit and new business profit here are on track for this objective being up 30 and 26% respectively.

In terms of net remittance, these possibly are charts you've never seen before. It is the BU net remittances to the centre. It shows you the progress that we have made over the last few years with net remittances of almost 10 times the level received by Group in 2005. All business units have contributed strongly in 2010 and we are moving towards the goal of having well balanced funding from all parts of the Group, and it is worth noting here that we have included explicitly remittances in the targets of the entire Leadership Team of each business unit to ensure both alignment and focus.

Moving now to the rebased dividend that we are unveiling today. Over the last few years, we have significantly increased, as you see, the generation of cash across the Group. Our strategic, operational, and financial actions have put us in a favourable position, and Nic will provide in a minute further detail to demonstrate the scale of the change that has taken place. The rebased dividend we are announcing today should be viewed in that context; and the key point is that from that rebased level, we intend to resume our progressive dividend policy unchanged, so we haven't changed our dividend policy, the cover after that change remain around two, two times, which is what the Board considers adequate. And after, if you wish this one-off rebase, we will continue along similar lines than the ones we have followed previously. But this re-basing signals that we believe that these levels of cash flow are sustainable and that the transformation that has taken place will continue and will continue to deliver strong performance so that in summary we are able

to deliver in combination both high growth and strong cash generation. Final word is that please note that this doesn't mean that our appetite for growth is any way modified. It is intact and we will continue to pursue relentlessly profitable growth, particularly in Asia. However, the focus we have now on capital and cash efficiency will allow us to grow the business and increase cash rewards for our shareholders at the same time.

So thank you very much for your patience, and I will hand over to Nic please.

Nic Nicandrou:

Thank you, Tidjane; and good morning, everyone. Today, I will divide my presentation into three parts - growth, profitability, cash and capital. As Tidjane has already said, Prudential is one of the few insurers that can deliver growth across all three of these metrics at the same time. As part of my presentation, I will also be sharing with you some new disclosures on IFRS sources of earnings and on the expected free surplus emergence, the VIF monetisation signature in other words, which I'm sure you will find very useful. For completeness, I start with the 2010 financial headlines, but I won't dwell on these because I will be covering most of them in my presentation. I would, however, point out that we have delivered increases of around 20% pretty much across the board, with all of our businesses posting strong improvements in underlying profitability.

So moving to my first section, growth. Tidjane has already commented on the 2010 growth in APE and life net flows at 9.7 billion, which you can see in the middle chart. Net flows were equivalent to 9.4% of opening reserves, evidencing our impressive organic growth. The effect of these net flows when combined with a positive investment returns and foreign exchange movements has driven our policyholder liabilities up 22% to 122.2 billion. As you will come to see later, it is precisely this increase that underpins the 2010 increase in our IFRS life profits.

In asset management, we reported 8.9 billion of total net flows, which was our second highest year ever, following an exceptional 2009. M&G's all seasons equity, fixed income, and property offering delivered 9.1 billion of net flows in 2010, which is equal to 13% of the external funds under management at the start of the year. In Asia, the focus of the Asset Management Team is on the high margin retail and institutional business where in 2010 we attracted 1.8 billion of net flows, up from the 0.6 billion delivered in 2009. The combination of strong flows and positive investment markets has seen our external funds under management rise by 24% to 111.4 billion. This strong improvement is also directly linked to the increase in the profitability of these operations.

I'd now like to focus on the primary measure of growth in life in new business, our primary measure, which is the growth in new business value. At a Group level, our new business profit increased by 25% to 2,028 million. In absolute terms, this is roughly 400 million higher than 2009, which itself was 400 million above 2008. On a post tax basis, our new business profit in 2010 was equal to 9.4% of our embedded value, and what this tells you is that new business is the main growth driver of our embedded value. Now our overall margins in 2010 improved to 58%, meaning that we have successfully held on to the gains we achieved during the financial crisis. The other IRRs are comfortably above 20%, and payback periods are short. All of these new business profitability metrics are amongst the best in our sector. In Asia, new business profits rose by 24% to 902 million, and margins were maintained at 60%. Health and protection remains the key source of value, accounting for over half of Asian new business profits. Later in my presentation, I will cover how we have moved from a passive to an active basis for setting our economic assumptions. The effect of this change is immaterial, and I'll show you that later on. In the U.S., our new business profits are higher by 15% to 761 million, as Jackson continues to benefit from the dislocation in the market created by the financial crisis. We are writing business at very attractive IRRs and short payback periods. Margins, which in 2009 were boosted by the exceptional high spreads available,

have held up reasonably well and are only down a few percentage points to 65%. Variable annuity margins within this have reduced from 81% to 72%. The decline is simply a function of assumptions and reflects the effect of the 60 basis points fall in U.S. treasuries, the effect that that has on the future equity return that we assume in arriving at our embedded value. There has been no change importantly to our pricing economics and, if anything, the higher customer take up rate of the guaranteed options, which Tidjane illustrated, has edged our economics a little forward. In fixed and fixed income annuities, margins have returned to normal levels as expected, reflecting the narrow credit spread environment in 2010. Tidjane has already covered the new business profit improvement in the U.K., which in part was due to the large bulk annuity deal we completed in 2010. At a retail level, our margin improved from 31% to 35% in 2010, and this represents a strong like-for-like performance by the U.K. Team. I continue to believe that our U.K. margins, IRRs and payback periods are best in class, proving once again that the business has successfully managed the balance between cash generation and value optimisation.

Now turning to the second section of my presentation, profitability. Starting with IFRS, our headline profits were up 24% to 1,941 million. Both life and asset management delivered strong performance in the year, each up by around 20%, and I will come back to this shortly. Other income and expenses, shown at the bottom of the slide, were just over 100 million higher in 2010 at 521 million. The increase principally reflects higher net interest costs driven by the full year interest on the debt that we raised in 2009 and by 45 million of Solvency II implementation costs. Now you can expect a similar level of Solvency II spend in 2011 tailing off thereafter.

Before I go into the IFRS profits of each business, I would like to cover the presentational change to Jackson's IFRS operating profit that we announced on February 10th. You will recall that at the half year stage, we flagged the disconnect that exists between the economics and the accounting of Jackson's hedging programme and we reiterated the fact that Jackson hedges on an economic basis and accepts the short-term accounting volatility that ensues. In the first half, the S&P 500 fell by 8% producing positive movements in the value of derivatives that we hold to hedge our equity downside, whilst in the second half, markets rose producing negative derivative movements. The imperfect liability accounting has not mirrored the economic movement in the value of the guarantees, hence the positive 123 million in the first half and the now the negative 367 million in the full year. The change in the presentation that we have made simply shifts this accounting effect below the operating profit line. It does not change the overall bottom line results.

Now in order to improve transparency of the economic value of these liabilities, we're providing you today with some additional disclosures. Were are we to fair value GMWB for life reserves, using FAS 157 as some of our European peers have chosen to do, this result is - - this would result in only a small increase to this reserve of approximately 50 million, and you see that on the top diagram. Taking this one step further, if we were to move all of our VA guarantee reserves to an economic basis, we estimate that this would actually reduce these reserves by approximately 100 million, and this is shown on the second chart. Now if we were to present... Actually and this intuitively makes sense because as we have always said, the fees that we charge are more than sufficient to cover the guarantees. Now if we were to present our 2010 profit and loss account to include the economic movement in the liabilities as opposed to the imperfect accounting movement, as you can see on the left-hand side of the chart - - of this chart, the overall economic result is broadly neutral. Now I'm happy to say that we are joined today by Jackson's newly appointed CFO Chad Myers, and I'm sure he'll very happy to take any questions you may have on this specific issue. We told him that this would be part of this initiation into the role. So hopefully with this accounting issue explained, let's take a look at the strong underlying performance of our life business in 2010.

Total profits of 2,038 million were nearly doubled those that we reported in 2008, with all three businesses reporting significant increases. The Asian life profit in 2010 is higher by 30% to 532 million after deducting development costs as we continue to benefit from the fast growing in-force book, lower absolute levels of new business strength despite the growth in sales; the ongoing high penetration rates of health and protection riders, as Tidjane illustrated, and the actions we have taken to eliminate negative contributions to the total. Jackson's IFRS profits are also up by 35% at 833 million. This is due to higher fee income, reflecting the 51% increase in average separate account asset balances and due to higher spread income, which has increased from 179 basis points in 2009 to 243 basis points in 2010, benefiting from reductions in crediting rates and the impact of portfolio lengthening transactions. This last item contributed 108 million to the 2010 result and will also flow through into 2011, but at a more modest rate. The U.K. reported an IFRS profit of 673 million, which includes 63 million relating to the bulk annuity contract written in 2010. Now as we flagged at the Investor Day, the effect of updating our longevity assumptions to reflect the new CMI output has been neutral, as this was offset by releases in reserving margin built up over the years in anticipation of such a change.

Now core to the increase in IFRS life profits is the continued growth in policyholder liability reserves. This slide shows the roll-forward of the liability reserves for shareholder-backed business during 2010. As you can see, net inflows representing premiums less claims paid were positive in all of our life operations amounting to £9.7 billion sterling. We saw particularly strong flows from both units linked and separate account business amounting to roughly 6.6 billion. Positive net flows in Asia continue to reflect a heavy bias towards regular premium new business and high customer retention. Jackson’s strong net inflows reflect the quality of its customer proposition. In 2010, Jackson ranked second in the U.S. variable annuity market for net flows. Finally in the U.K., flows are also positive, principally due to the bulk deal we transacted in 2010.

I would now like to turn to the sources of IFRS profit where we're providing with you with the new disclosures. Before we get into the detail, I show on this slide the contribution of each source of earnings to the total. What you see is that the trend over the three years illustrated highlights a growing contribution from fee income and insurance margin, improving both the balance but also the resilience of our earnings. I expect to see even higher contribution from these two sources as we go forward. Now as I indicated at the Investor Day, we have extended our disclosure on IFRS sources of earnings to help you to better understand the drivers of our performance on this important metric. We have done this for each life and asset management business, and I've gone back to 2008 and that disclosure is in your packs. Over the next few slides, I will walk you through the overall Group picture focusing on '09 and '10.

I summarise here the structure of the new disclosures, so as to help with the navigation as we step through the new information. You can see at the top of the slide, the five sources of income that we've used from which we deduct expenses and adjust for deferred acquisition costs and any other one-off items.

So getting into the detail, you can see at the bottom of the slide the total life operating profit, which I have already referenced. If you go back up to the top, you can see that this was driven by 26% increase in total life income to 4,118 million. Total expenses shown on the left were up by a more modest 13%. So with income expanding faster than expenses, there is a strong positive jaws effect contributing to our earnings growth. In the middle, you see the effect of deferred acquisition costs, which represents costs deferred in the year, less amortisation in the period. The DAC effect was lower in 2010, despite the growth in sales, principally reflecting business mix.

This slide covers the five sources of life income. Stepping through it from left to right, spread income on the left has grown by 35% to 1,013 million. This corresponds to a higher spread margin

of 188 basis points with most of the increase being driven by our general account business in the U.S. for the reasons that I have already outlined. Moving along one to the right, fee income is higher by 50% at 688 million. As you can see in the box immediately below, the higher profitability has been driven by 32% increase in average reserves, reflecting the strong unit linked and separate account flows and positive market movements. The rise in the average fee margin to 120 basis points reflects the shift in mix towards the higher fee VA business. Moving along the slide, technical and other margin is also up at 1,833 million. The box immediately below shows that this comprises 1,241 million of margin on revenues, which represents contractual deductions that we made from premiums to cover our costs, and which have increased in line with the size of our business portfolio. And 592 million of insurance margin, which is higher as a result of the success of our health and protection strategy measure. With profits on the far left and expected return at the bottom of the slide are broadly similar at similar levels to last year.

Turning to life expenses, total life expenses, the 13% growth in our acquisition costs shown on the left of the slide was slower than the growth in our APE of 21%, which for the purposes of this slide also includes Japan. As a result, the acquisition cost ratio in 2010 fell by three points to 48%, and this has been driven by continued focus on managing upfront cash strain across all of our operations. Admin expenses on the right increased by 14%, which compares favourably with the 18% growth in the size - - in the overall size of our book. The resulting three point reduction to 83 basis points reflects the benefit of operational leverage in Asia and the impact of the cost reduction programme in the U.K. Now appreciate that there's a lot of new information here, and that I've covered this topic quickly. We will be happy as always to deal with any of your questions once you've had an opportunity to study the new information.

Turning to M&G's results, which for the purpose of this analysis exclude PruCap. Again operating profit, as Tidjane has referenced, increased 39% to 246 million. Looking at the underlying drivers, our profitability you can see on the left that M&G's income has increased by 31%, outpacing the 18% growth in funds under management shown in the table underneath. The income in 2010 is equivalent to an asset management fee of 34 basis points, up three points on the previous year, reflecting a shift in mix towards the higher margin retail business, which in 2010 attracted average asset management fees of 93 basis points. You can see on the right that expenses grew at a slower rate of 27%, the result of which was a two-point reduction in the cost income ratio to 63%. M&G continues to pursue a more flexible operational cost base and in 2010 outsourced its fund accounting, taxation, and pricing operations.

Asia Asset Management, on this next slide, has also made strong progress in 2010 with overall profits up 31% to 72 million. Income on the left has increased by 19%, in line with the growth in funds under management, which is equivalent to an asset management fee of 40 basis points. On the right, you see a reduction in the cost income ratio to 64%, reflecting the benefits of operational leverage in this business.

Now I want to make a few brief points in relation to Jackson's DAC mean reversion technique. This technique is a market standard and is used widely by all of the major VA writers in the U.S. The application of this technique only serves to dampen the impact of equity market volatility on the amortisation profile of our deferred acquisition costs. The red line on this slide shows the impact on results of applying the mean reversion technique since 2005. You can see, for example, that between 2005 and 2007, it had the effect of reducing reported earnings. The key takeaway or the key point that I would like you - - I would like to make is that the overall effect is relatively small. Over the five-year period, it has been a net positive of around 80 million, and we expect this to reverse in 2011. Have we lost the mic? Okay.

Before moving to EEV, I wanted to cover our IFRS tax charge, which in 2010, has been impacted by a number of one-off items. You can see at the top-right of the slide that the 2010 effective tax rates for both operating and total profits were lower than 2009. At 19%, the 2010 operating profit rate was lower due to higher Asian profits, which generally attract lower average tax rates and a credit relating to prior year tax losses on which we can now claim relief because of our strong 2010 results. This has given us about a 5% point one-off benefit to the rate. The low 2010 tax rate at the overall profit level also includes a credit arising from a settlement reached with the HMRC on historic tax issues. As part of this settlement, we will make a one-off payment of 260-odd million spread over three years. But for accounting purposes, we held provisions in excess of this amount, which we released in 2010, and this is the 158 million described as the exceptional tax credit in the table on the left. In summary, both the 2009 and the 2010 tax rates are abnormally low. Going forward, the rates should revert to the mid-20's levels.

Now turning to EEV, total operating profit increased by 20% to $3.7 billion, equivalent to an 18% return on opening embedded value, up from the 15% we reported the prior year. Our life businesses delivered an excellent performance on this basis with earnings higher of 3,840 million, with increased contributions from both new and in-force business. In-force profits rose by 200 million to over 1.8 billion driven by a higher unwind mainly from Asia reflecting the continuing maturity of our back book, and better overall experience and assumption changes, principally arising again in Asia but also in Jackson.

Now we flagged at the Investor Day that we were changing the way we set economic assumptions in Asia. At the end of 2010, we moved these assumptions to an active basis for all of our operations in the region, which means that we're now - - that these are now based on the end 2010 market yields. We did this for two reasons. Firstly, bond markets in these countries are now sufficiently deep and liquid to provide reliable risk-free rates. And secondly, we did this to improve comparability. The effect of this change on the embedded value metrics for Asia, is small. As you can see - - and you can see this in the main table on the slide. The biggest impact is on the in-force result, which is lower by 58 million that it would have been had we not changed because of the lower discount rate used to unwind the opening embedded value. But the total impact overall at the total EEV level, as you can see, is very modest, less than 1%. In the table below, you can see the effect of the change on the key assumptions. There has been roughly a parallel shift down in both the average risk fee and risk discount rates. If anything, the move to an active basis has widened the gap between these two rates, which means that we're now making a greater overall allowance for risk than previously.

Now turning back to the EEV profits for Asia, the key points to highlight are the ongoing growth in the value of the unwind, which has advanced to 573 million despite the negative effect of the move to active and the lower overall experience variance and assumption changes totalling negative 24 million. As we reported at the half-year stage, our focus on customer retention has seen persistency improve; however, it remains negative at 123 million. India counts for 51 million of this total, Malaysia for 52 million, with the other 20 million negative relating to all of our other businesses put together. In India, the persistency variance mainly relates to increases in paid up and surrender rates for unit length business. In Malaysia, after a second year of strong investment performance, we have experienced higher partial withdrawals with customers monetising some of their exceptional gains. I want to emphasise the word "partial," as this is not the same as surrenders. In both cases, we have taken a number of initiatives to contain outflows, and we have also amended the assumptions to reflect our experience. Now in relation to all the other assumptions, our experience is overall positive, driven by a continuation of mortality profits across the region.

I wanted to remind you briefly of the history of experience variances and operating assumption changes in Asia, which I illustrate on this slide going back to 2005. The operating variances for each year are shown in the blue bars on the chart. Adding these up comes to a positive total of 164 million before tax, equivalent to 0.8% of the average opening embedded value over the years. This is an immaterial number, both in the context of the annual profits that we're reporting in Asia but also in the context of the 7.4 billion of embedded value at the end of 2010.

Jackson has reported strong experience profits in 2010. The most significant component relates to the positive spread experience of 158 million reflecting the effect of the portfolio duration lengthening that I have already referred to. The success that we have had in 2010 in growing the book and retaining our customers has seen Jackson deliver experience profits pretty much across the board, particularly in relation to expenses and persistency.

Finally, on embedded value, if we can move the slide on. This slide provides you with a high-level geographical analysis of our embedded value shareholders' funds at the end of 2010. Asia is the largest contributor to the Group total and accounts for approximately 43% of shareholders' funds on this basis. Asia's share of the total has significantly grown over the last five years, as you can see, from 2.2 billion to 7.9 billion, representing a compound annual growth rate of 29%. Now with a 2010 ROEV of 19%, it will not be long before Asia accounts for over 50% of this particular metric.

Moving onto the third and final section of my presentation, cash and capital. Let's start by taking a look at the evolution of our free surplus, which over the course of the year has increased by 32% to just over 3.3 billion. The red bar on the left shows the underlying free surplus generated by our back book in 2010 of 2,359 million. This is higher than 2009, reflecting both the growing maturity of our business but equally importantly our value focus. We used 645 million of the in-force surplus to write new business, which is equivalent to a reinvestment rate of 27%. Further along the slide on the right, you can see the 935 million that was remitted by these businesses to meet the centre's operational needs, with a balance held within each business where it can be deployed more profitably. Now you would have heard us say on a number of occasions that when we think about our ability to cover our central costs, including the dividend, we focus on the operational free surpluses generated by the businesses rather than the actual cash remittances.

It is for this reason that on this next slide, we have compared the operational flows from life and asset management businesses over the years with a central cash costs and external dividends. The slide shows the progress that we have made to significantly transform our business model since 2005. You can see on the right that in 2005, the net free surplus did not cover central costs and external dividends. By 2010, the picture has changed dramatically with the in-force free surplus increasing by 2.6 times to 2,359 million. Yet compared to 2005, where we're investing only modestly more capital in writing significantly larger volumes of more profitable new business. This transformation has been delivered by maximising the growth opportunities offered by our high-quality franchises and by being disciplined in writing low-strain, high return, short payback business. Over the years, the profile of net free surplus generated, depicted by the light blue bar on this chart, has allowed us to create a well capitalised group and to remit greater amounts of cash to the centre.

The high level of remittances over this period is illustrated on the next slide. Again, you can see how this trend has improved since 2005 with the following points worth noting: The first point is that in 2010, net remittances from the businesses are almost ten times the equivalent amounts of 2005, and Tidjane has already made this point. Secondly, that they have increased every year in spite of the deep financial crisis that we recently experienced; thirdly, that the remittance ratio is now higher and our objective is to drive this ratio higher still as we move forward, certainly over the next three years, and finally demonstrates that the free surpluses that we are generating is fungible over time.

Now we have provided you today with additional information on the expected, undiscounted free surplus from our 2010 in-force book and with information on the free surplus profile of the 2010 new business. Now we've provided these profiles for each of our business, and it's in the appendices and also in your packs; but for the purposes of the slide, I illustrate the overall Group position. As you can see in the next five years, we expect around 8 billion of free surplus to be generated from our life in-force book with a further 6.4 billion in the following five years. The new business that we wrote in 2010 has a very strong free surplus signature. The investment of 645 million made during 2010 is expected to be recouped within two years. Simply put, after two years, we make money for every day that a customer keeps his business or her business with us.

Our objective remains to generate 6.5 billion of net free surplus after investment in new business in the 2010 to 2013 period. This represents the free surplus released from the end 2010 VIF shown in the previous slide, plus any operating variances we may deliver. These were positive in the last two years but, as we say, past performance should not be used as a guide for future returns. It also allows for the expected investment return under 3.3 billion of free surplus to which we add post-tax earnings of our asset management business and finally it includes the impact of the new business that we will write during this period. From this 6.5 billion, our objective remains to remit at least 3.8 billion to the centre, approximately 1.1 billion of which is needed to service interest, pay central costs, net of tax recoveries.

We said at the Investor Day that the difference of 2.7 billion will be available to finance a growing dividend and allow us to consider actions such as cancelling the scrip, and this is exactly what we have done. Tidjane has already outlined the details of the 2010 dividend proposal, the incremental cash cost of the decision to increase the dividend and cancel the scrip is approximately 170 million.

Finally, turning to the balance sheet, it has been our ambition for some time to be in a position to summarise this on just one slide. The overriding message here is that the quality of our balance sheet remains strong. The Group's IGD surplus at the end of 2010 stood at 4.3 billion. Jackson's RBC ratio, not shown on this slide, but Jackson's RBC ratio was 483%, and you can see the size of the estate on the slide. The central cash resources remain comfortably above the 1 billion level. In January this year, we successfully raised USD 500 million tier-one debt in anticipation of calling the €500 million tier-two notes later this year. Our exposure to Southern European sovereign and banking debt remains modest, and our U.S. credit book continues to be positioned defensively. U.S. impairments have slowed to the levels we last experienced in '07. Our UK credit default provision is unchanged at 1.8 billion. And even though we saw no defaults in 2010, we remain cautious about the state of the UK economy and its impact on credit risk.

In conclusion, the three messages that I want to leave you with are: One, that the results - - that these results demonstrate that we're maximising the growth opportunities of our high quality franchises in Asia, the U.S., and the UK. Two, that we remain disciplined in our approach to both optimising value and improving the quality of our earnings. Three, that we are accelerating the generation of our free surplus, and we're signalling our confidence in the future potential of our business by proposing a full-year dividend increase of 20%.

Thank you, and I will now hand you back to Tidjane.

Tidjane Thiam:

Thanks, Nic. There are really, I believe three points that have come out of this presentation, the first one is that the Group has delivered a strong performance in 2010 on all dials across all businesses. The second one is that our strategy is sound as demonstrated by the results and the

third is that we have confidence that we will continue to deliver good performance with operating and financial discipline as we've showed you. I believe that we are also dealt with a number of long-standing issues. I'm particularly pleased about the move from passive to active in Asia. That is an old story and you've seen where the impact was 39 million and 7.4 billion, so we hope that moving forward, we can stop talking about that.

So what about the future now? Starting with western economies. The UK economy is clearly facing a number of challenges. Our business here has been refocused on these core strengths with-profits and annuities, and we believe to be able to continue to provide balance sheet resilience and cash to the Group. In the U.S., where the economy has been recovering, Jackson has emerged from the crises as a clear winner and has the right products and skills to grow profitably serving the 77 million baby boomers who control half the wealth in the richest nation in the world and who will retire during the next 20 years. So finally, Asia, following the financial crisis, the opportunities that are available to us in Asia remain very significant. As western economies continue to recover from what was a severe recession, most of our markets in Asia have bounced back and returned to their pre-crisis levels of GDP growth. The drivers of global growth over the coming decades, in my opinion, will continue to come out of Asia and other emerging economies. There will inevitably be bumps on the road along the way. There are many uncertainties in the world economy as the recent events in the Middle East show; however, we have demonstrated since '08 that our diversified business model and our discipline allowed us to outperform our competitors even during challenging times like 2008 and 2009. That said, I believe that rapidly rising middle class populations across Asia are likely to continue to provide a stimulus to grow the demand and as their wealth increases, their need for investment products and for protection of that very wealth and of the assets they're acquiring will only increase. We are well positioned to tap into the needs and aspirations of such middle class populations via the savings and protection products we sell. We will continue to manage the company to maximise the long-term opportunities for shareholder value creation, offered in each of our chosen markets and particularly in Asia. So overall, our company's prospects are positive as we look into 2011 and beyond, and we are firmly on track to achieve our 'growth in cash' objectives outlined in December.

So with that, I'd like to stop to thank you and move to the question and answer section. If my colleagues would like to join me at the table, we'll then take your questions. Okay, I'll give them a chance to sit down, and I'll take you, Jon, Jon Hocking, and then we'll continue from there.

Q&A

Jon Hocking:

Two questions, please. First on the capital position, the IGD position looks very strong. Can you comment a little bit economically where you see your capital position on an internal basis, on a QIS5 basis, specifically where you see the subsidiary capital levels? It seems that you've got a very strong position in the U.S. now. From a policy point of view, will you sweep that back to the centre and are you going to be in a position if you carry on like this in a couple years, we have access capital at the centre and what you might do with that please? And the second question is just on Asia, the health and protection products, you've got a sort of decent penetration there. Is there upside still in terms of increasing the penetration of those products? And if so, country-by-country. If you can give us commentary on it, it'd be helpful. Thank you.

Tidjane Thiam:

Thank you. Thank you. Thank you, Jon. On capital, on QIS5, we will not at this stage disclose the results. It's a point I would've liked to make, but short of time. I think you know our commitment to

disclosure, so we bored you for 75 minutes with new disclosures. I think we've been investing for a number of years, so I don't think that our desire to disclose is in question. It shows the Solvency II is in the making, as you know. There are many uncertainties on what is going to be, and we just don't consider that it would be helpful at this stage to disclose it. But we have an economic model, and we look at it internally. What I can tell you that globally we are in a strong position on an economic basis. You are right on the U.S. There is a significant surplus in the U.S., and we are absolutely determined to continue to maintain if you wish the discipline of remittance to a centre, and that's across businesses. It's particularly pointed at Mike Wells. It's a good discipline across businesses, but we - - hopefully you will see when we set the target on December 1st for remittances from the U.S., and I am very confident that that target will be achieved.

Maybe Mike wants to comment on that…

Mike Wells:

I think Jackson's obviously very well capitalised both from a regulatory point of view and to take advantage of its business opportunities and some of the other things we discussed in December, so we're comfortable with the numbers.

Tidjane Thiam:

It's a balance between the two. We've really been writing very profitable business in the U.S. I believe there is some scepticism on that in the past, but I think those numbers are coming through, and it's very helpful for our Groups. It's a balance between that and also the need to have enough capital to be comfortably above our regulatory requirements. We close at an RBC of 483. That's a good position to be in, but absolutely a good review but excess capital should be at the centre. We touched on this on December 1st. I think what we said was that if and when that position arises, it will be discussed, and there are a number of options there. I mention at the time, one, which was to increase the dividend or eliminate the scrip. We've done that and there are clearly other options from buybacks, et cetera, et cetera. But honestly, we are one very happy year into a four-year program, and it's probably a bit premature to discuss that, but we in due course we'll be happy to talk about it.

Asia, upsizing health and protection, Barry?

Barry Stowe:

I think in terms of the percentage of our new business that is attributable to health and protection products, you saw from Tidjane's charts, it's gone from around 10% up to between 25 and 30%. I would say that, the level where it is now, it's relatively stable. There are markets where we can continue to improve the - - our penetration into protection products, India probably being the most notable one. But other than that, I'd say across the region, it's about where it ought to be.

Tidjane Thiam:

Okay, very good. I think we had Raghu Hariharan and then I'll…

Raghu Hariharan:

Yes, thank you, good morning. Raghu Hariharan from Citi. I have three questions. Just in the U.S., the remittance ratio is 13%. Could you remind us what the regulatory headroom is in terms of where this remittance ratio could go? Because you've seen growing free surplus generation, you

have some investment in new business, and obviously you're sitting on a comfortable regulatory capital position. The second question was really on Asia in terms of net flows in the Life business. If you look at the net flows, they've gone from - - or surrenders rather, they've gone from 6% of opening FUM to about 10%, and I think Nic mentioned some of the one-off factors that you've seen in some of these markets. Could you give us a view as to where this is going? You've seen markets which have been uncertain this year and how net flows are progressing - - or surrenders are progressing in Asia? And the third question was really in the US. I think you said in your press release that you've seen a change from upfront commission to asset-based commissions in the US, I was wondering what proportion of your book are you seeing this change or what proportion of your book is impacted by this change, and how does that impact your accounting? That means if that's an increasing proportion, does that mean you'll have a DAC-free IFRS number going forward?

Tidjane Thiam:

Okay. Thank you Raghu. On the remittance ratio in the U.S. and the regulatory headroom, Nic, do you want to take that one?

Nic Nicandrou:

Sure. Your maths are right, Raghu. The percentage is smaller than what you're seeing in the rest of the business. It's a factor of effectively… you have to remember, only two years ago, the capitalisation of the company was relatively weak, weaker. It was weakened by the final crisis and therefore we took the opportunity in the last two years to do two things: a) rebuild the capital base and b) give it the cap - - leave the capital in that business in order to write it at very attractive returns that we talked about. Now as we go forward, you can expect to see that remittance ratio go up and at least referencing the 200 million objective that we set for 2013.

Do you want me to take the flows as well?

Tidjane Thiam:

The flows maybe Barry, I think, and we can - - you can complete. But on the dynamic of what's going on in terms of surrenders in the market, it moved from six to 10% on where it's going from here.

Barry Stowe:

I'll make a couple comments, and then Nic can chime in. It's essentially the dynamic however that Nic described earlier, which is isolated principally to a couple markets and what's really happening is in some respects unique to unit-linked products where you have people who at one point in the cycle pre crisis had units worth X; and then during the crisis, they saw them go down and people are, generally speaking, and particularly in Asia, very reluctant to crystallise those losses, so they held on through the crisis; and when it comes back up and recovers and in some cases then some, there is sometimes the inclination to take a little bit of the money off the table and to realise some of the gains. And it's really no more complicated than that. As we showed in the slides it's gone up a bit, but it is - - it's really important to understand, and Nic again made this point, that it is a - - it's a withdrawal issue and not a persistency issue, as you would technically define it, and that's a really substantive and important difference.

Nic Nicandrou:

If I can answer, your maths are - - is - - are correct, but your conclusion isn't right because what - - it goes back to what we've just said. When you have partial withdrawals that are stimulated by exceptional investment returns, the geography of the analysis in of course the minute they take the money out, it's effectively that extra amount, which is shown in another light in the bridge from opening to closing - - to closing reserves, sorry. So I hope… so you need to factor that into the maths. But the underlying drivers of net flows, and we need to reinforce that, are the same. It's 93% regular premium business. Our customer retention ratio has if anything improved this year to 91% and there's no change in the dynamics. Now of course you have to factor investment markets that go up and go down and the degree to which people decide to effectively profit take from these policies, and that's absolutely what these products are designed to do. They're designed to be flexible to allow customers to take their money out when they've had exceptional returns.

Barry Stowe:

It's interesting. During the crisis, I remember some of these get togethers we have, the question was asked: Oh my gosh because you're unit-linked, are you going to start getting a lot of surrenders during the crisis? And we - - I think we actually flagged a couple years ago that you could expect to see this dynamic.

Tidjane Thiam:

You always see better when you come out of the crisis. People wrongly believe that it's during the crisis that you (inaudible). No, you get them when whatever index people have invested in comes back and psychologically the reaction is: Oh God, I'm going to get out now. And we live in the real world. We're dealing real products for the simple truth. And, Barry, I think you can attest to that. If we just didn't have a cash product… people didn't want to leave Prudential. It's just the only way they could cash in was to create a lapse. So what Barry has done with his team is that they created a cash product and we stopped that. All of his balance is now - - are going back into… they're very happy to stay with us. These people continue paying their premium. They just wanted to do a bit of profit taking, so we've also learned something in terms of product development.

Barry Stowe:

Absolutely. It's essentially fund shifting. They come out of equities and go into a balanced product or a cash product or something like that.

Tidjane Thiam:

Yeah. Oh good answer. Maybe I'll let you direct the next question.

Andrew Crean:

Good morning. It's Andrew Crean, Autonomous. Three questions. One: Mike, could you talk a bit about the environment for VAs at the moment, whether discipline is still there and how long you expect to retain that? Secondly, on the dividend question, if you hit your target of 6.5 billion of generation over the next - - to 2013, remit 3.8 billion of it, of which 1.1 billion pays central costs, there's 2.7 billion. From a 450 million dividend base, you could actually pay gross of 29% per annum as your progressive dividend. Why not? And third question: You talk about IRRs above 20%, now you've given us the profit signatures, we can calculate those at 43%, in fact, the slowcoach is Asia at 35%, with I think the leader being U.S. at 56%. Can you talk a bit about where you think those IRRs are going?

Tidjane Thiam:

Thank you, Andrew. I realise actually I made a mistake. I left out the last question from Raghu, which was on commissions for the U.S.

Mike Wells:

Shall I take that?

Tidjane Thiam:

Yes, Andrew we'll come back to you.

Mike Wells:

You've seen where the commissions... we... there's always been multiple commission tiers from a front end to a pure trails or hybrids in between. You've seen a material shift in what the market, meaning the advisors, utilises now, and I think most of that reflects two things. There's a different compliance environment. The idea that you could possibly replace these assets at the end of a surrender period seems to be gone from the sales practice climate. I think the other is they see the sale as less of an asset management sale and more of a long-term potential income sale, so they would rather have the trail commission option on that, some portion of it in trail than they would the upfront commission, and there's no material issue on DAC in the selection group.

Male Speaker:

With DAC, yeah, you wouldn't see that come through the DAC line. It goes through the administrative line.

Mike Wells:

I hope... does that answer your question?

Raghu Hariharan:

Yes.

Tidjane Thiam:

So, Mike, you can continue with the next question. First question from Andrew was on VA and discipline. What are you seeing there?

Mike Wells:

Well the... Andrew, I think the biggest change as we talked in December is the VA business is sort of split into the haves and have-nots, and there's clear winners from this last cycle, and we're very fortunate to be in that group. Three of us, Pru, Met, and Prudential U.S., Prudential Financial, have about 50% market share in any of the channels we're competing in, and that's clearly a material consolidation relative to anything we've seen in the past, and we have three different product offerings, which I mentioned in December. So it's... you're seeing the consumer... if you assume all of those products are - - each are working for a second, what you're seeing is the clients buying a de-risked equity portfolio based on what they anticipate their needs will be for retirement. So that's

a good thing. You've seen flows for the first time coming from the mutual funds into VAs, a net gain there. I think that's also a very positive trend. Alliance Bernstein had a good piece on that with the fourth quarter. And the other industry-wide metric that I think is very helpful is because so many of the guarantees on the old contracts that were sold were in the money, if you will, and therefore from a quality of sale point of view couldn't be touched, you've seen a lot of new money that came into get to these sales levels we're at and that continues to grow; and those funds are coming from mutual funds, they're coming from money market funds in the U.S. and other sources. So I think the general health of the industry is quite good. I mean that's coming from being one of the haves. I think that'd be a harder question if we were on the other half of the top six sort of right now in the market position. I think it's a very difficult time to be a new entrant. I think the - - there's, as Tidjane mentioned, there was a flight to quality. We have clearly been seen as one of the places to go there. I think there's a redefinition in most firms for the criteria for the firms they do business with and it isn't price. We've seen a few firms change pricing. You saw Pru and Met improve their returns on their products, make their products less profitable - - I'm sorry, less - - more profitable for them, a little less rich for the consumer in this fourth quarter and the first quarter so far, and you've seen a few of the smaller competitors try to make the products more attractive, but I don't think at this point in the cycle you're going to see a small player disrupt pricing as you did in the last cycle.

Tidjane Thiam:

Okay. I think the second question was on dividend. I'll take that. And to quote Nic, I think your maths are correct, Andrew. The 2.7 is effectively 3.8 minus 1.1. The issue there is that... Look, maybe some of the most useful time I've spent with this company was being CFO in 2008. It has taught me a few lessons. I remember the free surplus being depleted by 1.8 billion in a few months. I remember 900 million of free surplus. I remember billions of RMBS-related losses. I remember equity volatility going over 40%. Obvious to say that the world is uncertain and if you wish... Unfortunately this is a boring answer, but the 2.7 is a prudent thing to keep as we don't know what lies ahead. One thing I believe about dividend is that it has to be predictable. It has to be reliable. I think that the move we made now is the right quantum. It indicates the confidence we have in what we have already achieved. It is a very - - it's a very sustainable level, very resilient level. We stress test the dividend very severely. That's the main thing we do when we try to decide where to set it and we won't - - because it's an important discipline to continue to have a progressive dividend, which is the other constraint you have on your setting the level of the dividend, plus all the opportunities for investments. So it's an art, not a science, but we think that we've pitched at the right level and that 29% would be not very prudent. I think it's mathematically doable, but not very prudent.

On the IRRs, what I can tell you? I think, gosh, we made some interesting calculations. I think we're pleased with the IRRs, and we work very hard to keep them high; and if there's any opportunity to increase them, we will. But I wasn't sure if it was serious question.

Nic Nicandrou:

Can I just say, I mean the maths is in this case isn't right because what you're seeing in the signatures is also of course the contribution from the with profit businesses...

Tidjane Thiam:

Yeah.

Nic Nicandrou:

...for which, participating business, for which there's no denominator. So if you like, the IRRs that we're getting on the business that is written on the back of shareholders' capital are not as high as the ones that you've quoted.

Tidjane Thiam:

So the question you asked us in May, I remember very well, with-profit, but absolutely. But you know it's an asset we use and it's a plus for the company, it's one of the many benefits of having a with-profit fund.

David, where should we go? Yeah, Oliver and Tom, yep.

Oliver Steel:

Oliver Steel at Deutsche Bank. Two questions. The first, really, just follows up Andrew's question on the dividend. You talk about it being progressive; you also talk about it being 2 times covered by the IFRS earnings, but there were - - there was at least one exception on the IFRS earnings numbers. So I wonder whether - - what you can sort of... in terms of giving us predictability, what sort of guidance would you like to give us on how you look at the dividend going forwards? Or alternatively, what sort of cash you'd like to hold in the centre looking out over the next few years? That's question one. Question two is: You talked about 60% of sales in Asia coming from new clients, I assume that's sales by number of sales as oppose to pounds million. But could you give us some sort of indication as to the sort of signature on new clients over say sort of five years as to what sort of growth in average premiums they generate?

Tidjane Thiam:

Okay. It's bit a tricky because first of all, it's not a decision that I control. It's clearly a board decision. I think we've been very careful to say that business has been (inaudible) by the Board and honestly it's a bit hard to give you a quantitative guidance on that. I think it's one area where you have to look at the past. We have not changed the dividend policy, which has always been to maintain a cover of about two across per cycle, which I think is appropriate, and to have a progressive dividend policy. Now we've been very careful of not putting a number on that, and I think that's wise. I think the best you can do is go back to what we've done in the past and continue your dialogue with the company as we move along. But I cannot give you forward-looking dividend guidance. It's not something I can do. I'm sorry.

On Asia and the sales, actually in Nic's slide, you should have the undiscounted profile of one year of new business, yeah, in Nic's. He showed it to you for the group, and that's really a new disclosure. It's something many of you have asked me. When you write one-year of new business, we want to see the emergence over time, so that will give you already some...

Oliver Steel:

More about the new customers.

Tidjane Thiam:

The new customers.

Barry Stowe:

Are you asking in terms of will the percentage?

Tidjane Thiam:

The percent has lapses, (inaudible)...

Barry Stowe:

The new customers or the average premium per customer?

Oliver Steel:

It's more about the average policy size per customer and whether it builds up sharply on new customers. Should we be expecting the average premium to be pushing out?

Barry Stowe:

I see. There's not a dramatic difference between people who are buying a first policy and buying a second policy. You will sometimes see a little bit less protection in a second policy because people may - - will often tend to buy that first with less savings. And then when they pop up, it might be for - - to add more savings as they have more income. But… which is not to say that we don't up-sell and cross-sell additional protection products because we do it and do it pretty aggressively and do it very effectively and some great results in 2010 and some more in Malaysia specifically, but I don't think it's something that's so dramatically different that it - - you know is really worth noting on.

Tidjane Thiam:

He's just saying demographics. We're really - - the new customers are not fundamentally different from the ones we have, and it's a balance. Very encouraging group in sales. It's something we push. It's very good from the bottom line, as you know, but we also make sure they continue to grow and that way continue their commercial effort. A good agent should be able to do both.

Barry Stowe:

I think it's also reasonable to assume that as - - if the macroeconomics continue to go the direction they appear to be going that you would see average premiums in total inching up year-over-year-over-year, so at least some progression there as well.

Tidjane Thiam:

So David. Tony Silverman… we'll come to Andy. He's been very patient.

Greig Paterson:

Greg Paterson, KBW. Three questions. One is: You've got that large inherited estate and there was a review by the FSA the other day and the implications were you had a lot of subsidising new business with the old and you have to come up with some plan to dispose of that inherited estate. I wondered if you want to talk about that? Second point is: I mean we see someone like Aviva with a strategy to potentially get rid of some of its Asian operations, I was wondering what your sort of attitude towards non-organic growth or bolt-ons or even large deals within Asia? And the third thing is I remember having a chat with you, Tidjane, a few years back when you pushed Aviva buying AmerUs, and you were going on about baby-boomers and that was maturing and I see you talking

about it now. Well, the U.K. is following the U.S. trend with about a five/10 year lag, and it's an under-saved market, what do you think about the argument that the U.K. is going to be a very large savings market in the next five/10 years because it's following all the U.S. trends quite closely with a lag?

Tidjane Thiam:

Okay very good. A lot of questions here. Inherited estate, I don't think we've been subsidising, but Rob…

Rob Devey:

Yeah, I'll pick that up. We haven't. So the review that is gone now into consultation until May, essentially we comply with pretty much all of the recommendations in that review already, which is probably as you'd expect. So people think of with profits and then they think of a Pru with profits as being somewhat separate, so distributors and customers think of that, and that's because we already really work our business to those high standards. So when it comes to cross-subsidy, what they're trying to do is eliminate using the inherited estate to give artificially low prices for with profit and not recovering the expenses of selling with profits back through the charges. We already do that, and we already made a commitment to actually eliminate any estate drain, so it's called, by 2012. So it's no material impact for us and the estate drain such as it is, is immaterial today. So that's where we see it, Greig.

Greig Paterson:

What about the proposal to get rid of - - just to have a plan to actually distribute (inaudible)…

Rob Devey:

Again, we will talk to them about what that actually means. Obviously if you end up in an excess surplus today or go into a reattribution, you need to have a plan to do that. What that plan actually looks like, we don't know, and what level of detail, et cetera, et cetera. We do know that we are a long way away from an excess surplus as we stand today.

Tidjane Thiam:

Regarding Asia and inorganic growth, we are very happy with our organic growth rate. It's at 26% in 2010 providing very, very good profit. What's we're looking at there is just fundamentally Bancassurance deals. You've seen UOB which we think is really a kind of text book case of what we like to do. It's multi-country. It's doubled our position in Thailand, doubled the market share, brought us very, very good growth, a strong presence in economies of scale in Singapore, really a good deal, very happy with that. It was money well spent and we have an appetite for more. Bancassurance, we've talked about in the past, is strategic in Asia as the middle class emerges. They will use the banking channel and it's important to present in the bank branches, so that's really the extent of our appetite.

On the U.K., the U.K. is the third largest market for life and pensions in the world. It's something that's easy to forget. The challenge it has had is that it is in net outflows. Okay, it's been in net outflows, negative flows for a number of years now, so it is… It has been a shrinking market, which has put pressure on all the providers, which also means I'm always fascinated by the new business numbers that are published in a shrinking market, but that's where we are. Yes, there will be opportunities linked to the demography. I think we're well positioned to take them if and when they

come. There's been enough talk about VAs. But the challenge… I mean in theory everything is possible in the world. After that, you work in the real world and the most important thing is the customer. At the end of the day, our business is based on the customer, on his buying habits. Historically, people in the U.K. have not been willing to pay an explicit price for guarantees, and that's the experience in the market. Whether that will stay, whether different generations will behave differently, it's something that remains to be seen, and I think we're well positioned to exploit that should that happen. It's optionality, I would call it.

Rob, I don't know if you...

Rob Devey:

Well it's certainly as we look at the business that we write today, it's very much in that segment, Greig, of the retirees. Yes, there will be a baby boom that comes through. It's significantly smaller in size, but it's still material, and we'll be there to take it because that is clearly the segment that we're playing in and we think we've got very, very relevant offers and obviously you've seen that through some of the numbers that we've put in in the U.K., whilst explicit about our limited appetite in the U.K. and very focused participation.

Tidjane Thiam:

If things happen rationally, it should be an opportunity. There should be a space for VA-like products in the U.K. at some point, definitely.

We have Blair and we have Tom and we have Andy. We're coming. How much time do we have?

Blair Stewart:

Thanks very much. Blair Stewart from BofA Merrill. I have two questions. One, on the US. We've clearly seen a big jump up on the IFRS profit contribution from the US, and I think some of the drivers you've highlighted is the higher asset base, and you've given good detail on the basis points fee. But just specifically on the spread component there that's gone up a lot, what's the outlook there? And just generally frame that into is that 2010 number for the US a sustainable level from which to base forecasts going forward given the jump? And the second question is just a more general one for Barry on Asia. Just given what you're seeing in the market by way of competition at the moment, what would be your expectations for growth in the coming year? Thanks.

Tidjane Thiam:

Okay thanks, Blair. Nic, do you want to take the actuaries in the U.S.?

Nic Nicandrou:

I can do. You're right, we've given quite a lot of information in terms of expressing it as fees. You've seen the liability movements. Look, I would flag two things. One is we did have the 108 million contribution from the lengthening of the portfolio duration on the asset side. That has an effect in '11, but it won't be anything like the same number. The other thing - - the other factor in there is what's going to happen to interest rates because that then dictates where you're crediting rates will sit and so on and so forth. So it is these factors that will come through and ultimately influence the result that we will see in the spread, in the spread income line in the U.S.

Blair Stewart:

Thanks.

Tidjane Thiam:

And in Asia, Barry, competition.

Barry Stowe:

Sure. You know Tidjane's made the point, and we've made the point a lot over the last couple of years that this is a growing market and there's room for more than one company to succeed and so we really put a lot more focus on how our business is performing than we do at looking at others and worrying about how they perform. And I think the results of that sort of management mindsets speak for themselves over the last four or five years. So there's really, when you're as underpenetrated as we are in most of the markets in Asia, there's really just not a constraint that competitors can put on you in terms of your ability to grow.

I would emphasise again, we have an incredibly strong multi-channel distribution platform. It is... If you want to compare it to our competitors, it is larger than most everyone else's; it is more productive than most everyone else's, and it continues to grow organically and inorganically, as Tidjane said, over - - in 2008, 2009, 2010. There's an element of momentum in the results that you've seen, and I would not expect it - - the profile of the business to change significantly.

Tidjane Thiam:

Really the only caveat I would put is one I have been explicit on, it's India. We're big and known there, but it's not materially in our numbers, and that's why we're showing you very much the ex-India growth. We said 18% in Q4, and that we're confident we can drive forward.

Barry Stowe:

It's going to be important to look at the region on that basis now because we do have the market leading private company in India; and even with the disruption; we continue to have the market leading company.

Tidjane Thiam:

Absolutely.

Blair Stewart:

Just coming back on that, you wouldn't separate out Hong Kong, Singapore, specifically as markets where our competition is starting to hot up and would have an impact because you don't have that under penetration argument to the same extent.

Barry Stowe:

We don't have it to the same extent, but again we've demonstrated our ability to continue to grow in markets which relative to Indonesia look a lot more penetrative, but relative to the U.K. or the U.S. or other western markets still don't.

Tidjane Thiam:

I mean this is an argument we've made before, in both places are moderately related if you wish to their domestic dynamics, and we know the role that Mainland China and the developments they are playing in Hong Kong is a direct relationship that's easy to observe.

Barry Stowe:

Here's a good example, let's talk about it since you bring up Hong Kong, which is one of the more penetrated markets relatively speaking. You know let's look at what's happened there over the last couple of years. You've had HSBC and BOCI in particular have come into the market and have rocketed to the number one and the number two spots in the league table. Now have they done that by selling recurring premium unit-linked life product with protection riders? No. They sell almost exclusively deposit stripping savings products, you know two pay five-year endowments, and then they submit that to the regulator and say this is recurring premium, so it makes it look like the market is growing dramatically and that we're like stuck at number three in the market or something like that. The reality is we're growing in a disciplined way that we like to grow; and when you're focussed on a particular kind of business and a particular kind of consumer, as we are, we're just certain that there is still a great deal of headroom even in the most penetrated markets.

Tidjane Thiam:

And Singapore is the same way; you cannot just judge them based on their resident population. Both places attract very significant flows; we see that in the high net worth market from wealthy people from all over Asia. So to bring the volumes in Singapore back to the resident Singaporean population is a bit misleading, and that's how penetration is developed, and it's not correct because really both places are platforms for the region and grew very, very strongly.

Yep, Andy Hughes, yes. Thanks for your patience.

Andy Hughes:

Thanks so much, it's Andy Hughes, Exane BNP Paribas. Just return to Raghu's question on Asia net flows, this Asia dooms halo is clearly wrong because I never expected the unit-linked surrenders to go from 700 million to 1.6 billion in a year, which was relatively benign and positive. I'm just trying to read in terms of what you've been saying about how you're reflecting those outflows in your EEV. It sounds like you're saying it's pretty much a one-off, these partial withdrawals, and they're not expected to repeat into 2011. Could you just say why that's the case? And then the second bit of this is: Is it not logical now to assume that when a fund builds up in Asia that people will take partial withdraws when the fund builds up? So should you not increase your lapse rates in your EEV when a fund reaches above a certain level? And I guess the third question is in terms of net flows, I mean are these net flows crucial to reaching your IFRS doubling target? So if we see another year with only 1.3 billion of net inflows in Asia, does that mean you have to sit back and look again at the target and possibly delay it? Thank you.

Tidjane Thiam:

Barry.

Barry Stowe:

Yeah, is it a one-off. I don't think you're going to see... again, I don't want to make a definitive projection into the future, but I think it's pretty sure that you're not going to see the level of increase

in '11 that you saw in '10. You know it's on a percentage basis because I do think there is something of a one-off element there. In terms of the impact on the targets, that was the other part of your question, right? We're completely comfortable with the targets, so I don't think that what you saw in 2010 will continue in 2011 and '12 in such a way that it will impact our ability to hit the targets.

Tidjane Thiam:

We have many levels we can pull from products (inaudible)….

Barry Stowe:

Absolutely, I was going to make the point on product (inaudible).

Nic Nicandrou:

Can I make another point on embedded value, which is important, because if you're equity assumption is 5% and you deliver 20% return, the increment of 15 comes below the line. But what you're seeing in surrenders is only the partial withdrawal. So you've got to think through the geography of the full P&L, which is what I was encouraging you to do on the IRFS side when you're looking at the net flows. Same applies on the EEV. So the value of the VIF has gone up notwithstanding those partial withdrawals because they're fully factored in. On your point on assumptions, yes, if we think the effect is a permanent feature, we will change them. And in these results you will see that we have changed assumptions in a number of places to reflect our view of the element that is not effectively one-off.

Tidjane Thiam:

Absolutely. Where should we go? Should we go yeah, yeah, Nick, and then James also has been raising his hand for a while.

Nick Holmes:

Nick Holmes at Nomura. I will keep this very brief; I'll restrict myself just to one question in the interest of time. And that is, your U.S. new business margin, does - - this is on embedded value basis, does seem to me to be rather high compared to your peer group, and I think you have previously indicated that this is likely to reduce. Now you haven't really discussed this. I think it's pretty important isn't it, in your growth outlook, and I wondered if basically if you could just give us your guidance for the new business margin going forward, how you think this will develop? Thank you very much.

Tidjane Thiam:

Mike, do you want to go, or Nic?

Mike Wells:

I'm trying to think how to say this without a forward-looking statement. First, we can't - - the competitors' models, the public information that we know, we don't know their models, we don't know, so it's very difficult for me to comment on their positions. We do know, for example, we have lower expenses from some of the information we've shared with you in December. So given the impact that has on the general economics of a business like ours, that is measurable. We are

comfortable, we did reduce margins, as Tidjane and Nic both mentioned this year, those reflect mostly assumption changes, the effective interest rates, et cetera. And I think what the comment you're referring to we made was coming off the call at five-year historic levels, the pop-up we had in this crisis, we did anticipate that to come down a bit, but I don't think we ever suggested it would come down to historic levels again. I hope.

Tidjane Thiam:

We've always left the question open saying it's possibly structural and we've said we don't know. We think it's going to down, but mostly, and I'm looking at Clark here, we said well it's quite likely not to come down to the pre crisis level in terms of margin.

Nick Holmes:

It was a very (inaudible) increase in 2009.

Male Speaker 4:

Yes.

Nick Holmes:

I thought you had said about half of that would (inaudible)….

Mike Wells:

Not that I'm aware of. The increase in '09 came from, if you think of this - - our product versus the competitors, because they.. I can't specifically… to that, is more of a cube of options versus a paragraph of text, if you will, right, so we can make edits very easily. We've pulled down some of the less profitable options and so we're left with a more profitable set of options for a client to choose from. That's how we re-priced, okay, but again, the context that is critical is that we went into that cycle correctly priced. And if you remember the '07 conversations, it was about us letting market share go and the fire sales competitors were having, and so we started a very different place going into that point of the cycle in terms of margin and profitability, so it's... and then again we are getting some fairly pleasant economies of scale with this, but I think... I wouldn't... I don't think we give specific guidance for going back to sort of historic norms, I don't think that would be fair.

Male Speaker:

I think Mike is in the unenviable position of defending my statements.

Mike Wells:

I wasn't going to say that during the last meeting.

Male Speaker:

What we said was margins in the U.S. were back in the 40s or so pre crisis. We were under a lot of what we thought was margin pressure than due to the competitive environment. They popped up to VAs 81%, and now they're drifting back down. But at this point they're drifting back down due to the economic assumptions. If you look at what has been done to the products over the course of

the last year, continuing into last quarter, everything, all the levers that we're pushing have been towards increasing the margins and the products that are available for hedging purposes or other things. There's nothing going on yet that's making the products richer for the consumer at this point in time, but you do have the economic factors that have driven those down. That won't continue indefinitely. If you look at the major competitors, Mike's referenced three, three winners in this, three big winners of which Jackson's one of them, the major competitors are behaving in a very disciplined fashion here, and all, as Mike has said, selling different types of benefits, so it's not like we're competing directly with each other. You see some of the people that stumbled during the last cycle coming back into the market. It's a very high hurdle for them to become competitive again. They can't just say, "We're here and back open for business" and have everything back to the way it was. So that's not impacting Jackson's competitive posture at this point in time. What I've said though was that the 80% that we were at would come down, we'd probably never come back down into the 40s where it was, although that's a forward looking statement that management and competitive environment will dictate. I said it will come down to somewhere in the middle. Where in the middle? I don't know. Take the high and the low and divide by two is a guess, but…

Tidjane Thiam:

A lot of mathematical ability on display today.

Male Speaker:

…it depends on competitive environment; it depends on economic assumptions; it depends on a lot of things. The statement that we made, though, was that the market would consolidate and that the impact of the consolidated market in the U.S. should have a lasting effect on the competitive dynamics of the market that Jackson participated in that should be translatable into economic returns. And that is what we're seeing, we have seen that.

Tidjane Thiam:

Yeah, and just to add one thing to that, we really drive our group with IRR, and margins are interesting, but we've seen their limitations whether it's on risk products in Asia or whatever. I'm much more focused on IRFS, on IRRs, on paybacks than necessarily margining to allocate capital.

We have time for one last question, I'm sorry, I think we're in overtime, sorry. Okay, Marcus, Marcus Barnard. Yes.

Marcus Barnard:

Yeah, hi, Marcus Barnard from Oriel. Two questions, firstly, very quickly.

Marcus Barnard:

In the U.S. your very useful emergence of free surplus charts on new business, you see a dip at year five, I just wonder if you could explain what that is? And secondly, just you've now got four very strong business units, all of which could stand on their own, what circumstances do you think you'd review the structure of the Group, either location or what's within or without the Group? Could it be Solvency II, tax regulation, and particularly following rumours at HSBC were going to relocate to Hong Kong?

Tidjane Thiam:

Okay first we're going to do emergent of the free surplus.

Nic Nicandrou:

That has to do with the interplay of the surrender charges and when they come off and what levels they drop off at different years, that's what's causing that effect.

Tidjane Thiam:

And on the second one, look I think - - trying not to be too, how can I say this, positive, but I think the current structure works. I think these results are reasonably good, so that's the first comment I'll make. So it puts the hurdle very high on anything you may want to do. I don't think we'll reach the point where each of our business is self-sustainable. A self-sustainable business has to be able to borrow to service its debt to pay a dividend. I don't think if you did that analysis, you would find that the answer is that's where we are. So I think we're quite well at some distance from the point that you're describing. And should that point happen, we'll look at it always with shareholder value in mind because that's what we are in charge of, trying to maximise shareholder value. Very open minded on the question, but for the time being, we're generating we believe a lot of value from the Group as it is and optimising its management.

So thank you for your patience. I'm sorry for those who couldn't ask a question, but we're here with David and happy to take more questions. So thank you.