



**PRUDENTIAL**

# **PRUDENTIAL PLC 2005 INTERIM RESULTS**

**27 July 2005**

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**MARK TUCKER  
GROUP CHIEF EXECUTIVE**

# FIRST HALF FINANCIAL HIGHLIGHTS

## Strong contributions from all of the businesses

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- New business up 34% to £1,129 million
  - UK & Europe +50%
  - US sales +18%
  - Asia +26%
- Group margin of 37% (2004: 36%)
- Achieved basis operating profit\* up 31% to £834 million
- IFRS operating profit\* up 25% to £469 million
- Interim dividend per share 5.3 p (2004: 5.19 pence per share)



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**PHILIP BROADLEY  
GROUP FINANCE DIRECTOR**

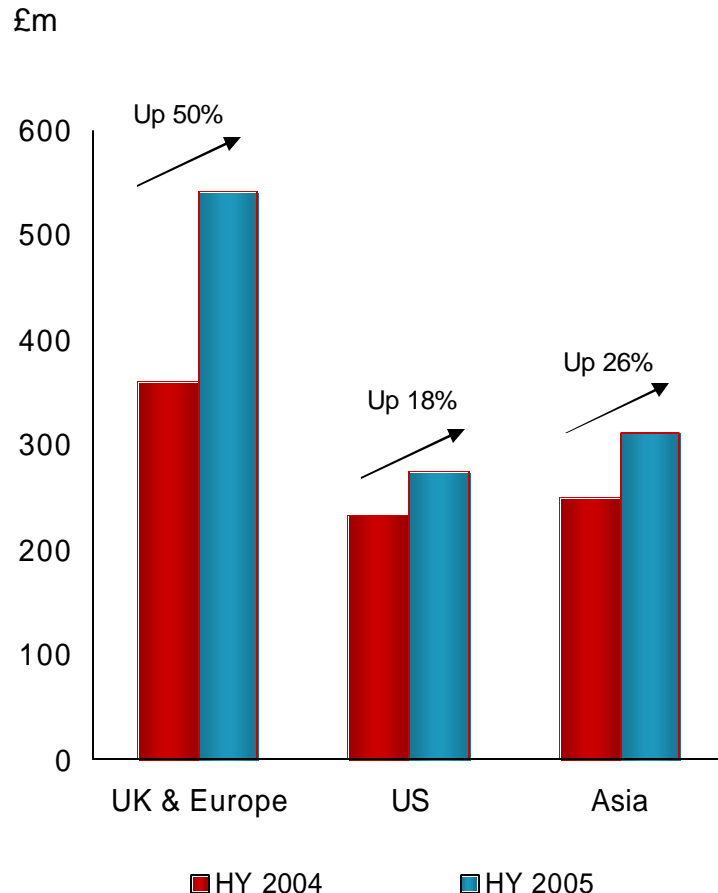
# 2005 INTERIM RESULTS HIGHLIGHTS

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- APE sales increased 34% to £1,129m
- New business achieved profit margin increased to 37%, leading to a 37% increase in new business profit to £413m
- Total achieved basis operating profit on continuing operations increased 31% to £834m
- Total achieved basis profit before tax increased 26% to £816m at actual exchange rates
- Total IFRS basis operating profit on continuing operations increased 25% to £469m

# APE SALES

## Overall 34% above HY 2004 with growth in all business units

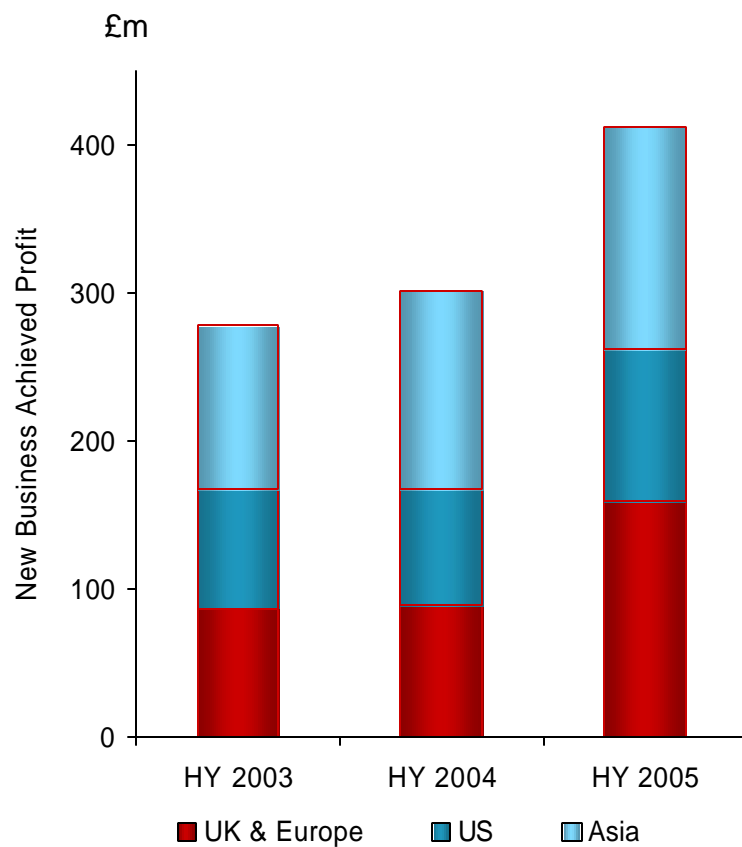


- Outperforming UK market (growth of 2% in Q1 2005<sup>(1)</sup>). Excluding PLP<sup>(2)</sup> transaction, 10% growth
- Outperforming US market. Retail sales up 11% on HY 2004
- Strong growth in Asia from newer markets, supported by established South Asia operations
- Total funds under management up 9% to £214bn at 2004 year end

# ACHIEVED BASIS: NEW BUSINESS PROFIT AND MARGINS

## Strong growth and stable margins at group level

### VALUE ADDED BY NEW BUSINESS



### NEW BUSINESS MARGINS

	<u>Half Year</u>		
	2003	2004	2005
UK * and Europe (%)	27	25	<b>30</b>
US (%)	37	34	<b>37</b>
Asia (%)	51	54	<b>49</b>
<b>Group</b>	<b>37</b>	<b>36</b>	<b>37</b>

*Insurance sales only*

- Overall margin increased through active management of product and distribution mix within business units and across geographies



# NEW BUSINESS MARGINS: UK INSURANCE OPERATIONS

## Managing product and distribution mix

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		<u>Half Year</u>	
	2003	2004	2005
<b>OVERALL MARGIN* (%)</b>	27	25	30

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- Overall margin 5 percentage points ahead of prior year
- For full year 2005 expect some reduction in overall margin from 2004 year end level of 27 %

# NEW BUSINESS MARGINS: US INSURANCE OPERATIONS

## Spread maintained and benefits from product pricing

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		<u>Half Year</u>	
	2003	2004	2005
<b>OVERALL MARGIN (%)</b>	<b>37</b>	<b>34</b>	<b>37</b>

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- Spread on fixed annuities ahead of target
- VA profitability increased following May 2004 re-pricing of Perspective II
- Increased GIC profitability due to longer average maturities

# NEW BUSINESS MARGINS: ASIA INSURANCE OPERATIONS

## Managing product mix

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	<u>Half Year</u>		
	2003	2004	2005
<b>OVERALL MARGIN (%)</b>	<b>51</b>	<b>54</b>	<b>49</b>

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- Margin affected by geographic mix, product mix and change of assumptions
- Expect to maintain aggregate margin at or around current levels given planned mix in 2005

# IN-FORCE ACHIEVED PROFIT

## Positive assumption changes and experience variances

	UK and Europe	US	Asia	HY 2005 Total
	£'m	£'m	£'m	£'m
Unwind of discount*	182	100	75	357
Change in assumptions	(132)	145	3	16
<b>Variations and other items</b>				
Persistency	-	4	(4)	0
US spread	-	44	-	44
Amortisation of interest related gains	-	26	-	26
Other	(27)	(4)	0	(31)
	(27)	70	(4)	39
<b>Total in-force achieved profit</b>	<b>23</b>	<b>315</b>	<b>74</b>	<b>412</b>

12 \* Includes return on surplus assets (over target surplus) for US operations

# IFRS BASIS OPERATING PROFIT

Operating profit up by 25%

	Proforma <sup>(1)</sup> HY 2004 £m	HY 2005 £m
UK and Europe	153	187
US	151	169
Asia <sup>(4)</sup>	60	110
M&G	79	83
Egg	33	13
Other	(102)	(93)
<b>IFRS Basis Operating Profit<sup>(2)</sup></b>	<b>374</b>	<b>469</b>

- UK results reflect PLP<sup>(3)</sup> transaction and increased annuity sales
- US benefited from improvements in spread and fee income
- Asia result benefited from certain one-off items
- Strong underlying profits from M&G

<sup>(1)</sup> The 'Proforma IFRS basis' comparative results shown above reflect the estimated effect on the 2004 results as if IAS32, IAS 39 and IFRS4 had been applied from 1 January 2004 to the Group's insurance operations as disclosed on 2 June 2005.

<sup>(2)</sup> Profits from continuing operations; <sup>(3)</sup> Phoenix Life and Pensions Ltd <sup>(4)</sup> Includes fund management and development costs

# HOLDING COMPANY CASH FLOW

	HY 2004 £m	HY 2005 £m
<b>Cash remitted by business units</b>		
UK life fund transfer *	208	194
Asia	62	58
M&G	38	27
<b>Total cash remitted to Group</b>	<b>308</b>	<b>279</b>
Net interest paid	(77)	(54)
Dividends paid	(214)	(252)
Scrip dividends	61	40
<b>Cash remittance after interest and dividends</b>	<b>78</b>	<b>13</b>
Tax received	0	36
Corporate activities	(30)	(36)
<b>Cash flow before investment in businesses</b>	<b>48</b>	<b>13</b>

## HOLDING COMPANY CASH FLOW (Cont'd)

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	<b>HY 2004</b>	<b>HY 2005</b>
	<b>£m</b>	<b>£m</b>
Cash flow before investment in businesses	48	13
<b>Capital invested in business units</b>		
UK and Europe	(28)	(9)
Asia	(88)	(80)
<b>(DECREASE) IN CASH</b>	<b>(68)</b>	<b>(76)</b>

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# RETURNS ON CAPITAL

## IRRs

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	FY 2004	HY 2005
Overall post-tax IRR on new business (%)		
UK and Europe	12	13
US	13	13
Asia	>10 above RDR	>10 above RDR

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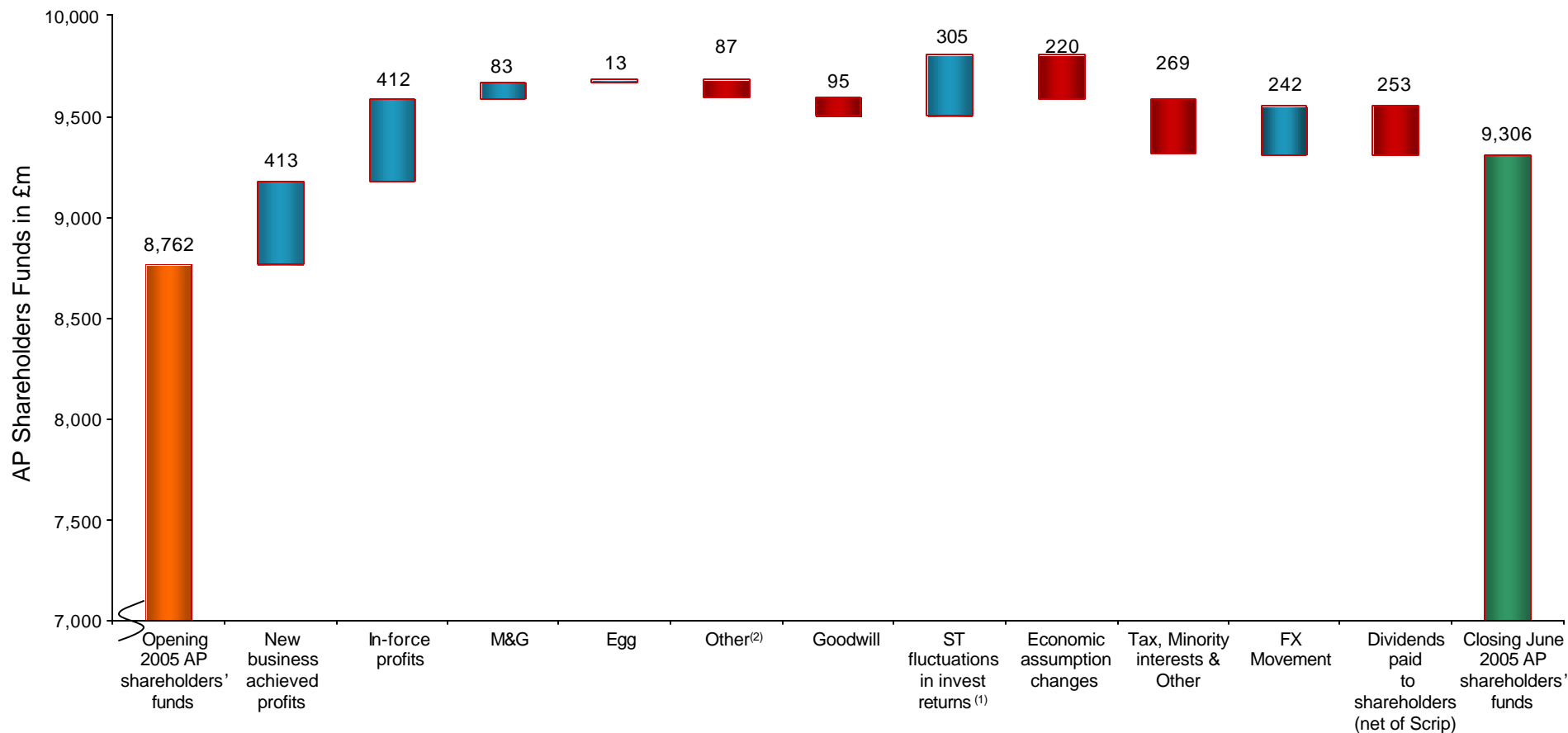
- UK: strong progress towards target of 14% in 2007
- US: average IRR of 13 per cent
- Asia: IRR targeted to be 10% over the country risk discount rates



# ACHIEVED PROFIT SHAREHOLDERS' FUNDS

## Continued strong growth in shareholders' funds

### ANALYSIS OF MOVEMENT IN AP SHAREHOLDERS' FUNDS: 31 Dec 2004 to 30 Jun 2005





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**MARK TUCKER  
GROUP CHIEF EXECUTIVE**

# FOCUS ON DELIVERY AND EXECUTION

## UK Insurance operations

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- 50% increase in sales, 81% increase in NBAP
- Focused on delivery
  - Capitalising on opportunities in annuities market
  - Improving group pensions efficiency
  - Building scale in unit-linked bonds and protection
- Diversified distribution strategy
  - Success in appointments to multi-tie panels
  - Further strong growth in Partnerships and D2C
- Preparations advanced for A-day

**GROWTH AND IRR TARGETS ON TRACK**

# FOCUS ON DELIVERY AND EXECUTION

## M&G

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- Capturing the benefits of rising markets and higher net inflows to deliver 15% increase in underlying profits
- Diversifying revenue streams away from internal clients
- Capitalising on large customer and asset base
- Delivering strong investment performance
- Keeping tight focus on costs

**GOOD PROFIT PERFORMANCE, BUSINESS AS USUAL**

# FOCUS ON DELIVERY AND EXECUTION

## Egg

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- Focus on profitable growth, with UK revenues 5% increase
- Credit card balance growth of 5%
- Costs down by 8%
  - Cost income ratio improved to 44% from 51%
- Credit quality remains strong
- Total capital ratio of 13.3%

**OPTIMISING PERFORMANCE AND THE VALUE OF OUR INVESTMENT**

# FOCUS ON DELIVERY AND EXECUTION

## Jackson National Life

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- 18% increase in sales, 29% increase in NBAP
- Strong product base and relationship-based distribution
- Innovative IT, low-cost high quality administration
- Emphasis remains on retail sales
  - Flexibility to manage product mix
- Extract synergies from Life of Georgia integration, with further benefits to unit costs

**SELF FINANCING, GENERATING CASH TO GROUP**

# FOCUS ON DELIVERY AND EXECUTION

## Asia

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- 26% increase in sales, 13% increase in NBAP
- Reinforcing position as leader in life insurance and mutual funds across the region
- Significant growth across the region
  - Significant contribution from Korea
  - China and India key to long-term
- Continuing to strengthen distribution reach
- Retail FUM up 33%
- Increasing benefits from scale; on track to be cash positive in 2006

**EXCELLENT PORTFOLIO OF BUSINESSES WITH ENORMOUS POTENTIAL**

# MY PRIORITIES

## Build on our current strengths

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- Delivery and execution
- Build on our advances in capital management
- Developing a longer-term view
  - Greater focus on the customer
  - Clear focus on value creation
- Extract the benefits of synergies within the group
  - Operational
  - People