



# Prudential plc 2006 interim results

28 July 2006

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# Agenda

## Introduction

Mark Tucker  
Group Chief Executive

## Financial update

Philip Broadley  
Group Finance Director

## Business update

Mark Tucker  
Group Chief Executive

Nick Prettejohn  
Chief Executive, Prudential UK & Europe

## Summary and Q&As

Mark Tucker  
Group Chief Executive



# Financial update

Philip Broadley, Group Finance Director

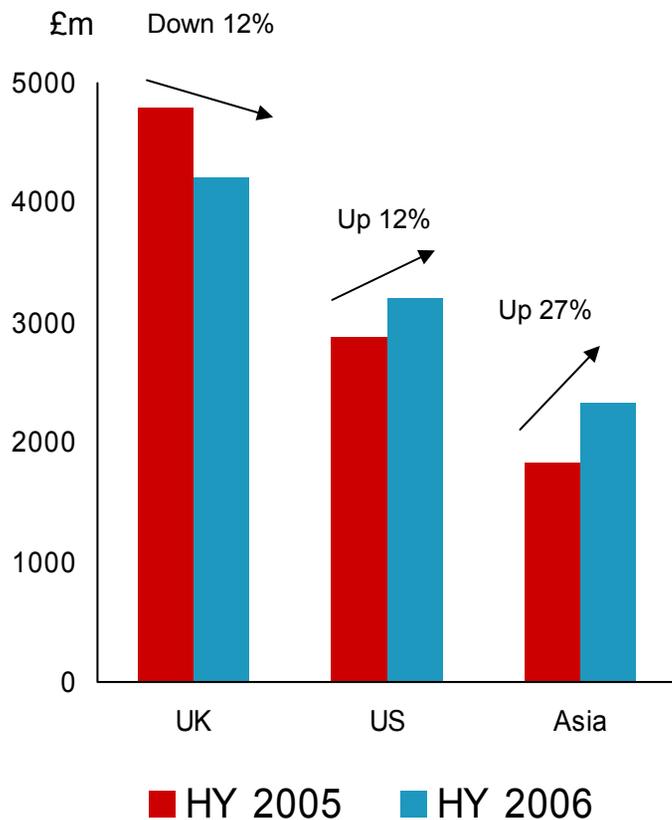
## 2006 Interim Results Highlights

- New business PVNBP £9.8bn up 3%; APE £1,255m up 9%
- New business profit up 17% to £504m
  - PVNBP margin up from 4.5% to 5.2%
- Record net investment flows up 136% to £5.3bn
- Total EEV basis operating profit (before UK restructuring costs) increased 17% to £980m
- Total IFRS basis operating profit (before UK restructuring costs) down 4% to £470m

# Focus on new business value across the group

## Driven by increased sales and group margin

### PVNB Sales



New business profit	Half Year	
	2005 £m	2006 £m
UK	159	<b>138</b>
US	99	<b>134</b>
Asia	173	<b>232</b>
<b>Group</b>	431	<b>504</b>
Insurance sales only		

	Half Year			
	PVNB Margin		APE Margin	
	2005	<b>2006</b>	2005	<b>2006</b>
UK %	3.3	<b>3.3</b>	30	<b>29</b>
US %	3.5	<b>4.2</b>	35	<b>41</b>
Asia %	9.4	<b>10.0</b>	52	<b>52</b>
<b>Group</b>	4.5	<b>5.2</b>	37	<b>40</b>
Insurance sales only				

## EEV basis in-force profit

### Strong growth in in-force

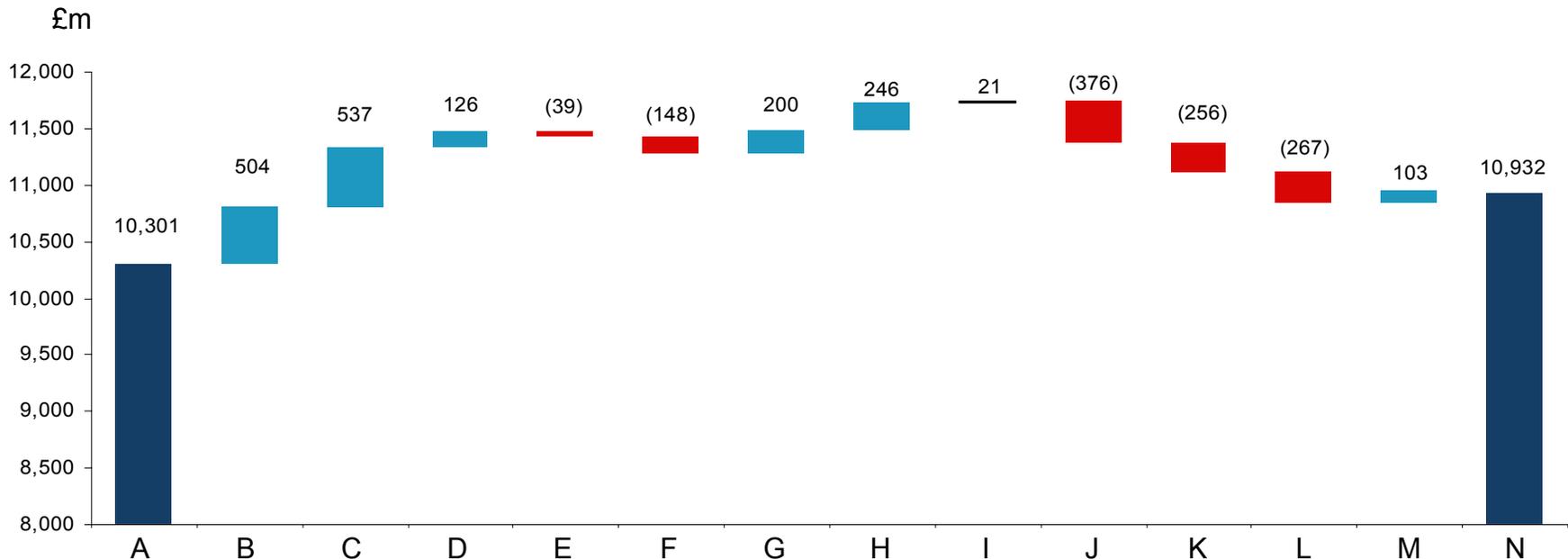
	UK £m	US £m	Asia £m	HY 2006 Total £m	HY 2005 Total £m
Unwind of discount*	259	130	138	527	375
Change in assumptions	0	1	(9)	(8)	13
Variations and other items					
Persistency	6	(4)	5	7	(3)
US spread	-	60	-	60	50
Amortisation of interest related gains	-	23	-	23	27
Other	(67)	2	(7)	(72)	(42)
Total variations and other items	(61)	81	(2)	18	32
Total inforce profit	198	212	127	537	420

- In-force result up 28% from £420m to £537m
- Higher unwind of discount reflects higher opening embedded value and increases in risk free rates
- Total variations and other items of £18m
- Other UK includes regulatory costs and losses in PruHealth and service companies

# EEV basis shareholders' funds

## Continued strong growth in shareholders' funds

### Analysis of movement in EEV shareholders' funds: 31 December 2005 to 30 June 2006



- |    |  |    |  |
|----|--|----|--|
| A. | 2006 opening shareholders' funds   | H. | Actuarial gains and losses on DB pension schemes   |
| B. | Life new business profit   | I. | Effect of changes in economic assumptions and time value of cost of options and guarantees |
| C. | Life in-force profits  | J. | Tax  |
| D. | Asset Management and other operating profit  | K. | FX Movements   |
| E. | Egg operating loss   | L. | External dividends   |
| F. | Other income and expenditure (including Asia development exp)                                | M. | Other*   |
| G. | Short-term fluctuations in investment returns and mark-to-market movement on core borrowings | N. | HY 2006 closing shareholders' funds  |

## IFRS Basis Operating Profit

Underlying operating profits growing in insurance businesses and fund management

	HY 2005 £m	HY 2006 £m
UK	187	205
US	178	227
Asia	121	103
M&G	83	100
Egg	13	(39)
Other	(93)	(126)
<b>IFRS basis operating profit before restructuring costs</b>	<b>489</b>	<b>470</b>
<b>UK restructuring costs</b>	<b>0</b>	<b>(17)</b>
<b>IFRS basis operating profit</b>	<b>489</b>	<b>453</b>

- UK results reflect increased profits from with-profits and annuity businesses
- US benefiting from improvements in spread and fee income
- Underlying Asia result up 18% excluding exceptional profits of £34m in 2005
- Strong underlying profits from M&G
- Egg recorded a loss for the half reflecting an increase in loan bad debts and reduced PPI sales from lower new loan volumes and the cost of card acquisition

# Egg

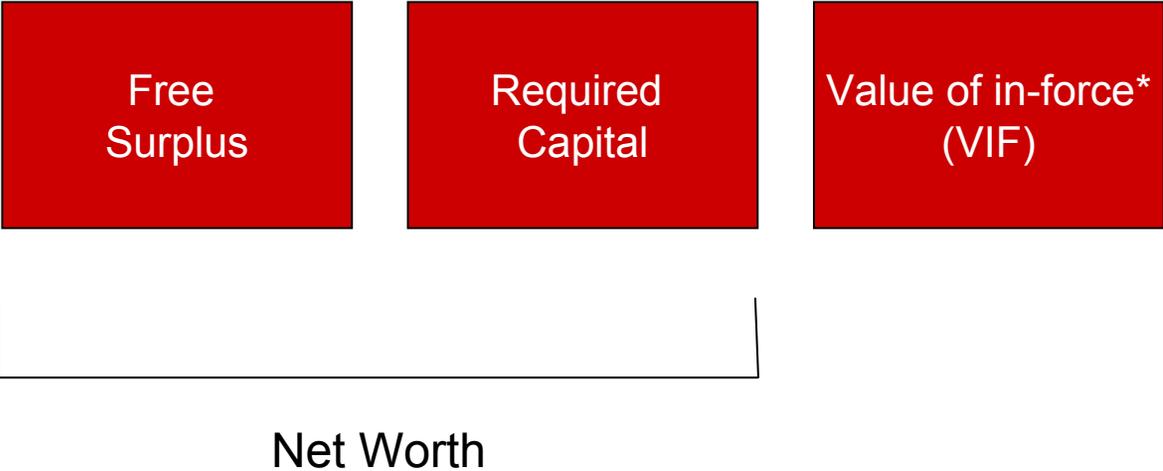
## Strong card performance and difficult personal lending conditions

- Net interest income up £17m
- Growing card book and strong returns
  - 3% growth compared to market decline of 2%
  - 153k new cards through 0% offer during Q1 2006
  - £10m cost of offer in the period to be released in second half
- Personal lending
  - Returns in current market conditions not attractive
  - Higher quality but lower volumes (HY 2006: 53k HY 2005: 90k)
  - PPI income £17m lower
- Bad debts
  - Significant increases across the industry
  - Charge increased by £49m
- Egg expected to report an operating profit in second half of 2006
- Expected FCD benefit of £120m

# Capital Cycle for Life Businesses

# Capital Cycle for Life Businesses

## Net worth and value of in-force

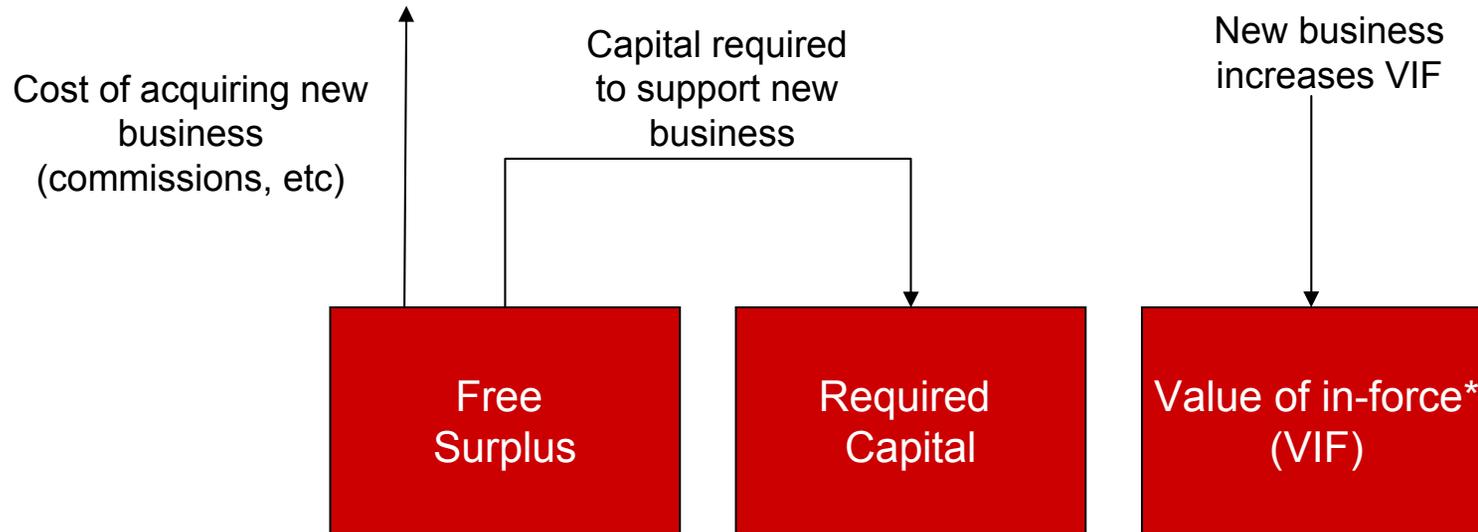


\* Net of cost of capital



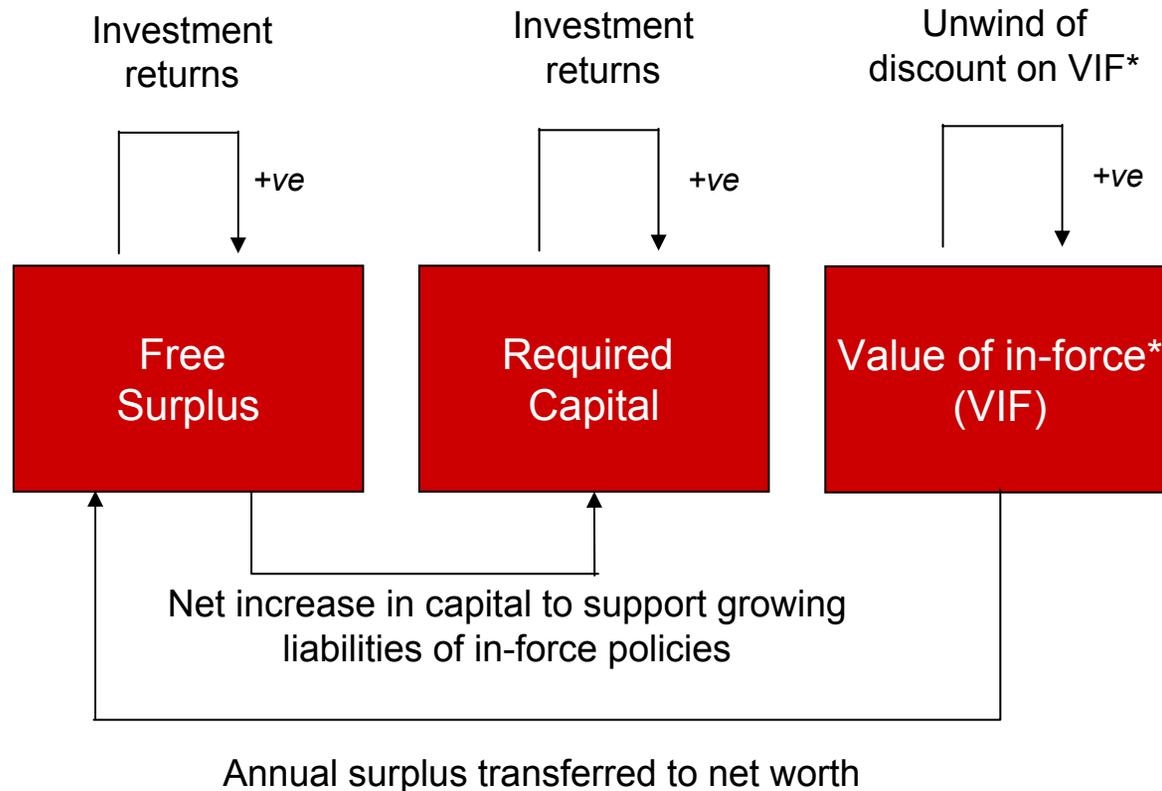
# Capital Cycle for Life Businesses

## Capital flows for new business



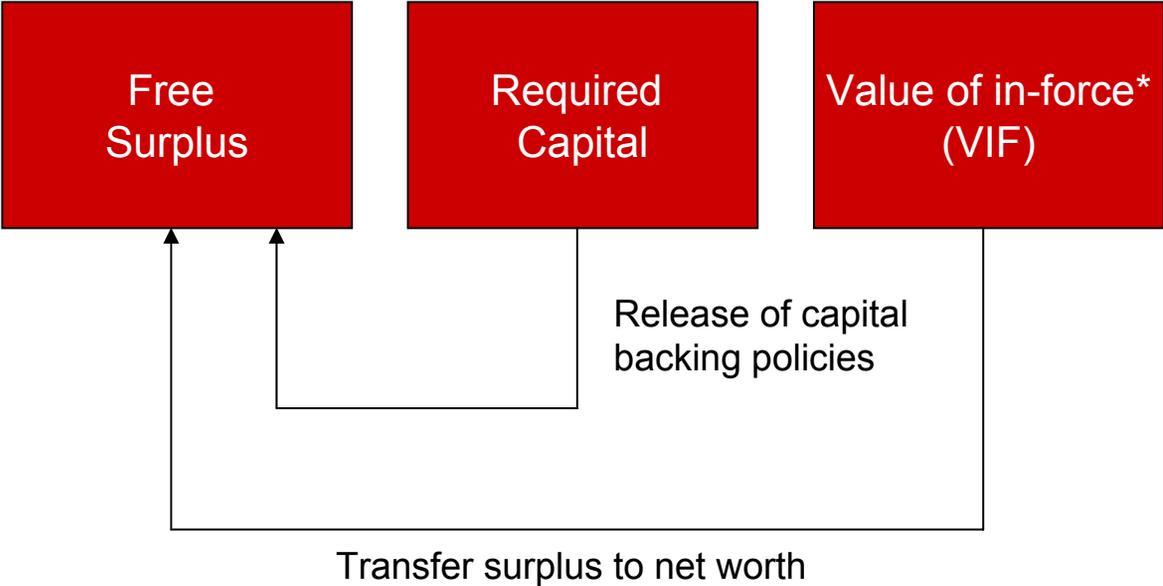
# Capital Cycle for Life Businesses

## Capital flows for in-force policies



# Capital Cycle for Life Businesses

Capital flows for expected claims and surrenders



\* Net of cost of capital



# New Business Capital Usage

## How much capital is required?

### Movement in net worth and value of in-force business

HY 2006	Free surplus	Required capital	Net Worth	VIF	Total
New business contribution					
UK	(158)	112	(46)	143	97
JNL	(141)	121	(20)	107	87
Asia	(62)	7	(55)	221	166
	(361)	240	(121)	471	350

### Capital requirement by business unit

- UK: £158m of capital in 2006 required to support £4,224m of PVNBP sales; at current mix approximately £3.7m per £100m of PVNBP sales
- US: £141m of capital in 2006 required to support £3,209m of PVNBP sales; at current mix, approximately £4.4m per £100m of PVNBP sales
- Asia: £62m of capital in 2006 required to support £2,328m of PVNBP sales; at current mix, approximately £2.7m per £100m of PVNBP sales

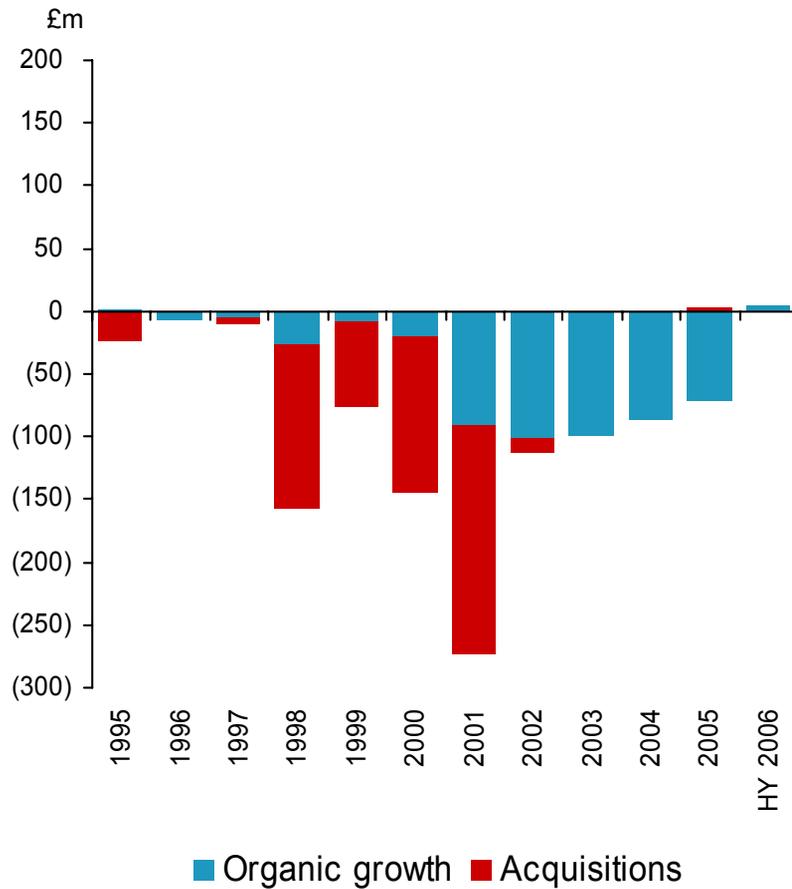
# In-force Capital Generation

## How much capital is generated?

HY 2006	Free surplus	Required capital	Net Worth	VIF	Total
Existing business – transfer to net worth					
UK	195	(24)	171	(171)	0
JNL	187	(133)	64	(64)	0
Asia	104	(18)	86	(86)	0
	496	(175)	321	(321)	0

# Prudential Corporation Asia Actual Cash Flows

## Cash flow positive in 2006

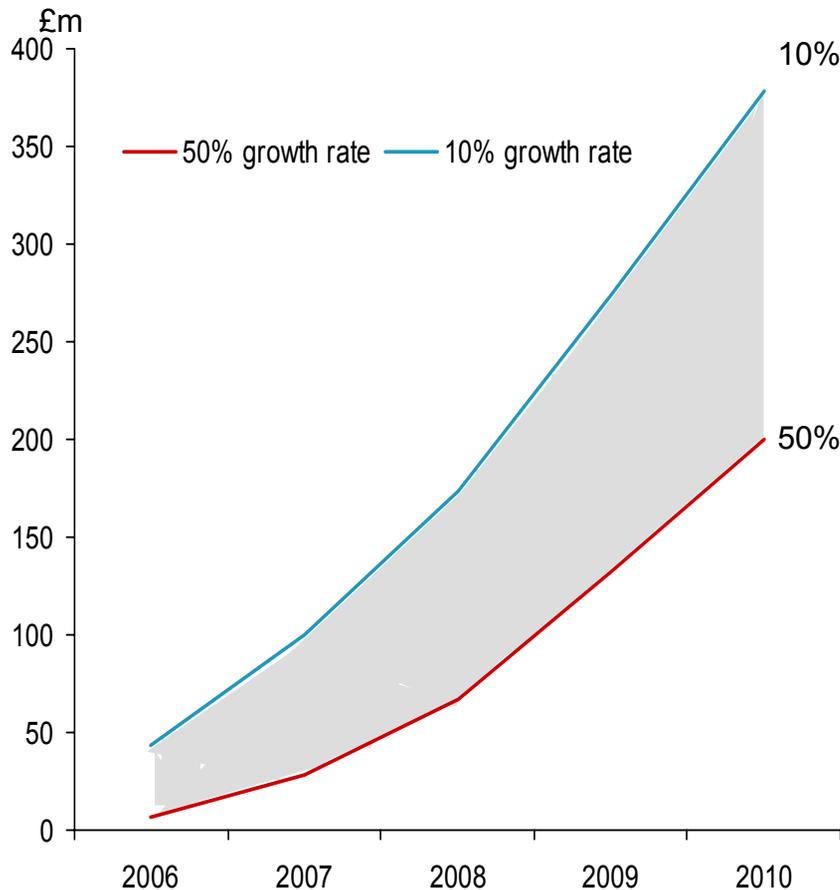


- Since 1995, net capital of £512m invested for organic growth and £543m for acquisitions
- Now generating a net cash surplus due to:
  - Consistent focus on capital efficient products, especially unit-linked
  - Increased repatriations from established markets
  - Growing scale of newer markets' in-force books

# Prudential Corporation Asia Future Annual Cash Flows

## Ability to self-fund significant growth

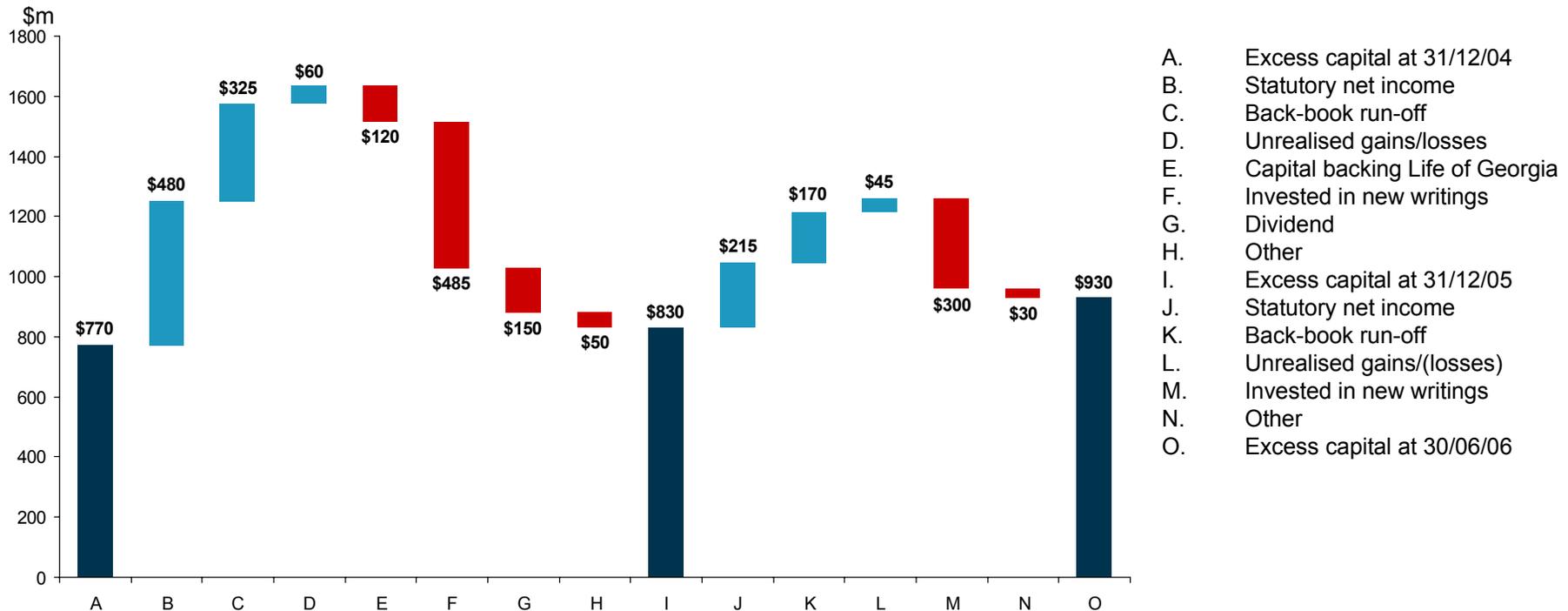
### Illustration under different growth scenarios<sup>(1)</sup>



- Cashflow scenarios assume:
  - Organic growth
  - 2005 business mix and product margin
- Even at a growth rate of 50% Asia remains self-funding with accelerating cash flows

# Jackson Capital Formation

Able to fund rapid growth from strong statutory earnings and capital release

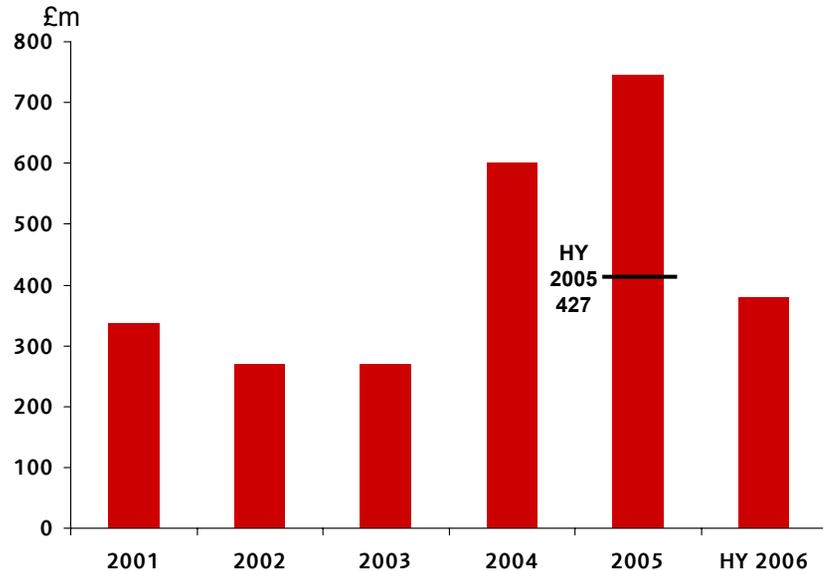


- Jackson paid a \$150m dividend to the Group in 2005 and expects to pay a \$180m dividend in 2006

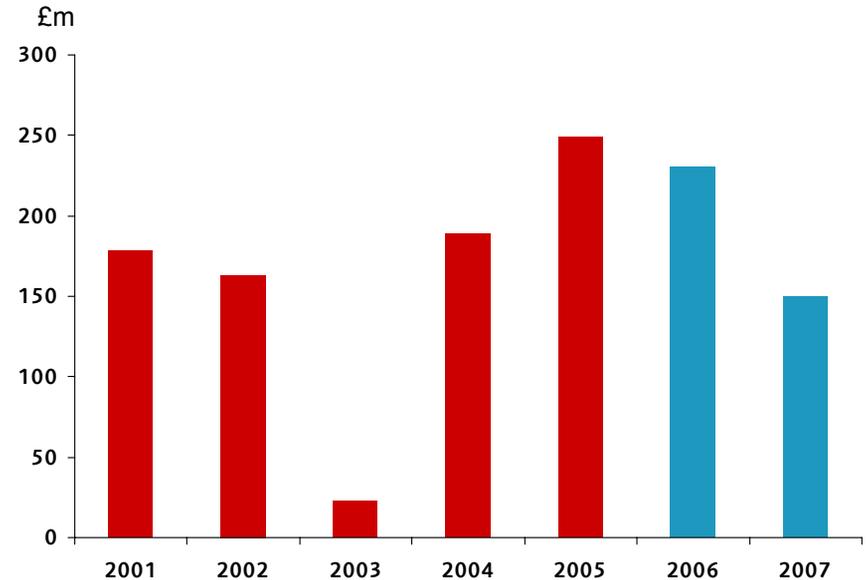
# Managing the Growth in Shareholder-backed Business in the UK

## Focus on value

### UK shareholder-backed APE sales (1)



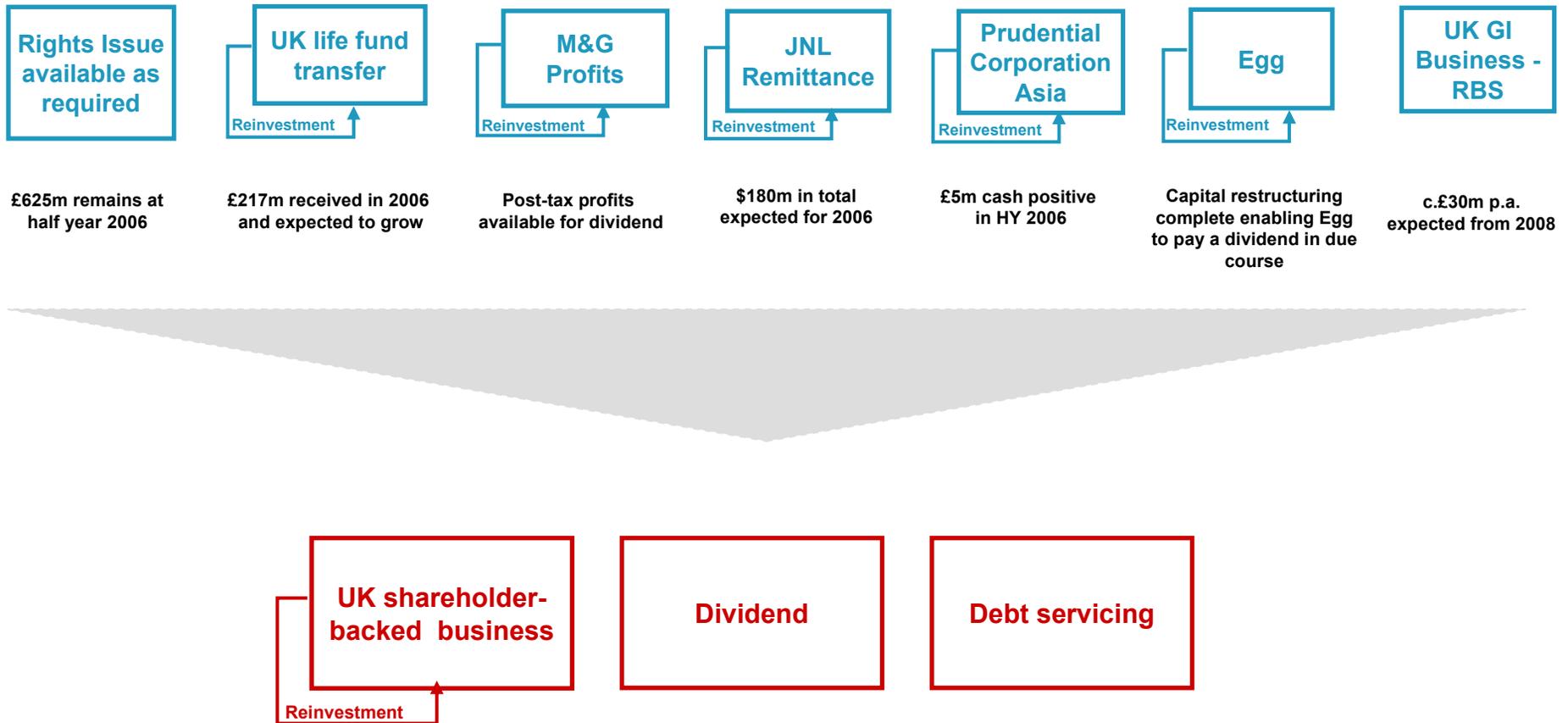
### UK capital investments (2)



- Capital reducing from 2005 as growing levels of in-force business give rise to increasing capital formation

# Cashflow

## Cash to fund organic growth





# Business Update

Mark Tucker, Group Chief Executive

# Business Update

## Priorities

### Asia Insurance Operations

- Building distribution to continue to drive growth
- Emphasising high return, capital efficient unit-linked products
- Increasing cost efficiency

### US Insurance Operations

- Focus on variable annuity market and 'baby boomer' opportunity
- Continued product innovation
- Scope to grow in chosen channels
- Diversifying the book

### Asset Management

- Grow external FUM in UK and Asia
- Add value to life businesses through superior investment performance
- Leveraging cross regional collaboration

### UK Operations

- Capitalise on advantages in annuities and experience in corporate pensions
- Build on diversity in distribution
- Resume development of Egg after period of uncertainty
- Deliver on cost and revenue initiatives

# Asia Insurance Operations

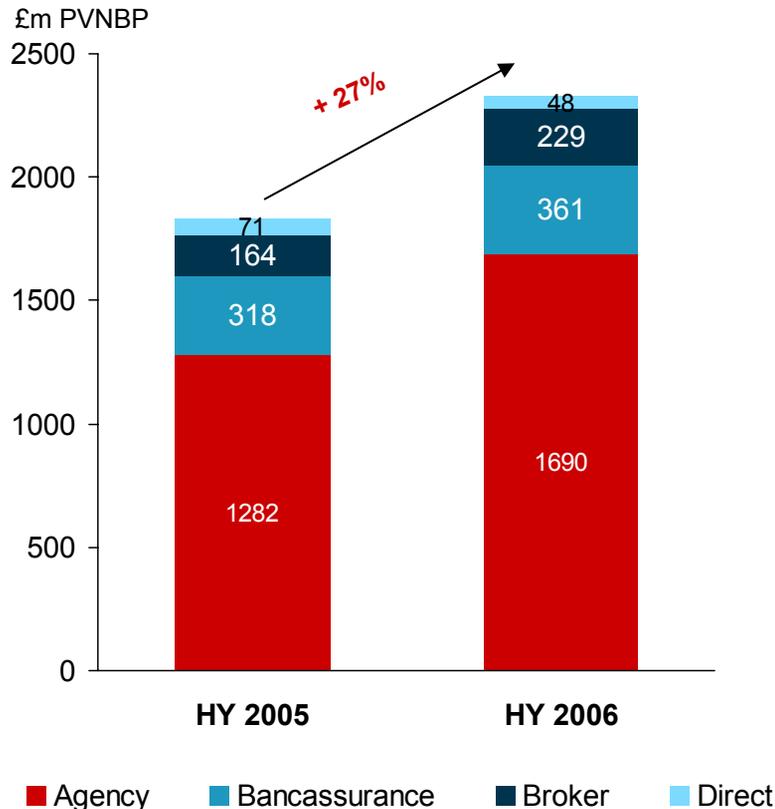
## Highlights

- New business profit up 34%
- New business £2.3 billion up 27% on a PVNBP basis
  - India +61%
  - Korea +56%
  - China +40%
  - Singapore +32%
  - Taiwan +19%
- Strong growth in both agency sales +32% and other channels +15%
- High proportion of unit-linked sales
- Cash positive, with net remittance to the Group of £5m

# Asia Insurance Operations

## Growth across a broad-based distribution capability

### Sales by channel

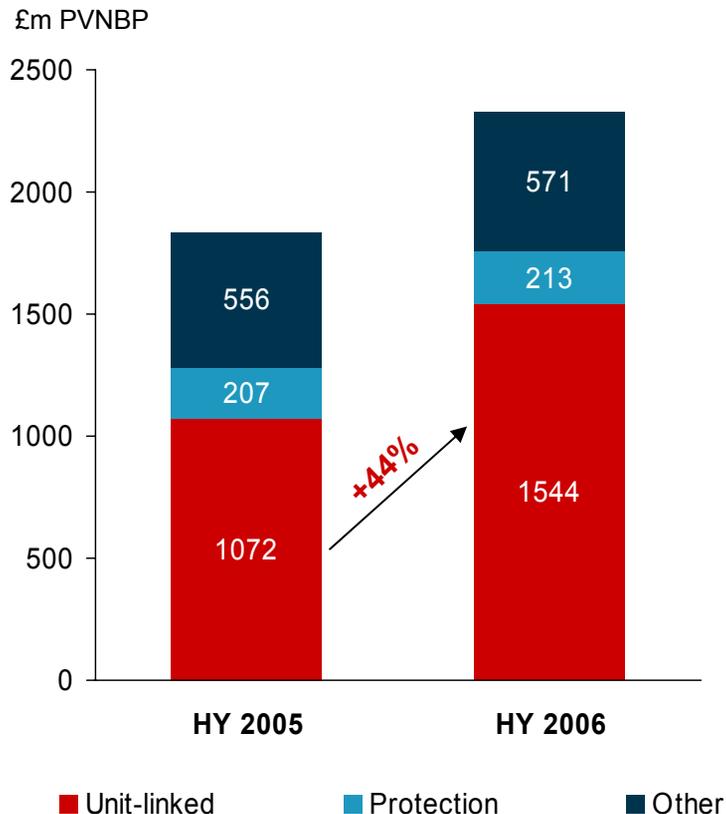


- Agent numbers up 20% at 191,000
  - Includes +25,000 in India and +13,000 in Indonesia
- Building highly productive financial consultant channel in Korea
- Significant bank distribution region-wide
- Opportunities to expand direct distribution

# Asia Insurance Operations

Focus on high return capital efficient unit-linked products

## Sales by product



- Customer orientated packaging of combined savings and protection products
- Unit-linked highly capital efficient
  - 66% of total sales up from 58% in H105
  - Sold in 10 markets with Vietnam launching soon
  - Strong fund performance
- New product development with Takaful licence in Malaysia
  - JV with Bank Simpanan Nasional
  - Planned launch in Q3
  - Large under-penetrated sector

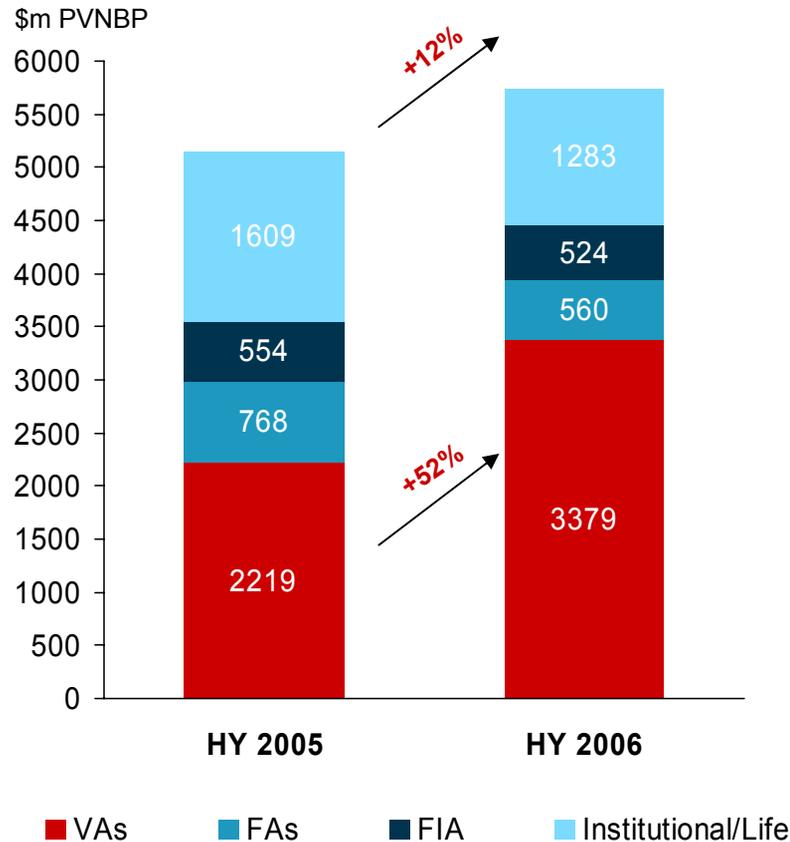
# US Insurance Operations Highlights

- New business profit up 35%
- New business £3.2 billion up 12% on a PVNBP basis
  - Retail new business up 26%
- Continuing to make significant gains in variable annuity market share
  - Variable annuity sales up 52%
  - Separate Account assets \$17.6 billion up 48%
- Maintaining high levels of product innovation
- \$296 million of statutory capital generated

# US Insurance Operations

## Strong annuity position

### Sales by product

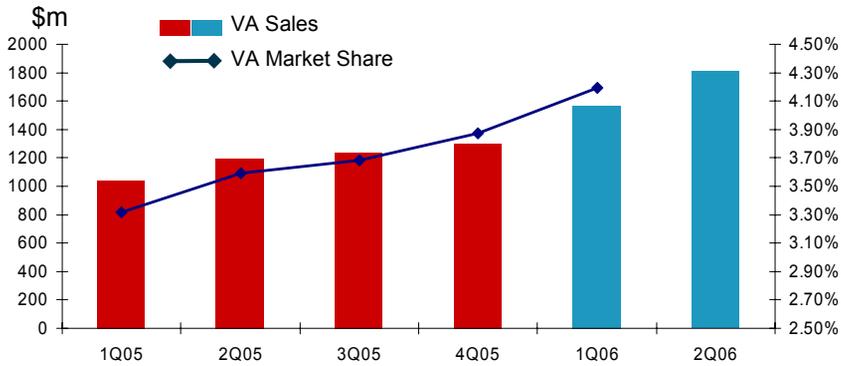


- Variable annuities
  - Top 3 net sales <sup>(1)</sup>
  - Perspective II No.2 by net sales <sup>(1)</sup>
  - Top 15 by gross sales <sup>(2)</sup>
- Fixed index annuities
  - 8<sup>th</sup> largest provider <sup>(3)</sup>
- Fixed annuities
  - 8<sup>th</sup> largest provider <sup>(3)</sup>
- Conditions continue to favour variable annuities

# US Insurance Operations

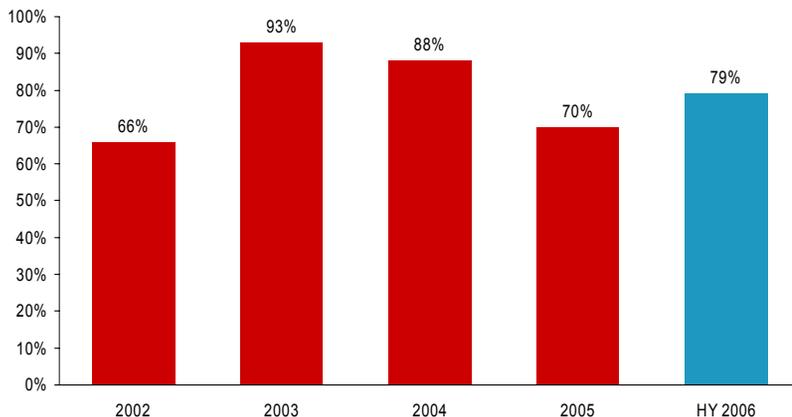
Focus on variable annuity market and 'baby boomer' opportunity

## VA sales and market share



## Rapid innovation

% Retail sales from product and features developed and launched in year and prior year



- Continue to expand product offering
  - Perspective Advisors II
  - Perspective L Series
  - Launched 5 new versions of lifetime GMWB's<sup>(1)</sup>
- Scope to grow in chosen channels
  - 10.4% <sup>(2)</sup> market share of independent channel in Q1 06
- SQM World Class Service Award

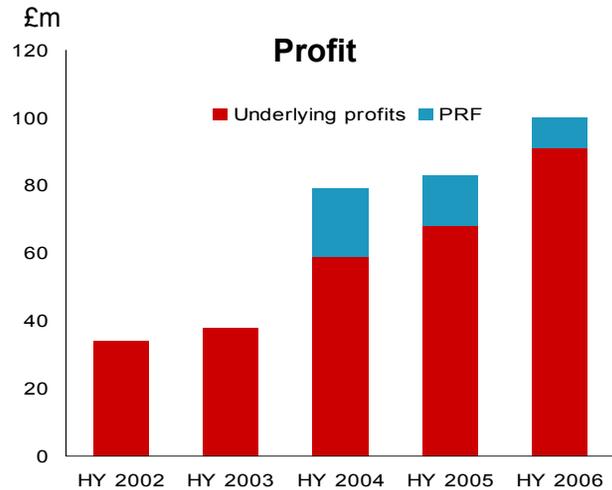
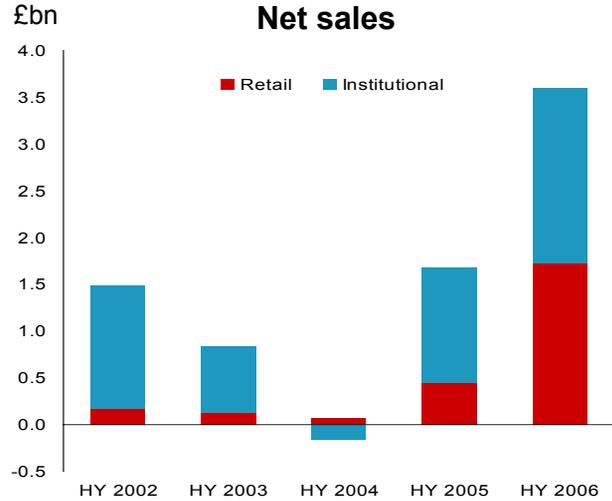
# Asset Management Highlights

- Record Net Sales
  - M&G net retail sales in HY 2006 30% greater than the whole of 2005
  - Asia net sales tripled
- Strong profit growth in both M&G and Asia
- Expanding into new markets and broadening product range
  - M&G expanding in Europe and distributing through Prudential Corporation Asia
  - First mutual fund launched in China
  - No. 1 in the Indian Fund Management market
- All underpinned by excellent investment performance

# Asset Management

## Grow external FUM in the UK and Asia

### M&G



Excellent investment performance



Growth in Net Sales

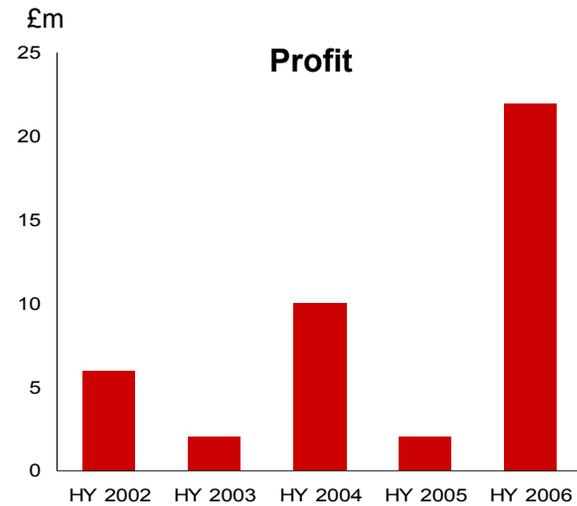
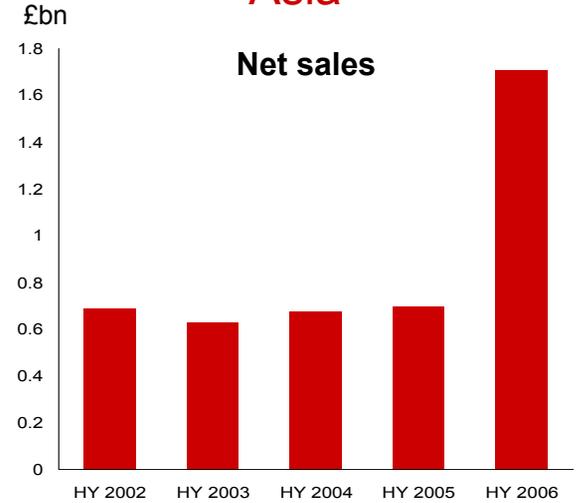


Growing FUM



Increasing profits

### Asia



# Asset Management

- Outstanding investment performance at M&G
  - Over 3 years 77% of M&G retail funds beat the UK sector average
  - Over 1 year all major M&G UK and global equity funds were top decile
  - Over 3 years 97% of active M&G fixed income institutional funds above benchmark
- Strong investment performance in Asia
  - Over 3 years, 80% of Asian ex-Japan Equity funds ahead of benchmark or sector average
  - Flagship Asian ex-Japan Bond Fund in top quartile over 1 year and 3 years
  - Over 3 years, 64% of all retail funds above sector average
- Adding value to life business through superior investment performance
  - Continuing to outperform the benchmark for the UK with-profit fund
- Leveraging cross regional collaboration
  - £6 billion of cross regional money managed
  - Property JV between M&G and Asian operations
  - Launched Global funds in Singapore, Malaysia and Korea
  - Curian in the US distributing M&G's Episode (Global Macro Hedge Fund)

## UK Operations Highlights

- New business margins maintained against HY 2005
  - Improving retail margins, lower bulk margins
  - Continue to target 14% IRR; achieved 13% HY 2006
- New business £4.2 billion down 12% on a PVNBP basis
  - Focused on returns
  - Retail sales stable
- Organisational change implemented to provide greater focus
- Egg: difficult conditions in personal loans, card business performing well
- Increasing level of cost savings to £150 million per annum by 2009
  - £100m shareholder cost savings



# Business Update

Nick Prettejohn, Chief Executive, Prudential UK & Europe

# UK Operations

## The last six months

### Situation Analysis

- Strong assets
  - Brand
  - Financial strength
  - Diversified distribution
  - Investment capability
  - Mortality expertise
- But areas that need addressing
  - Structure lacking in focus
  - Cost base still high
  - Historically low levels of innovation

### Immediate Priorities

- Create an organisational structure that works
- Major reappraisal of the cost base
- Critical review of product and distribution economics
- Leverage skills and products from other Group businesses
- Continue to target IRR of 14%

# UK Operations

## Restructuring and focusing the business

### UK Operations

Income in Retirement	Wealth and Health	Banking	Mature Life and Pensions
Indirect Distribution		Direct Distribution	
Andy Briggs	Gary Shaughnessy	Mark Nancarrow	Gary Shaughnessy

### Support Functions

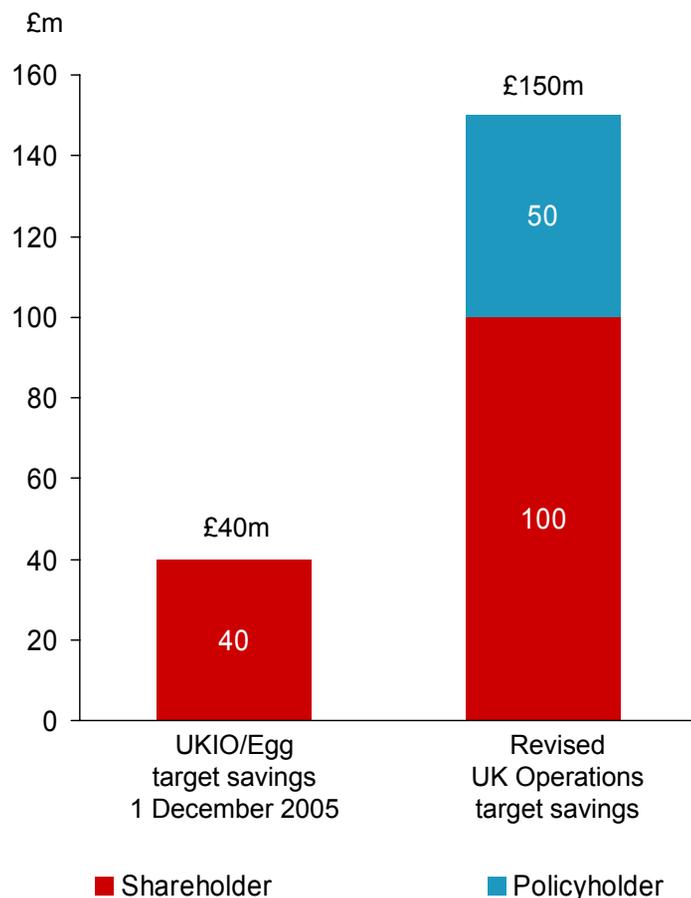
- Finance: Kieran Coleman
- Operations: Rosie Harris
- Actuarial: David Belsham
- Risk: Ian Wright
- Investment: John Betteridge
- HR: Jennifer Board

- Clear profit and balance sheet accountability
- Deliver on UKIO Egg integration
- Remove duplication
- Separate 'new' and 'legacy' business
- Engender innovation
- Begin to change the culture

# UK Operations

## 18% reduction in the cost base by 2009

### Annual Cost Savings



- Integration process developed into an end-to-end review identifying an additional £60 million per annum of shareholder savings
  - Site rationalisation
  - Functional restructuring
  - Focus on discretionary spend
- Significant savings beyond original UK/Egg target of £40m
- Bottom line IFRS and cash benefit
- Life savings EEV neutral
- One-off implementation cost of £110m
  - £50m already announced
  - Additional £60m across 2006-2008
- Potential for further cost savings

# Income in Retirement

Capitalise on leadership position in a growth market

## Situation analysis

- 75% of new business profit
- Retail
  - Individual annuities, more than half of the new business profit
  - Diversified distribution: over 20% of individual annuity new business from partnership vesting deals
  - Entered Equity Release market
- Wholesale
  - Leading market position
  - Returns under pressure
- Need for greater innovation
- Scope for further process improvement

## Priorities

- Continue to develop the retail market
  - Retention of internal vestings
  - Develop distribution of Equity Release
- Innovate the wholesale offering
  - e.g. Structured buyout
- Continue to build partnerships in the retail and wholesale markets
- Develop more creative investment strategies alongside M&G
- Improve efficiency of quotation and new business processes in bulk annuities

## Wealth & Health

Selective participation based on strict return criteria

### Situation analysis

- 45% of sales, 15% of new business profit
- Material variation in returns across intermediaries
- Opportunities in profitable segments
- Cost base uncompetitive

### Priorities

- Segment intermediaries and improve account management capabilities
  - Learning from Jackson
- Develop differentiated propositions in select segments
  - PruHealth target 100,000 lives by end 2006
  - New protection product
- Commercialise asset allocation capabilities
- Increase the focus on D2C opportunities
- Reduce cost

# Banking

Significant value as part of a broader customer and distribution strategy

## Situation analysis

- Strong card business with good returns
- Excellent customer platform
  - Although under-leveraged
- Economics of the loan market increasingly difficult
  - PPI under pressure
  - Weaker credit environment
- Cost base too high
- Limited diversification

## Priorities

- Continue to develop card business
  - HY 2006 Egg balances 3% higher vs total market balances 2% lower
  - Focus on credit quality
- Reduce loans exposure
  - Hurts the short term P&L
  - Increases longer term value
- Reduce cost
- Customer retention and development
- Access opportunities for revenue synergies across the UK businesses

# Mature Life & Pensions

Differentiated approach to improve returns

## Situation analysis

- Represents around 60% of the life and pensions cost base
- Cost base too high
- Limited revenue generation from customer base

## Priorities

- Manage as a separate business
  - Fit for purpose Customer Service
  - Appropriate levels of internal support
- Reduce cost
- Focus on persistency and rollover

## Summary

### A business focused on returns

- Operations restructured into four businesses with clear leadership and accountability
- Cost base reduction and greater levels of innovation required in all areas
- Profitable opportunities in each business area
  - Income in Retirement
    - Capitalise on the continuing value in individual annuities and opportunities in the bulk and equity release markets
  - Wealth & Health
    - Identify pockets of value, participate selectively based on returns
  - Banking
    - Focus on cards with selective participation in profitable loans, leverage and develop customer relationships
  - Mature Life & Pensions
    - Maximise value of back book and reduce costs
- Opportunities to leverage skills and products from across the Group



# PRUDENTIAL

A growth business with strong momentum

Capital and cash to fund organic growth

Significant scope for value creation