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Prudential plc

2006 Full Year Results

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Speakers:

- Mark Tucker – Group Chief Executive
- Philip Broadley – Group Finance Director
- Nick Prettejohn – Chief Executive, Prudential UK & Europe
- Barry Stowe – Chief Executive, Prudential Corporation Asia
- Clark Manning – President and Chief Executive Officer, Jackson National Life
- Gary Shaughnessy – Chief Executive, UK Retail M&G

Introduction

Mark Tucker: Not quite standing room only but good morning and welcome to our 2006 Prelims Meeting. As the strong results today attest, we have continued to build momentum in the business. Pretty much every area of the group is performing well. Profit is ahead strongly in both the insurance businesses and in asset management where we have seen record performances once again. Operationally as well as achieving strong growth, we've maintained a very clear focus on value right across the group. Aggregate margins have moved ahead and the terms on new business have also improved. The results at Egg were obviously disappointing as conditions rapidly deteriorated in the personal lending market. As you know, we announced the sale of Egg to Citi in January. In terms of cash and capital, the situation as Philip will tell you shortly, continues to improve; and we now estimate that at the group level, operating cash flow will be cash positive in 2008; that is of course excluding any inorganic activity.

I would just say that it's good news regarding cash and capital. It does not imply for one second it will be restricting growth. The only restriction on growth that we have today is ensuring we get the right returns and we see plenty of opportunities to do just that. In line with our expectations on cash flow, we've put in place a new dividend policy. We would look to grow the dividend as we move forward and move towards a dividend being covered around two times on an IFRS basis. So we see significant opportunities for profitable growth, but also as a demonstration of our confidence in the future of the group, we have increased the dividend by 5% for 2006.

Just taking a quick look at the agenda: In a moment I will hand over to Philip, who will take you through the detailed numbers behind this strong growth story. Nick will then follow on with some further detail and talk about the important work that we've been doing in the UK and the decisions that we've reached. I'll then give some greater depth as to what we have been doing operationally in the US, Asia and across our asset management businesses to drive our performance. I'll also talk a little bit about our priorities for 2007. Just to set expectations, we'll be talking for about an hour or so, and then of course we'll be very happy to take

your questions. On that basis and after that introduction, let me hand over to Philip.

2006 Financial Results

Philip Broadley: Well good morning everyone. Let me start with the headlines that underpin the group's strong performance with new business sales up 16% to a new record and new business profits up 20% on the back of this exceeding £1 billion for the first time. Our margins and IRR on new business capital reflect this growth. I'd also like to draw your attention to the growth in total EEV profit up 15% to £2 billion for the first time with variances and assumption changes overall a net positive. IFRS profit is down by 7% to £893 million, but IFRS profit growth for the insurance and fund management businesses alone was 19%. Our cash outflow was £104 million, and our regulatory capital position under the Financial Conglomerates Directive is estimated to be a surplus of over £1 billion at the yearend. We've announced today a new dividend policy and the full-year dividend of 17.14 pence per share, an increase of 5% over the full-year 2005 dividend and the full-year dividend is covered 1.5 times by post-tax IFRS operating profit from continuing operations. The Board will focus on delivering a growing dividend, which will continue to be determined after taking account of the group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term, a dividend cover of around two times is appropriate.

So with that, let me take you through each of the headlines in a little bit more detail starting with sales and new business growth. You see here a story of strong new business growth and steady margins over the last three years. As I've said, our new business profit was up 20% in 2006 driven mainly by increased profits in both the US and Asia but with our UK business also delivering its highest ever-new business profit. At a group level, margin as a percentage of APE increased slightly to 42%, although there were more changes at the business unit level. There were increases in margin for both the US and the UK, whereas Asia has declined by two percentage points, and I'll discuss each of the businesses in more detail in a moment. You can also see on this slide the margins based on the percentage of present value of new business premiums at the table in the bottom right at where the margin trends are similar to those under APE. Changes in economic assumptions in 2006 have had only a minimal overall effect on the group margin, so the stronger margins do reflect underlying performance.

So let's look at each of the businesses in term starting with the UK. In the UK, we improved margin and the return on new capital invested. I'm pleased to say that we continued to resist the competitive pressures on margins across a range of products, especially in the wholesale business. The UK's margin increased three percentage points and that's been driven by higher underlying retail sales margin. The weighted average post-tax internal rate of return on the capital allocated to new business was 15%, and the increase over 2005 reflects the higher proportion of individual annuities written with their improved profitability. Nick will talk more about our future plans for the UK later.

Looking next at Jackson where the margin increased slightly from 41% in 2005 to 42% this year, a number of factors at work here; but chiefly, there was a favourable product mix of new business overall with the growth of variable

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annuity sales increasing as a proportion of products sold. Secondly, there was a slightly reduced variable annuity margin that reflected stronger operating assumptions implemented during the year offset by an enhanced number of rider attachments on new contracts sold. Finally, I'll draw attention to a fall in margin on fixed annuities caused by an increase in expense and cash withdrawal assumptions. Two further points though, we've been able to grow market share profitably in variable annuities while maintaining our pricing discipline; and Jackson's also continued its focus on expense management. The expenses to asset ratio fell two basis points from 48 to 46. The average IRR on new business written by Jackson was 18% up from 15% in 2005 reflecting the profitable growth in variable annuities seen during the year.

Finally then, Asia and let me just start by reminding you that we manage each country in Asia for profitable growth but we do not target or manage to a margin for the region overall. We continue to target growth in new business profits. The regional margin has fallen two percentage points mainly reflecting the changing geographic mix of sales. The overall proportion of unit link sales this year was 64% compared to 63% last time. All markets have increased their new business profit in 2006 with the exception of Taiwan and Vietnam where sales have fallen.

I want to focus now on margin in some of the major markets to illustrate some of the underlying trends. As you know, our fast-growing markets of India and Korea have a relatively lower margin compared to other countries in the region. The fall in margin in India was primarily due to product mix and expense assumption changes. As we build out our operations in China, there's been some reduction in margin driven by product mix and persistency assumption changes. On the other hand, there's been an encouraging growth in the margin in the mature market of Hong Kong, which has increased from 60% to 69% reflecting improved experience. In Taiwan, a change in product mix towards higher margin par business had a positive effect on margin but this is not as capital efficient as linked business. In Asia, we target IRRs on new business at a country level at least ten percentage points over the country risk discount rate. Those risk discount rates vary from 5% to 18% depending upon the risks in each country market. In aggregate, IRR on new business once again exceeded 20% on average risk discount rates for the year of 9.8%. We've exceeded our target in each of Asia's markets in 2006 except for Japan and Thailand.

Turning now to the in-force result and total in-force profit has grown strongly in 2006. Part of the explanation lies in the increase in the unwind of 30% to £1 billion. It's worth remembering that there have been quite significant increases in risk discount rates over the last 12 months. For example, in the UK, the rates have risen 50-basis points and 4.1% to 4.6%. The other element of the growth is the effective variances and assumption changes where overall the net effects are positive. If I could just then pick out a few of the significant numbers: worth mentioning that, within the UK, we continue to manage the conservation of the in-force book actively and our current experience is running within assumptions. We saw a negative £9 million experience variance mainly on pensions rebate business. The other items in the UK totalling £101 million, that's made up of a number of items including £32 million of costs associated with complying with regulatory requirements including all the compliance costs of Sarbanes-Oxley, product and distribution development. There's also £26 million of tax-related items and various other items, which are described in more detail in the release. The Jackson in-force result benefits from continued out-performance against our

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target spread and the positive experience variances - the £46 million that you see on the slide - primarily relates to positive mortality experience on the life business. In Asia, there was an 89% increase in in-force profits that includes the increase in unwind across all countries and positive operating assumption changes of £45 million. There are both mortality and persistency assumption changes, which are the net result of a number of small movements in countries across the region. The expense assumption changes are primarily the result of increasing the Prudential Asset Management profit assumed across the region.

Looking now then at how that all fits together into EEV shareholders' funds. These have grown 15% over the last year and now stand at 11.9 billion as you see on the extreme right of the chart in Column O. The new business profits which are Column B is a percentage of opening embedded value with 10% and that reflects the continued high growth of our new business profits. Embedded value has also benefited from nearly 1.2 billion of profits from the in-force results; that's the bar in Column C. In the middle of the chart in Column H, you see a combination of positive mark-to-mark hit movements on our debt of £85 million with positive short-term fluctuations in investment returns of £745 million. The short-term fluctuations primarily reflect investment returns in the UK of 12.4%, which are higher than the long run assumption of 7½%, but there was also strong equity market performance across the Asia region, notably in Hong Kong, Singapore, Vietnam and Taiwan. Two columns to the right in Column J, you can see there's a significant positive movement in the accounting value of our pension funds of £207 million. Increased asset values and the higher interest rate applied to discounting liabilities means that at December 31, our pension funds were overall showing a small deficit of £8 million. One column to the right, in Column K, you can see the overall economic assumption changes of £1 million negative. There's a positive benefit in the UK due to the effect of rising interest rates on the embedded value of the life fund offset by a negative position in the US and Asia. In the US, it's a consequence of the risk discount rate rising during the year. Asia's negative movement is primarily due to Taiwan where interest rates fell back in the second half, and we therefore moved our long-term trending assumption one year later and now assume long-term bond rates of 5½% by the end of 2013.

Moving onto IFRS operating profits next, total IFRS operating profit for the group as a whole was down 7% on 2005 which is largely due to the already reported operating loss of Egg; but if we exclude Egg, we've seen significant growth across all insurance and fund management businesses with statutory operating profits before restructuring costs rising by 19%. In the UK, IFRS profit grew 25% to £500 million. Increased profits attributable to the with-profits fund contributed to this reflecting improved terminal bonus rates and the £46 million released from reserves following the FSA rule change on unit linked and protection business. The 14% growth in operating profit for Jackson primarily reflects higher spread and fee income. Within the spread income, there are several non-recurring items, which together equal £33 million. They're described in the release and they compare to £44 million in last year's result.

Looking then at Asia and if you exclude in 2005 the exceptional positive items of £30 million, Asia saw a 15% growth in operating profits to £174 million. This is caused by the steady increase in profits in the long established life markets of Singapore, Hong Kong and Malaysia and that together now have operating profits of £139 million. But other operations like Indonesia and Vietnam are also

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now starting to make meaningful contributions to statutory profit. Asia's asset management business reported a profit of £50 million in 2006. That's an increase of 85% on 2005 excluding negative exceptional items in the 2005 result. So in total, Asia now accounts for 25% of Group IFRS profit. M&G continued its strong performance for the 25% increase in profits for £204 million. The cost/income ratio improved falling from 66% to 64%. Effective cost control in a period of rising markets, strong net new business and the successful development of revenue streams from other activities have all contributed to the success. Total profit from all asset management activities across the group was £264 million, an increase of 40% from the profit reported in 2005. Operating losses for Egg in 2006 were £145 million, in line with what was previously disclosed at the time we announced its sale. Bad debt provisions rose to £382 million, and we also saw a fall in non-interest income of 36% to £138 million reflecting a lower level of PPI sales.

So finally, let's turn to cash flow, where we've ended the year with cash outflow of £104 million. Our cash inflows including the life fund transfer, and increased cash remittance from Jackson and M&G, were in line with the expectations I set out a year ago. To add to that as we reported at the time of the interim results, Asia became cash flow positive and its remittances of £175 million, less its capital requirement of £147 million gave rise to a net inflow of £28 million for the year. As I showed you at the time of the interim presentation, Asia can remain cash positive at levels of growth in new business even above those seen in 2006. The amount invested in the UK business has fallen to £172 million from £249 million in 2005 due mainly to the FSA reserve change that I've already mentioned. Without this reserving change, the UK business would have required capital at levels of about £230 million. So this gives the holding company its total outflow of £104 million compared to £298 million a year ago.

Looking ahead then to 2007, at an operational level, the cash outflow is expected to be greater than in 2006, bearing in mind the benefit we had this year from the UK regulatory change that I've described. But the overall cash flow will be positive, after including the sale proceeds from Egg. We do expect cash remittances to the group from Jackson and then M&G to increase further. The life fund transfer to be paid in 2007 will be £261 million, an increase of 44 million on last year. That's the result of the bonus declarations already announced in February. We would expect the life fund transfer to continue at this level over the next two years so long as the life fund delivers its long run assumed return. Of course the growing level of in-force business in each of our Asian markets increasingly provides the capital to fund organic growth at individual country levels and that's important for the progression over time. The Asia region as a whole will continue to be cash positive in 2007, and we expect a rising level of net remittances. The key uses of cash at a holding company level offer continued investment in the UK shareholder back business together with the servicing of debt and the payment of dividends. We'll continue to invest in the UK shareholder back business in areas that Nick will talk about in a moment, and we expect the investment in 2007 to be up to £160 million, depending on the precise mix of business written.

Looking further forward, we anticipate remittances to continue to grow, to see a normal level of take-up of our scrip dividend program and to remit less capital in the UK over time. So taking all of that into account, we expect the holding company to have positive operational cash flow in 2008. Our cash flow this year

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has a positive benefit on the regulatory capital position under the Financial Conglomerates Directive. We're now in the process of finalizing our regulatory returns, but as I said earlier, we estimate our position at the end of last year have been a surplus of over £1 billion. Our FCD position is expected to benefit further during the year by about £300 million from the sale of Egg as previously announced. So our improving cash flow and the outlook for statutory profits supports an increase in the final dividend announced today and our new dividend policy. So with that, I look forward to answering your questions later and hand back to Mark.

Mark Tucker: Thanks Philip. So moving on in the agenda, let's first look at the UK, and then the rest of the group. As you can see from this slide, Nick and his team have delivered strong results in 2006 within a clear context of focusing on value over volume. Our UK business reported overall margins and returns on new business towards the top end of what you will see in the UK market. That performance was driven principally by improving margins and returns in the retail business and in particular, individual annuities. Back at the 2006 interims, we set out the strengths of the business but also a number of weaknesses. Against this background, we have continued to examine where and how we want to participate in the UK market. We have looked at a number of options around both new business and the back book. We've been through a detailed and rigorous process over the last six to nine months. We also reviewed a number of potential options involving third parties but concluded that we would deliver more value for our shareholders by retaining and refocusing the business than by pursuing any of these options. Nick will run through the reasoning behind our thinking shortly. Just before he does that, it is worth mentioning and you would have seen in this morning's announcement that we are continuing our work on a possible reattribution of the inherited estate. Peter Bloxham has been nominated as a Policyholder Advocate and this has been approved by the FSA. It's important to say at this point that we will only proceed with a reattribution if there are clear benefits to both policyholders and shareholders and that if a decision is taken to proceed, a formal appointment to the policyholder advocate could be expected to be taken later this year. With that, let me hand over to Nick to talk about the UK.

UK Insurance Operations

Nick Prettejohn: Thank you very much indeed Mark. Let me begin by taking you back to what we said at the half-year last year. Firstly, the business would focus fairly and squarely on value and not on volume. You can see from the results that we've delivered in 2006 that that hasn't been the case. Secondly, we said that the business had some very clear strengths: our longevity, expertise, our strong pipeline of internal vestings, our investment track record particularly our multi-asset investment track record as shown by the performance of the with-profits fund and our brand which is particularly strong in the immediately pre-retirement and in-retirement consumer groups. But we also said that there were a couple of weaknesses. Firstly that costs in the business are too high and secondly that a significant amount of our premium did not add value. Those characteristics I would add are ones that are shared by much of the UK Life industry. Now where are our strengths most effectively applied? Certainly in the market for retirement income, which in our case splits between our retail business, which performed very strongly during the course of last year - that's in annuities and equity release, strong margin, particularly strong margin performance, and strong

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volume performance - and our wholesale business. I think it's important to bear in mind with our wholesale business that the level of business we write from year to year is a function of a small number of large contracts, so it's inherently if you like a lumpy business.

The second point I'll just make on this slide is that within the definition on this slide you will notice is included Credit Life. During the course of last year, our major contract in Credit Life, Lloyds TSB decided to take their business back in-house to Scottish Widows, and that's around £60 million of APE going forward.

Let me talk about the wholesale market. We have a unique set of capabilities to bring to bear in the wholesale market. The data that we have is a function of the market share we have in annuities, the operational scale we have and the experience that we have of negotiating and administering what are often extremely complex contracts, our fixed income investment capability and our with profits capability. When we think about the wholesale market, actually the wholesale market is really three distinct markets. In the middle of this chart, the small sliver is the traditional buyouts and windup market which has seen a lot of influx of new competition; pricing is extremely competitive in that marketplace. We raised only a handful of small deals during the course of last year, and we will maintain our pricing discipline in that market. To the right-hand side, you can see what is if you like the sector that everybody's talking about, for risk management for defined benefit schemes. Now that is a market that has yet to take off where finance traders are looking to manage the extent and the volatility of their pension fund deficits. Well, that is a market that's in its infancy. We believe the capabilities we've got there will allow us to be extremely competitive and advantaged in that market place. Then over on the left-hand side is the insurer-to-insurer market. We wrote a number of insurer-to-insurer deals during the course of last year, the UAG deal, the Safe deal and most latterly, the Save and Prosper deal. Obviously, we were able to announce this morning our deal with Equitable Life to take on £1.8 billion worth of with-profit annuitants, a deal which plays absolutely to the strengths in the wholesale market and our with-profit strengths as well.

So in the wholesale market, we will continue to use our strengths where we can achieve attractive returns. Yes, we will be opportunistic but we believe our capabilities give us a significant long-term competitive advantage in that market. Let me talk now about our retail business and our, first of all, the cornerstone of that, our retail retirement income business. Looking at our business flow of individual annuities, you can see on this chart the powerful benefit that we get from the flow of internal vestings from our pensions book. That I'll come back to a little bit more in a moment, but it's also important to notice this flow of business that we get from our partnership deals from the likes of Zurich, Pearl, Openwork, most recently the deals we've negotiated with Threadneedle and Save & Prosper to name but a few; and we will seek to continue to develop those partnership deals as we go forward. We have not been aggressive in the external market place and I'll come back and show you a little bit more evidence of that again in a second. But in individual annuities as well as with the Equitable deal with-profits is an important part of our capability. As people live longer, they will seek to get more upside over that increased life, and with-profits allow people the opportunity to do that, so there's a real consumer need that we're addressing by expanding our with-profit annuities book.

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This chart on the left-hand side shows the maturities from our pensions book. If I ever feel like I need cheering up in the morning, which of course I never do, this is the chart that I look at. We've split it here into two: the maturities of our Ex-Direct Salesforce business and other maturities which come from our Scottish Amicable book and from our corporate pensions book. So here is, if you like, our 25-year increasing order book, which underpins the whole of our retail business. I said we weren't being aggressive in the external marketplace. Here we've shown the rate that we have versus our major competitors for a typical case. It's a male age 65, £50,000 premium. I guess without deciphering the colours here, the red line is us in the middle of the pack roughly in terms of pricing.

So we have at the cornerstone of our retail business, our retail annuity business; but it's important to remember that annuities are only one source of retirement income. Actually, if you look at the assets that are held by people in that pre-retirement age group, 55 to 64, they hold a huge proportion of their assets in property, and that's why we believe equity release represents an opportunity for us. We started our equity release business at the beginning of last year. It's grown throughout the course of the year. We now have 8% of the total marketplace and our customer base is a real asset in this business. Our typical customers are people who have saved, but they're relatively income poor but they have significant assets in their houses. So we will be particularly addressing that customer base with our equity release product through a small direct sales force as well as targeting our specialist intermediaries.

Let's come back to the 55 to 64-year-olds. Not only do they have significant assets in property but they also have around 420 billion of assets in cash and liquid assets and with increased life expectancy, then inflation proofing becomes a real issue for this category of customer. Now historically, the way the life business in the UK and the industry in the UK has approached trying to get a share of these assets and indeed of the pensions market, has resulted often in unfavourable economics because of high initial commission charges and vulnerability to churn. Premium often does not translate into profit. It's very easy in the UK life market to mistake the perfume of premium for the substance of real value. But we believe having said all of that, that there is, there are actually some significant pockets of value to be had in this marketplace; in high case sizes and operating, focusing our attention on advisors who advise their clients rather than churn business. If you look at our breakdown of premium, about 45% of the total UK premium comes from retail, savings and protection. About half of that comes from corporate pensions. But I guess the salient point is that only 12% of our new business EV comes from that 45% premium. So what's our approach to answer that? It's three-pronged: First is that we will exit areas where the economics are unfavourable. So we'll exit front-end loaded unit link bonds, front-end loaded pensions and also commoditised protection. We're going to restructure our participation in the protection market, and we're going to narrow our focus within corporate pensions and in retirement savings. These are the economics of the typical unit link bonds and pension business. You'll be familiar with them: high initial strain because of commission, long payback periods. We have already exited the front-end loaded individual pensions market. We will be transitioning out of the front-end loaded unit linked bond market in the second half of this year, and we've also come out of the commoditised protection market where we lack the scale to make an adequate return.

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As far as protection is concerned, we're going to put our protection product into our already successful joint venture with Discovery. We've been working with Discovery in PruHealth for the last couple of years. PruHealth has been going very well. We met our target of 100,000 lives during the course of the year, and our target by the end of this year is to double that to 200,000 lives. The 100,000 lives to give you a sense of the scale of that is around £35 million of gross written premium.

We've launched our new product that we've developed with Discovery. It's an innovative product. It covers multiple conditions, and it offers severity based cover so it's very distinct from what is on offer in the rest of the market. We've been successful in getting that product onto the panel with AWD and Sesame earlier this year. But our strategy going forward is to allow the joint venture management to have specialist concentration on protection and healthcare. We believe based on the experience of Discovery in South Africa that the combination of those two products is a powerful one because they're linked by the vitality concept, which basically means that customers get rewarded for leading a healthier lifestyle.

We're going to narrow our focus within corporate pensions. Let me come back to that chart that cheers me up in the morning. We've split out here the flow of internal vestings that comes from our corporate pensions back book. So corporate pensions is a very important ongoing sort of feeder, if you like, to our individual annuity business. If you look at the economics of the corporate pensions business, yes it is low margin. It is relatively low in terms of its [inaudible – catapult?] consumption from a shareholder point of view, and we believe that we can take out cost and then hold cost as our volume grows to allow us to get to a 14% IRR by 2009. We'll do that as I said by managing costs, by focusing on a narrower range of schemes where the economics is structurally more favourable. We'll also concentrate on developing our with-profits business. There's a good flow of with-profits business that comes from our corporate pensions book.

We're also going to narrow our focus in retirement savings. Come back again for the 55 to 64-year-olds and their £420 billion in cash and liquid assets. It's also worth bearing in mind that there's £190 billion in average or under performing with-profit funds across all age groups. There is a real growing consumer demand for inflation protection, lower volatility investment and you can see that already in the growth of the cautious managed sector. I won't dwell on this, but against that real customer need, we believe we have a real investment capability as shown by our with-profits fund track record, which is exceptionally good, not only versus other with-profit funds but other equivalent sorts of investment. So there's a real need and we believe we have a real capability, but we need the products to be able to address that marketplace. Currently and historically, we and the industry have been very complicated in our approach to this marketplace, lots of bells and whistles and relatively uncomplicated in the sense that we've tended to differentiate based on price. There've been too many bespoke products. A good example of that from our point of view would be the fact that across our corporate and individual pension products, there are about 200 funds even though they're addressing this same underlying customer need. They've been characterized historically by high capital strain and low IRR because of the front-end loaded commissions in particular.

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What we're going to move to is much simpler: Differentiation by investment performance and by guarantees only, taking one core, essentially the asset allocation capability that we have within the with-profits funds and putting multiple tax wrappers around that. We're going to move, as I described we would do in the unit link bond market, out of front-end related commission to factory gate pricing designed for fee based intermediaries; also, commission structures which allow the customer and the advisor to negotiate a mutually acceptable level of commission. That should result in a lower capital strain and higher rate of return.

Now underpinning both our retail retirement income business but also our retirement savings business is a revamped approach to our intermediary distribution. We have imported the techniques, the sales management techniques and the sales technology from Jackson. It's been hugely successful there, and we believe it will have a major impact on our business. We've been able, as a result, to take out 70% of our costs in intermediated distribution. At the same time, while doing that, focus more attention on the top 10% of our intermediaries. We will also be assisting our chosen intermediaries with technology; in particular, we will be licensing a wrap platform which should be up and running by the end of this year.

So our retail retirement business is a business that addresses a real and growing customer need, both in times of retirement income and retirement savings. It plays absolutely to our brand strength in the pre-retirement and in-retirement space. It's founded absolutely on our annuities business and on our customer base, but it also recognizes that only 80% of retirement assets, 80% of assets are not annualised. It feeds our individual annuities pipeline through our corporate pensions business. We believe that is a long-term attractive growth business with very attractive economics.

Let me come on now to talk about our back book. In thinking about the back book, we have four key principles in mind. The first is that we get, as you have seen, a lot of new business from our back book. Secondly, that we can manage costs down to generate value. Thirdly, that active management of persistency can pay results; and then, finally, Mark has already talked about our nomination of a policyholder advocate. We are investigating reattribution of the estate, so any back book strategy that we have … [phone rings] It's a volunteer too late for a policyholder advocate ringing up, sorry! Any policy that we have with respect to the back book has to make sure that we can deliver a potential reattribution successfully and that's true in terms of delivering value. It's also very important and running through this is our ability to service our customers through a reattribution process and without a reattribution process.

The back book represents about two-thirds of our total cost base. So it's an important chunk of cost in itself but it also drives the total costs in the business. We face an inherent challenge and we're not alone in that. Everybody else in the business faces the same challenge - that as that back book runs off over the course of the next several years, it creates an inherent pressure on our unit costs. So we have to take cost out simply in order to leave our unit costs at the same level. We've been doing a significant amount of work with an internal team, and also with seven potential outsourcers to look at how much cost we can take out of the business. We believe significant costs can be taken out from two areas. One is by rationalizing our number of systems from 22 to around 5. The other is from overhead reduction. The internal option that we've got would be

based around more use of offshoring facility in Mumbai, which has around 1,300 people working there today.

What we want to do now is to work with a smaller number of outsource providers, around three, in order to figure out the best way to deliver the cost savings target that we have identified. We aim to have completed that work by the fourth quarter of this year. Just to give you a sense of the scale of that, you can see we're talking about eight million policies nearly there, and the work of around 3,000 people. So it is a major exercise. If we were to go down the full outsourcing route, I believe it would be one of the largest if not the largest outsourcing deals in any sector, let alone the life sector or financial services. Back last year, we announced £150 million cost-savings target. Clearly that included cost savings within Egg, so if you take Egg out of that target, you're left with a revised target of £115 million. We've been making very good progress against that £115 million target. We've delivered the actions to deliver 65% of those cost reductions already. With the work that we've been doing, we are confident that we can add an additional £80 million worth of cost savings to that target, making a total cost saving target of £195 million. Now a lot of those incremental savings are policyholder savings, but there is we expect a small positive contribution to embedded value. We currently estimate that to be round about £60 million, but there will also be a significant consequential benefit to our future new business profits.

So those are the priorities that I've been through across the business. What's the financial profile that results from that? Well, let's talk about cash and capital first. We would expect the capital requirements of the shareholder back business to reduce steadily over the course of the next years, so that we would be cash positive in 2010 on our current plans. That's because the shareholder in-force books starts to mature - for instance, the annuities business that we've written over the past three years - and because of the changes to our new business profile, what I've just been talking about, reducing the capital strain on our retail savings products. There are some key dependencies around that cash flow target. They revolve around the rate of growth of our individual annuities business; individual annuities are high margin/high return, but they do consume cash. Clearly if we write major bulk or back book deals, again those will only be written if they're high margin and high return. But again, they do consume cash. If we wrote another large credit life contract again, high margin, high return but that also consumes cash.

In terms of our IRR, we are maintaining our 14% IRR target. We believe that is a sensible target for the UK business. If you look at our competitors, you look at the rest of the UK life market, that is a high return versus most of the rest marketplace. We see some potential to uplift versus that 14% in the future because of the cost reduction and because of the change in product mix, but we've been maintaining our 14% target.

Our 14 retail business, we would expect in the medium term to grow by 5% to 10% per year. There may be some slowing of growth in the short run, as we transition out of some of the traditional front end loaded products that I've described and we refocus our corporate pensions business. But over five years growth in line with the market; and our wholesale business will be lumpy – a function of large contracts - and will be returns driven.

Transcription

So you have a business that is focused on our strength, our very considerable strengths. We'll joint venture in protection and health. We'll concentrate on delivering embedded value in our back book through cost reduction and potential reattribution of the estate. We will be opportunistic and very disciplined in the wholesale market and we have a really attractive business in our retail retirement business, founded on our annuities business and with a narrow focus within retirement savings, which plays to our brand strengths in the pre-retirement and in-retirement customer groups. That is a business that should overall be generating a very attractive set of returns in the future just as it has done during 2006.

With that, I'll hand back to Mark.

US, Asia and Asset Management

Mark Tucker: Thanks Nick. On the back of the really very good results that you've seen in 2006 for UKIO, you see great opportunities going forward in the UK. As Nick has clearly demonstrated, the retirement market in the UK is a growth market. We have significant strengths in retirement income and by reshaping our approach to retirement saving; we will grow the business and continue to deliver high returns, particularly compared to the rest of the UK market. Additionally and through prudent management of the back book, we will also deliver the embedded value. As I said earlier, it is clear to us in the work we have undertaken that this approach along with the potential reattribution of the estate is the best way to maximize the value of the UK business for our shareholders. Just to reassure you and before I cover the US, Asia and Asset Management, you will get an opportunity to ask me questions directly. We're not going to avoid that.

Moving on from the UK, let me talk about the other parts of our business. 2006 was another year in which we maintained our long period of sustained new business growth in our US and Asian life businesses as well as in asset management. This growth has been achieved with margins being maintained at high levels and IRRs also improving. It's been another very strong year for the Jackson team, outperforming the market considerably in terms of sales and with margins moving ahead at the aggregate level. Earnings continue to diversify, and more of that in a couple of seconds. Jackson also continues to maintain their expense advantage and deliver world-class service levels. That's a rare and almost unique combination. Last, but certainly not least, capital generation at Jackson has remained strong.

Our focus in the US, as you know, is on the retirement market and in particular on variable annuities. In dollar terms, Jackson retail new business sales went through the $10 billion mark this year and up to $11 billion when we include institutional business. That's really a fantastic achievement. They've more than doubled new business over a five-year period and if we go back ten years new business has quadrupled. Levels of profitability have also improved. You can see within that the rate of growth of variable annuities obviously stands out and also the increasing and exciting emergence of the Curian platform and we feel confident there is plenty of growth still to come. Not only have the gross flows in VA shown sustained strong, but so have the net flows, the continuing strength of net flows along with some help from improving equity markets have seen a Separate Account grow to over 22 billion US and that is now approaching half the

size of the General Account. That's a great tribute to the team and to Clark and his colleagues and an implementation of a VA focus strategy.

But more importantly, the business is becoming much more balanced in its earnings profile with fee-based earnings off the Separate Accounts, complementing spread-based earnings from the fixed book and underwriting earnings from life. Market share's not a target for us per se, but you can see that in 2006 we have made some significant gains in the channels where we've chosen to compete in the VA market. In the first, in the independent channel, which is a key target channel for us and the fastest growing market in the US, we are the number two producer and we are closing quickly on the leading company. Importantly our market share growth is based on the strength of the overall package that Jackson offers the advisor community, not on special offers. In the second, in the regional broker channel, we've seen significant gains this year. This is a particular tough channel, but we believe we are simply outwholesaling the competition here and benefiting greatly from the flexibility in the product. In the bank channel, we've changed our management team. We brought across people who have been very successful in developing our wholesaling practices in the broker channels and we've moved the internal wholesalers to Denver to get them alongside our other internal wholesaler team; and all of this is beginning to have an impact already. We saw some profitable market share gain in 2006, but we feel there's a lot more to come here.

Clark and his team head into 2007 in great shape. They're implementing their strategy in the retirement market as well as any of their competitors and indeed in my view better. We know that the only way to maintain this outperformance is continue to improve the product offering and customer experience through ongoing innovation and by continuing to develop and grow what is already a first class wholesaling team. Already this year we've had the launch of a simplified variable annuity to target advisors who are currently not participating in the VA market and this would expand Jackson's natural market in terms of distribution reach and gets us into new customer groups and there's a lot more of this type of innovation planned over the entire product spectrum. Of course there's a possibility that economic conditions could change. We are well aware of that and are not standing still in fixed index or fixed annuities with product upgrades planned for both in 2007. NPH and Curian came through strongly in 2006 and we're seeing the beginning of that in 2007 and we see both of those businesses continuing to develop further as we move through this year. Finally, and as we've said before, we are continuing to look for bolt-on opportunities in the US, opportunities that are consistent with our retirement focus, but clearly ones that will give us our targeted returns at a minimum.

Let's just look at the Asia life businesses: You had a pretty detailed brief on the Asian businesses in December, soon after Barry joined the group as our regional CEO, so let me just pick up on a few main points. As you can see, sales and new business profits are moving ahead strongly and we continue to build the distribution footprint. We now have 285,000 agents across the region and a unique scale and spread of non-agency distribution. Expense efficiency is also improving as we see the scale of the businesses themselves increase. Last, but certainly not least, and as Philip mentioned earlier, we went cash positive in Asia for the first time in 2006. We expect the region to become increasingly cash generative as we move forward. You know PCA's long-term growth record well and 2006 was no exception as APE sales approached the 1 billion sterling level.

Transcription

Proprietary agency distribution remains key in the region, but, as you can see, contribution from the non-agency channels is also increasingly rapidly, accounting for some 30% of new business in 2006 compared to 26% in 2005. This combination of channels, as I said earlier, gives an invaluable and unique differentiation in the region.

Let's look behind the growth in 2006, first looking at agency. Overall agency business increased by 24% in 2006 and agent numbers increased by 66%. In the developing markets of India, China and Indonesia, we are continuing to build the agency force rapidly, but in a disciplined way. In India the agency force increased by 115,000 people in the year, which is quite a staggering statistic. Only in Indonesia has growth in agency numbers resulted in some fall away in average productivity, but that's not a concern to us as we continue to build scale there. In China we are growing total agency numbers and improving productivity as we continue our countrywide expansion and that's all very encouraging. In the developed markets in the region, our focus has been more on productivity with some particularly good results in Hong Kong and Singapore. In Malaysia while we have put on some agents, productivity has remained fairly flat, but I think we need to give the proper context of that and the context is that our average productivity is already twice that of the average in the market.

Moving on to non-agency distribution: On this chart what we tried to do is highlight the main markets for partnership distribution and the associated growth rates over the last year. In Korea this is mainly through brokers, but also includes sales to a number of bank partners and we've recently signed two major and significant new banking relationships in Korea extending our capacity in that market. You can see the potential in other markets too, such as in India where partnership distribution is beginning to take off and in Singapore. I also want to highlight the diversity. On the bank side, we are absolutely delighted with the success of our relationships with Standard Chartered, with ICICI and with Citi and all are continuing to make significant contributions across the region. Also in January, and as you know and as we've announced previously as part of the Egg transaction, we became a strategic partner to Citi's customers in Indonesia, Thailand and the Philippines and will move forward to take that on in the next number of months. Of course there remains considerable upside in continuing to develop our partnership distribution network and we are working really hard across the region to do just that. Margins and returns remained high in the region and a major factor here, as Philip mentioned earlier, is the success of the unit linked offering. We continue to innovate here and in particular in packaging unit-linked products to meet the retirement needs in a number of marketplaces. This is also the case for protection in areas such as a product we launched in India called Diabetes Care, which we think is the first of its kind anywhere in the world. Finally we saw in 2006 the successful launch of our Takaful products in Malaysia and they've also had a very encouraging start.

As Barry said in December, you can expect to see more of the same in terms of material developments as we move forward in 2007, particularly in the areas of agency or non-agency distribution, as well as continued development of the product range. Specifically you can see there are a number of areas here that we begin to push harder and we will look forward to updating you on these initiatives as we move forward through the year. Asia, I don't have to say, remains an incredible opportunity for the group in terms of strong growth at high margins.

Transcription

Finally moving on to asset management where M&G and our Asian businesses go from strength to strength. If we look back over a five-year period, external funds of management have more than doubled from 24 billion sterling to 57 billion sterling at the end of 2006 and both businesses attracted record net inflows during 2006. Over that same five-year period, operating profit at M&G has nearly tripled and very excitingly profit in Asia has increased at a very rapid pace to reach 50 million sterling.

As we set out in our presentations in May last year, the critical factor and the bedrock for all of this is investment performance, both in terms of attracting new net money and driving growth in external funds under management and therefore profits and also very importantly in supporting the life businesses. As you can see from these statistics and recognition, performance has continued to be strong right across the board.

Looking forward, the main priority across the asset management businesses remains that of sustaining superior investment performance. Michael and the M&G team have built a diversified business and in 2007 the key is to look further, to look at further distribution opportunities and deliver attractive returns across the whole platform. In Asia, as Ajay said in December, the key markets are India, China, Korea, and Japan and along with a key clear focus on these markets we will look to extend distribution in all our markets. We also see opportunities to develop our offshore business further and add new capabilities in a number of areas. In the US in January 2007 Jackson launched its first products into the mutual fund market with five funds and they will be marketed through our existing wholesaler team. This now effectively allows Jackson to broaden its customer base to younger customers who are not necessarily at this point in their lives concerned with guarantees or death benefits. This I believe is an exciting and new development for the group.

In summary, and much as I said at the opening, we are continuing to increase the momentum in the business and this gives us considerable confidence as we go into 2007. We have a business that has great opportunities, almost unique opportunities ahead and unique opportunities particularly for continued profitable growth.

Thank you for your patience this morning; I know it's been a long session, but I think a session where we wanted to ensure that you got the rights aspects of the results and also a clear indication of our strategy in the UK. Having said that, what I would like to do now is if we return to, turn back to you and we're happy with the team here and clearly my colleagues in the front row to answer any questions that you have.

Questions

Andy Hughes: Hi. Andy Hughes, JP Morgan. A couple of quick questions if I can. First of all, one of the things that kind of keeps me warm in the morning about Prudential is the possibility that as part of the inherited estate attribution that the business in PAL, which is currently in the with-profit fund might be moved into the shareholder fund. Could you comment about whether you're reviewing that at the moment as part of the attribution process or whether you see that as a logical

step? You're reiterating the targets for Asia and despite the fact you sell mainly linked products and the equity market is looking quite volatile at the moment, do you see this as having an impact possibly on your sales? Third question: On the UK business, on the retirement business, you pointed out the size of the market and my understanding was Prudential's historically stayed away from deferred annuity business and only targeted limited sections of the market. Are you changing your plans and now targeting to deferred annuities or are you highlighting the whole market and just saying you're only going to play in a limited part of it. Thank you.

Mark Tucker: Simple answer to the PAL question is, yes, it's included and we're reviewing that as part of this exercise. I think in unit-linked in Asia, this gives Barry a chance to talk about the general events in Asia and I think particularly with what's been happening in the last month, I think the net of this is: No, we don't see significant changes in the growth prospects given the uncertainty in the equity markets at this current time.

Barry Stowe: Thanks. Well first of all let me begin by saying what Mark just said, which is essentially we have been watching it very closely and there really hasn't been any impact on sales whatsoever. There's still an enormous amount of confidence in Asia in the equity markets. I think what you have to remember is that what we're selling is not just unit trusts. What we're selling are life insurance policies with the unit-linked aspects, so there's a lot of protection. The vast majority of this business is recurring premium, so a lot of people, sophisticated consumers are looking this as an opportunity to sort of dollar average, double down and so, again, long story short, we've watched it very closely, continue to watch it very closely and there's just been negligible impact, really none whatsoever.

Mark Tucker: On the deferred annuities…

Nick Prettejohn: On the deferred annuities front, yes, historically we have had a very limited appetite for deferred annuities and this is obviously relevant in the bulks market. We have marginally increased our appetite and we're not trenching them in the same way that L&G are in the market for deferred annuities, but I think we will be seeking to up our intake a little.

Farooq Hanif: Farooq from Credit Suisse. I hope you forgive me for asking a couple sceptical questions on the UK presentation. Firstly, on the cost savings, you're basically telling us today that you're going to either narrow focus or withdraw from something like about 20% or 25% of new business sales in the UK. You've got your policyholder base in the mature life and pension business I think halving in the next seven to eight years. It seems to me that to get a saving and not have a cost overrun you have to assume that you will build up the lost retail market share and actually grow it. Can you just comment on that because I find the numbers a bit hard to grasp and maybe I'm just getting it wrong. That's question number one.

Question number two is on this retirement savings product that you've got, it sounds a bit like a wrap with one fund manager but with maybe a guarantee in it. I mean obviously you're in a product design phase and you're thinking about it, but why have you just rejected the idea of having a wrap and using M&G as your asset management provider?

Transcription

Nick Prettejohn: Yes, the front end loaded commission products that we're coming out of and commoditised protection between them represent about 56% of the total market. They represent about 100 million of our APE currently, so we'll be seeking to transition out of that 100 million and replace probably at a much lower level initially with the sorts of products that I described earlier on. We are seeking through the £195 million to take out 30% of the total cost base in the UK business and you can see in terms of the acquisition costs reduction that we have already been able to make through importing the techniques in Jackson, we've already been able to take out what is a quiet substantial amount of cost in our intermediary distribution area.

You must have heard me wrong in terms of the wrap platform. We are getting into the wrap market. We're going to license our own design of wrap platform, which will be up and running by the end of the year. At the core of our new style retirement savings product will be the asset allocation of our with profits fund, which is driven by the portfolio management group which works closely with M&G. So at the core of a number of different products, it's not a product, but will have different tax wrappers around them will be that single asset allocation capability rather than the huge multiplicity of funds that we've developed over the years for specific and bespoke, often highly complicated products and there's clearly a cost in the business associated with developing and then maintaining and administering such complex products.

Jon Hocking: Two questions, firstly to follow-up Farooq's point about retirement savings, if you look at the advisers you're targeting, the fee based advisers at the top of the market and you say yourself that your key attributes as an organisation in the UK are brand and investment performance. I think if you look at what those advisers are looking for, it's absolutely not brand and not investment performance because they're looking at if anything having a white label platform with their own brand on it rather than the provider's brand on it.

Also, it seems that the investment performance they want is actually very much third party and unit linked in style rather than actually old-style with-profit products. Just wondered if you would comment on that, particularly given that your position in the value chain there would seem to be fairly marginal given that you're not having any clip on the distribution margin, you're not having any clip on the investment management margin, apart from M&G's natural share of funds and if you're white labelling the wrap technology then presumably someone else is taking a clip out of already very thin admin margin. That's the first question.

And then secondly, on the retirement income market: Why have you not thought about using the Jackson technology using withdrawal benefits and guarantees, etc given that you have a very strong position in that market. You've got the technology in the group. That does seem to be the key thrust of the business where you actually have a strong share already.

Nick Prettejohn: The first question I think I can recognize as being a sceptical question. We're not seeking just to have with profits products. We will put different wrappers around this single core so they could be collective investments, unit linked bonds, individual pensions and so on. We're not just selling a with profits product. We're not just hunkering down purely to with profits products. You made a whole series of assertions in that question, so I just want to tackle one or two of the key ones.

Transcription

In terms of what advisors are looking for, for instance, we just signed a partnership deal with Openwork for Pru-fund and from their point of view, the brand and investment performance of the Prudential is exactly what they were looking for in signing that deal. So I would dispute that the only thing people are looking for is a white-labelled product. That based on our experience is not the case.

Jon Hocking: You seem to be distinguishing yourself on the basis of the underlying assets rather than the wrapper itself, I'm obviously a little bit confused because you can put a with profits fund presumably within a bond wrapper, within a pension wrapper.

Nick Prettejohn: Yes, we will put multiple wrappers around a core asset allocation so that asset allocation can translate into a number of different products. It might translate in the future into a variable annuity product as you were suggesting. We are actively investigating that. From our point of view there are a number of issues with it, obviously the fiscal and regulatory regimes are different in the US from the UK, so it's not a simple case of just translating our highly successful Jackson product into a UK product. I think there are also some issues with the UK consumer. UK consumers have historically been reluctant to pay the high level of cost for guarantees and so that sort of customer readiness to pay those costs of guarantees is I think an open issue in the UK market. We also need to look to see whether in the UK context and from a capital point of view in particular we can assemble the various pieces that you need in order to be able to deliver these products in a cost effective and capital effective way and getting particularly around the cost of guarantees. So we will be actively looking and are actively looking at variable annuity, but it's not a simple slam-dunk from our point of view at the moment.

Mark Tucker: I know that the platform question is close to your heart, but I think in terms of the materiality going forward, the fundamental, as Nick has said, is built on the retirement income business. We have recognised that we do have need of that platform and we do need to enter that space. But I think fundamentally, looking around that for the materiality and the profitable growth, that's where we see the larger part of our future.

Greig Paterson: Good morning. Greig Paterson, KBW. There are two questions and a request. One is I'm a little bit puzzled, your UK margin was well ahead of consensus and my numbers and the reason is your individual annuity margin jumped dramatically. Now you're saying your writing more profitable business, if you look at your market share from the third to the fourth quarter in the IFA market, the IP market options had jumped dramatically and when you look at a broader suite of pricing parameters, not the 65-year-old male that you showed, you see yourselves as being rather… Well the evidence is that you're rather competitive. Is it not fair to say that it's the change in economic assumptions? If you look at the discount rate versus your corporate spread there was a drop over the year. Is that not what explains the margin increase.

Second one, you said there was 100 million APE affected. Would you give some kind of guidance on what sort of margin we should pencil in or range of margin that we need for '07? That was my request. Sorry, and the third one is I'm a little bit puzzled, two/three years ago you raised a billion pounds. You needed that money in the medium term. The same chief actuary and financial director in

place, yet suddenly you, now you feel you can go for a reattribution and then you felt you couldn't. I mean isn't the issue you need capital to inject if you want to do an attribution and then in effect, you're in the same position. I was wondering what's changed? Why the change of heart? Nothing fundamentally has changed and you decide now to do it?

Nick Prettejohn: First question on individual annuities. I know our IR Team has had ongoing dialogue with you about, our share of the intermediary market, but so far as we are aware we have not gained share in the intermediary market in individual annuities. In fact, we've quite consciously decided to lose share in the interest of maintaining our pricing discipline. If you look across the categories of annuitant, which account for the majority of our individual annuities business, then the same relative pricing position that I talked about in the course of the presentation would very definitely apply. We have maintained a very deliberate pricing policy in the marketplace. As far as the margins are concerned, we've had a better investment performance during the course of the year than we had originally assumed in our pricing basis and that accounts for the particularly high margin that we've had in individual annuities during the course of this year. It has been an exceptionally good year for our individual annuities business. In terms of the request for guidance on the likely margin in 2007, I will I'm afraid politely decline.

Mark Tucker: Philip, if you want to take the capital …

Philip Broadley: On the cash and capital and question about the estate, £560 million will have been invested in the UK shareholder backed business between 2004 and 2006, in line with the comments we set out at the time of the rights issue. In terms of the estate, a decision to nominate a policyholder advocate to discuss a possible reattribution is a function of a number of issues, financial and operational and without giving a long catalogue both have evolved and developed considerably to a point where today we have announced the nomination of a policyholder advocate with whom we can expect to begin discussions. So, as I said, it's a combination of financial and operational issues that have led us to make that announcement today.

Nick Prettejohn: There was an issue about the classification of the numbers in the last quarter, so it is actually not the case that we suddenly gained a lot of market share in the IFA markets in the last quarter. I realised one bit of your question I didn't answer, which is that we would be losing 100 million of APE. The products that we are coming out of, in front end loaded individual pensions that we've already come out of unit-linked bonds and commoditised protection amount between them to £100 million of APE. It would not be a legitimate assumption to say that automatically our total premium therefore will come down on an equivalent basis by 100 million year-on-year, because we're transitioning out of the unit linked bonds and replacing them, yes, with probably over time a lower level of the new style product that we talked about. But just picking up on Mark's point earlier on, in thinking about our retail business, the fundamental driver of our retail volume is our retirement income business rather than our retirement savings business in the, certainly in the short to medium term.

Jonathan Sheehan: Mark, I'll jump in just ahead of Andrew because you may not give me the microphone! Can I just ask, you highlighted some of the options you looked at for the UK, but in the light of the Cadbury statement this morning can you tell us categorically whether you have as Cadbury's did evaluated the options for

separation to maximize shareholder value in respect to the UK. As I looked at your screen showing there when you say you're a growth business with strong momentum, do you not feel there'd be some merit in allowing your shareholders to choose whether they participate in both the restructuring and the growth story or choose which parts to play in?

Mark Tucker: I'm not aware of the Cadbury statement this morning, but I think what we've said is we looked at a number of potential options including those of looking at third parties. We've looked at most options that you would ever consider and the view was and our own conclusions were that the best value we could generate for shareholders would be by keeping the business and maintaining the current structure and in developing the UK. When you see the assets that Nick has highlighted today, and I think it is in a sense new to the market in the detail it has gone into, we've got a very powerful engine in the UK. We haven't always driven that in the most powerful way, but I think going forward with the clarity we have, I think it does become a growth business and a growth business that is profitable and a growth business that has enormous potential. I can't think of many businesses I know with a 20/25-year order book of the size we have.

Andrew Crean: Andrew Crean from Citigroup. Three questions: Firstly, your focus in individual annuities on internal vestings and that from partners goes against the FSA's desire for more open market options. Could you comment on that? Secondly, could you give us a little bit more detail around the cost cutting? What are your policy processing costs versus benchmarks and the outsourcing deals which you're planning on at the end of year, is that going to take the costs significantly further down or just bullet proof you from cost overruns? And finally, Philip, could you say whether you're going to introduce market consistency embedded value - in broad scope how that might impact up your numbers?

Nick Prettejohn: First question on internal vesting and partnership deals: we are obliged in our partnership deals, for instance, to maintain a competitive price point and that's a feature of those deals and equally with internal vestings we have to keep a very close eye on the price at which we're able to charge our existing customer base. So as you would expect, during the course of treating customers fairly, visits from the FSA, this is a regular issue and we believe the processes and the offers that we have in place to our existing customer base are extremely fair and extremely attractive. It's also the case that people aren't just going on price in the annuity market. There are other factors and brand is a factor in the annuity market as well.

As far as processing costs is concerned, I have read many different versions of what our processing cost is and I can't always recognize all of them from the different interpretations of the numbers and it is a difficult exercise because we found it hard to compare, get proper benchmark comparisons of our costs versus the competition. But the way we think about it roughly speaking our cost per policy is around £40 per policy and that compares on the calculations that we have done with all the caveats around being able to use only publicly available data to be roughly analogous, roughly in line with the average for the industry including some of the back book operators, not all. What our cost reduction target will do is take our unit costs we believe down from around 40 to around 30, so a 25% reduction or thereabouts in our unit cost and that has the commensurate effect described there of securing our existing embedded value and giving us the potential for some increase.

In terms of outsourcing, it's important to note, I think it is an extremely important point, we have not decided to go down the full or even the partial outsourcing route yet. We have an internal plan, which makes us confident we can reduce costs. We have worked with seven outsourcers to see whether we can get a benchmark for that and more confidence in that number and from working with them and the work we've done, we think we can reduce cost by the target that I've outlined. We will make a decision over the course of the next six months whether we go down the internal route or a combination of outsourcing and the internal route or more outsourcing rather than less. But we have not taken that decision yet.

Philip Broadley: And on market consistency embedded value, the next stage of our development of risk adjusted profitability will be that we will develop our 2008 operating plan on MCEV. We'll measure ourselves internally against that and report externally on it for 2008 results. As to then the second part of your question as to the effects of that change, I prefer to rather than deal with that today, have a separate session for enthusiasts later in the year when we can discuss what the impact is and the work that we've done on capital and on profitability. It may just be me and you in the room, Andrew, but…

Mark Tucker: I see he's still smiling; you'd clearly enjoy that.

James Pearce: A few things, first of all: On the orphan assets, could you say whether you think it's within your existing balance sheet capacity to finance the policyholder incentive payment that's presumably part of any distribution? You do normally say what your debt capacity is and where it is currently. I've missed it in the pack if it is there. Secondly, can you confirm that the Equitable terms are in line with your usual practice in large annuities? Third, I see the ICICI have announced an IPO of their Indian joint venture with you. How does that fit in with your plans to increase your state from 26%? Finally, could Clark say something about US sub prime mortgage exposure please?

Mark Tucker: Let's reverse the order and I think Clark's promised not to make any animal analogies but he will talk about sub prime.

Clark Manning: I didn't promise that. You just wrecked my answer but… Subprime exposures in the US market, Jackson holds about $400 million of the most senior tranches of ABS backed by subprime, so the top tranches all of it rated triple-A, about $400 million. The trading on that, those tranches have widened out about 5- to 10-basis points, just consistent with the general widening in the market. As we look around the portfolio and say, "Well where else might it pop up?" The next layer down, where does the next tranches typically go in subprime ABS' and that would be to CDOs. So if we look at our CDOs, we have about $18.5 million that have some of the collateral being subprime ABSs, not in total but part of it, but it's still pretty highly rated paper – double-A plus and triple-A. If we look down beyond that and say, "Where might it pop up?" The originators of subprime paper, we have about 1.3 billion of corporate bonds in companies that originate subprime paper, but this is all pretty highly rated stuff. You're talking about HSBC, GE, Citigroup, Countrywide, etcetera, so we don't see any exposure there. The only triple-B would be ResCap and ResCap has a, my understanding is an indemnification from GM on any subprime exposure so we're okay there. Then if you look at the brokers, considering the exposure could pop out in the

brokers, the brokers all are subprime paper. We have about 164 million of Lehman A+, about $100 million of Bear Stearns A+, so that's not a problem. If you look for other stuff that might say you have sub in it, we're about $24 million of subprime… So we've looked for everything that has sub through our balance sheet and we can't find any of it so we're, I think we're in good pretty shape there.

Mark Tucker: [Laughing] James, if you want a more detailed answer, you can certainly, you can check later. In terms of the IPO of ICICI's businesses we were fully aware and been involved in this it has no difference to our plans. I think the indication of how soon the legislation will be introduced into India, in the last budget where there was no mention whatsoever of insurance other than some micro insurance stuff, so I think it is a thing of the future. It sort of has been and will continue to be. Philip, I think maybe just to take the estate and Nick to take the Equitable.

Philip Broadley: On the estate, we clearly in making the announcement today about the nomination of a policyholder advocate have thought carefully about possible outcomes and possible structures and haven't made the announcement without the thought that it would be possible for us to finance any such payment to policyholders if were we to proceed with a reattribution. In terms of how that might be financed, that does of itself depend on the nature of any such reattribution structure. But if I can refer you back to past conversations and presentations here about our capital, we do have hybrid capacity. We do have other options to consider - securitisation and so on and so forth. Bear in mind also the timing of any policyholder incentive payment would be in some considerable period from now and you've heard my comments this morning about our expectations for cash flow over time.

As to your comment, your recollection that the debt capacity is published in the release, I think you're memory is playing tricks.

Nick Prettejohn: The economics of the Equitable transaction from the shareholder point of view are relatively straightforward, the with profit fund receives the assets and the shareholder will get an income of 1% of those assets per year and out of that 1% we will have to meet the expenses of servicing that business and that includes the investment fees and that as far as the shareholder is concerned is it. The cost of investment guarantees are borne by the life fund on a market consistent basis. Longevity in this deal risk is being shared between the policyholder and the with profits fund which is making a charge for that. So from the shareholders' point of view, it is simply a case of the charge minus the expenses and in terms of margin, I would expect the margin to be roughly inline with the average for the UK business as a whole.

Anthony Silverman: Anthony Silverman from Standard & Poor's Equity Research. I just wanted to return to the UK, if I may, just for a couple of questions. I just wondered what the thinking was which presumably ultimately excluded the possibility of taking the savings business forward with some form of clawback of commissions as an alternative to front end load or even penalties for policyholders in non-stakeholder business, which obviously is something that other people have mentioned and which is certainly done in other territories. Secondly, in a connected question, it must severely restrict your ability to get hold of what you might call rollover business in the UK where your corporate pensions business, as everything leaves to DC, most of that will ultimately move to a sort of personal

	pension as people perhaps change jobs or a large part of it will and you will be severely restricted in the people who might take that. So I was wondering what the thinking was and how you see the outlook for that? Thank you.
Nick Prettejohn:	On the first question, I guess our view is that moving towards either trail commission or to a basis on which the customer and the advisor are agreeing the commission between them is more consistent with the future model for distribution of the market and the likely regulatory model for the marketplace as well. I think in consumer terms there is a greater desire for transparency. There is clearly some regulatory concern which has been flagged on a number of occasions in public speeches by the FSA about the prevalence of initial commission and we believe we are actually taking a treating customers fairly lead in moving in the direction that we are. We would expect over time that the rest of the industry would have to move more in that direction as well.
	In terms of rollover, Gary Shaughnessy I just might get you to answer that question?
Gary Shaughnessy:	I think it's probably worth mentioning that we launched the factory gate version, actually the factory gate version of the individuals pension; what we've seen is a sharp uptick actually of people who are within about five years of retirement date. So what we're seeing is we are getting those people who are just pre-retirement and therefore the feeder into the annuity business has actually continued.
Bruno Paulson:	Bruno Paulson from Bernstein. Three on the UK. Firstly, you're getting out of this 100 million of APE. How big is the upfront spend on that which you are saving in terms of cash? Secondly, you're focusing on the retail side on the corporate pensions and annuities. How worried are you about the political risk of NPSS and maybe a Conservative government winning and abolishing compulsory annuitisation? Thirdly, just a point of a clarification, the wrap, immaterial or not, is it a multi-manager wrap or is it a Prudential M&G-only wrap? Thank you.
Nick Prettejohn:	The benefit, the cash benefits of a shift out of the sort of products that we have the initial commission products and commoditised protection that we're talking about, we believe will be in the range of £20- to £30-million a year in terms of the cash benefit.
	Your second question was, remind me.
Bruno Paulson:	Political risk.
Nick Prettejohn:	Political risk: Well as a citizen, I will obviously decline to comment. But I continue to believe and we will continue very powerfully to argue that in the context of increased longevity the idea that it is in people's best interests not to annuitise seems to me to be perverse because annuities provide the protection against increased life expectancy that the consumers are looking for, so we will continue to argue that case very strongly. In fact, as it happens, most of the people, compulsory annuitisation, as you know, occurs age 75. In fact, the majority of our annuitants actually become annuitants early - choose to take an annuity earlier than much earlier than 75.
	The third question was multi-manager. Again, Gary, do you want to answer that?

Transcription

Gary Shaughnessy: As Nick said, we're actually licensing someone else's wrap. The wrap platform itself is open market so you can get anything from direct equities through to wrappers on it. As far as the Prudential wrapper products, the bond, etc, the core of that is our multi-asset capability, within that in terms of individual asset funds clearly we will push people towards the M&G range or they can have access to the open market as well.

Raghu Hariharan: Morning all. Raghu Hariharan, Fox Pitt, Kelton. Just three quick questions on the UK please. On the insurer back book section of the wholesale annuity market, I was wondering if you can give us a sense of the competitive environment. Legal & General mentioned that they are very interested in this market and they were talking about their platforms. Just wondering your sense of your competitive advantage going forward.

The second thing is you mentioned the potential of defined benefit risk management and the schemes and potentially schemes to come to the market. What's your view of the flows that you might see and the timing around when this market will blossom? The third thing is on cost cuts. You know that you have a huge with-profits book and you have a steep runoff profile. That's a huge headwind against whatever cost cuts might improve on EV. I was wondering whether this is the final cut or is it a phased approach and whether there's any more headroom? Thank you.

Nick Prettejohn: On the competitive environment for insurer-to-insurer deals, we have seen a number of potential insurer-to-insurer deals out there in the marketplace over the course of the last six months. Interestingly a number of those deals have not happened as of yet and there's been quite a lot of activity around those potential transactions including the influx of some new entrants. I believe we have a significant set of competitive advantages in that market because not only do we have the superior data because of our market share in the annuity business, but we also have the experience of doing these transactions and then administering them and these are extremely complex transactions both to do and then to administer and we have a very experienced team in terms of actually working out the actual administration of these schemes post completion. So I believe we have a very strong set of competitive advantages in that marketplace and we will continue to participate in it.

I think your question about the defined benefit scheme risk management is very interesting one and I would actually be relatively cautious of the immediate prospects in that marketplace. There has been an enormous amount of talk about it but there has actually been very little actual action, as Clark would say probably, "All hat and no cattle" or some similar kind of phrase. I think it's going to take a while for that market to work itself out. We believe we have some interesting ideas to offer in that marketplace; and, again, we have the administration and sort of product capabilities to be able to compete effectively in it. But I think it's going to take a while for that market to take off and I think I would be very cautious in my estimates of how much business we're going to get over the next year or even the next three years.

And then as far as the cost-cutting is concerned, clearly we have taken a very hard look at our cost base and we're talking about a cost savings target that is a very substantial portion of our existing cost base. Depending on where we land up in terms of our solution, we will be able to either confirm that target or to

increase it, but we are confident that we will be able to deliver the target that we have set out. But I wouldn't say … this isn't consciously kind of the first step in a staged program of a cost reduction. This is the programme that we are engaged in and we're already delivering because we, as I said earlier on, we've already put in place the actions to deliver two-thirds of our original cost target, which was a three-year cost saving programme.

Mark Tucker: Last couple of questions, if we can.

Youssef Ziai: Youssef Ziai, ABN Amro. I have just one question. On inherited estate, why did the Estate remain flat whereas Aviva's over the last six months of last year, their figure went up by 19%. Could you just perhaps expand on that?

Philip Broadley: I did, if that's okay. I can only comment that we report our estate figure, which basically arises out of the, make sure I get the numbers right, the Peak I/Pillar II evaluations, so that is what it is and the figure results from the updating our work on assets and liabilities as to why Aviva have moved differently, I can't comment.

Mark Tucker: This is the last question and then we'll be around for as long as you want and Clark said he'd be here all night for anybody that wants to talk about the sub-prime.

Andy Hughes: Andy Hughes, JP Morgan. A couple of quick questions on the UK announcement, again, sorry. I did have some nice questions earlier on today. The first question was: Earlier last year you announced that you are looking at the UK business, one of the areas you're looking at was be more innovative with the investment assumptions backing the annuity portfolio? And L&G announced yesterday that they increased their investment yield. I couldn't find anything in the announcements regarding that. The other quick question is about the new business margins and what's happening in the UK because in Asia you've given us a figure for new business value added, but in UK you're talking about IRRs and actually you're reducing the new business strains so 14% of a very low business strain gives you presumably a lower margin. Is there a chance on some of these product lines actually the new business that might fall as a result of your recalculation?

Nick Prettejohn: On the investment strategy, we have been doing some work in the annuities business and we have made and will progressively make some changes to that but we will not see the impact of that for some time. But we are making some changes. That is enabling us to change some of our pricing assumptions at the margin but not fundamentally change our pricing strategy. In terms of new business margins, I think we are seeing on the individual annuity side a continuing growing volume of business. As we've said, there may be some slowing of the overall retail growth, but we're not talking in volume terms about a sort of total retrenchment in the UK business. We're talking about an important change in mix and change in emphasis in the UK business. But fundamentally over the medium to long-term, we would expect our business in the retail area to be growing inline with the market.

Mark Tucker: We do with Asia give IRRs but I think not in enormous detail I think we say over 20%.

Transcription

Andy Hughes: The IRR target's pretty meaningless if you're cutting the actual commission levels and therefore the new business strain, so as result of cutting your business strain, your IRR will naturally improve without any improvement in profitability?

Nick Prettejohn: Well I said, both the change in product mix towards lower initial commission products on the one hand and cost reduction on the other should enable us to get a potential uplift in IRR, but we believe and come back to the point that Mark made right at the beginning, the IRR that we achieved from our new business in the UK is an extremely competitive return versus the rest of the UK life business and that's where we want it to stay.

Mark Tucker: We're happy to stay and take as many questions as you guys want. But thank you for coming this morning and thank you for listening.