Prudential plc 2007 Interim Results – transcript of the presentation

RESULTS HEADER SLIDE

Mark Tucker, Group Chief Executive:
Good morning. Welcome to Prudential's 2007 Interim Results presentation.

You'll have seen from the numbers announced earlier this morning that we've got a strong set of results. In life insurance we've seen excellent growth in Asia continued strong gains in the US variable annuity market and very good progress with our delivery plans in the UK as well as good growth and returns in the retail business. And in asset management both M&G and our Asian fund management businesses have excelled again.

SLIDE – AGENDA

I'm going to start off with a few introductory comments then Philip will put the numbers in context. I'll then come back to give a broader update on the business. We've also got here as usual my colleagues from around the Group - Barry, Clark, Nick, Philip who'll join in with the questions afterwards.

SLIDE - CONTINUING DELIVERY AND MOMENTUM

First as you can see this slide, it clearly demonstrates the Group's continuing delivery and positive momentum. When you put the half year figures into the context of the last couple of years you see a continuing trend of strong delivery as we focus on executing our retirement led strategy. It's a strategy that is already generating both excellent results and creating substantial long-term opportunities.

Over that two and a half year period you can see the positive growth in profits not only in terms of EEV operating profit but in IFRS profit as well. These numbers are for continuing operations and so they exclude Egg which we sold in May. Finally along with this strong growth in profits the overall cash position remains firmly on the improving trend that we've been talking about for some while now.

With that, let me now hand over to Philip to look specifically at the half year numbers.

SLIDE – TITLE PAGE

Philip Broadley, Group Finance Director

Good morning. In my presentation today I will talk about how we have achieved the strong results shown in this morning's press release.

SLIDE – 2007 INTERIMS RESULTS HIGHLIGHTS

I will start with some headlines that I will then explore in more detail: As Mark mentioned, all of the main metrics have moved forward strongly:

- We have seen a 39 per cent growth in total EEV operating profit on our continuing operations to over £1.3 billion.
- IFRS profit on these operations is also up - with growth of 27 per cent to £601 million.
- New business premiums were up 12 per cent on APE basis
- New business margins were steady at 40 per cent, giving a growth in new business profits of 12 per cent to £534 million.
- We had a positive operating cashflow for the first six months of the year, and
- Our interim dividend of 5.70 pence represents a five per cent growth on last year. This is a growth rate in-line with the dividend policy announced in March, and reflects the continued improvement in the Group's generation of both cashflow and profit.

I will now talk you through sales, new business profit and margin, as well as IRR, for each of our three insurance businesses.

SLIDE - ASIA NEW BUSINESS

Sales in Asia have powered ahead yet again. APE Sales are up to £619 million, that's an impressive 48 per cent growth on the same period last year at constant exchange rates. Remember that 2006 wasn't a weak comparator either, H1 06 sales having been up 35 per cent on the preceding year. Asia is the largest part of the Group contributing 46 per cent of our sales in the half.

We produced strong growth in the first half of 2007, in particular, from Taiwan which contributed growth of over 100 per cent as a result of the high sales of a new retirement savings product. Product sales were boosted by the initial response to the launch of a retirement campaign 'what's your number?'. Hong Kong's growth is also due, in part, to a similar campaign and improved bancassurance sales. India also performed well with growth driven by further agency recruitment.

Looking forward to the second half of the year; while we expect continued strong growth, we expect the growth rate over the full year to be lower than that achieved in the first half.

The overall proportion of unit linked sales across the region was 72 per cent compared to 68 per cent in the same period last year.

New business profits are up 31 per cent to £282 million, reflecting a fall in margins to 46 per cent. I will talk about this movement in margin in a moment.

In Asia we continue to target IRRs on new business at a country level of 10 percentage points over the country risk discount rate. Risk discount rates vary from 5.3 per cent to 17.5 per cent depending on the risks in each individual country market. And in aggregate, IRR on new business exceeded 20 per cent on average risk discount rates for the first half of 2007 of 10.1 per cent.

SLIDE – ASIA MARGIN AND NBP GROWTH

We look at returns in each market individually and seek to maximise growth in new business profits. We are very pleased with the 31 per cent growth in this half year, against our target of doubling 2005 EEV new business profit by 2009. In the short term we expect average margins for the full year to remain at or around the current level.
Our usual disclosure of margins by country is found in Schedule 4.

In summary:

We have strong new business growth at a country level and generally have maintained margin at a product level within each country.

Four percentage points of the reduction in average margin can be explained by changes in country mix. In other words, this year's country mix at last year's margins gives rise to a four percentage point fall in margin in 48 per cent.

Additionally we have made some specific decisions to reduce margin temporarily to support new product and channel initiatives, giving rise to a further two percentage point decline. Most significantly the launch of VA retirement product in Taiwan was accompanied by a 30 day launch offer that generated the strong sales growth I referred to earlier, and which had the effect of lowering margin in Taiwan for the half-year to 42 per cent. However, we are pleased with the overall margin in Taiwan, and the growth generated in a capital efficient unit linked product.

SLIDE - US NEW BUSINESS

Jackson sales continued to grow, up 20 per cent to just over £350 million. The increase was driven by higher sales in Variable Annuities and Institutional business.

Jackson continues to stay ahead of the VA market with its development of product features that meet changing customer demand and they combine this with impressive speed to market.

As you can see, average US margin has held steady. Jackson wrote increased levels of VA and institutional business in the first half which has had a positive influence on average margins. At the product level we saw a slight fall in the margin on new VA sales, due to the change in take-up on some of the product features. Mark will talk more about this.

New business profits grew almost in line with the sales growth, at 18 per cent on the same period last year to £144 million.

The average IRR on new business written by Jackson was 18 per cent, in line with 2006, reflecting the attractive returns on Jackson's VA business.

SLIDE - UK NEW BUSINESS

UK Retail sales increased by 10 per cent over the same period last year. This growth was driven by sales in individual annuities, with-profits bonds and corporate pensions. Our sales focus has been on our higher margin products and this is in line with the move away from unsustainable low margin products, that Nick highlighted in his presentation here four months ago. Retail margins are up three percentage points from 29 per cent to 32 per cent. Retail new business profits reflect these dynamics with growth of 21 per cent to £115 million for the half-year.

In the UK wholesale business, the Lloyds TSB credit life contract was not renewed and the two large bulk annuity transactions the first half in 2006 create a tough comparator for the entire UK business. As we have stated before, the flow of bulk annuity transactions remain lumpy and timings uncertain. Of course, we still have the Equitable Life with-profits annuity transaction to be completed with APE in the region of £170 million and we remain on target to book this into new business in the fourth quarter.

With the low level of wholesale activity recorded in the first half compared to last year, overall new business profits are down 22 per cent. However, the weighted average post-tax Internal Rate of Return (IRR) on the capital allocated to new business growth in the UK for the first half of 2007 was 15 per cent, partially driven by the high proportion of individual annuities. This is above our target IRR of 14 per cent.

SLIDE - IN-FORCE PROFIT

Total in-force profit has grown strongly in the first six months of 2007. Unwind has increased by 17 per cent to £617 million generally due to higher opening embedded values and increases in risk discount rates over the last twelve months although, as the detailed schedules show, in some places the RDR has fallen.

You will see the overall net effect of assumption changes is a positive £95 million. This primarily related to positive tax changes in Asia and UK. The effect of the change in UK corporation tax projected forward is a £67 million positive assumption change in the UK. Experience Variances across the Group are net positive at £53 million.

There are two variances I would like to comment on:

- First, Jackson's positive spread variance of £53 million is a decrease on the same period last year of £7 million. The spread variance includes about £23 million of non-recurring items which comprise of make-whole payments, mortgage prepayments, and various other items.

- Secondly the 'other' items in the UK include a number of exceptional items (totalling £30 million. These are mainly costs associated with new product and distribution development and certain costs associated with complying with continuing regulatory change.

It is also worth commenting that in the UK, persistency and expenses are running in line with current assumptions, and we are on track to achieve the required cost reductions to support our current expense assumption.

SLIDE – EEV SHAREHOLDERS FUNDS

EEV shareholders funds have grown 13 per cent over the last six months and now stand at £13.4 billion.

The new business profits as a percentage of opening embedded value were 4.5 per cent reflecting the high growth of our new business profits in Asia and the US.

The non-operating items contribute to the growth: Short term fluctuations in investment return is a positive number of £241 million and economic assumption changes are a positive £253 million. The different elements are explained in the OFR.

Finally, EEV per share in H1 2007 was £5.45 compared to £4.86 at the year-end.

SLIDE – ASSET MANAGEMENT

Our asset management businesses continue to go from strength to strength. The graph on the left shows funds under management aggregated for M&G, and the Asian asset management businesses. External funds under management have grown from £57 to £63 billion – an 11 per cent increase driven largely by net fund inflows. I have highlighted the two biggest operations here.

M&G continued its strong performance with a 40 per cent increase in profits to £140 million, which included an increase in underlying profits to £127 million and £12 million of carried interest from the private equity arm PPM Capital. Its performance is due to strong net new business flows and the successful development of revenue streams from other activities. First half profits were boosted by £5 million of non-recurring items and M&G also expects to incur a number of anticipated project costs in the second half.

The Asian funds businesses IFRS profit grew to £33 million from £20 million demonstrating the strong momentum of these businesses.

SLIDE - IFRS PROFIT

Looking next at statutory operating profits for the Group. Total IFRS operating profit for the continuing operations of the Group grew 27 per cent over the same period in 2006 to £601 million.

In the UK IFRS profit grew 22 per cent to £251 million due to improved terminal bonus rates on with-profits business and growing annuity business.

The nine per cent growth in operating profit from the US business to £225 million primarily reflects higher VA fee income resulting from strong sales (+31 per cent) and market appreciation.

Asia saw a six per cent increase in operating profit to £109 million. The fall in the life business IFRS profits is a reflection of our success and primarily due to the high growth of sales in the region and particularly the expansion costs incurred in India to support its rapid growth. The current pace of growth in India is clearly capital intensive, and the capital requirement is likely to continue.

M&G's profits were up 40 per cent and total profit from both M&G and the Asian asset management businesses was £173 million, an increase of 44 per cent from the £120 million reported in the first half of 2006.

SLIDE - HOLDING COMPANY CASH FLOW (BUILD SLIDE)

I will now move onto Holding company cashflow. Let me run through its key components.

The UK life fund transfer rose in 2007 to £261 million. This reflects our share of 2006 profits paid in 2007. We expect the life fund transfer to be paid in 2008 to be at a broadly similar level.

Asia has increased the cash remitted back to Group, with injections into the region of £70 million, more than offset by £86 million remitted back, giving a net figure of £16 million.

You'll notice that the capital remittance from M&G has increased in the first half of 2007 to £75 million.

In addition, we saw a very high take-up of the scrip dividend option earlier this year and the granting of some staff share options, giving the Group an additional cashflow benefit of £119 million.

Jackson has yet to remit cash back to Group, although a remittance of $230 million is planned for the second half.

Looking now at the cash outflows.

We have invested £69 million in the UK business in the first half and we continue to expect to invest up to £160 million in this year. The UK shareholder backed business still expects to become cashflow positive in 2010 – subject to shifts in the mix of business written.

Tax received represents group relief surrendered to the holding company. This amount at present effectively nets off the corporate level costs of the Group.

The cashflow relating to the dividend reflects the increased impact of the enhanced dividend growth declared in March this year.

Overall, this gives the holding company a total operating cashflow of positive £34 million compared to a £94 million outflow this time last year.

Finally we include half a billion cash received from the sale of Egg further increases the Group's cash position. We remain on target for the Group having a positive operating cashflow in 2008.

SLIDE – GROUP CAPITAL BENEFITS

The structure and make up of the Group has real diversification benefits… which both reduce the volatility of our profits and improve our capital position.

Diversification is a core focus of Solvency II. The draft directive was published in July. The industry has got some way to go in terms of dialogue with regulators …. in determining exactly how it will be applied …. but the opportunity for greater capital efficiency within broader based groups is material. We expect the rating agencies to continue moving towards this approach into their models.

We actively manage economic capital using our own model. We have £4.5 billion of available capital, and a fully diversified capital requirement of £1.6 billion, giving us an economic surplus of £2.9 billion.

We estimate that the benefits we get from geographic diversification within this surplus is about £1.3 billion.

This is real balance sheet efficiency … and we get it from actively managing the diversity of product and market risks to which the Group is exposed.

A quick word on the regulatory capital position under the Financial Conglomerate Directive. We expected our regulatory capital surplus under the directive to be in excess of £1 billion at the end of the year.

SLIDE - SUMMARY

In a strong first half we have seen:

- Profitable growth from the US, Asia and UK's retail insurance businesses
- Our fund management businesses continue to perform strongly across the Group
- The Group is cashflow positive for the first half of 2007 before adding proceeds from sale of Egg

I will now hand back to Mark to give his view of the Group's opportunities.

Mark Tucker, Group Chief Executive:

As Philip has shown you we've delivered an excellent operating performance in the first half and that performance is based on a strategy that is focussed around the opportunities in the global retirement market.

SLIDE - THE GLOBAL RETIREMENT OPPORTUNITY – MONEY-IN-MOTION

The retirement market represents one of the most significant and important global trends in retail financial services and this slide highlights the scale of that opportunity across the regions in which we operate.

In Asia where we are already generating more than 50 per cent of the Group's new business profit, the potential is huge. Here, the retirement opportunity is shaping our thinking more and more with the growing realisation by individuals of the need to save for retirement and of the importance of protection.

In the US Jackson has built a great model to address the needs of pre and post retirees and our strategy in the UK as we explained in March is very much centred on our strengths in the retirement market.

SLIDE – PRU WELL POSITIONED TO CAPTURE THE OPPORTUNITY

In fact we are wonderfully positioned to exploit this opportunity to the full both in absolute terms and relative to our competitors. Our brands have excellent reputations in the retirement space right across the territories we operate in.

Our risk management skills and in particular those around mortality, long-term guarantees and asset risk are core capabilities that stand behind the brand. And all of these skills combined together give us the ability to deliver products that meet the changing needs of consumers.

Of course delivering the specific products to meet customer needs will vary by market but we've got a huge breadth of thinking, knowledge and expertise to draw on from around the world. We can use that to our advantage in local product development in both the accumulation and decumulation phases and we've got powerful and diversified distribution to bring those products successfully to market.

So you can see why we regard the retirement market as a huge opportunity and it's a market where we feel we are very well equipped to compete across both our insurance and asset management businesses and indeed to take an increasing and profitable share, and at the same time continue to create and sustain value for our shareholders.

So let's look in a little more detail at the drivers behind the numbers Philip took us through. Turning first to Asia.

SLIDE – ASIA PROGRESS TO 2009 TARGET

As you can see on the left hand chart new business volumes are now double what they were in 2005. On the right hand side you can see clearly that we have not compromised on the quality of the business as New Business Profits are up strongly with a CAGR of 32 per cent. You can also see that we're very well on track to deliver the target we set last December of at least doubling 2005 new business profit by 2009.

SLIDE 2 – ASIA DRIVER OF APE GROWTH H107 FROM H106

This slide shows where the growth in APE has come from comparing H1'07 with H1'06. This is pretty broadly based and clearly demonstrates the breadth of our Asian portfolio. We are not dependent on any one market for growth even allowing for the exceptional success of our Q2 campaign in Taiwan. Now I'm not going to go through each of the bullets but I do want to mention our operations in India.

Much has been said and reported about India recently in the context of the ICICI IPO and all I want to add is that while the current scale of this business is impressive there's a lot, lot more to come.

The rest of the bullets give you some colour around the different drivers of growth and you'll see that again these drivers are broad based. And it's this very diversity that makes our Asian operation so unique and so powerful and puts us in such a good position for continued strong growth.

SLIDE – ASIA PROGRESS WITH PRIORITIES

I just want to give you a quick summary of what's been happening with some of the initiatives Barry set out in December last year. There's nothing really new about building agency scale and improving productivity but they continue to remain very high on our agenda.

Agency scale is more of a focus in our geographically larger markets India, China and Indonesia in particular. And building our agency forces to cover these huge populations will take several years and they've really only just got going.

In other markets the priority is driving productivity through a combination of effective agency management and support together with improvements in agent training.

Successful partnership distribution is a key strength of ours. I've mentioned on the slide the addition of two new bank agreements in Korea because of their significance and potential materiality. We expect both of these to come fully on stream later this year. We've also added some additional distribution in the region through Citi this year that came with the Egg deal.

On the newer initiatives Barry mentioned back in December we're making some really good progress. I'll talk about retirement in a moment but first let me cover the other two areas on the slide. Firstly, deepening customer relationships is about bringing a much more disciplined and systematic approach to the cross selling and upselling of products to our 8.5 million customers in the region. Three markets already have specific plans in place all launching later this year. And Second our expansion of the Accident and Health business. In the first half of 2007 we've launched a number of new products and new business has already increased by over 60 per cent.

SLIDE – ASIA CAPTURING THE RETIREMENT OPPORTUNITY

So returning to the retirement theme. We've developed a very innovative approach in Asia to meet the growing needs and demand in the retirement market. At this stage it's focussed predominantly on the expansion of retirement savings.

You will recall that we developed the 'What's your number?' campaign in Korea following in-depth consumer research. This approach really engages individuals in thinking about their retirement requirements and it also gives a focus for the agency force to advise their clients as well as providing the potential for sales in other product areas.

On the back of our success with this in Korea we've launched new campaigns in both Hong Kong and Taiwan over the first four months of the year. In Taiwan that coincided with the launch of a variable annuity product and as the numbers demonstrate the immediate take up was very strong. It's a fantastic short-term success but it also represents a longer-term growth opportunity for us because we've created some clear differentiation.

This is just one example of the benefit of leveraging our success in one market in the region to create opportunities in other markets. The design and implementation of the variable annuity product to back the launch was supported by the expertise we've built in this product in the US market. Our Asian team was able to draw on this world class expertise to significantly shorten their time to market.

So continuing that US theme to Jackson.

SLIDE – US CONTINUED SUCCESS IN VA'S

In the US we are seeing the continuation of our excellent growth record in variable annuities with new business ahead 31 per cent in the first half and that's against an overall VA market that has grown by around eight per cent in the five months to the end of May. You can see that we are more than delivering on our prediction to beat the market. But as Philip made quite clear this is not at the expense of margins or returns.

This performance reflects a proposition based on a combination of advice and customer choice rapid product innovation world class service and low-costs not on price. It's a model that has proved difficult to replicate and one that clearly differentiates Jackson in the market.

We are also continuing to build out the distribution capacity of the business and increasing the numbers of internal and external wholesalers. The number of external wholesalers has increased by 30 per cent since the start of the year. Alongside this growth in wholesaling teams productivity also continues to improve and that's on a base of already having one of the most productive wholesaling teams in the US market.

We've also continued to develop our product proposition and in the last six months we've added 13 new fund options, three new Guaranteed Minimum Withdrawal Benefits or GMWBs and our first Guaranteed Minimum Accumulation Benefit or GMAB.

Continuing innovation is key and we've got the flexibility that allows us to bring new products to market very efficiently. As well as this excellent growth in VA's we're maintaining our market position in both fixed and fixed indexed annuities.

SLIDE – JACKSON EFFICIENTLY MEETING RETIREMENT NEEDS

I've just said that product innovation in the US remains key and that's because of the rapidly changing nature of the market. If you look at the growing demand for GMWB options on Jackson's product over the period since 2003 you can see there's a change in customer behaviour when buying a VA.

This option has become dominant as the product has become an integral part of US consumers' retirement planning. GMWB's allow the customer to receive a guaranteed minimum benefit stream. And this can be for a number of years or they may continue for life. Jackson now has a total of over 2,100 benefit combinations and seven GMWB options and all of those options are available from one platform under the Perspective II banner. As we've said before the fact that we can remove or add benefits under the same overall product structure gives us a real advantage over the competition in terms of speed to market.

Delivering choice at the point of sale is what both advisors and their clients want and we've got the skills to price the risks individually and on a market consistent basis. So all in all an excellent first six months for Clark and the Jackson team.

SLIDE - UK OPERATIONS 1

In the UK, we're making good progress overall. Our focus on value continues to show through in the very strong margins and returns on new business reported today and we're on track to deliver the changes to the business that Nick set out at the Prelims in March.

The growth in the retail business, as Philip said is being driven principally by our strong retirement income positioning and this growth is underpinned both by our internal vestings pipeline that you'll be familiar with and by our partnership business.

You'll have also seen this morning that we have agreed a new distribution agreement with Barclays. This agreement is to be the preferred provider of conventional annuities into Barclay's retail branches in the UK for a five year period. It will go live in the second half. It's a very exciting and encouraging addition to our growing partnership channel.

In terms of retirement savings we're getting on with our planned transition away from uneconomic front-end loaded products towards trail based products that are built around our proven multi-asset capability. We've already withdrawn from the commoditised protection market and from front end loaded individual pensions and this month we're going to launch our factory gate priced unit-linked bond.

At the same time our sales of with-profits bonds continue to show healthy growth and this is certainly due in a large part to a wonderful investment performance. In the recent WM 2006 survey our with-profit fund was ranked first based on gross investment returns over one, three, five and 10 years. That's a fantastic record!

Last, but not least, on the wholesale side the securing of the Equitable deal will give us continuing new business profits from this area and it allows us to be selective about the other business we write.

SLIDE – UK OPERATIONS 2

As you know a further reduction in costs is a key part of our UK strategy. By the end of 2007 we'll have taken all of the actions to deliver £115 million of the targeted £195 million cost savings that we previously announced. And that's in line with our original estimate. We're also making very good progress in determining the best approach to deliver the remaining £80 million. We've narrowed down the options here and we're currently working with an internal team and two external suppliers to determine the most appropriate mix of offshoring and or outsourcing. We remain on track to conclude that process around the middle of the fourth Quarter.

Our work on the Inherited Estate and our discussions with the nominated Policyholder Advocate Peter Bloxham are also continuing in line with plans and again we'll be in a good position to say more on this in the fourth quarter.

SLIDE - ASSET MANAGEMENT M&G

Our asset management businesses not only continue to deliver value to our insurance operations but they also continue to grow rapidly in their own right. Philip showed you the profit growth earlier. It's a tremendous performance but you can also see here that at M&G revenue growth is coming from across all asset classes and that shows the real diversity of the business. We saw record net retail sales in the first half With a strong contribution from the overseas businesses here which accounted for around two thirds of those net retail sales.

M&G also continued to develop its higher margin wholesale presence in leveraged loans, structured credit, infrastructure investment and tactical asset allocation. These are all really positive developments as M&G continues to build out its model.

SLIDE - ASSET MANAGEMENT ASIA

In Asia you can see the significant development of IFRS profits that are up 65 per cent compared to just 12 months ago. On the right you can see some of the main retail fund launches during 2006 and into 2007. We're operating across the whole range of asset classes and across 10 markets in total and, as you can see demand has been very strong.

In Taiwan, for example our Asian Infrastructure Equity Fund reached its cap of just over $450 million on day one of launch. And in India where our joint venture with ICICI is the number one asset manager in the market the Equity Derivative fund has already attracted approaching $700 million dollars.

As I said we only expect the appetite to invest in our funds to grow. We're already the second largest retail fund manager across Asia and we are looking to build materially on that success as we go forward. This business is now a real driver of value to the Group.

SLIDE - OUTLOOK COMMENTS

So in summary at the outset I talked about the significant opportunity that we see developing in the global retirement market. That focus is driving the continuing strong operating performance of both our insurance and asset management businesses.

As we go forward we are both ready and able to capture an increasing and profitable share of that retirement opportunity right across the territories in which we operate.

Our focus remains firmly on extracting value from the Group as a whole and on delivering long-term sustainable profit growth for our shareholders.

Thank you for listening and we will be happy to take any questions.

Mark Tucker: That's all I want to say formally this morning. Again what I'd like to do now is open to you guys for any questions you'd like to have.

Raghu Hariharan: Morning all. Raghu Hariharan from Fox Pitt, just two questions. First on the US, obviously you've had great success in the US in the independent-broker dealer channel and with GMWB's, could you give us a flavour of the competitive environment around the product and the channel and how it affects your strategy. The second question was on the Indian business, given that there is an implied market valuation for the ICICI Holding Company, my questions were: do you have to, if and when the regulation

changes, do you have to increase your stake from 26 to 49 per cent at market value, and if yes, would you stick to your stated strategy of doing so. Thanks.

Mark Tucker: Let me take that in reverse order and I think, ask Clark to talk in-depth about the competitive environment in the US, particularly the VA-side. In terms of India – it's all hypothetical. I think the, we don't see any immediate signs of legislation changing in India, as and when that occurs we'll clearly make a decision based on the commercial and investment reasoning and what we think is creating the greatest value for shareholders. But until that point, it's a hypothetical question.

Clark, do you want to talk about the US?

Clark Manning: Right. The competitive environment in the US is pretty intense right now. We are seeing a lot of top of the cycle behaviour, very competitively priced product, some GMWB structures and pricing that don't make much sense. You know, just remembering the general Jackson approach to the market, what we're trying to sell rather than pricing is product flexibility, product innovation, delivery of product for our wholesaling models. From the pricing standpoint we have not been cutting the margins on our VA products at all. And in fact most of our guaranteed minimum benefits are priced well above the market; we are normally on GMWB's priced about 30 basis points above the rest of the market, sticking to market consistent type pricing so that we can fully hedge those benefits. So I think a little bit of a market dislocation like we're seeing right now is probably healthy for that market.

James Pearce: Thanks. It is James Pearce from Cazenove, a couple of questions. First of all, you say that you're going to have £2.9 billion of excess capital under Solvency II. Will that actually mean anything in terms of share buybacks, you've been telling us for years that you've got excess capital, but would it actually come back to shareholders. Secondly, could you talk about the impact of equity market volatility on the cost of hedging for Jackson and whether that cost can be fully passed on? And thirdly, what would the mark to market be for the US bond portfolio?

Mark Tucker: Philip, do you want to talk about the excess capital?

Philip Broadley: Well, Solvency II is not due to come into force until 2012, so we're really talking about excess capital under that model and what we might do with it is probably somewhat distant. But currently the Solvency I regime, the Financial Conglomerates Directive, is what we manage to, and we manage to the buffer that I described in my remarks. And if Solvency II were to be implemented on an economic capital model, then we would consider then what we might do with – the capital that arise under it, but as I say, I think looking ahead to 2012 for that is some way off probably for modelling at the moment.

Mark Tucker: I think James, we're not viewed as – and we don't view ourselves as – hoarders of capital. If we have a significant excess capital they will be deployed accordingly to shareholders.

Clark, would you like to talk about the cost of hedging?

Clark Manning: Well if you think about the incidents of the benefits in terms of the duration of the benefits that we write, we're mostly writing off the longer end of the curve. And if you look at what's happened really to the volatility curve over the last month or so, is that it's inverted, and so you've seen some increase in vol across the entire curve, but most of the effect has been at the shorter end of the curve, which is really not where we're in and out of the market anyway. If long-term vols were to go up, now we're hedged – against for our current benefits, against long term vols; was there to be some sort of long-term major increase in long-term vols, then we would simply reflect that in the pricing of new business. In the US portfolio, minus $300 million, mostly interest rate related.

Jon Hocking: Jon Hocking, Morgan Stanley. Can I ask a follow-up question to James on the capital fund, what is the actual binding constraint at the moment on your capital position? Is it the FCD or is it rating agencies and how will that change over time? And secondly, on that point, what is your additional sub-debt capacity you have at the moment?

Philip Broadley: The binding constraint is and would always be the regulatory capital framework. That is, after all, always a hard number. We have to maintain currently a positive surplus under the FCD and as I said, the surplus will be in excess of a billion at the end of the year. In terms of sub-debt capacity, that again is a somewhat hypothetical question; given the cash balances that the group has at the moment, we have no plans to raise any debt in the market. And I know from conversations at these meetings before, if one tries to give an indication of capacity that can be interpreted as an observation about debt raising, which as I say, we have no plans to do.

Greg Patterson: Greg Patterson, KBW. You made a comment today on the press conference call about being interested in acquiring in Asia and I know you've got organic targets and I was wondering what you define as an organic acquisition versus non-organic acquisition. If you bolt-on a distribution channel, would you call that organic and might it slow down the releasing cash flow. The second question is in terms of Asia, I wonder if you could give us or quantify the actual reduction in IRR you've seen over the last two years in your Asian operations. And then just a third and last question: about two years ago you pooh-poohed the idea of entering the wire-houses and if I'm not mistaken at the beginning of the year you got into an arrangement with Paine Webber. I was wondering what the impact on the margin would that be from pushing distribution into that area?

Mark Tucker: Okay. Let me deal in reverse order. We entered the wire-house market with UBS and that was specifically because of UBS's acquisition of Piper Jaffray. It wasn't done in a general looking at the wire-house market, it was done because we were working closely with Piper Jaffray at the time and I think it was a logical step to take that forward. In terms of margins, Clark? And volumes?

Clark Manning: It's been in wholesale using our regional broker-dealer wholesaling force, so there's no incremental cost – purely experimental. As Mark said, it was following Piper Jaffray after the UBS acquisition. We see UBS as being the least wiry of the wires. It's so considered experimental, but zero marginal cost.

Mark Tucker: In terms of – it's a clever question the second question – in terms of the reduction in IRRs, considering we've never given the IRRs an up or down, we've just said that IRRs remain 20 per cent plus. I think they remain strongly 20 per cent plus and we're immensely grateful for that.

In terms of M&A – and I think it's worth talking about our general view there, both in Asia as you mentioned Greg and I think the US as well. The situation hasn't changed, I think we've been looking opportunistically for acquisitions, mainly fundamentally bolt-on acquisitions, in both territories. We see both in terms of where we believe, in terms of the cycle; both absolute and relative prices are expensive and we've not seen anything of value and we'll continue to look. But that's fundamentally what I've said, I think for the last three years. And I think if you think in the US particularly, we have about a billion dollars of excess capital, we have significant reinsurance capacity, we have, again, an ability to leverage; all of that allows us to think quite flexibly. But fundamentally we're concentrating on bolt-ons.

Andrew Crean: Andrew Crean at Citigroup. Can I explore a couple of areas, but before that, could I make a request – could we have a little bit more financial information on your two asset managers, I mean in terms of the revenues because they are important businesses and just having the assets and the profits is a little limiting.

The two areas I wanted to discuss … was firstly cash flow and dividends. You gave a chart last year about the positive cash flows in Asia. That together with the strong profits from asset management and the reduction in investment plans in the UK should give you very strong cash flows. On that, firstly, is that chart on Asia still on track, and secondly, given the fact that you've got such strong cash flows, couldn't you accelerate the rate of dividend growth ahead of that time? The second area was this figure of £1.3 billion of capital benefit from keeping together. Could you explain a little bit more how that is calculated? If the company split up, I assume that the Asian business would be under Asian regulations and therefore would have a lower capital requirement. Is your analysis based on if you split up, but still were under the same regulatory regime?

Mark Tucker: In terms of the first question on cash flow, there was a slide that Philip showed last year, and I think Philip made a very clear statement that it wasn't a prediction in terms of the growth, I think the chart went out from 10 per cent to 50 per cent sales. And I think we've seen effectively 50 per cent sales in the first half this year; that wasn't a prediction at the time, but I think it's pretty accurate, and yes, we're totally in line with that; that remains the same. I think the mix since then, Philip, has remained broadly the same.

Philip Broadley: Yes, a slight increase in unit-linked sales to 72 per cent, but that profile that we showed of the cash generation of Asia at different growth rates remains not a bad predictor of what we think will happen.

Mark Tucker: In terms of the rate of dividend growth, Andrew, I think what we said in announcing our new dividend policy at the Prelims was that our focus was clearly getting to two times earnings. We're continuing along that track with 1.5x, 1.6x, and I think once we get to those sorts of levels I think we begin to have other conversations. We're aiming to reach those targets and then look at further flexibility. But I think, as you've

said, and I think as you've written, we're certainly proceeding well on that track. Philip, in terms of the £1.3 billion?

Philip Broadley: Yes, in terms of the capital, I think in your question you were suggesting that if Asia were separate, what level of capital would it require? Regulatory capital requirements in Asia generally are lower than those under our economic capital model, but my view is if you were running the Asia business on a prudent basis, you'd want a level of economic capital similar to that which we currently have allocated to it under our AA standards. So that geographic diversification benefit comes from the Group as it is structured today, having the mix of business that it does and run to a strong economic capital view.

Blair Stewart: it's Blair Stewart from Merrill Lynch; two questions please. Just on, both actually on the US; you talked about bolt-on acquisitions; what exactly would you be looking at to bolt on to Jackson and would that be product or distribution led? Secondly, on asset quality; is there any change to the risk appetite of the Group in terms of the amount of packaged credit that you buy, or the BBB corporate?

Mark Tucker: Blair, let me start – if I can go in reverse, Philip can give you an overall sense of our exposure in those markets, and then Clark can talk specifically about the US. In terms of bolt-ons, I think what we've said is that the bolt-ons will be contiguous with the current operations. So it will be something related to what we do; we're not looking to go into a vastly different field. But fundamentally it will be consistent with what we're doing today. Philip.

Philip Broadley: Yes. We made a couple of comments in the Press Release around asset quality, and I think linked to appetite. First, in terms of sub-prime exposure out of £23.3 billion or so of assets in Jackson, £252 million of that are asset-backed securities where sub-prime is the primary collateral. Those are fixed rate and first-lien collateral of AAA quality, and Clark can talk more about that in a moment. There's very limited exposure otherwise to other CDOs across the Group, and in terms of the risk appetite we commented also in the Release that within the UK life fund we entered into substantial protection in June. We bought about £4 billion notional protection in the credit default swap market; that obviously has provided some upside to the impact of the recent movements and spread. As to appetite, Clark, do you want to add anything about where new money is going?

Clark Manning: I'll address a couple of topics related to the assets; I'll start by amplifying a little bit on what Philip said, my figures being dollars rather than pounds. I think the fixed rate first-lien collateral point is important because most of what's gotten in trouble has been floating-rate collateral, and we have virtually none of that. Of the sub-prime exposure that we have – we all know the rating agencies have been looking at this stuff very carefully. Moody's did not downgrade any tranches of any deals in which we participate; S&P only hit two of the deals in which we participate, obviously not our tranches since we are AAA, still AAA, but we only have $25 million worth of exposures to deals that any of the tranches have been downgraded by anybody. If we look at our Alt-A exposure and cast the net a little wider, the Alt-A exposure that we have – it's about $1.4 billion, and that is all fixed rate collateral. That's about 75 per cent AAA; the rest of it is A and AA except for $3.7 million of BBB; so nothing below investment grade. The mark to market on the sub-prime exposure that we have is about minus $12 million, and again part of that is going to be interest rate related.

So spreads have widened some, but the paper that we have has performed pretty well; we've viewed this as an up-credit trade.

In terms of our purchases and general approach towards assets this year, we've been pretty defensive. We've been pretty defensive for a while; our view has been that corporate spreads were not sufficient to compensate for the risks in general. As a result, we've brought our junk exposure down to about 5.1 per cent of invested assets, and that's about 75 per cent BB and 25 per cent B. The BBB exposure on our books is about one third of our invested asset portfolio, carefully selected. We are still a spread lender, so we're still exposed to the credit markets, but we've been pretty careful how we do that and have stayed away from the lower credit quality tranches and looked for up-credit trades.

Blair Stewart: Thanks very much; can I just come back on the first question on bolt-ons? Presumably you wouldn't feel the need to buy anything in the annuity space?

Mark Tucker: Clark, do you want to comment on that?

Clark Manning: What we'd be looking for in terms of bolt-ons would be primarily back books where we can lever our administrative capacity at a good cash-on-cash return. Some distribution may come with that, but if distribution is a substantial part of the pricing considerations then in my mind it's no longer a bolt-on, by definition. I would think that there may be some annuities that would come along with a bolt-on – I don't want to rule those out – but the first place that we would look would be life insurance. Because with life insurance you get the additional benefit of the very stable cash flows that come from life insurance. Our assessment is that it's very difficult to write those at a good rate of return in any volume at present that you could actually, in a normal market, buy those as a back book at a better rate of return than you could write them at. Now it's been difficult to do in the market until recently because properties had been bid up so much with so much liquidity in the market, so many people chasing property. So we continue to look at a lot and be extremely selective, and if we find something good then we would jump at it. And if we don't find anything good then we're perfectly happy to sit on the sidelines till pricing conditions improve.

Trevor Moss: Trevor Moss from MF Global; sorry to return to this topic, but just a little clarification, Mark. The definition of bolt-on – is the definition of bolt-on something that can be funded internally from existing resources without needing to go to the equity market? Because my perception would be, with your shares I think trading at a significant discount, I don't think there would be a broad welcome to paying an acquisition premium by raising equity at this time.

Mark Tucker: The answer is yes, Trevor.

Trevor Moss: Just a further question for Clark, because we all like to know about your US business, Clark. You stepped a little bit back, though you've maintained your market share in equity-indexed products over the first half of the year, and there's a note in the Press Release talking about the continuing uncertainty regulatory-wise. I wondered if you might just say a few words about what the current situation is there in the FIA market?

Clark Manning: I think if you start by looking at the aggregate US annuity market, to keep an idea of where we focused in the first quarter of this year - the last quarter for which statistics are available – there were $42 billion worth of variable annuities written, about $10 billion worth of traditional fixed annuities written, and about $6 billion of fixed-indexed annuities written. The fixed-indexed annuity market shrank by about 10 per cent year-over-year in that first quarter. I think the reasons for that – you have some competitors, some players who are way up, some players who are way down; you're having a lot of dislocations in that market right now. Our approach to that market has always been that we want to be in it, that we focus on the bank and broker-dealer channels, where we're number one – but that's just a sliver of the market; most of those are written through general agents, master general agents sorts of arrangements. And we want to be in there on our basis, which has been a very clean basis from a regulatory standpoint. For instance, we are one of the few companies that files all of its advertising literature with the NASD, to make sure that it meets NASD requirements – important given our broker-dealer and bank focus, the quality focus of our business. I will take whatever market share then that that market gives us, consistent with the parameters that I've laid out there. It's not the major part of the US market, probably never will be, but it's a good business that has its point in the cycle when interest rates are low and equity returns are perceived as being risky. So we want to stay in the market. Our share has been about flat; it has fallen slightly; we're the number nine player in that market, which is a scale position but not a large position but with roughly a flat market share, and I'm satisfied with that. We'll be there when some of the current dislocations in the market shake themselves out.

Trevor Moss: Could I just add the dislocations you're seeing in the agency market there that you made reference to, with a lot of players very up, a lot of players very down. What do you think is causing that? Is it different views from the management teams over regulatory concerns, or is it other factors?

Clark Manning: No, it's fairly well known that the largest player in that market, Allianz, is facing some regulatory problems and some lawsuits right now, and I think that's causing a lot of people to evaluate their business models there very carefully. I think that, for other players, even if you have a clean business model, if you're aware of the US litigation situation, once the trial lawyers decide to start suing people they'll sue everybody, and let the court system sort it out. So there will be collateral damage and a lot of noise around the product line. So I think some people may just have had their appetite reduced or their business practices re-evaluated based on some of the regulatory and trial lawyer activity that they are seeing there. I don't know for sure, on a company-by-company basis though, what the considerations may have been that led them to be more aggressive or less aggressive in the product line.

Matt Lilley: Matt Lilley from Lehman Brothers; can you just give us an idea on a country-by-country basis what sort of outlook you have for the second half of the year in Asia?

Barry Stowe: We are obviously coming off a very good first half, and would like to think that we have some momentum building in the first half of the year. Obviously the numbers, top line numbers and bottom line numbers in Asia for the first half are good. I think what is maybe an even more important part of the story is that it was broad-based, that every market is growing. Some of the issues that we might have felt we had in the past, in terms of productivity of agency, or growth of agency, as Mark showed you, that has basically been corrected. So we're very optimistic about the second half; I think you'll continue to see good results

from virtually every market. I wouldn't want to put a specific number on it because obviously it's a fluid situation, but the information that we disclosed showed that there was a broad-based success in the first half. I would expect it to be broad-based in the second half.

Tony Silverman: Tony Silverman, Standard & Poor's Equity Research; can I ask a further question on Asia, and one on the UK? You mentioned the health insurance business; would you give us an idea of what the scale of that is now in Asia, in terms of premium income? And secondly, are these twelve-month policies, or are they longer-term policies, because health insurance covers a wide range of business models? Secondly, on the UK, do you have any plans to renew the brand, having positioned yourself of appealing to fifty-year-olds plus? How is that going to be renewed, a sort of fundamental brand question: how are forty-year-olds going to be moved to the Pru brand if you like, or is it a declining brand? Finally, just one members question if I may; the offshore bond sales in the UK seem to have dropped quite dramatically – I think it's down 40 per cent in a segment which is seen as growth elsewhere. So I was wondering if you could enlighten us a little further on that please; thank you.

Mark Tucker: I think if Barry can take the first and Nick the second, the two issues in terms of the health business, one is scale and one is whether it's a short or longer-term.

Barry Stowe: The health insurance business is not necessarily a new business for Prudential in Asia; in fact it has, I think, last year represented about 10 per cent of our new business; so it's been fairly geographically isolated. One of the things we're doing is broadening the geography of that business and introducing products into places where we've not historically written a lot of health insurance business. In terms of the nature of the products, there is some short-term business that is written; more commonly what you will find is business with some sort of long-term guarantee, which makes it very important that you get the technical aspects of the product right. We historically have not written, and have no intention of writing, full-blown reimbursement medical, because that is a pretty complicated business and you wouldn't want to make a lot of significant long-term guarantees around that. But if you write business that is essentially supplemental in nature to a government health plan, or that provides on an indemnity basis sufficient benefits to allow people to seek the sort of care they need, (a) that essentially is a very compelling product from a market perspective, in virtually every market in Asia, and secondly can be written at quite high margins; and third, is a business that we think will be very successful going forward. Mark alluded to the Singapore example where we've just launched a new product; historically we've written health business at a pace of I would say about 1,000 policies a month in Singapore. This new product that we've introduced in the middle of May which is effectively a supplement to a government funded health plan in Singapore, we have so far written over 20,000 policies and are writing policies at a pace of 300 a day. They are not huge premiums; the average premium on that policy would be about S$200 Singapore dollars, but you know you are able to build a real scale business with that and the margins on that would be amongst the highest that we would produce on any product anywhere in Asia. So, the health insurance opportunity is a very strong opportunity for us.

Mark Tucker: Nick, the brand and the offshore bond?

Nick Prettejohn: I think the brand is still a very strong brand in the retirement space in the UK market; indeed on some metrics we are actually the strongest retirement brand, and as far as particularly the key age groups, 55+, are concerned, we come up very strongly in terms of brand identity and spontaneous awareness. So, we will, I think, undoubtedly over the course of the next twelve months and beyond, do some things to continue to reinforce that. And that's particularly important with the intermediaries, because we need to position ourselves very clearly as retirement specialists focusing on the multi-asset allocation core of our investment products on the one hand, plus the annuities and equity release products on the other.

I think as far as the offshore question is concerned, the first half numbers for 2006 were quite severely distorted by a large, extremely low margin deal with one particular distributor which I was unable to stop, sadly, which means that the comparison in volume terms for 2006 versus 2007 is quite severely distorted by that. I think in the first half of 2007 we have seen some quite significant competitive and pricing pressure in the offshore bond area and we have been deliberately against that backdrop as we have across the rest of the business, being very selective in the business that we have chosen to write. We have refreshed our proposition particularly in terms of inheritance and trust capabilities, so we think for the second half of the year we are more optimistic about volume but again, we will continue to be selective as we have in the first half.

Tony Silverman: Can I just come back on the brand; the question was really aimed at the dynamics of brands and the marketing. Those 55-year-olds will have grown up when Pru was in the savings business; one doesn't sort of stay statically in a demographic market. How are you going to appeal to the younger … when the younger people become older, what are your plans for renewing the brand in that sense?

Nick Prettejohn: Well I think we are talking about appealing to essentially the 50+ age group, and I think, as I said before, we have extremely high spontaneous awareness and association with retirement and pensions in that age group and that – you're looking dissatisfied with the answer but the facts are that in that age group we have a very strong brand position and we will continue to invigorate that. But, what I would *not* see is us – perhaps in contrast to our previous strategy – is attempting to appeal equally to all age groups across the population because that results in a lack of focus. I don't believe that it is necessary or possible, economically, for us to appeal to all age groups with all products at all times. And our retirement focus means we will concentrate on that 50+ age group.

Andrew Crean: A couple of questions; on the IRR in the UK which have beat your target by a point, I think you said you rely quite heavily on annuities. Corporate pensions business which you remain in, has got an IRR in the single digits and a very long cash flow – cash payback period; how do you justify retaining that business, particularly against the backdrop of the introduction to the NPSS which could have an impact on the volumes long term?

And the second question; I want to know, a $ billion of excess of capital in the States, what return hurdle do you have on investing that and what are your thoughts about taking it back to the Group and perhaps using it

as a buyback, if you think that your own shares are cheap? Would that not be a better idea than buying somebody else's?

Mark Tucker: Nick, how about you take the UK?

Nick Prettejohn: As far as why do we continue in corporate pensions is concerned, as we said in March, there are two fundamental reasons to start off with; one is that provides a continuing flow of internal vestings opportunities to our individual annuity business. Secondly, it provides a continuing flow of business into our with-profits funds. So those are two pretty good reasons on their own. But thirdly, we said that we believed that we could increase the IRR from single digit as you say, up to round about our 14 per cent target level for the whole business.

How can we do that? Well, one is the impact of cost reduction and in particular, keeping costs the same as volume increases and I think that strategy is already beginning to show through. Secondly, is by being selective in the kind of schemes that we write. So, for instance, in the first half of this year, I think we declined to quote on around 32 schemes in the first half of this year. And that's an increase from I think 13 schemes in the first half of 2006. And the major new schemes that we wrote during the first half - that's Rolls Royce, Birds Eye, Triumph and MFI - were all schemes that actually fit fairly and squarely into our desirable scheme category. Whereas in fact we wrote no new business in the first half of the year that actually fitted into our sort of sweet spot if you like in terms of desirable profile, that sort of average case size and the size of scheme.

So, a combination of cost reduction and a selective focus in terms of new business, we believe, will mean that corporate pensions should be an attractive offer, an attractive proposition for shareholders in future. It's also relatively non cash absorbing; the cash requirement for the corporate pensions business is low. I think it was £12 million we quoted in our presentation in March? And I guess the other point is, if we think about our wholesale business and we think about the increasing demands for solutions from employers for defined benefit schemes, what we're finding increasingly is that as people look at de-risking their pension schemes, they are actually finding that a combination of the sort of bulk annuity and risk management type solutions on the one hand and moves from DB to DC schemes are an increasingly attractive combination. And actually we are pretty – I don't think you can be pretty unique; you either are unique or you are not unique. But I will say it anyway; we are pretty unique in being able to offer that combination in the way that we do. So, I think the corporate pensions business is potentially a very interesting business for us in the future, for a whole combination of reasons.

Mark Tucker: NPSS, Nick?

Nick Prettejohn: As far as NPSS is concerned, we've made it pretty clear to the government that there would have to be a fundamental change in the charging mechanism and level for us to be interested in participating in that market. So we do not regard it as an opportunity. We, like the rest of the industry, have been concentrating on creating sort of clear blue water between NPSS and existing schemes and from all of the conversations that we have had with government in terms of maximum contribution caps and so on then

that clear blue water seems to be being maintained and there seems to be little intention on the part of government to jeopardise good schemes as a result of the introduction of NPSS.

Mark Tucker: Andrew, the second part of your question I think; the second part regarding the $ billion excess capital. I think the billion in excess capital, I think we do see opportunities in the US, as I say, on a bolt-on basis, and we do see returns and I think the stated level for the log return was 12.5 per cent and that's on a levered basis so I think we do see opportunities in the US marketplace. If those closed down then we clearly have the ability to return the money but I think at the moment we do see some opportunities there and we think there is a productive way of using that money.

Clark Manning: Probably also worth adding, if I could, Mark, that excess capital, whilst it's within Jackson, still counts to the regulatory capital base under the SEC and if we would go down your suggested route of shared buy-back, then that would be a deduction from the regulatory capital surplus and we are very comfortable with the surplus that we currently have and intend to maintain it broadly at that level.

Trevor Moss: Thank you, it's Trevor Moss again, at MF Global. Just returning very briefly to Andrew's question about the IRR on group pensions; I presume that the IRR that you previously quoted was calculated on the same basis of the embedded value, namely so it would not include new employees that come into the scheme nor any potential income you get from vesting annuities at the end of it. So, on that basis would you agree that the IRR taken overall, including that, would be substantially in excess of 12 per cent?

David Belsham: The assumptions you make on that basis of calculation are correct. What the answer would be if you included those, I can't tell you off the top of my head but it would be a material change because obviously the extent of new members and so on is quite substantial over the lifetime of a scheme.

Greg Patterson: Greg Patterson, KBW. I recall a conversation I had with our US Analysts about your excess capital position when you were trying to figure out if someone could, you know, what an acquirer would do and whether they could strip out money. I think your ratio was 499 times coverage and his comment at the time was, well in order for them to retain their credit rating, they really don't have a lot of excess capital. Do you have those excess capital in the context of a credit rate?

The second question is on bulk annuities in the UK; well, according to Paternoster you didn't play in the middle market at all; Swiss has taken the Friends Provident in the Zurich deal. So what are the prospects of you writing a medium sized bulk or large bulk into the future?

And the third point is, I in the context of the letter written by the FSA to the Chief Actuary around the potential inappropriateness of the medium cohort as a best estimate basis; I mean, this is just in terms of timings; you only review your mortality basis at the end of the year. So even if you had made a decision to change or not change we wouldn't have seen anything at the half year. Is that correct in terms of timing? Not whether you need a change, but just when you do the reviewing.

Mark Tucker: Let me give you a summary of those and it's in terms of excess capital. Clark will give you the details and in terms of the UK, let Nick answer that one, but I think in short summary the excess capital – as Clark will give you the detailed figures – is excess capital and he'll define that. Prospects, a large bulk of it, let Nick talk about and I think Nick can talk about mortality and the FSA letter. So, I think Clark, you just want to talk a little about the exact excess capital.

Clark Manning: Risk-based capital ratio as at June 30th is was 555 per cent. That is far above the comparables where our peer companies and for AA companies in general. If we look at our capital position and the rating agency capital models, we're well up in AAA land. There's other considerations on setting the rating but I mean in capital considerations, we are very, very strong. If you just look at the raw capital ratio - the easiest number to get your arms around - without statutory blind can be – it's increased too, it's near 10.5 per cent now, capital as percentage of general account liabilities, compared to 7.5 per cent just a few years ago. So that has increased a lot, and we had a AA rating then, and a AA rating now. So the capital position's quite strong. But the risk base capital ratio I think is a good benchmark; the benchmark for AA companies risk base capital ratio is nowhere near 555 per cent.

Mark Tucker: Nick? Talk about the prospects of bulks and the mortality?

Nick Prettejohn: Yes, prospects for bulks. I am not sure I recognise the rendition of our activity delivered by various pundits who you quoted. We are active – we are active across the market in small, medium-sized deals and very large deals. We are, however, very selective in the business that we actually write, as a distinction between the playing in the market which means looking at deals and writing deals at potentially unattractive levels of pricing. So we have seen large numbers of potential opportunities and we have declined to go down to the levels of pricing that some competitors have done in the marketplace and that will continue to be our stance. But you know the flow of potential deals is very significant. I think I would agree with –what I read of Tim Breedon's comments in the Legal & General results where he said there's a lot of quotation activity out there. But actually the amount of business that's being written is less. What we are seeing is quite a number of trustees and importantly, a number of companies looking to de-risk at the moment and that is providing a whole raft of potential opportunities that are perhaps slightly different from the conventional sort of traditional bulk buy-out opportunity.

As far as our mortality position is concerned, we are constantly reviewing our mortality, our experience in – so far this year hasn't caused us to make any changes. We have a permanent six-person mortality unit under the leadership of what we affectionately call "Dr Death" David Belsham here. With four actuaries and two statisticians, we have three million life years to look at; we have 70,000 deaths, so we have a lot of data with which to analyse mortality and we do that constantly. Clearly we will take a formal view on that in the second half of the year as we do every year. But for some time we have maintained the position that the unadjusted medium cohort view of life is not sufficient, and from a pricing and an EEV and a Pillar I point of view, our assumptions are significantly stronger than the medium cohort.

David, you want to say any more…?

David Belsham: No, there has not been any change in assumptions but we based our mortality on the medium cohort, but having recognised that that's not adequate on its own, we actually hold additional margins in the opening mortality. We have floors on mortality improvement for Pillar I and we also hold additional margins in other elements of the basis that are earmarked against the eventuality of mortality improving faster than the medium cohort. So, the overall effect of that is that the EEV assumptions are significantly above the medium cohort, when you look at all the assumptions together. And in fact our Pillar I and Pillar II assumptions were above the long cohort and there is a lot of speculation at the moment about whether it is right to move to the long cohort. I mean in reality we've regarded the long cohort as the wrong shape; the improvements under the long cohort run down to zero over time, given that mortality has being improving for the last 150 years, any improvement basis that runs down to zero seems to be implausible. So we don't propose to move to the long cohort, we prefer to use a sensible basis for improvement but to underpin that with floors and margins in the opening mortality. So, really, this is just a re-expression of the strength that we hold across the basis at the moment.

Mark Tucker: one last question James.

James Pierce: Thanks. A couple of questions. Am I reading too much into your caveats on the Equitable deal saying if it completes when it completes, when it is certain, and so on? Or are you just pleasing the lawyers and you are very confident as you were before?

Secondly, on Barclays, either could you tell us how much business you expect to write through the next year or could you tell us the amount of maturing pension business and what the typical penetration is on this kind of arrangement on?

Mark Tucker: I think let Nick take that. I think you are clearly not going to get any forecast of numbers as you would expect. As the deal's just been announced today in terms of a maturing business we are clearly going through those discussions with Barclays, but I think – Nick, is there anything that you want to add?

Nick Prettejohn: I would expect once the Barclays deal gets up and running that the AP impact would be in the order of sort of double digit millions of AP, but beyond that, we're into new territory effectively with Barclays and I think the really interesting thing about Barclays deal, as it is similarly with the deal we have done with Think Destiny, is it makes for an effective use of the capability we've got in our PruDirect operation which we set up in the first instance to fulfil the needs of our internal vestings customers. But we've now actually been able to take that expertise and the capability with that PruDirect operation and provide effectively an annuities desk for Barclays and their 800 financial advisors and also for Think. So a powerful extension, effectively for the proposition that we have in our internal vestings capability.

And then the other question was Equitable. No, I mean the caveat, if there is any, is that this is a legal process and one on which the Equitable policy holders have to vote. So nothing is absolutely certain but the timetable that has been agreed between ourselves and Equitable would see the transaction completed in December obviously subject to a positive shareholder vote and court proceedings. But there is nothing at the moment that suggests we won't meet that timetable for any other reason. The deal is, I think,

unambiguously, from our point of view in the best interest of Equitable policy holders and the with-profits fund and Prudential shareholders. So we think it is a good deal for all of the parties concerned.

Mark Tucker: Well, thank you very much for coming this morning and look forward to seeing you again shortly.