PRUDENTIAL PLC

ANNUAL REVIEW AND SUMMARY FINANCIAL STATEMENT 2001

PRUDENTIAL

PRUDENTIAL PLC, THROUGH ITS BUSINESSES IN EUROPE, THE US AND ASIA, PROVIDES RETAIL FINANCIAL PRODUCTS AND SERVICES AND FUND MANAGEMENT TO MANY MILLIONS OF CUSTOMERS WORLDWIDE.

OUR COMMITMENT TO THE SHAREHOLDERS WHO OWN PRUDENTIAL IS TO MAXIMISE THE VALUE OVER TIME OF THEIR INVESTMENT. WE DO THIS BY INVESTING FOR THE LONG TERM TO DEVELOP AND BRING OUT THE BEST IN OUR PEOPLE AND OUR BUSINESSES TO PRODUCE SUPERIOR PRODUCTS AND SERVICES, AND HENCE SUPERIOR FINANCIAL RETURNS. OUR AIM IS TO DELIVER TOP QUARTILE PERFORMANCE AMONG OUR INTERNATIONAL PEER GROUP IN TERMS OF TOTAL SHAREHOLDER RETURNS.

AT PRUDENTIAL OUR AIM IS LASTING RELATIONSHIPS WITH OUR CUSTOMERS AND POLICYHOLDERS, THROUGH PRODUCTS AND SERVICES THAT OFFER VALUE FOR MONEY AND SECURITY. WE ALSO SEEK TO ENHANCE OUR COMPANY'S REPUTATION, BUILT OVER 150 YEARS, FOR INTEGRITY AND FOR ACTING RESPONSIBLY WITHIN SOCIETY.

CONTENTS

PRUDENTIAL'S UK & EUROPEAN INSURANCE OPERATIONS

Prudential is a leading life and pensions provider in the UK.

- Prudential's UK Insurance Operations provide a range of financial products and services including annuities, corporate and individual pensions, with-profits bonds and investment products to more than seven million customers.
- Its products are distributed through a number of channels including direct to customers (telephone, internet and mail), through intermediaries including Independent Financial Advisers and consulting actuaries, through the workplace to its corporate pensions customers and via affinities and banks.
- The business currently employs some 8,000 staff located in offices in Stirling, Reading, Belfast and London.

Prudential Europe was formed in 1999 to spearhead Prudential's expansion into continental Europe. Its operations encompass both the manufacture and distribution of Prudential branded products in France and Germany.

- Prudential offers single premium savings products in France, as well as critical illness cover and mutual funds in Germany.
- Its products are sold through local distribution partners.
- Prudential Europe employs some 620 staff at its offices in Dublin, Frankfurt and Paris.

www.pru.co.uk
www.prudential.fr
www.prudential.de

M&G

Founded in 1931, M&G was acquired by Prudential in 1999 and is the Group's UK and European fund manager with over £120 billion of funds under management, including £80 billion managed on behalf of the Prudential Assurance Company's and Scottish Amicable's long-term funds.

- M&G's retail investment products include unit trusts, PEPs (Personal Equity Plans), ISAs (Individual Savings Accounts), OEICs (Open Ended Investment Companies) and investment trusts. Its institutional business focuses on segregated fixed interest and pooled pension funds.
- M&G employs some 1,300 staff and services more than 906,000 unit holder accounts.
- Prudential Property Investment Managers, the largest institutional property investor in the UK, and PPM Ventures, a private equity investment business, are also part of the M&G group.

www.mandg.co.uk

EGG PLC

Launched by Prudential in October 1998, Egg is the UK's leading e-commerce financial services brand, and will be extending its reach into France and Germany in 2002.

- Prudential completed an Initial Public Offering of just over a 20 per cent share of Egg in June 2000.
- Egg plc provides banking, insurance, investments, mortgages and a shopping portal through its internet site and other distribution channels.
- Egg plc has more than two million customers and employs some 2,200 staff mostly based at its call centres in Derby and Dudley.

www.egg.com

JACKSON NATIONAL LIFE (JNL)

JNL was acquired by Prudential in 1986. Today, it is one of the top 20 life insurance companies in the US in terms of total assets, and has more than 1.5 million policies and contracts in force.

- JNL is a leading provider of fixed, indexed and variable annuities, term and permanent life insurance, and stable value products.
- Headquartered in Lansing, Michigan, and employing 2,400 people, JNL markets its products in 50 states through independent agents, broker-dealers and financial institutions (in New York as Jackson National Life Insurance Company of New York).
- JNL's investment portfolio is managed by PPM America Inc., which manages some US$57 billion of US assets.

www.jnl.com

PRUDENTIAL CORPORATION ASIA (PCA)

Prudential began its first Asian operations in India in 1923. Today, it is Europe's leading life insurance company in Asia, employing around 5,000 staff and serving more than 2.2 million customers.

- PCA has operations in 12 countries: China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

  These include joint ventures with some of the region's leading players, including:

  – Bank of China International for Mandatory Provident Fund business in Hong Kong;

  – ICICI Ltd (India) for both life insurance and mutual funds; and

  – China International Trust and Investment Corporation (CITIC) for life insurance.

- PCA's distribution is predominantly through some 60,000 agents, but also through a growing number of other distribution channels including its successful bancassurance relationship with Standard Chartered Bank (SCB).
- PCA offers a comprehensive range of savings, protection and investment products.

www.prudentialasia.com

Results Summary	2001 £m	2000 £m
Achieved profits basis results		
Operating profit before tax		
UK Insurance Operations:		
Long-term business	**620**	708
General business	**79**	33
	699	741
M&G	**75**	125
Egg	**(88)**	(155)
UK Operations	**686**	711
US Operations	**319**	226
Prudential Asia	**415**	213
Prudential Europe	**8**	17
Other income and expenditure (including development expenses)	**(178)**	(138)
	1,250	1,029
UK re-engineering costs	**(64)**	–
Operating profit	**1,186**	1,029
Amortisation of goodwill	**(95)**	(84)
Short-term fluctuations in investment returns	**(1,402)**	(440)
Effect of change of economic assumptions	**(482)**	–
Merger break fee (net of related expenses)	**338**	–
Profit on business disposals	**–**	223
(Loss) profit on ordinary activities before tax	**(455)**	728
Operating earnings per share	**41.9p**	38.4p
Shareholders' funds	**£8.15bn**	£8.8bn
Statutory basis results		
Operating profit before tax	**622**	840
Operating earnings per share	**23.3p**	30.2p
Dividend per share	**25.4p**	24.5p
Insurance and investment funds under management	**£163bn**	£165bn
Banking deposit balances under management	**£6.5bn**	£7.6bn

	2001	2000
Total Annual Premium Equivalent Insurance Sales	Up 16% to £1,766 million	£1,528 million
Total Annual Equivalent Investment Sales	Up 172% to £1,021 million	£376 million
Achieved Profits Basis – New Business Profits	Up 10% to £673 million	£613 million
Achieved Profits Basis – Total Operating Profit	Up 15% to £1,186 million	£1,029 million

I am delighted to report that 2001 has been another strong year for the Group with achieved basis operating profit (after restructuring costs) up 15 per cent to £1,186 million and record total Group insurance and investment sales of £21.5 billion, an increase of 54 per cent on 2000. These results were particularly pleasing because they were achieved in difficult market conditions for many areas of our business. They also fully endorsed our strategy of growing internationally, broadening our distribution reach and diversifying our product range. The Board has decided to increase the total dividend by 3.7 per cent to 25.4 pence per share.

The year was, of course, overshadowed by the dreadful events of 11 September in the United States. Although the Group's direct exposure following these events was extremely limited, we were without doubt all affected by this appalling tragedy.

The proposed merger with American General early in the year was consistent with our strategic approach and demonstrated our focus on growth across the Group. As we indicated at the time, the transaction was not about our position in the United States in 2001 or the year ahead – it was about the positioning of the business in four or five years time. It was an excellent opportunity for Prudential and while we were clearly disappointed that the transaction did not proceed, it is important to remember that we already have an excellent business in the US in Jackson National Life. Going forward, we will continue to look for opportunities to grow the business.

We have some really outstanding operations across the Group and can look to the future with a great deal of confidence. A more detailed commentary about our businesses in the UK, Europe, the United States and Asia can be found in the Group Chief Executive's and Business Reviews.

None of the progress made during the year would have been possible without the hard work and dedication of our staff. In what has been an increasingly competitive environment for many parts of our business, I have been enormously impressed with their continued commitment, drive and professionalism and I would like to thank them for their considerable efforts.

There have been a number of changes to our Board during the year. Bridget Macaskill resigned from the Board in March. As Chairman and Chief Executive Officer of OppenheimerFunds Inc, a subsidiary of MassMutual Financial Services Group, Bridget concluded that she should resign to avoid any potential conflict of interest given that MassMutual and American General (with whom we were in merger discussions at the time) operate in the same market. I would like to take this opportunity to thank Bridget for the significant contribution she made to the Group.

Keith Bedell-Pearce retired from the Board at the end of the year. Keith had been with Prudential for almost 30 years and he made an enormous contribution to the development of the Company. I have personally appreciated his wise counsel since I joined the Board.

We welcomed Mark Wood to the Board in June. Mark joined the Group from AXA UK as Chief Executive of Prudential's UK and European Insurance Operations. In November, we appointed Clark Manning President and Chief Executive Officer of Jackson National Life and Chief Executive Officer of our North American operations. Clark was previously Chief Operating Officer for JNL and he joined the Group Board on 2 January 2002. I know that both of them will make a valuable contribution to the future prosperity of the Group.

All of the Group's principal businesses – our UK and European insurance operations, M&G, Egg, Jackson National Life and Prudential Corporation Asia – are now represented on the main Board. As the Company develops both internationally and in complexity, its non-executive directors have had to take on an increasing workload and time commitment to ensure their duties are carried out effectively and this is likely to continue. The extensive knowledge and experience of the executive team, coupled with the breadth and complementary skills brought to the Group by the non-executive directors, ensures that Prudential enters 2002 in excellent hands.

The benefits of our strategy are clear. We are a leading international financial services company with significant brand, distribution and product capabilities in each of our chosen markets, and when combined with our financial strength and efficient cost base, we are very well placed to deliver superior investment returns to our customers and shareholders.

Sir Roger Hurn, Chairman

25.4p

TOTAL DIVIDEND UP 3.7%

WE ARE EXTREMELY WELL POSITIONED TO BENEFIT FROM THE GROWTH IN CUSTOMER DEMAND FOR ASSET ACCUMULATION AND INCOME IN RETIREMENT WITH A BUSINESS MODEL THAT HAS FINANCIAL STRENGTH AND DIVERSITY OF EARNINGS BY GEOGRAPHIC REGION AND PRODUCT.

In my review in last year's Report and Accounts, I said that the real challenge for the Group was to use our considerable achievements in 2000 as a springboard for further growth and success in 2001, and I am delighted to report that this is exactly what we have done.

We have continued to deliver our strategy of building an international retail financial services business by broadening our geographic presence, distribution channels and range of products to enable us to reach more customers and meet more of their needs. This clear and focused strategy is designed to exploit sustainable growth in key markets around the world where we have leading market positions and excellent customer access and reach. We are extremely well positioned to benefit from the growth in customer demand for asset accumulation and income in retirement with a business model that has financial strength and diversity of earnings by geographic region and product.

The success of this strategy has been demonstrated in our performance during the year. We have made real progress in restructuring and re-focusing our UK Insurance Operations and its strong performance in 2001 shows that we can build the business in competitive markets while driving through these changes. There has been continued strong investment performance at M&G and Egg broke even in the fourth quarter as planned. Jackson National Life had its second best year ever for total sales as well as record sales of fixed annuities, and Prudential Corporation Asia had another year of exceptionally strong growth across the region.

Group total insurance sales, on an annual premium equivalent (APE) basis, of £1.8 billion were up 16 per cent and sales of investment products of £1 billion increased from £376 million in 2000. Achieved basis operating profit (after restructuring costs) increased by 15 per cent to £1,186 million. New business achieved profits were up 10 per cent, principally due to strong growth in Asia. Total in force achieved operating profits increased 24 per cent to £673 million, despite a £74 million charge relating to average realised bond losses in the United States.

This performance was particularly pleasing because it was achieved against a backdrop of tough market conditions for many areas of our business. Turbulence in capital markets has led to credit losses and a fall in embedded value. However, the overall Group results reflect the fact that Prudential is a financially strong company with outstanding businesses and a broad international base.

As part of our ambition to build a business with long-term sustainable growth and to deliver top quartile performance, we have set a goal for the next four years of doubling the intrinsic value of the Group. We define intrinsic value as the discounted value of the cash generated by the business in the future. This can be approximated to the sum of the embedded value together with a multiple of new business profits for our long-term businesses, and the fair value of non-insurance operations such as Egg and M&G. In order to achieve this goal, we will need to broadly double new business achieved profits and the fair value of our non-insurance operations. This is a stretching target, the key to which

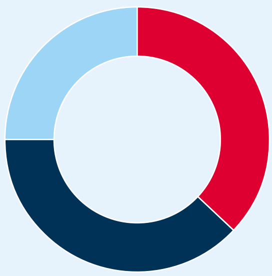
A STRONG RESULT ACROSS THE GROUP:

TOTAL SALES OF £21.5 BILLION: GROWTH OF 54%

ACHIEVED OPERATING PROFIT INCREASED BY 15% TO £1,186 MILLION

DIVIDEND INCREASED TO 25.4 PENCE

ACHIEVED PROFITS BASIS – NEW BUSINESS PROFIT BY REGION



- UK/Europe 37%
- Asia 38%
- US 25%

is performance delivery and our ability to develop the business so that growth will continue after the four year period, and one which is consistent with our focus on delivering value.

The markets in which we operate around the world are experiencing significant change, bringing challenges but also enormous opportunities. This change is being driven by a number of factors including demographic shifts, changing regulation and government policy, different consumer attitudes, greater consumer sophistication, market reform and liberalisation, and increasing competition. Prudential, with its AAA financial strength, comprehensive distribution, product innovation and scale operations is well placed to meet these challenges and take advantage of the opportunities they present.

UK and Europe

The life insurance industry in the UK is well developed and the world's third largest, behind only the United States and Japan, accounting for around 10 per cent of total worldwide premium income. The size of the market is influenced by the comparatively high penetration of life insurance, driven in part by the prominent role of the private sector in financial provision for retirement.

In recent years, the market has changed significantly. The responsibility for providing an income in retirement is gradually shifting from the state and employers to individuals. An ageing population, driven by increasing longevity and the baby-boomer generations of the 1940s and 1960s (which is forecast to increase the proportion of over 60s in the UK population to nearly 30 per cent by 2030 from around 20 per cent today), is increasingly focusing on accumulation of assets to provide retirement income to supplement their state benefits, while younger generations are focusing on pension provision and medium to long-term savings products.

In what is becoming an increasingly competitive market, there are excellent opportunities for financially strong companies like Prudential – which has complementary businesses, market leading positions in key product areas, and some of the biggest financial services brands – to deliver sustained growth in the low margin environment in which we now operate.

Our UK Insurance Operations have undergone an enormous transformation in recent years and the development of our business model in the UK to improve our service offering to over seven million customers continued in 2001. We made changes to our direct sales channels and customer service operations and set out a more focused strategic direction for the business, creating further cost efficiencies and bringing together the operating units under the powerful Prudential brand.

M&G's market position, investment capabilities and brand strength make it one of the leading fund managers in the UK. The successful integration with Prudential Portfolio Managers has created a focused business with strong positions in all of its markets. Investment performance continued to be encouraging against difficult market conditions. Within the retail market, M&G materially increased market share during the year, and on the institutional side won a number of sizeable new fixed income mandates on the back of the growing trend among defined benefit pension schemes to seek to cap their liabilities.

Since we launched Egg in 1998, it has become one of the UK's leading e-commerce financial brands and the leading digital bank worldwide. In November, Egg achieved a break-even position and in doing so, met the commitment made at the time of its flotation in June 2000 that it would break even during the fourth quarter of 2001. Egg's management team is confident that its UK business is sustainably profitable. In January 2002, Egg announced that it would be developing its international business in France through the acquisition of Zebank, the first digital on-line bank in France, and associated distribution partnerships.

With the burden of future retirement provision too much for most state schemes and with a growing equity culture emerging in many markets, the outlook for the retail savings markets in Europe is likely to remain positive for sometime to come, bringing with it significant growth potential for new and established financial services providers.

Prudential Europe recorded a number of notable achievements during the year including the opening of a Paris-based branch, the launch of Prudential Europe Vie, an equity-backed life insurance product that builds on the success of Prudence Bond in the UK, and the signing of an additional distribution agreement with Centre Francais du Patrimoine, one of the largest multi-product broking services in France.

United States

The United States is the largest financial services market in the world, accounting for approximately 70 per cent of retirement assets worldwide. Many of the factors that have affected the UK life insurance market in recent years, such as an ageing population and increasing risk of outliving savings in retirement, have also affected the US market.

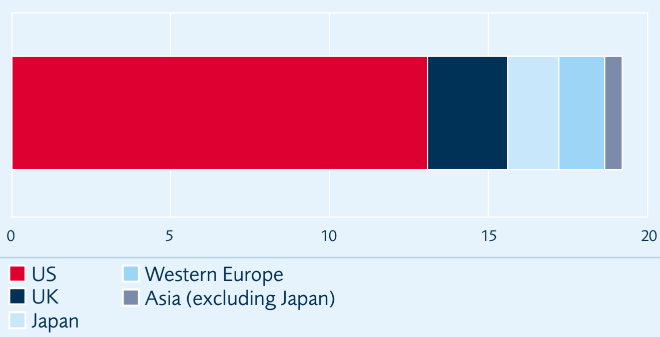
MARKET SIZE AND GROWTH

	2000 Household assets[1] ($ trillion)		2000 per capita ($000)		Annual asset growth (1995-2000)	
	Retirement	Other	Retirement	Other	Retirement	Other
USA	13.5	24.6	49	89	13.7%	10.9%
UK	2.0	2.5	34	42	12.1%	10.4%
Japan	1.7	12.5	13	98	6.4%	2.9%
Western Europe	1.4	9.6	6	40	9.2%	7.2%
Asia (excluding Japan)	0.5	2.2	0.2	0.8	17.7%[2]	15.3%[2]

[1] Includes equities, bonds, cash, annuities, personal pensions, private equity (except UK) and trusteed pension assets. Excludes government sponsored trusts.

[2] CAGR% 97-99 Source: Goldman Sachs Global Aging Report, Merrill Lynch Banks Review, Asia Demographics Ltd.

BREAKDOWN OF GLOBAL RETIREMENT ASSETS 2000 ($ TRILLION)



The fastest growing age group in the US is the 40+ population who control by far the largest share of total net worth and should offer significant opportunities in the asset accumulation products markets. It is anticipated that over 40 million baby boomer households will move into retirement in the next 20 years and that 21 per cent of Americans will be over 65 years of age in 2050 compared to 12 per cent today. We believe that the growth prospects that will be generated by these favourable demographic trends over the medium to long-term are very positive and represent a significant opportunity for high quality businesses like Jackson National Life (JNL).

In JNL, we have one of the top 20 life insurance companies in the United States in terms of total assets. Since we acquired it in 1986, JNL has been transformed into a market leading provider in its chosen product lines and distribution channels. While its performance during the year was affected by the continued market volatility in the US, particularly in areas such as variable and equity-linked products, JNL's broad product and distribution mix enabled it to deliver strong results in other areas including fixed annuities and stable value products.

When combined with its considerable operating efficiency, low cost base and modern IT systems, JNL's diversified product portfolio and variety of distribution outlets enables it to continue writing profitable business in difficult economic conditions. Our ambition to grow the business remains and the focus going forward will be to continue to develop JNL's product range and enhance its distribution channels to ensure that it is well placed to benefit from the anticipated growth in the US financial services market.

Asia

2001 was another year of success and impressive growth for the Group in Asia. Prudential Corporation Asia (PCA) now operates in 12 countries, having added Japan and Korea to its geographic mix during the year, and it already has top-five market positions in eight operations across the region. Through its extensive network of life insurance and mutual funds operations committed to meeting customers' needs, PCA is very well positioned to capture a significant part of Asia's fast-growing financial services market.

The prospects for the long-term savings markets will continue to be significant across Asia. A number of factors are fuelling this growth: a huge population base representing over 60 per cent of the world's total population; increasing market reform and liberalisation; a relatively young and better educated population; rapid urbanisation; a growing middle class; an inherent propensity to save; increasing consumer sophistication; longer life spans and a limited social security net, all of which help to create a strong demand for long-term savings products.

The future is very exciting for companies like Prudential with its financial strength, trusted brand name, strong joint venture partners, track record of success in the region, and a commitment to meet local customer needs with innovative products.

PCA's performance in 2001 (new business achieved profits were up 67 per cent) endorsed once again its successful strategy of entering new markets, strengthening and diversifying distribution channels, and launching innovative, customer-focused products. Although there has been evidence of a slowdown in some Asian economies, we are confident that there are substantial opportunities for us with our diversified business and a long-term commitment to the region, to continue to achieve profitable growth.

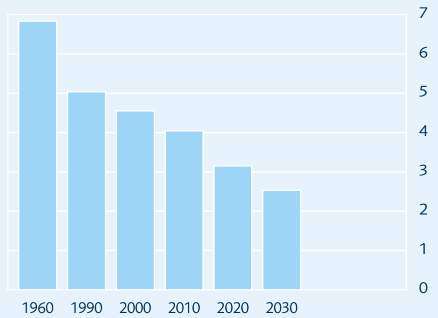
Summary

2001 has been another year of considerable success and achievement for the Group and the benefits of our strategy of diversification by product and distribution channel internationally are very clear. The implementation and delivery of this strategy has, of course, been made possible by the hard work and drive of our staff and I would like to thank them all for their continued support throughout the year.

Prudential is one of only 10 insurance companies worldwide with AAA financial strength ratings from both Standard & Poor's and Moody's. We have some truly outstanding businesses across the Group and through our focus on value rather than volume as well as our active management of capital, I believe that we are very well placed for the future.

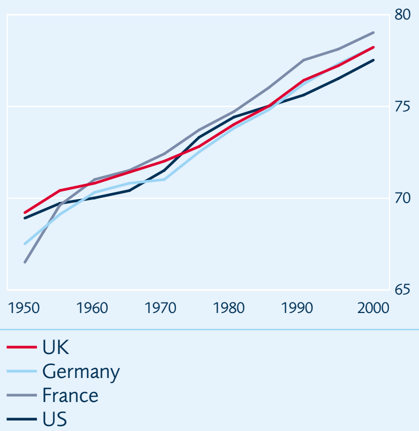
Jonathan Bloomer, Group Chief Executive

RATIO OF WORKING-AGE ADULTS (AGED 15-64) TO THE ELDERLY (AGED 65 AND OVER) IN THE DEVELOPED WORLD



Source: Gray Dawn 1999, Peter G. Peterson.

LIFE EXPECTANCY



UNITED KINGDOM & EUROPE

THERE ARE EXCELLENT OPPORTUNITIES FOR FINANCIALLY STRONG PLAYERS LIKE PRUDENTIAL – WHICH HAS COMPLEMENTARY BUSINESSES, MARKET LEADING POSITIONS IN KEY PRODUCT AREAS, AND SOME OF THE BIGGEST FINANCIAL SERVICES BRANDS – TO DELIVER SUSTAINED GROWTH.

UK Insurance Operations

2001 was a significant year for our UK Insurance Operations as we began a major restructuring and re-focusing of our business to meet the opportunities and challenges presented by continued change in the UK's life insurance market.

The UK insurance business recorded sales on an annual premium equivalent (APE) basis of £838 million, 10 per cent up on 2000. New business achieved profits (NBAP) were up six per cent to £243 million, reflecting increased volumes of new business written during the year, and our ability to build the UK business while driving through change. Total UK achieved operating profits fell 12 per cent to £620 million. However, these results reflect the adoption of the new active basis for setting economic assumptions. Underlying achieved operating profits, excluding the impact of the change to active-basis reporting, were £724 million (up two per cent on prior year), with NBAP contributing £269 million to this result, an improvement of 17 per cent on 2000.

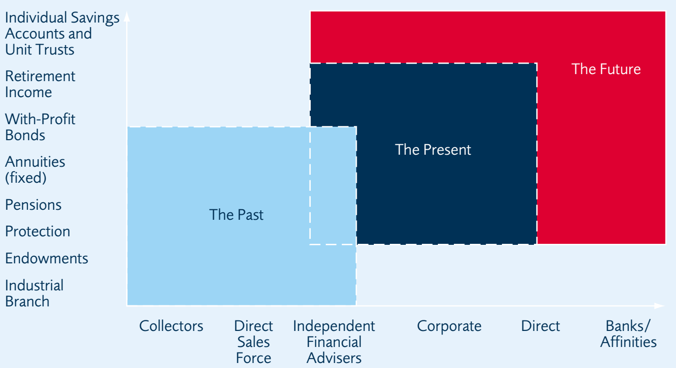
During the year, we announced changes to our customer services operations, including the closure of our direct sales force, to enable us to meet changing customer needs and to continue to operate cost-effectively as a scale player in the UK market. We also transferred our general insurance operations to Winterthur Insurance, while forming an alliance with its UK subsidiary, Churchill, to continue to offer Prudential-branded general insurance products in the UK, while benefiting from Winterthur's market-leading expertise and capabilities in this sector. The transaction, which completed in January 2002, is expected to generate approximately £810 million for Prudential over time, and reflects our strategy of deploying capital where it will deliver the most value. Profit arising from the transaction will be accounted for in 2002.

Our core UK insurance businesses are currently being integrated into one organisational structure to significantly improve customer service and to lower costs. We announced our commitment to take a further £175 million out of our annual UK cost base by 2004 and aggressively drive expense levels across the business down to one per cent of funds under management. We believe this is an appropriate benchmark, and one which we are determined to surpass in the future.

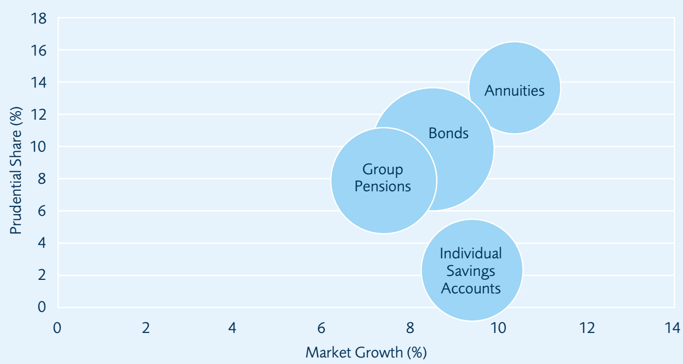
During 2001, we continued to build our multi-channel distribution capability, which will give us the flexibility to respond to changing market environments while maintaining our market-leading position. In the UK, we distribute our products direct to customers (telephone, internet and mail), through intermediaries including Independent Financial Advisers and consulting actuaries, and through the workplace to our corporate pensions customers. Going forward, we will also further develop partnerships with banks, retailers and other distributors.

We have an excellent brand and market-leading positions in a number of product areas. Our future strategic focus will be on high growth medium to long-term savings products, including annuities, pensions, with-profits bonds and ISAs. We believe this product mix offers the

PRODUCT AND DISTRIBUTION FOCUS



MARKET SIZES, SHARES AND GROWTH



Size of circle represents new business size in Annual Premium Equivalent in 2000. Market growth is estimate for next 10 years. Circles represent Prudential's target markets. Annuities includes Single Premium Individual Pensions.

Source: ABI, Prudential.

best growth prospects in the market by meeting customer needs for long-term savings and retirement income.

Sales of individual annuities totalled £1.3 billion during the year, up 17 per cent. We launched an impaired life annuity, which offers higher income to those with chronic conditions, and a Flexible Retirement Income Account offering customers a greater degree of freedom in their pension arrangements. We wrote an increasing volume of shareholder backed annuity business during the year which will result in a greater portion of the economic benefits flowing directly to shareholders.

There are 11 million employees in occupational pension schemes of which some 4.7 million are members of a defined benefit scheme. Changes to the tax treatment of dividends, lower equity returns and increased longevity, are leading trustees to consider alternatives to defined benefit schemes. In addition, over the next two years, FRS 17 will increase the transparency with which the impact on companies' balance sheets of funding defined benefit schemes is reported. As a result, many companies are now looking to change their pension arrangements to defined contribution schemes, an area in which we have a strong customer offering.

As well as seeing a shift from defined benefit to defined contribution schemes for employees, we expect that over time the bulk annuities market will grow to an estimated £300 billion as trustees seek to manage remaining liabilities under defined benefit schemes. In 2001, our sales of bulk annuities totalled £575 million, and we will continue to be a leading player in this market.

We enjoyed a number of key successes in the Group pensions market during the year including being named joint provider for Additional Voluntary Contributions (AVCs) to the National Health Service (NHS), giving us access to over a million NHS employees. In addition, we have around a 50 per cent share of the local government AVC market. In 2001, we further improved our service to customers by enabling them to carry out transactions to their pensions on-line through their company intranet, with employers benefiting from the ability to automatically collect contributions direct from the payroll system.

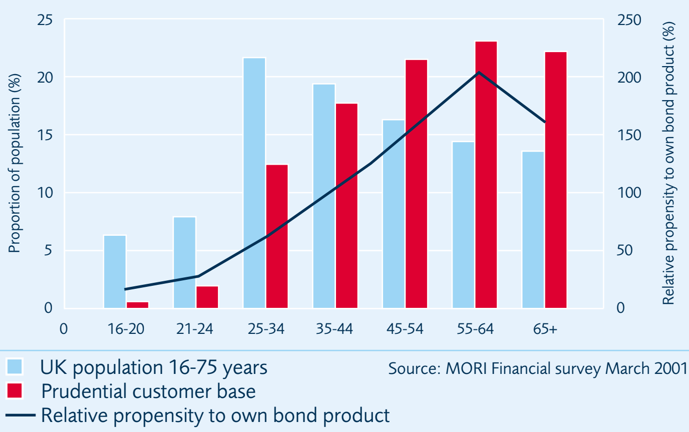
Looking ahead, our focus will be on larger corporate schemes, including Stakeholder, where we can offer quality service within the economics of a one per cent environment.

Sales of our with-profits bonds through IFAs were up 33 per cent to a record £2 billion. 2001 marked the tenth anniversary of Prudence Bond, and in January 2002, we launched an enhanced with-profits product to build on the success of Prudence Bond. It provides greater flexibility and clarity to customers and will enable us to continue to build on our market-leading position within the with-profits market.

Prudential has seven million customers in the UK giving us a presence in one in five households. Prudential is ranked number one in brand awareness in the 45+ age group, which accounts for 70 per cent of the savings market and is a key focus for us in growing the business.

We see increasing scope for attracting more of these customers, given the 'flight to quality' we are witnessing in the market at present as people place increasing emphasis on financial strength when making their investment decisions. Consumers are seeking the reassurance of brands they can trust, and this puts Prudential in a very strong position.

PRUDENTIAL CUSTOMER BASE



Source: MORI Financial survey March 2001.

UNITED KINGDOM & EUROPE CONTINUED

M&G

M&G is Prudential's UK and European fund management business and has over £120 billion of funds under management. These funds are invested in a wide range of assets, including UK and international equities, fixed interest, property and private equity. M&G is the UK's second largest retail fund manager in terms of funds under management.

Underlying profit from the core retail and wholesale businesses was £56 million, an increase of £4 million from 2000. In addition, M&G earned a performance fee of £19 million (£14 million in 2000) reflecting its outperformance in managing the Prudential life fund. M&G's profits of £75 million compare to £125 million in 2000. This decline was primarily due to the transfer of the life and pensions business to Scottish Amicable in 2000, which contributed £35 million of operating profit in 2000.

M&G's strategy of refocusing its institutional business on core areas of strength in fixed interest, defined contribution and pooled pensions is increasingly bearing fruit as the move away from defined benefit schemes gathers momentum. A further £700 million of institutional specialist fixed income mandates were won during the year, with M&G's market leadership in liability and cash flow matching being a particular factor behind these wins. During 2001, M&G continued to develop its pooled fund business and increased the number of defined contribution clients.

For the second consecutive year, M&G generated exceptional investment performance across the internal funds for which it was responsible, including the £80 billion managed on behalf of the Prudential Assurance Company's and Scottish Amicable's long-term funds. Against a backdrop of difficult market conditions, these funds beat their competitor and strategic benchmarks by more than two per cent in 2001.

2001 proved a challenging year for the retail fund management industry with gross industry retail sales falling 22 per cent, net retail sales falling 48 per cent and net Individual Savings Account (ISA) sales falling 39 per cent (Association of Unit Trusts and Investment Funds figures to December 2001). Excluding an exceptional loan note rollover in 2000, relating to the original acquisition of M&G by Prudential, M&G saw a decrease in gross sales of only five per cent and achieved a significant increase in net retail sales over the year. M&G was able to leverage its leading fixed income position and reduce redemptions, in addition to benefiting from an increasing recognition among Independent Financial Advisers (IFA) of the good performance of a number of its equity funds. M&G also significantly increased its market share in the IFA channel, winning more than a six per cent share of all ISA and Personal Equity Plan transfer business sold via intermediaries during 2001.

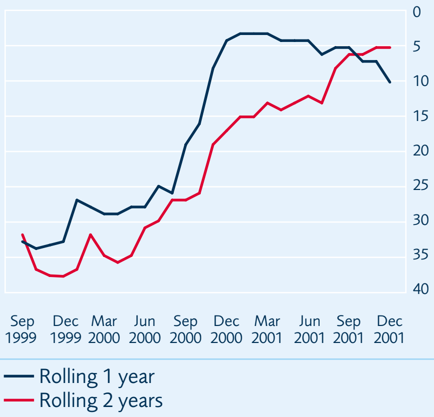
M&G's property and private equity arms, which primarily invest on behalf of the Prudential Assurance Company, also enjoyed a successful year. The managed property portfolio delivered another impressive performance, beating its market benchmark by a considerable margin, its tenth consecutive year of outperformance. While market conditions for private equity remain challenging, we continued to diversify the portfolio with new investments across Europe and Asia.

M&G has also taken significant steps to build its distribution capability in other parts of the world. In 2001, M&G won unit-holder approval to convert 38 of its unit trust funds to an OEIC (Open Ended Investment Company) structure. This conversion is part of M&G's plans to distribute its product range into European markets.

During the year, M&G established its Berlin-based sales and marketing operation and has now opened for business in both Germany and Austria. A co-operative product strategy has also been agreed with Prudential Corporation Asia through which assets collected within PCA's offshore fund range will flow into M&G's UK OEIC funds.

Cofunds, the fund supermarket for intermediaries which was founded as a joint venture between M&G, Threadneedle, Jupiter and Gartmore, achieved over £200 million of PEP and ISA sales during the year, with over 40 providers offering nearly 500 funds and over 2,000 IFA firms now signed up. Cofunds gained nearly a five per cent share of IFA ISA sales and over three per cent of PEP transfers during 2001.

M&G'S POSITION OUT OF TOP 40 FUND MANAGERS



Source: The Research Department – Group weighted performance over rolling 1 year periods (M&G unit trusts).

Egg

2001 was another year of outstanding growth for Egg, with operating income up 103 per cent to £189 million and strong customer growth, principally through its credit card business. Pre-tax losses decreased by 43 per cent to £88 million.

Egg's management accounts for November showed that the business made a profit for the month. In doing so, Egg met the commitment made at the time of its flotation in June 2000 that it would break even during the fourth quarter of 2001. Egg's management team is confident that its UK business is sustainably profitable.

During the year, Egg acquired 600,000 net new customers, giving a year-end total of 1.95 million. Today, Egg has over two million customers. The credit card business performed strongly, particularly Egg Card, and now has 1.37 million customers. Credit card balances nearly doubled to £1.8 billion and credit quality remains strong. Egg Mortgages increased its book by 18 per cent to £1 billion.

In January 2002, Egg announced its intention to launch in France during the year. As part of this strategy, Egg will acquire Zebank (subject to regulatory approval), the leading French on-line banking business, which will provide Egg with a platform to distribute Egg-branded products. In addition to this deal, Egg has signed distribution partnerships with French retailers Sephora and La Samaritaine.

Egg will also be extending its partnership with Microsoft to offer further financial services products in France in addition to the proposed fund supermarket through MSN, a leading consumer web destination in Europe.

Prudential Europe

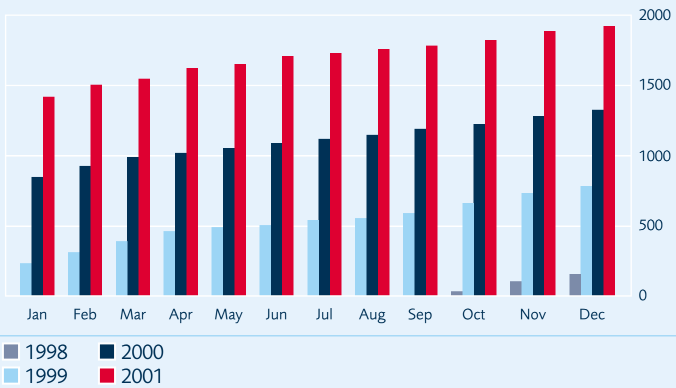
Prudential's European operations encompass both the manufacture and distribution of Prudential branded products in continental Europe through strategic distribution agreements with strong local partners.

In Germany, our focus has been on unit-linked pension and protection products, distributed through local agent sales forces. During 2001, Prudential Europe re-launched its Vorsorge critical illness product, and launched two new mutual funds which were developed jointly with the Deutsche Bank Group. These are fund of funds (Dachfonds) and are the first Prudential branded products to be available in the German market.

During 2001, new business achieved profits of £8 million remained broadly in line with 2000. Total sales in 2001 were £78 million, more than double the levels achieved in the previous year, principally due to strong sales of Prudential Europe Vie, an equity-backed life insurance product that was launched in France in January 2001.

Pru Vie is initially being sold through independent financial advisers approved by Centre Français du Patrimoine (CFP), which is one of the largest multi-brokerage networks in France. In January 2002, Prudential announced a similar arrangement with Espace Patrimoine Conseil (a subsidiary of Crédit Mutuel de Bretagne), and is expecting to enter into further distribution arrangements later this year.

EGG CUSTOMER GROWTH (000)



UNITED STATES

OVER THE LAST FIVE YEARS, JACKSON NATIONAL LIFE HAS MADE SIGNIFICANT PROGRESS IN WIDENING ITS PRODUCT RANGE, ENABLING US TO SELL PROFITABLE PRODUCTS IN ALMOST ANY ECONOMIC ENVIRONMENT.

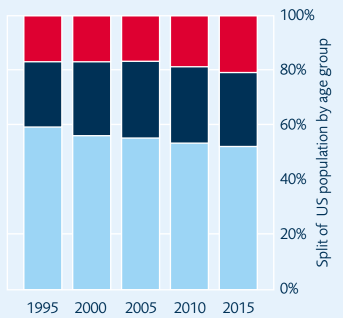
The markets in the United States witnessed a year of unprecedented uncertainty in 2001, with equity markets suffering significant declines and bond defaults reaching record levels. No one in the US was immune from these difficult market conditions and Jackson National Life (JNL) was no exception. However, long-term demographic trends in the US are favourable and we have continued to develop and enhance our product range and distribution channels to ensure that we are well placed to benefit from the anticipated growth in the US financial services market.

Our emphasis has been and will continue to be on profitable growth. Historical results demonstrate our ability to grow sales while maintaining pricing discipline, and in the last four years we have consistently earned above-industry rates of return (as measured by US GAAP operating return on capital). This reflects our key strengths in distribution, product design and cost. In addition, initiatives to expand product lines and distribution channels have resulted in more diversified, higher quality earnings.

Against this background, JNL recorded total sales of £4.6 billion during the year, down only marginally on the record figure set in 2000. Sales of fixed annuities reached record levels, up 80 per cent to £1.9 billion. Despite declining interest rates in 2001, investors sought the safety of fixed annuities resulting in record industry sales.

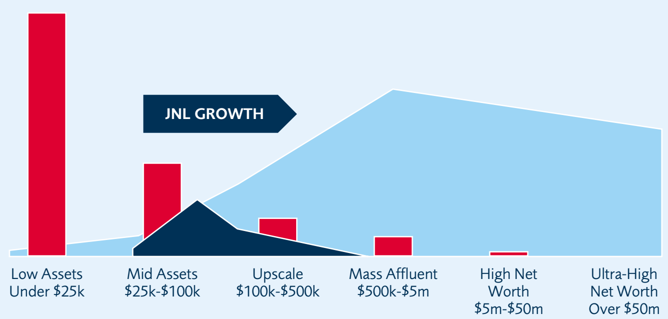
New business achieved profits fell to £167 million from £221 million in 2000, principally due to the adoption of revised achieved profits assumptions and a five per cent reduction in total sales. In force profits were affected by £369 million (US$532 million) of net losses relating to JNL's bond holdings, resulting in a £74 million charge against current year profits on a five-year averaging basis. These losses equated to 1.4 per cent of JNL's total invested assets and default experience appears to be broadly in line with that of our major competitors.

INCREASING PROPORTION OF THE US POPULATION OVER 40 YEARS



- 60+ years
- 40-60 years
- 0-40 years

US HOUSEHOLDS AND THE DISTRIBUTION OF INVESTABLE ASSETS



- Share of investable assets
- Number of households
- Jackson National Life's (JNL) current market positioning

Over the last five years, JNL has made significant progress in widening its product range, enabling us to sell profitable products in almost any economic environment. In addition, our costs remain among the lowest in the industry and our highly rated service and technology capability makes us well positioned for continued growth and diversification.

The end of the bull market in 2001 created a challenging environment in the variable annuity (VA) market. After years of exceptional growth, VA assets were down in 2001, due to lower net inflows and a decrease in equity prices. Net variable annuity cash flow is a key measure of success in this market as it reflects overall variable annuity asset retention and therefore profit potential. JNL ranks eleventh in the industry on this basis with a net inflow of £345 million (US$497 million) as at 30 September 2001.

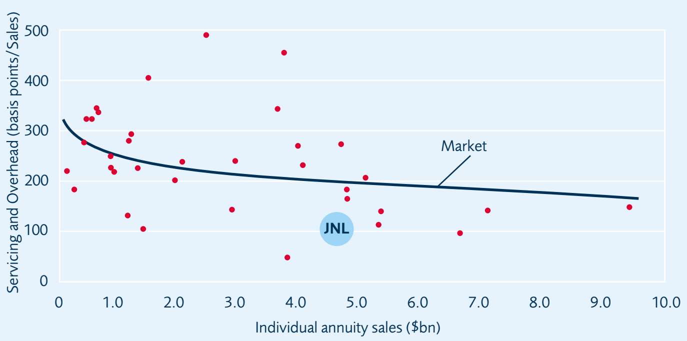
JNL maintained a top five market position in the sale of equity linked indexed (ELI) annuities with sales of £271 million in 2001. Fourth quarter sales of ELIs were the strongest single quarter sales in 2001 and were 28 per cent ahead of third quarter sales.

Our Institutional Marketing Group (IMG), which distributes through banks in the US, announced another record year with sales up nearly 58 per cent on 2000. IMG now offers annuities direct to customers through more than 320 banks and credit unions in the US, as well as to around 1,930 financial institutions through third-party marketing organisations and bank broker/dealers.

In 2001, JNL issued £1.7 billion of institutional products and maintained a top 10 position in the overall institutional product market and a top four position in the Medium Term Note funding agreement market. The notes, which may be in any currency, are issued to institutional investors and are backed by funding agreements issued by JNL.

Looking ahead, significant opportunities exist in the US life insurance market as people seek to fund a longer retirement. In JNL, we have an outstanding business which is well positioned to capitalise on these favourable demographic trends through our diversified product offering, high quality distribution network and strong cost position.

COST LEADERSHIP



Source: Townsend & Schupp. Companies with more than $100m Fixed annuity sales, and more than $1bn Variable annuity sales LIMRA 2000.

ASIA

THROUGH ITS EXTENSIVE NETWORK OF LIFE INSURANCE AND MUTUAL FUNDS OPERATIONS, PRUDENTIAL CORPORATION ASIA IS STRONGLY POSITIONED TO CAPTURE A MAJOR PART OF THE REGION'S FAST-GROWING FINANCIAL SERVICES MARKET.

Prudential is Europe's leading life insurer in Asia. Six years ago, we were only present in Singapore, Hong Kong and Malaysia. Today, we have a very strong regional presence with 21 operations in 12 countries, including top five market positions in eight of those operations (six in our life businesses and two in mutual funds).

Our success in Asia derives from a unique combination of competitive advantages including our ability to invest for the long-term, an extensive understanding of local markets and their people, considerable experience of overcoming barriers to entry into new markets, and our ability to leverage the power and financial strength of Prudential's brand.

Through our 'think regional, act local' management approach, we have been able to replicate our successful business model into the building of new operations. This helps us to capitalise on synergies in brand, systems, product and distribution development while taking into account the great diversity in culture, regulation and levels of economic development across the region. Very importantly, we have also benefited from our ability to attract, motivate and retain the best people in the industry.

The prospects for the long-term savings markets in Asia are significant, driven by a combination of favourable demographic trends and increasing market liberalisation. Through its extensive network of life insurance and mutual funds operations, Prudential Corporation Asia (PCA) is strongly positioned to capture a major part of the region's fast-growing financial services market.

2001 was another year of strong growth for PCA. This was despite the anticipated slowdown in life insurance new business growth rates during the fourth quarter as the global economic slowdown started to have an effect on the region. Sales of insurance products on an annual premium

PCA'S DEVELOPMENT IN TERMS OF GEOGRAPHY, PRODUCT AND DISTRIBUTION SINCE 1994

	Hong Kong	Singapore	Malaysia	Thailand	Indonesia	Philippines	Vietnam	India	Taiwan	China	Japan	Korea
Products												
Life	1994	1994	1994	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000	2001	2001
Unit-linked	1995-2000	1994	1995-2000		1995-2000			1995-2000	2001	1995-2000		
Mutual	2001	2001	2001					1995-2000	1995-2000		1995-2000	
General	1994		1995-2000									
Distribution												
Agency	1994	1994	1994	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000	2001	2001
Bank	1995-2000	1995-2000	1995-2000	1995-2000	1995-2000			1995-2000	2001	2001	2001	
Broker	1995-2000	1995-2000						1995-2000	1995-2000		1995-2000	2001
Direct	1995-2000	1995-2000						1995-2000	1995-2000		2001	2001

■ 1994
■ 1995-2000
■ 2001

equivalent (APE) basis were £434 million, up 69 per cent. As well as continuing strong growth in sales through agents, we achieved strong growth through other distribution channels. These included bancassurance (we have bank distribution agreements in place in nine countries) and direct distribution, which together generated just over 17 per cent of new APE life sales, up significantly compared to 2000. Net mutual fund sales of £1.4 billion were up 351 per cent.

Achieved operating profit, before development costs and minority interest, increased from £213 million to £415 million in 2001. Achieved profit from life operations increased from £205 million to £405 million. New business achieved profits were up 67 per cent to £255 million, reflecting strong sales growth across all operations, and in force achieved profit growth was also strong. This strong growth reflects PCA's successful strategy of entering new markets, strengthening and diversifying distribution channels and meeting customers' needs with innovative products.

During the year, PCA had a number of notable successes. We acquired Orico Life in Japan and YoungPoong Life in Korea. Both of these operations have been re-branded PCA Life and we are now building on these operationally and financially sound platforms. We intend, in time, to become material players in these two largest life insurance markets in Asia.

PCA extended its range of capital efficient unit-linked products with launches in China, where we became the first international life insurance company to launch a unit-linked life insurance product in Guangzhou (CITIC Prudential, our life insurance joint venture in Guangzhou, China, was established in late 2000). In Taiwan, our unit-linked single premium product is the first and only life insurance product that offers customers a significant investment choice. Regulatory approval for regular premium unit-linked products was received in late November and these were successfully launched in January 2002.

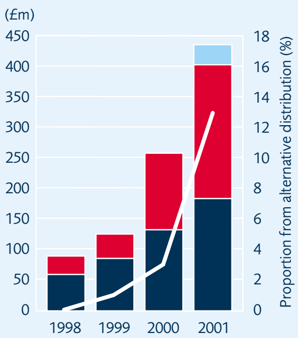
Prudential is now the largest private sector mutual funds company in India, having re-entered the Indian market in 1998 by teaming up with one of the country's leading banking groups, ICICI, and launching award-winning funds. In December 2000, we entered the Indian life market with the launch of ICICI Prudential, one of the few international joint ventures to be fully licensed and selling policies. The partnership with ICICI has gone from strength to strength and has grown still further in 2001 to include a bancassurance relationship with ICICI Bank.

In line with our strategy of expanding our successful unit trust operations across the region, we launched Prudential Unit Trusts in both Malaysia and Singapore during the year. These operations supplement our already successful and fast-growing mutual fund operations in India (ranked number two at the end of 2001), Taiwan (ranked number four at the end of 2001), and Japan.

Hong Kong's Mandatory Provident Fund had its first full year of operation in 2001 and our joint venture with Bank of China International (BOCI) is now one of the leaders in this market with an estimated 15 per cent market share. In December 2001, BOCI-Prudential also launched its first unit trust in Hong Kong.

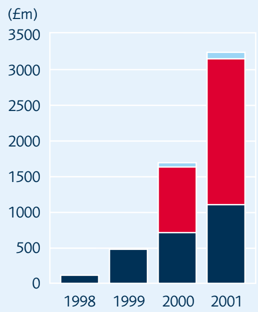
Looking ahead, the global economic slowdown is likely to depress short-term growth rates in the region. However, the long-term potential in Asia remains exceptional. PCA, with its significant portfolio of businesses in the region, multi-channel distribution capabilities, excellent strategic partners, and customer-focused product expertise is in a very strong position to continue to benefit from the excellent growth potential throughout Asia.

NEW BUSINESS SALES – ANNUAL PREMIUM EQUIVALENT



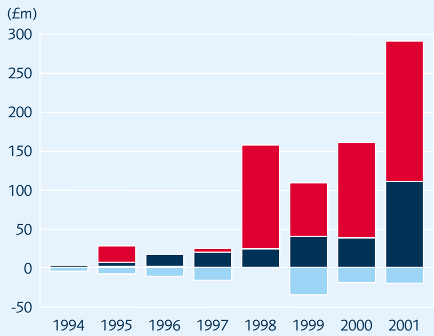
- South Asia
- Greater China
- North Asia
- Proportion from alternative distribution, such as bancassurance

INVESTMENT PRODUCTS – FUNDS UNDER MANAGEMENT



- India
- Taiwan
- Others

NET CAPITAL FLOWS



- Acquisitions
- Working capital
- Repatriations

2001 was an exceptional year for sales with total insurance and investment sales reaching a record £21.5 billion, up 54 per cent on last year. Total new business inflows including renewal premiums reached £25.7 billion, 42 per cent ahead of last year.

Total insurance sales increased nine per cent to £11.4 billion, reflecting a 13 per cent growth in sales in the UK and the success of our Asian operations, where insurance sales increased 102 per cent to £1 billion.

Gross investment sales increased 188 per cent to £10 billion while net mutual fund sales in Asia were £1.4 billion, an increase of 351 per cent. Sales at Jackson National Life and Prudential Corporation Asia now represent 68 per cent of the Group total.

Total Achieved Operating Profit

Total achieved operating profit before re-engineering costs was £1,250 million, up 21 per cent from £1,029 million in 2000. This result reflects a 10 per cent improvement in new business achieved profit to £673 million combined with a 24 per cent improvement in the in force result to £673 million.

Results from other operations including development costs and other shareholders' income improved from a loss of £128 million in 2000 to a loss of £96 million, principally due to a much reduced initial operating loss at Egg.

Our results are reported on the basis of the new ABI guidance for Achieved Profits reporting, issued in December 2001. The revised guidance requires the economic assumptions used for the projection of cash flows to be on an 'active' basis, that is primarily based on appropriate government bond returns at each period end. These assumptions are reflected in the profit reported for the year to 31 December 2001. Previously, the results have been prepared on a 'passive' basis, which uses stable assumptions based on a long-term economic view. Passive assumptions are revised only when it is judged that the economic environment has changed substantially. Results prepared under the Modified Statutory Basis were not affected by this change.

The implementation of the revised assumptions under the active basis applied primarily to the UK and the US operations, and those countries in Asia where there are well-developed government bond markets (Japan, Korea and US$ business in Hong Kong). Assumptions in other Asian territories continued to be based on an assessment of long-term economic conditions.

This has resulted in our reducing the risk discount rate applied to our UK and US operations from 8.5 per cent to 7.7 per cent, and reducing the UK investment return assumption from 8.0 per cent to 7.1 per cent.

The overall impact on our Group achieved profit result for 2001 from using the active assumptions rather than the 2000 passive assumptions has been to reduce new business achieved profit by around £7 million and to reduce the in force operating result by around £90 million. Achieved profits shareholders' funds are around £180 million lower than they would have been under the old assumptions.

New Business Achieved Profit

Group new business achieved profit from insurance business of £673 million was 10 per cent ahead of prior year, reflecting strong growth in Asia partially offset by a fall in profit at JNL. The growth in new business achieved profit reflects a 16 per cent increase in insurance sales on an annual premium equivalent (APE) basis.

Offsetting this the Group new business achieved profit margin decreased from 40 per cent to 38 per cent, primarily reflecting the adoption of active basis reporting combined with the impact of lower US spreads (ie the difference between the investment rate we earn and the rate we credit to our customers' accounts) brought about by the challenging US operating environment.

UK Insurance Operations' new business achieved profit of £243 million is six per cent higher than 2000. This is mainly due to increased volumes of new business written during the year, offset by the impact of the move to active basis economic assumptions.

In the final quarter we regained the market leading position for IFA distributed with-profits bonds, with a 32 per cent share of the market. Annuities performed strongly in 2001 and we had a market leading position for the year with a 19 per cent market share. Annuities written in our shareholder backed entity, Prudential Retirement Income Limited (PRIL), generated new business achieved profit of around £30 million, being 12 per cent of total UK new business achieved profit.

The reported UK Insurance Operations' margin has decreased one per cent to 30 per cent over the year. Excluding the impact of the change to the active basis, the margin would have increased to 33 per cent, two per cent above prior year. The underlying increase arises from Prudence Bond and annuities, offset in part by the impact of Stakeholder pension products.

Prudential Europe's new business achieved profit of £8 million is broadly similar to 2000.

The 24 per cent fall in Jackson's new business achieved profit to £167 million was driven by a five per cent decline in new insurance sales and a decline in new business margin from 44 per cent to 35 per cent, primarily reflecting a reduction in the spread assumption in the current challenging operating environment and revisions to variable annuity lapse rates.

Prudential Asia's new business achieved profit of £255 million is up 67 per cent on 2000 reflecting strong sales growth across all operations (APE insurance sales up

	2001	2000
Insurance Products	Sales of £11.4 billion	Sales of £10.4 billion
Investment Products	Sales of £10 billion	Sales of £3.5 billion
Banking Products	Retail assets increase by £1.1 billion	Retail assets of £4.4 billion
Funds under Management	£163 billion	£165 billion

ACHIEVED PROFITS BASIS RESULTS

	2001 £m	2000 £m	
Operating profit (based on longer-term investment returns)			
New business	**673**	613	
Business in force	**673**	544	
Total long-term business	**1,346**	1,157	16%
Development costs for long-term business	**(48)**	(21)	
General business	**79**	33	
M&G	**75**	125	
Egg	**(88)**	(155)	
US broker dealer and fund management	**16**	7	
Other income and expenditure	**(130)**	(117)	
Underlying total operating profit	**1,250**	1,029	21%
Re-engineering costs	**(64)**	0	
Operating profit before amortisation of goodwill	**1,186**	1,029	15%

69 per cent). The new business margin in Asia remained broadly stable at 59 per cent despite a significant change in geographic and product mix.

Compound annual growth in Asia's new business achieved profit over the last three years has been 66 per cent as we have developed new businesses and grown distribution throughout the region. These results demonstrate the benefits of geographic and product diversification.

In Force Achieved Profit

The UK in force profit of £377 million was down 21 per cent on 2000. The decline is mainly due to lower than expected returns in the UK arising from the lower discount rate, and strengthening of the assumption for the amount of required capital for our shareholder backed businesses, offset by lower renewal expense assumptions resulting from the closure of the direct sales force.

Europe broke even at the in force level, compared to £8 million profit in 2000, due to negative experience variances relating to the newly launched French branch and operational costs in Dublin and Frankfurt.

The US in force profit has increased significantly from a loss of £2 million in 2000 to a profit of £136 million in 2001. However, the 2000 result was affected by a change to the persistency and expense assumptions which led to a charge of £258 million. Excluding this charge in 2000, 2001 profit was 47 per cent down, primarily reflecting lower investment income and the fact that we did not, in the increasingly competitive market, fully reset policyholder crediting rates to compensate.

The US result was also affected by defaults and impairments on bonds resulting in realised losses of US$532 million in the year. As a proxy for determining the long-term rate of investment return and default experience over the credit cycle, realised gains and losses are included within operating results on a five year average basis. Accordingly, this resulted in a £74 million charge to the current year operating result. The US$532 million loss represents 1.4 per cent of JNL's total invested assets and includes approximately US$200 million charged to this year's result following impairment in the portfolio identified in 2002.

These bond losses occur at a time of record levels of credit defaults in the US, as highlighted in recent credit rating agency reports.

Asia in force profit (before development costs) has increased significantly from £60 million in 2000 to £160 million in 2001. The result includes a £66 million profit reflecting improvements in operating assumptions across all long-term businesses in the region and £16 million of favourable experience variances in Singapore, Hong Kong and Malaysia.

Non-insurance Operations

M&G's profit of £75 million compares to £125 million in 2000. This decline was primarily due to the transfer of the life and pensions business to Scottish Amicable in 2000, which contributed £35 million operating profit in 2000.

M&G's profit has also been affected by reducing fee income due to lower equity markets, and investment in new operations, including Cofunds and Europe. We have now established an office in Berlin and will start to sell our global theme range via intermediaries in Germany in 2002. A performance fee of £19 million was recognised in the 2001 result (£14 million) due to the life fund beating its strategic benchmark by 2.3 percentage points (the investment return for the life fund was minus 3.5 per cent against a strategic benchmark of minus 5.8 per cent).

Egg moved into profit in the fourth quarter of 2001 and the reported loss of £88 million is in line with the market expectation. Egg is now an established business with over two million customers today, and is still growing rapidly. Egg's move to profit demonstrates that it has a profitable business model and a management team committed to, and capable of, delivering against their goals. Egg's results are presented in its own annual report.

National Planning Holdings, our US broker dealer, and PPM America, our US fund manager, together delivered profits of £16 million, up from £7 million in 2000.

Development costs (excluding Asia head office costs) were up from £21 million to £48 million largely due to branding and re-launch costs of our operations in Japan, and higher development costs in Europe including costs of establishing our b2c business in Germany.

Other net expenditure increased by £13 million to £130 million. Lower core interest payable and Group corporate expenses were broadly offset by lower investment and other income and higher Asia head office costs reflecting the growth in scale of our Asian operations.

Achieved Profits – Result Before Tax

The result before tax and minority interests was a loss of £455 million compared to a profit of £728 million in 2000. This principally reflects the adjustment for short-term fluctuations in investment returns of £1,402 million and includes £764 million in relation to the UK and £521 million in relation to JNL. The UK component reflects the difference between an actual investment return of negative 3.5 per cent and a long-term assumed return of 7.1 per cent. The US component reflects the full charge for bond write-downs and impairments to the extent that it is not included in operating profit, and the negative variance against long-term investment returns for equity-like investments, together with £85 million in relation to actual return on separate account business less return based on the longer-term rate.

IN FORCE RESULT

	UK & Europe £m	US £m	Asia £m	Total £m
Unwind of discount*	393	244	78	**715**
Jackson spread	0	(12)	0	**(12)**
Jackson persistency	0	(7)	0	**(7)**
Change in assumptions	(1)	(13)	66	**52**
Longer-term investment loss	0	(74)	0	**(74)**
Other items and experience variances	(15)	(2)	16	**(1)**
Total in force – long-term business	**377**	**136**	**160**	**673**
Achieved Profits (AP) shareholders' funds (£bn)	**3.7**	**2.7**	**1.1**	**7.5**
Other operations (£bn)				**0.6**
Total AP shareholders' funds (£bn)				**8.1**

*Includes return on JNL surplus assets (over target surplus).

9% INCREASE IN ACHIEVED EARNINGS PER SHARE

	2001 £m	2000 £m
Operating profit before amortisation of goodwill	**1,186**	1,029
Net break fee from American General Corporation	**338**	0
Profit on business disposals	**0**	223
Amortisation of goodwill	**(95)**	(84)
Short-term fluctuations in investment return	**(1,402)**	(440)
Loss arising from changes of economic assumptions	**(482)**	0
Profit before tax	**(455)**	728
Effective rate of tax on operating profit	**31%**	28%
Operating earnings per share		
Achieved profits basis	**41.9p**	38.4p
Statutory basis	**23.3p**	30.2p
Total dividend per share	**25.4p**	24.5p

Economic assumption changes include the effect of the change to active assumptions mentioned earlier, together with changes to the long-term assumption in Asia and the in force spread assumption for Jackson.

This was partially offset by £338 million profit net of expenses relating to the American General termination fee. Amortisation of goodwill was £95 million against £84 million in 2000.

Achieved Profits – Result After Tax

The result after tax and minority interests was a loss of £217 million after reflecting a tax credit of £213 million and minority interests of £25 million. The effective tax rate at an operating profit level was 31 per cent, up from 28 per cent in 2000, largely due to a more normalised tax rate at JNL following the impact on the 2000 result of the operational assumption changes. The effective tax relief rate at a total achieved profit level is 47 per cent on a loss of £455 million, due to tax payable on the American General break fee being relieved against capital losses available to the Group acquired during the year. The effective tax rate in 2000 was 33 per cent.

Modified Statutory Basis Results – Operating Profit

Group operating profit before tax on the modified statutory basis (MSB) before re-engineering costs of £48 million, was £670 million, £170 million lower than 2000.

UK Insurance Operations' operating profit (excluding discontinued operations) in 2001 was £435 million, £33 million below 2000. This reflected the effect of lower with-profits bonuses together with the one-off £30 million profit in 2000 relating to transfer of the M&G life and pensions business to Scottish Amicable.

The US operations result of £298 million was £168 million worse than prior year, principally reflecting reduced spread income combined with a £67 million charge in relation to average realised gains and losses on bonds. Fee income was lower due to lower sales and lower account values for variable annuities.

Prudential Asia's operating profit before minority interests and development expenses was £44 million (£39 million). The Group's more established operations in Singapore, Hong Kong and Malaysia reported further growth in statutory profits, up 40 per cent to £56 million. During 2002 and 2003 significant investment has been planned to build high quality customer focused distribution channels in Japan and Korea as we pursue a strategy of creating material scale in these businesses. We expect the effect of this investment to result in an MSB loss for Prudential Asia in 2002.

Modified Statutory Basis Results – Profit Before Tax

MSB profit before tax and minority interests was £385 million in 2001, compared to £947 million in 2000. This decline principally reflects lower operating profit combined with a £480 million adjustment for short-term fluctuations in investment returns. This was partially offset by £338 million profit net of expenses relating to the American General termination fee. Amortisation of goodwill was £95 million against £84 million in 2000.

Modified Statutory Basis Results – Profit After Tax

MSB profit after tax and minority interests was £389 million, reflecting a tax charge of £21 million. The effective rate of tax on MSB total profit in 2001 was five per cent, compared to 33 per cent in 2000, due to tax payable on the American General break fee being relieved against capital losses available to the Group acquired during the year.

Earnings per Share

Earnings per share, based on achieved basis operating profit after tax and related minority interests but before amortisation of goodwill, were up 3.5 pence to 41.9 pence. Earnings per share on an MSB basis were down 6.9 pence to 23.3 pence.

Dividend per Share

The final dividend per share is 16.7 pence, resulting in a full year dividend growth of 3.7 per cent to 25.4 pence. Our intention remains to maintain a real rate of dividend growth, taking into account both the underlying earnings growth and the opportunities for further investment to create value for shareholders.

Post Balance Sheet Event – Disposal of General Insurance Operations

In November 2001, we announced the formation of a long-term alliance with Winterthur Insurance and the Churchill Group, its UK subsidiary. This alliance was part of our UK insurance strategy to focus on our core medium and long-term saving businesses, and will see Churchill offering Prudential branded insurance products in the UK.

This transaction was completed in January 2002, and in addition to the payment on completion of £353 million, we expect the following additional benefits: some £200 million release of solvency capital; some £21 million release of net profit in the unearned premium reserve; and some £236 million in relation to the conservatively estimated net present value of future commissions and profits over the term of the agreement.

Funds Flow

The table below provides details of the holding company funds flow. We believe that for an insurance group this presentation provides a clearer demonstration of the use of resources than the format prescribed under FRS 1 shown on page 43 of the full financial statements.

The holding company's net funds outflow of £421 million compares to a funds inflow of £179 million in 2000 and is after taking into account a £699 million investment in businesses, and £132 million of timing

FUNDS FLOW – INVESTING TO GROW THE BUSINESS

	2001 £m	2000 £m
Group operating profit after tax and minority interests	**460**	591
American General Corporation merger break fee*	**332**	0
Capital repatriated from businesses	**80**	123
Proceeds from disposals	**0**	173
New share capital subscribed	**42**	45
Listing of shares on New York Stock Exchange	**0**	139
	914	1,071
Acquisition of new businesses	**(162)**	(109)
Reinvestment in existing businesses	**(537)**	(446)
Timing differences and other items	**(132)**	147
	83	663
Dividends declared	**(504)**	(484)
Holding company net funds movement	**(421)**	179
Proceeds of 2001 initiatives due in 2002	**c. 450**	

* Net of expenses and applicable taxes.

differences and other items. The investment in businesses includes £162 million in relation to acquisitions comprising £139 million in relation to Orico Life in Japan and £23 million in relation to Korea.

In addition £537 million was reinvested in existing businesses including £222 million in relation to JNL funding, £108 million for Asia, £21million for Europe and £178 million of working capital for shareholder backed UK insurance businesses.

This funds flow statement does not reflect the benefits to the Group of a number of initiatives that were undertaken in 2001. The Group will receive the benefit of about £450 million in 2002 including proceeds of the sale of the General Insurance business and the capital release from the Part 7 transfer (previously 2C transfer) of the life fund of Scottish Amicable Life into the Prudential Assurance Company (PAC) Life Fund.

Shareholders' Borrowings and Financial Flexibility

Due to the holding company's net funds outflow of £421 million, core borrowings at 31 December 2001 were £2.1 billion, compared to £1.7 billion at 31 December 2000. This increase is represented by the issue of hybrid debt in the year, offset by repayment of senior debt.

Core structural borrowings of shareholder financed operations at the end of 2001 totalled £2,152 million, including £2,020 million at fixed rates of interest with maturity dates ranging from 2005 to 2031, as set out in note 31 on page 66 of the full financial statements. Of these borrowings £344 million were denominated in US dollars, partially to hedge the currency exposure arising from our investment in Jackson National Life. Core borrowings also included £87 million short-term commercial paper, and £45 million floating rate loan notes, all sterling denominated.

In December 2001, we placed a Sterling and Euro denominated offering of subordinated hybrid capital securities as the first issue under a new European Medium Term Note (EMTN) programme. This was marketed throughout Europe and the UK.

The issue closed with £435 million placed under 30 year notes priced at a 6.125 per cent fixed rate, and with €500 million (£306 million) placed under 20 year notes priced at 5.75 per cent fixed until December 2011, callable after 10 years. The issue was roughly two times oversubscribed and has enabled us to diversify our investor base with 60 institutions in Europe participating in the issue.

The debt issue enabled us to take advantage of current low interest rates in Europe to use the bond markets to refinance our longer-term debt and for other general corporate purposes and will be given equity credit by Standard & Poor's for the purposes of determining financial strength ratings. It has been rated A1 by Moody's and A+ by Standard & Poor's.

Although each business unit is expected to meet their own liquidity needs, the Group has access to £1.2 billion committed bank facilities provided by 12 major international banks. These facilities have not been drawn on during the year.

The Group's capacity to meet its financial commitments remains very strong. On the achieved profits basis, interest cover improved to 11.6 times in 2001 from 8.9 times in 2000, driven by strong earnings from a diversified income stream to service debt. The current level of interest cover is broadly in line with the level recorded four years ago. Group gearing was 21 per cent at 31 December 2001 (including the December hybrid issue) compared to 16 per cent at 31 December 2000.

Prudential plc enjoys strong debt ratings from both Moody's and Standard & Poor's. Its rated long-term debt is Aa3 and AA respectively, while short-term ratings are P-1 and A-1+.

Treasury Policy

The Group operates a central treasury function, which has overall responsibility for managing its capital funding programme as well as its central cash and liquidity positions.

The aim of our capital funding programme, which includes the EMTN programme and an unlimited commercial paper programme, is to maintain a strong and flexible funding capacity.

In the United Kingdom and Asia, Prudential uses derivatives to reduce equity risk, interest rate and currency exposures, and to facilitate efficient investment management. In the United States, JNL uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management and to match liabilities under equity-indexed policies.

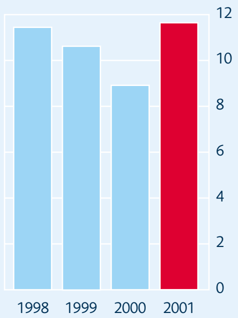
It is Prudential's policy that all free-standing derivatives are used to hedge exposures or facilitate efficient portfolio management. Amounts at risk are covered by cash or by corresponding assets.

The Group transacts business in sterling and US dollars and various currencies in Asia. The currency exposure relating to the translation of reported earnings is not separately managed although its impact is reduced by interest payments on foreign currency borrowings and by the use of average exchange rates for the translation of foreign currency revenues.

Funds Under Management

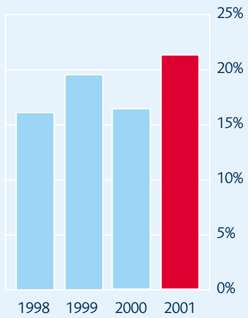
Prudential's funds under management support a range of businesses operating in many geographic areas. Each of the operations formulates a strategy, based on the nature of its underlying liabilities, its level of capital and local regulatory requirements. Where the nature of the underlying liabilities, its level of capital and

INTEREST COVER



Interest cover ratio = (achieved operating profit before goodwill amortisation and re-engineering costs – interest payable on core borrowings)/interest payable on core borrowings.

GEARING INCLUDING HYBRID DEBT



Core borrowings/(achieved profits basis capital and reserves + core borrowings).

its local regulatory requirements permit, Prudential seeks to invest its assets predominantly in equities and property that have, over longer periods, provided superior returns to fixed interest assets.

Insurance and investment funds under management at 31 December 2001 totalled £163 billion, compared to £165 billion at the end of 2000. This reduction is mainly due to a fall in the market value of investments which more than offset the net sales achieved during the year. The total includes £137.2 billion of Group investments under management and £25.6 billion of external funds under management. Internal funds are analysed in the table below.

Our fixed income securities are principally invested in investment grade holdings. For the UK with-profits Life Fund 92 per cent of the fixed securities investments are investment grade with 43 per cent rated AA or above. For Prudential Annuities Limited 98 per cent of the fixed securities investments are investment grade with 36 per cent rated AA or above. For Prudential Retirement Income Limited 99 per cent of total assets are investment grade with an average credit rating of AA.

In the US 80 per cent of all invested assets are investment grade with a further nine per cent invested in commercial mortgages.

Asset and Liability Management

Prudential manages its assets and liabilities locally, in accordance with local regulatory requirements and reflecting the differing types of liabilities Prudential has in each business. As a result of the diversity of products Prudential offers and the different regulatory environments in which it operates, Prudential employs different methods of asset/liability management. Most of Prudential's methods fall into two major categories: cash flow analysis for interest-sensitive business and stochastic modelling/scenario testing for equity price risk sensitive business.

Shareholders' Funds

On the achieved profits basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 31 December 2001 were £8,150 million, a decrease of £626 million from 31 December 2000. The decrease principally reflects short-term fluctuations in investment returns, combined with dividends declared and the impact of adopting active assumptions, offset by operating profits of £1,186 million.

Statutory basis shareholders' funds, which are not affected by fluctuations in the value of investments in the Prudential Assurance Company (PAC) long-term fund, were almost unchanged at £3,950 million against £3,971 million in 2000.

Prudential Assurance Company's Inherited Estate

In order to support our with-profits business, we hold a substantial amount of working capital in PAC's long-term fund. Without such working capital, we could not provide the benefits associated with smoothing and guarantees, or invest such a high proportion of the main with-profits fund's assets in equities and property, for the benefit of both policyholders and shareholders.

To meet our obligations to existing policyholders, we expect to have to pay out over time assets equal to policyholders' accumulated 'asset shares' plus any additional payments that may be required, by way of smoothing or to meet guarantees. The balance at any time of the main with-profits fund, which is not expected to be paid out to the current generation of with-profits policyholders as claim values, represents the major part of Prudential Assurance's working capital and is called the 'inherited estate'.

To ensure that policyholders' benefits are secure, we are required by regulations to hold a substantial amount of capital in our long-term fund, so that we can demonstrate at all times that the Company is solvent and able to meet its obligations to all policyholders. The inherited estate provides most of this solvency capital.

In addition, we can use the inherited estate to absorb the costs of significant events, such as fundamental strategic change in our long-term business and, as approved by the UK regulator, the cost of providing redress for past pension mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities including acquisitions.

The size of the inherited estate, by its nature as working capital, fluctuates from year to year depending on investment returns, and the extent to which the capital is required to meet smoothing costs, guarantees and any other unforeseen events. We estimate that at 31 December 2001, the inherited estate, after taking into account pension mis-selling costs and anticipated costs of fundamental strategic change, is in the range £6 billion to £8 billion.

In the normal course of events the inherited estate is required to support the in force business, so neither policyholders nor shareholders can have any expectation that they will receive any distribution of the inherited estate, other than through the normal process of smoothing and meeting guarantees in adverse investment conditions.

However, we believe that it would be beneficial if there were to be greater clarity as to the status of the inherited estate. We continue to pursue opportunities to resolve its ultimate attribution between policyholders and shareholders, and have, since 1996, been discussing this attribution with the relevant UK supervisory authorities. The attribution of inherited estates has also been a subject of public debate in the UK.

FUNDS UNDER MANAGEMENT – ANALYSIS BY BUSINESS AREA

	Equities		Fixed income securities		Property		Other investments		Investments held to cover linked liabilities		Total	
	2001 £bn	2000 £bn	**2001 £bn**	2000 £bn	**2001 £bn**	2000 £bn	**2001 £bn**	2000 £bn	**2001 £bn**	2000 £bn	**2001 £bn**	2000 £bn
UK Operations	**39.9**	50.2	**34.9**	28.3	**10.3**	10.1	**3.7**	2.8	**12.3**	13.3	**101.1**	104.7
US Operations	**0.2**	0.2	**21.9**	18.9	**0.1**	0.1	**4.6**	4.9	**3.5**	3.7	**30.3**	27.8
Prudential Asia	**0.8**	0.8	**2.4**	1.4	**0.1**	0.1	**0.8**	0.5	**0.9**	0.6	**5.0**	3.4
Prudential Europe									**0.6**	0.6	**0.6**	0.6
Retained centrally							**0.2**	0.2			**0.2**	0.2
Total	**40.9**	51.2	**59.2**	48.6	**10.5**	10.3	**9.3**	8.4	**17.3**	18.2	**137.2**	136.7
External funds											**25.6**	28.6
Total funds under management											**162.8**	165.3

However, we have not been discussing or considering any actual distribution of the inherited estate. Our current expectation is that, for the foreseeable future, the entire inherited estate will need to be retained within the long-term fund for the purposes described earlier.

Any proposal which resulted in a portion of the inherited estate being attributed solely to shareholders would require the interests of policyholders in the inherited estate to be taken into account. Such proposals may or may not be made.

Financial Strength of Insurance Operations

A common measure of financial strength in the United Kingdom for long-term insurance business is the free asset ratio. The free asset ratio is the ratio of assets less liabilities to liabilities, and is expressed as a percentage of liabilities. The free asset ratio of the Prudential Assurance Company (PAC) long-term fund was approximately 12 per cent at the end of 2001, compared with 17 per cent at 31 December 2000. The reduction during the year principally reflects the significant fall in equity markets around the world.

The statutory valuation has been prepared on a conservative basis in accordance with the valuation rules, and without use of implicit items. No allowance has been taken for the present value of future profits and the PAC long-term fund has not entered into any financial reinsurance contracts.

Solvency requirements in the UK include the establishment of a resilience reserve which makes prudent allowance for potential future movements in investment values. The Financial Services Authority (FSA) relaxed the recommended resilience tests in September 2001 in response to the changing economic conditions and extreme market movements at that time. Pending the outcome of FSA consultation on the resilience tests that should be applied in the future, we have applied the rigorous resilience tests previously specified by the FSA (prior to September) in line with the tests we adopted in 2000. As at 31 December 2001, the overall liability was based on the following combined resilience scenario:

- a fall in equity values of 25 per cent;
- a fall in property values of 20 per cent;
- a fall in bond values of 17 per cent (consistent with an increase in interest rates of three per cent).

The long-term funds remain well capitalised and the PAC long-term fund is rated AAA by Standard & Poor's and Aaa by Moody's.

At 31 December 2001, 69 per cent of the assets of the fund were held in equities and property, including 15 per cent in international equities, 15 per cent in property and 39 per cent in UK equities. This reflects our strategic asset allocation of the fund between equities and other classes of assets and represents a switch over the last couple of years away from equities into investment grade bonds. The fund had an investment return of negative 3.5 per cent in 2001. This compares to a fall in the FTSE all-share index of 15 per cent over the same period and represents a strong investment performance from M&G and from our fund managers in America and in Asia.

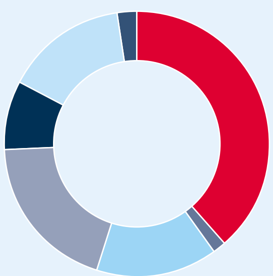
The capital adequacy position of Jackson National Life remains strong with a risk based capital ratio of 296 per cent of the regulatory minimum. As a core business to the Group, JNL's financial strength is also rated AAA by Standard & Poor's. Adequate solvency levels have been maintained by our insurance operations in Asia.

Recent Accounting Pronouncements

In December 2000, the Accounting Standards Board published a new accounting standard, FRS 19, 'Deferred tax', which replaced SSAP 15. We adopted the new standard early and have restated our 2000 comparatives accordingly. The adoption of the new standard has had a limited impact on our shareholder results. On the statutory basis, profits after tax and minority interests for 2000 after restatement fell from £688 million to £657 million and shareholders' capital and reserves at 1 January 2001 fell by £49 million to £3,971 million. The main impact has been on the fund for future appropriations where, on a restated basis, additional deferred tax principally on unrealised investment appreciation of £2,350 million was established at 31 December 2000. This has no impact on shareholders' funds.

While FRS 17, 'Retirement benefits', only comes fully into effect for periods ending on or after 22 June 2003, certain disclosures are required for our 2001 financial statements. When fully implemented, the standard will require that companies include the whole of any pension surplus or deficit of defined benefit schemes in their balance sheet and has changed the way in which pension surpluses and deficits are valued. In particular, it requires assets of the scheme to be valued at their market value at the Company's year end, while pension liabilities are required to be discounted at a rate consistent with the current rate of return on a high quality corporate bond. Despite adverse market conditions our three main staff schemes (the Prudential Staff Pension scheme, the Scottish Amicable Staff Pension scheme, and the M&G Group Pension scheme) all remained in surplus for the year ended 31 December 2001 on the FRS 17 basis. The aggregate surplus before deferred tax provision, representing prepaid contributions, attributable to the Company at the year end was £585 million (£441 million attributable to the PAC with-profits fund, and £144 million attributable to shareholder financed operations). The disclosure required by the accounting standard is incorporated in note 19 on page 62 of the full financial statements.

PRUDENTIAL ASSURANCE COMPANY WITH-PROFITS LIFE FUND ASSET DISTRIBUTION



- UK Equities 38.5%
- Alternative Assets 1.6%
- International Equities 14.8%
- M&G Fixed Interest 19.4%
- PPMA Fixed Interest 8.4%
- Property 14.9%
- Cash 2.4%

International Accounting Standard for Insurance
The International Accounting Standards Board (IASB) has undertaken a project to develop and implement an accounting standard for insurance. The IASB is currently reviewing the draft statement of principles prepared by its predecessor body, the International Accounting Standards Committee. The IASB's timetable is to implement a standard by 2005. In addition, the European Union will require all European insurers to implement IASB standards in 2005.

The final shape of the standard is uncertain, but it is likely to be based on an 'asset and liability' model requiring insurance liabilities to be valued at a fair value, calculated using risk free rates, while not permitting the deferral of acquisition costs. The standard will differ considerably from the approach used since 1995 by the UK life industry for statutory reporting, and since 1997 for supplementary reporting as Achieved Profits. In particular, policies which are principally investment products are likely to be excluded from the definition of insurance contracts. The value of new business recognised on sale is likely to be limited. Once adopted, accounts prepared under the international accounting standard will replace accounts prepared under the Modified Statutory Basis (MSB).

The implementation of the proposed standard will present considerable challenges for the industry worldwide, requiring development of accounting and actuarial systems. In order for European companies to meet the EU timetable, the standard needs to be published in final form in 2003.

In the UK, the information provided to investors by the supplementary financial information on the Achieved Profits basis allows investors and other users of the accounts to assess the profitability and value created from new business written and the management of in force business subsequent to sale. Prudential expects to continue publishing this information in the future following the implementation of the international standard as the statutory reporting basis.

As a large institutional investor and leading global insurance company, Prudential supports the work of the IASB and made contributions totalling US$50,000 in 2001.

Procurement
Over the past year we have increased our focus on expenditure with third parties, implementing procurement processes and strategies to reduce significantly our operating expenses. Opportunities have been identified to capture synergies across the Group, and e-procurement is being implemented across the UK businesses to reduce transactional costs. Greater value for money is now being secured in marketing, IT and other business areas, through the use of professional procurement best practice.

Supervision
From 1 December 2001, the Financial Services Authority (FSA) took formal responsibility for the regulation and supervision of all our authorised UK insurance, investment and banking businesses under the Financial Services and Markets Act 2000.

During 2001, the various UK regulators whose functions had been absorbed into the FSA merged their supervisory teams dealing with our businesses into one team in the FSA's Major Financial Groups Division. Matters being dealt with by the previous supervisors were taken over by the new team and an induction programme has been undertaken to help familiarise the new team with each of Prudential's UK businesses.

In addition, the FSA considers a view of the Group's management of its non-UK businesses, in order to understand how pan-Group risks are managed. This helps the FSA meet its statutory objectives.

Risk Management
The Group has established a continuous process for identifying, managing and reporting the Group's risks that is regularly reviewed by the Board. The main features of this process are as follows:

Investment
The respective responsibilities of the Board and business unit management for investment strategy, compliance and performance are clearly defined. There are also detailed rules governing investment dealing and settlement (including the use of derivatives), incorporating details of procedures and authority levels.

Underwriting
The Group operates controls over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually.

Financial control procedures
Detailed controls, applicable across the Group, are laid down in financial and actuarial procedures manuals.

Performance planning and monitoring
There is a comprehensive planning and performance monitoring system based on key performance indicators for each business area. The Group Board receives regular reports on the performance of the Group against plan, together with frequent financial forecasts and projections.

Financial position
The Board receives regular reports from the Group Finance Director on financial matters and receives annual reports from the relevant senior actuaries on the financial condition of the Group's principal long-term insurance businesses.

Philip Broadley

Philip Broadley, Group Finance Director

PRUDENTIAL IS ONE OF ONLY 10 INSURANCE COMPANIES WORLDWIDE WITH AAA FINANCIAL STRENGTH RATINGS FROM BOTH STANDARD & POOR'S AND MOODY'S.

There are increasing references to corporate social responsibility (CSR) in both legislation and codes of conduct that are applicable to our business.

During 2001 we conducted a review of our approach to CSR to ensure that our existing focus was appropriate for our business in the future.

Having a sound reputation for behaving responsibly will contribute to our long-term financial success and to our primary objective of increasing shareholder value. As an investor, we believe that well managed and growing businesses will as a matter of course take account of their contribution to society in taking their business forward. In November, we announced a range of initiatives designed to add clarity to our approach to CSR. One of these, our first on-line CSR report, is available at www.prudential.co.uk and contains detailed information about our policies and programmes across the Group. These include:

Group Code of Conduct

Our Group Code of Conduct presents the minimum standards of ethical business practice that we expect from employees, agents and others working on behalf of the Group. It covers our dealings with a range of stakeholders with an interest in how our business is managed, from our shareholders, customers, staff and suppliers to the communities in which we are an employer.

Prudential Plan for Life Learning

Plan for Life Learning is our new financial literacy programme that we are developing in association with established charities and educational bodies, currently in the UK. The programme aims to enable people from a diverse range of backgrounds to improve their skills and confidence in managing their finances. Programmes currently supported through Plan for Life Learning include:

A financial literacy programme with the National Association of Citizens Advice Bureaux (NACAB). Our funding will enable NACAB to appoint a project manager who will help the CAB service to roll out new learning opportunities and guidance on financial literacy matters. Our support will also be used to establish a fund through which CAB can receive grants for new financial literacy initiatives.

The Personal Finance Education Group's 'Excellence and Access' Project. This will enable teachers to become skilled and confident in teaching personal finance in secondary schools and thereby give young people the confidence to make independent and informed decisions about their personal finances.

We will continue to build Plan For Life Learning during 2002, extending access to financial education and improving financial literacy for people from a diverse range of backgrounds.

Environment

During 2001, we announced our intention to produce our first detailed environment report, documenting our environmental policy and the progress on environmental management made within our UK business since July 1999, when our environment programme began. This is available at www.prudential.co.uk. We recognise that, through our day to day business activities and the investments made on behalf of customers we have an impact on the environment. We are committed to minimising that impact and preventing pollution and unnecessary damage to the environment from our operations.

Our Employees

We recognise that recruiting, retaining and developing the best talent is essential in order to maintain a competitive advantage. We are fully committed to investing for the long term in our people and our businesses offer a range of staff development and learning opportunities. Many courses are now delivered through on-line technology, which provide fast and efficient learning options. For example:

- Prudential Corporation Asia has established a training programme, known internally as PRUuniversity, offering employees certified development and training programmes through a web-based knowledge portal and lessons at the University's physical 'campuses' in each business location.

- In the UK, Prudential offers development opportunities through 'Einstein', a desktop portal which provides access to a range of learning opportunities, with an emphasis on interpersonal skills. M&G employees can also access development courses through an e-learning website known as 'The I'.

- Jackson National Life helps to meet the costs of continuing education opportunities for staff, in addition to providing a range of training options including courses delivered via computer technology.

Community

We are committed to supporting the communities where we are an employer. We aim to build strong, relevant and long-term associations that meet our business objectives and are of real value to the organisations with whom we work. Our support consists of cash donations as well as support in kind, such as the expertise of our staff, office space, computer equipment and other gifts in kind. In 2001, these contributions amounted to £2.8 million, of which £1.3 million was spent on charitable donations. Our community investment is international, reflecting our business structure and local priorities. Initiatives in 2001 included:

- Our office in Vietnam worked in partnership with the British government to establish a vocational school for underprivileged children in Ho Chi Minh City.

- In the US, Jackson National Life continued to be a leading contributor to the United Way in Lansing, a local umbrella fundraising organisation which disperses funds to charitable organisations improving the quality of life of local people. In addition, JNL employees donated their own money to the United Way.

- In the UK, our offices focus on funding educational initiatives. In Reading we funded the local branch of the Workers' Education Association which provides learning opportunities for women from ethnic minorities. Staff also volunteer to mentor school pupils or help improve their skills in reading, IT, and numeracy.

Socially Responsible Investment in the UK

We believe that well managed and growing businesses will as a matter of course take account of wider social and environmental issues in taking their businesses forward. In considering companies' performance on these matters, M&G, our European fund manager, looks for a well reasoned and practical approach which may vary according to each company's circumstances.

The Prudential plc Board is fully committed to ensuring that CSR issues are properly integrated into our wider Group strategy. Philip Broadley, Group Finance Director, has taken on executive responsibility for this going forward.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Executive Directors

1. Jonathan Bloomer FCA (Age 47)
A director since 1995 and Group Chief Executive since March 2000. Previously Deputy Group Chief Executive and Group Finance Director. Non-executive director of Egg plc. Non-executive director of Railtrack Group plc. Member of the Practitioner Panel of the Financial Services Authority. Board Member of the Association of British Insurers.

2. Philip Broadley FCA (Age 41)
Group Finance Director since May 2000. Previously he was with the UK firm of Arthur Andersen where he became a partner in 1993. He specialised in providing services to clients in the financial services industry, including regulators and government agencies in the UK and US.

3. Clark Manning (Age 43)
A director since January 2002. President and Chief Executive Officer of Jackson National Life since November 2001. Previously Acting Chief Executive Officer and Chief Operating Officer of Jackson National Life which he joined in 1995. Previously Senior Vice President and Chief Actuary for SunAmerica Inc, and previous to that Consulting Actuary at Milliman & Robertson Inc. Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

4. Michael McLintock (Age 40)
A director since September 2000. Chief Executive of M&G since February 1997, a position he held at the time of M&G's acquisition by Prudential in March 1999. Joined M&G in October 1992. Non-executive director of Close Brothers Group plc since May 2001.

5. Mark Tucker (Age 44)
A director since 1999. Chief Executive of Prudential Corporation Asia since 1994. Previously the General Manager of Prudential, Hong Kong from 1989 to 1992 and Senior Vice President of Operations of Jackson National Life from 1992 to 1994. Joined Prudential in 1986.

6. Mark Wood (Age 48)
A director since June 2001 and Chief Executive of Prudential's UK and European Insurance Business. Non-executive director of European e-commerce technology company Lost Wax since January 2002. Previously Chief Executive of Axa UK plc (formerly Sun Life & Provincial Holdings plc) and Axa Equity and Law plc, and Managing Director of AA Insurance. Previously a director of Guardian Royal Exchange plc and deputy chairman of the Association of British Insurers.

Non-executive Directors

7. Sir Roger Hurn (Age 63)
A director since February 2000 and Chairman since May 2000. Deputy Chairman of GlaxoSmithKline plc and previously Deputy Chairman of Glaxo Wellcome plc. Non-executive director of Cazenove Group plc since May 2001. Previously a non-executive director of Imperial Chemical Industries PLC, Chairman of Smiths Industries plc and Marconi plc, and a non-executive director of SG Warburg Group. Chairman of the Court of Governors at the Henley Management College.

8. Sir David Barnes CBE (Age 66)
A director since 1999. Non-executive Chairman of Imperial Cancer Research Technology Limited. Non-executive Deputy Chairman of Syngenta AG. Deputy Chairman of AstraZeneca plc to April 2001 and previously Chief Executive of Zeneca PLC. Previously Deputy Chairman of Business in the Community.

9. Ann Burdus (Age 68)
A director since 1996. Non-executive director of Next plc. Council member of the Institute of Directors. Previously a non-executive director of Safeway Group plc and previously a committee member of the Automobile Association.

10. Roberto Mendoza (Age 56)
A director since May 2000. Non-executive Chairman of Egg plc. Non-executive director of ACE Limited, Reuters Group PLC and Vitro SA. Co-CEO of Hancock, Mendoza, Dachille & Merton, Limited. Previously Vice Chairman and director and a member of the Corporate Office of JP Morgan & Co, Inc., and a managing director of Goldman Sachs.

11. Rob Rowley (Age 52)
A director since 1999. Retired as a director of Reuters Group PLC in December 2001. Previously Chief Executive of the Reuterspace Division and Finance Director of Reuters Group PLC.

12. Sandy Stewart (Age 68)
A director since 1997. Chairman of Murray Extra Return Investment Trust plc and of the Scottish Amicable (supervisory) Board. Previously a practising solicitor and Chairman of Scottish Amicable Life Assurance Society.

Ages as at 14 March 2002.

The directors support the Combined Code on Corporate Governance (the 'Code'). The Company has complied throughout the accounting period ended 31 December 2001 with all the Code provisions, save for the appointment of a senior independent director. The 2001 Annual Report contains our full corporate governance statement.

Organisational Structure

The organisational structure of the Group is clearly defined by reference to business units for which individual business unit chief executives are responsible. They report to the Group Chief Executive. The Board, the members of which are set out on pages 22 and 23, meets regularly, usually eight times a year with a separate strategy day and additional meetings as and when required. In 2001 the Board met 13 times and there were a further nine Board Committee meetings in addition to the regular Board Committees. The Board determines the objectives and strategy for the Group. Authority is delegated to the Group Chief Executive for implementing the strategy and for managing the Group. In discharging his responsibility, the Group Chief Executive works with a Group Executive Committee, comprising all the business unit heads and is also assisted by a Group head office team of functional specialists.

All directors have direct access to the advice and services of the Company Secretary and independent professional advice. Full Board papers are provided to all directors approximately one week before each Board or committee meeting. The non-executive directors were throughout the year and continue to be considered to be independent. Given the calibre and experience of our non-executive directors and given that the roles of the Chairman of the Board, Audit Committee and Remuneration Committee are split, the Board does not believe that it is appropriate at this time to recognise a senior independent director, other than these Chairmen, to whom concerns can be conveyed in respect of relevant issues.

Non-executive directors are appointed initially for a three-year term. The appointment is then reviewed towards the end of this period. Upon appointment, all non-executive directors embark upon a programme of induction. Training is available for executive directors where appropriate.

All directors are required to submit themselves for re-election at regular intervals and at least every three years, and at the AGM following their reaching the age of 70.

As a major institutional investor, the Company is acutely aware of the importance of maintaining good relations with its shareholders. The Company regularly holds discussions with major shareholders and a programme of meetings took place during 2001. Information on the Company is also made available on our website at www.prudential.co.uk

The directors have reviewed the effectiveness of the Group's system of internal controls for the financial year.

Board Committees

The Board has established the following committees of non-executive directors with written terms of reference:

Audit Committee

Rob Rowley (Chairman)
Ann Burdus
Sandy Stewart

The Audit Committee normally meets six times a year and assists the Board in meeting its responsibilities under the Code in ensuring an effective system of financial reporting, internal control and risk management. It provides a direct channel of communication between the external and internal auditors and the Board and assists the Board in ensuring that the external audit is conducted in a thorough, objective and cost-effective manner. It also reviews the Internal Audit annual work plan. The terms of reference of the Audit Committee include reviewing annually with the management of the Company and the external auditors the performance of the external auditors, and extent of their non-audit services; and the value for money obtained from auditors' fees for both statutory audit work and non-audit work. The Audit Committee annually reviews the auditors' independence. The external audit was last put out to competitive tender in 1999. The minutes of Audit Committee meetings are circulated to the Board after each meeting.

Remuneration Committee

Sir David Barnes (Chairman)
Ann Burdus
Roberto Mendoza
Rob Rowley
Sandy Stewart

The Remuneration Committee normally meets at least twice a year to review remuneration policy and determines the remuneration packages of the executive directors and certain other senior executives. Additional meetings of the Remuneration Committee are held as necessary during the year.

Except in relation to the remuneration of the Group Chief Executive, when only the Chairman is consulted, the Remuneration Committee consults the Chairman and the Group Chief Executive about the Committee's proposals relating to the remuneration of all executive directors and certain other senior executives. The Committee has access to professional advice inside and outside the Company.

Nomination Committee

Sir Roger Hurn (Chairman)
Sir David Barnes
Ann Burdus
Sandy Stewart

The Nomination Committee meets as required to consider candidates for appointment to the Board and to make recommendations to the Board in respect of those candidates.

The Remuneration Committee of the Board is made up wholly of independent non-executive directors and is responsible for setting remuneration policy and individual remuneration packages for executive directors. The Board has adopted the principles of good corporate governance relating to directors' remuneration as set out in the Combined Code (the 'Code') and complies with the provisions of Section 1B of and Schedules A and B to the Code. This report provides a summary of the information set out in the full Remuneration Report contained in the 2001 Annual Report.

The members of the Remuneration Committee during 2001 were:
Sir David Barnes (Chairman)
Ann Burdus
Bridget Macaskill (who was a member until the date of her resignation from the Board on 16 March 2001)
Roberto Mendoza
Rob Rowley
Sandy Stewart

Executive Directors' Remuneration

Remuneration policy

The policy of the Company is to provide competitive remuneration packages in order to recruit and retain world class executives. In addition to salary and pensions, this is achieved through annual incentives and long-term incentive plans directly related to the Company's longer-term performance.

As a result of a review of the Group's remuneration policy and the current arrangements for executive directors, new incentive plans are being introduced from 2002 subject to shareholders' approval. In addition an executive shareholding policy is also being introduced from 2002. The new arrangements are detailed in a shareholders' circular dated 4 April 2002.

Salary

The Remuneration Committee normally reviews executive directors' salaries annually, having regard to business results, individual accountabilities and performance, and market conditions. Independent surveys are obtained on salary levels in major international companies in both the financial and non-financial sectors in relevant locations.

Annual incentive plans

The annual incentive plan for directors is designed to encourage value creation over the performance period while supporting sustained long-term value creation. These non-pensionable awards for all executive directors are based on performance against stretching quantitative financial and business targets in the business plans as well as personal performance. For performance above target, part of the award is made in Prudential plc shares deferred for three years during which time dividends accumulate for the benefit of the award holders.

Benefits and protections

Executive directors receive certain benefits, principally the provision of company cars or allowances, participation in medical insurance schemes and in some cases security arrangements. These benefits are not pensionable.

In addition, the Company provides certain protections for directors and senior managers against personal financial exposure which they may incur in their capacity as such.

Pensions

It is the Company's policy to offer executive directors the facility to save for retirement through efficient pension vehicles.

Service contracts

The normal notice of termination which the Company is required to give executive directors is 12 months, although for newly appointed directors there may be an initial contractual period of up to two years before the 12 months' notice period applies. The contracts of employment for all executive directors contain a 12 months' notice period, including Mark Wood who was appointed to the Board in 2001 without an initial longer notice period. When considering termination of service contracts, the Committee will have regard to the specific circumstances of each case, including mitigation.

Non-executive Directors' Remuneration

Non-executive directors do not have service contracts and are not eligible to participate in annual incentive plans, long-term incentive plans or pensions. Their fees are determined by the Board subject to the overall limit set by the shareholders, and reflect their individual responsibilities including membership of Board Committees.

Executive Directors' Remuneration

	Salary/fees £000	Bonus £000	Benefits £000	Total 2001 £000	Total 2000 £000	2001 RSP awards* Number of shares	Options outstanding at 31 Dec 2001**
Keith Bedell-Pearce (retired 31/12/01, note 3)	**340**	**165**	**46**	**551**	458	**–**	**360,026**
Jonathan Bloomer	**660**	**298**	**58**	**1,016**	848	**135,301**	**433,424**
Philip Broadley (appointed 11/5/00)	**350**	**158**	**35**	**543**	293	**57,401**	**1,327**
Michael McLintock (appointed 1/9/00, note 4)	**310**	**1,108**	**28**	**1,446**	453	**25,420**	**4,538**
Mark Tucker (note 5)	**400**	**815**	**129**	**1,344**	1,119	**65,601**	**4,561**
Mark Wood (appointed 21/6/01, note 6)	**211**	**515**	**8**	**734**	–	**–**	**2,835**
Total executive directors	**2,271**	**3,059**	**304**	**5,634**	3,171	**283,723**	**806,711**

Notes

1. The highest paid director for 2001 was Mark Tucker whose emoluments, including the value of rights granted to him under the long-term incentive plan, were £1,578,350. Additionally in 2001 the Company made a pension contribution of £47,480 on his behalf to the Prudential Staff Pension Scheme. The highest paid director for 2000 was Sir Peter Davis whose emoluments were £2,476,000 and on whose behalf the Company made pension contributions of £47,000.

2. The annual bonus figure comprises both the element paid in cash and the value of shares awarded under the scheme that are deferred for three years.

3. Keith Bedell-Pearce's bonus includes a payment of £45,000 recognising his contribution to the Company's long-term objectives.

4. Michael McLintock's bonus includes a payment of £327,250 that was included in his contractual arrangements following the purchase of M&G in 1999.

5. Mark Tucker's bonus includes a payment of £495,350 from his 1999 Asian long-term incentive plan. His benefits include an allowance of £124,000 for housing paid to reflect his expatriate circumstances.

6. Mark Wood's bonus includes a payment of £275,000 in respect of his joining the Company.

*Restricted Share Plan – At the end of a three-year performance period, a right to receive shares at no cost to the individual may be granted to executive directors dependent on the Company's Total Shareholder Return (TSR) relative to other companies in the FTSE 100 share index over the performance period. In addition, the Remuneration Committee must be satisfied with the Company's underlying financial performance during this period. No rights will be granted if the Company's TSR percentile ranking is 60th or below and the maximum grant will be made only if the TSR percentile ranking is 20th or above. Between these points, the size of the grant made is calculated on a straight line basis.

**Options awarded under Executive and Savings-Related Share Option Schemes.

To reflect their roles in the business, Michael McLintock, Mark Tucker and Mark Wood participate in long-term incentive plans that provide reward against growth in their appropriate business or region.

In order to secure the appointment of Mark Wood, on joining Prudential he was granted Prudential plc share awards expected to be released as follows: 71,569 shares (31 July 2002), 15,080 shares (31 July 2003) and 31,672 shares (31 December 2003).

Directors' Shareholdings

As a condition of serving, all executive and non-executive directors have been required to hold 2,500 shares in the Company. These shares must be acquired within two months of appointment to the Board if the director does not own that number upon appointment. Non-executive directors also use a proportion of their fees to purchase additional shares in the Company on a quarterly basis.

The interests of executive directors in shares of the Company are shown below. These interests include shares awarded under the Share Participation Plan (the previous annual incentive plan) and the share awards made to Mark Wood on appointment. In addition, interests include rights granted under the 1997 and 1998 Restricted Share Plan where the executive has yet to exercise his right to receive shares. Awards that remain conditional under the Restricted Share Plan are excluded. All interests are beneficial except non-beneficial interests in 6,300 shares in respect of Philip Broadley.

	1 Jan 2001*	31 Dec 2001
Keith Bedell-Pearce	**144,654**	**178,289**
Jonathan Bloomer	**112,947**	**152,623**
Philip Broadley	**10,722**	**10,381**
Michael McLintock	**2,820**	**3,884**
Mark Tucker	**134,713**	**174,150**
Mark Wood	**2,550**	**120,900**

*Or date of appointment if later.

Clark Manning held 2,500 shares at the date of his appointment as a director on 2 January 2002.

Interests of executive directors in shares of the Company's listed subsidiary Egg plc are shown below:

	31 Dec 2001
Keith Bedell-Pearce	**1,410**
Jonathan Bloomer	**470**
Philip Broadley	**470**

Philip Broadley is connected to a not-for-profit organisation that disposed of a total of 6,300 shares of the Company between 3 January 2002 and 28 February 2002. He had no beneficial interest in such shares. He acquired 1,038 shares of the Company, beneficially, on 26 February 2002. With these exceptions, there were no changes in interests between 31 December 2001 and 6 March 2002.

Service Contracts of Directors Proposed for Election or Re-election

Clark Manning and Mark Wood, who are proposed for election, and Mark Tucker, who is proposed for re-election, have service contracts of 12 months. Ann Burdus and Rob Rowley, who are proposed for re-election, do not have service contracts.

SUMMARY DIRECTORS' REPORT

Principal Activity and Business Review

Prudential plc is the Group holding company and the principal activity of its subsidiary undertakings is the provision of financial services in Europe, the US and Asia. The Group's business and likely future developments are reviewed in the Chairman's Statement on page 2, the Group Chief Executive's Review on pages 3 to 5, the Business Review on pages 6 to 13 and the Financial Review on pages 14 to 20. Particulars of important events affecting the Group which have occurred since the end of the financial year are detailed in the Financial Review on page 16.

Dividends

The directors have declared a final dividend for 2001 of 16.7 pence per share payable on 29 May 2002 to shareholders on the register at the close of business on 22 March 2002. The dividend for the year, including the interim dividend of 8.7 pence per share paid in 2001, amounts to 25.4 pence per share compared with 24.5 pence per share for 2000. The total cost of dividends for 2001 was £504 million.

Directors

The present directors are shown on pages 22 and 23. Bridget Macaskill resigned as a director on 16 March 2001. Keith Bedell-Pearce retired as a director on 31 December 2001. Mark Wood and Clark Manning were appointed directors on 21 June 2001 and 2 January 2002 respectively and in accordance with the Articles of Association retire and offer themselves for election at the Annual General Meeting. Rob Rowley, Mark Tucker and Ann Burdus retire by rotation at the Annual General Meeting and offer themselves for re-election. Details of executive directors' interests in the share capital of the Company and its listed subsidiary Egg plc are set out in the Summary Remuneration Report on pages 25 to 27. The Summary Corporate Governance Report can be found on page 24.

This Summary Financial Statement is only a summary of the information contained in the Group's 2001 full Annual Report and Accounts and does not contain sufficient information to allow as full an understanding of the results of the Group and state of affairs of the Company or of the Group as is provided by the Group's 2001 full Annual Report and Accounts. Any shareholder requiring more detailed information has the right to obtain, free of charge, a copy of the Group's 2001 Annual Report and Accounts by contacting Lloyds TSB Registrars, or via the Company's website at www.prudential.co.uk. Any shareholder wishing to receive a copy of the Group's full Annual Report and Accounts in place of Summary Financial Statements for all future years may do so by contacting Lloyds TSB Registrars in writing at the address found on page 36.

Auditors' Report

The auditors' report on the Group's 2001 full Annual Report and Accounts for the year ended 31 December 2001 was unqualified and did not include a statement under Section 237(2) (inadequate accounting records or returns not agreeing with records and returns) or Section 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

The Summary Financial Statement on pages 31 to 34 and the Summary Achieved Profits Basis Supplementary Information on pages 29 and 30 were approved by the Board of directors on 14 March 2002 and signed on its behalf by Sir Roger Hurn, Jonathan Bloomer and Philip Broadley.

AUDITORS' STATEMENTS

Statement of the Independent Auditors to the Members of Prudential plc pursuant to Section 251 of the Companies Act 1985

We have examined the Summary Financial Statement set out on pages 31 to 34 and the Summary Achieved Profits Basis Supplementary Information set out on pages 29 and 30.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Review and Summary Financial Statement ('Summarised Annual Report') in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement set out on pages 31 to 34 of the Summarised Annual Report with the full annual accounts and Directors' Report and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

We also report to you our opinion on the consistency of the Summary Achieved Profits Basis Supplementary Information set out on pages 29 and 30 of the Summarised Annual Report with the full Achieved Profits Basis Supplementary Information within the Annual Report.

We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Summary Financial Statement.

Basis of Opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the Summary Financial Statement' issued by the Auditing Practices Board. Our unqualified report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

Our unqualified review report on the full Achieved Profits Basis Supplementary Information describes the basis of our review on the supplementary information.

Opinion

In our opinion the Summary Financial Statement set out on pages 31 to 34 is consistent with the full annual accounts and Directors' Report of Prudential plc for the year ended 31 December 2001 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

In our opinion, the Summary Achieved Profits Basis Supplementary Information set out on pages 29 and 30 is consistent with the full Achieved Profits Basis Supplementary Information within the Annual Report for the year ended 31 December 2001.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
14 March 2002

Summary Profit and Loss Account	2001	Restated† 2000
Operating profit before amortisation of goodwill	**1,186**	1,029
Amortisation of goodwill	**(95)**	(84)
Short-term fluctuations in investment returns	**(1,402)**	(440)
Effect of change of economic assumptions	**(482)**	–
Merger break fee (net of related expenses)	**338**	–
Profit on business disposals	**–**	223
(Loss) profit on ordinary activities before tax	**(455)**	728
Tax	**213**	(241)
(Loss) profit for the year before minority interests	**(242)**	487
Minority interests	**25**	24
(Loss) profit for the year after minority interests	**(217)**	511
Dividends	**(504)**	(484)
Retained (loss) profit for the year	**(721)**	27

Basic Earnings Per Share	2001	Restated† 2000
Based on operating profit after tax and related minority interests before amortisation of goodwill of £828m (£752m)	**41.9p**	38.4p
Based on (loss) profit for the year after minority interests of £(217)m (£511m)	**(11.0)p**	26.1p
Average number of shares	**1,978m**	1,959m

Dividend Per Share	**25.4p**	24.5p

Movement in Shareholders' Capital and Reserves	2001 £m	Restated† 2000 £m
(Loss) profit for the year after minority interests	**(217)**	511
Exchange movements	**53**	187
Goodwill on sale of holding in associate company	**–**	90
New share capital subscribed	**42**	184
Dividends	**(504)**	(484)
Net (decrease) increase in shareholders' capital and reserves	**(626)**	488
Shareholders' capital and reserves at beginning of year:		
As originally reported	**8,833**	8,342
Prior year adjustment on implementation of FRS 19	**(57)**	(54)
As restated	**8,776**	8,288
Shareholders' capital and reserves at end of year	**8,150**	8,776

Balance Sheet	2001 £m	Restated† 2000 £m
Total assets less liabilities	**134,668**	135,848
Less insurance funds		
Technical provisions	**117,516**	110,960
Fund for future appropriations	**13,202**	20,917
Less shareholders' accrued interest in the long-term business	**(4,200)**	(4,805)
	126,518	127,072
Achieved profits basis net assets	**8,150**	8,776
Share capital and share premium	**633**	557
Statutory basis retained profit	**3,317**	3,414
Additional achieved profits basis retained profit	**4,200**	4,805
Achieved profits basis capital and reserves	**8,150**	8,776

† Comparative figures for 2000 have been restated for the implementation of FRS 19 on deferred tax.

Results Analysis by Business Area	**2001 £m**	2000 £m
UK Operations		
Insurance operations:		
New business	**243**	230
Business in force	**377**	478
Long-term business	**620**	708
General business	**79**	33
Total UK Insurance Operations	**699**	741
M&G	**75**	125
Egg	**(88)**	(155)
Total	**686**	711
US Operations		
New business	**167**	221
Business in force	**136**	(2)
Long-term business	**303**	219
Broker dealer and fund management	**16**	7
Total	**319**	226
Prudential Asia		
New business	**255**	153
Business in force	**160**	60
Long-term business	**415**	213
Development expenses	**(19)**	(3)
Total	**396**	210
Prudential Europe		
New business	**8**	9
Business in force	**0**	8
Long-term business	**8**	17
Development expenses	**(29)**	(18)
Total	**(21)**	(1)
Other income and expenditure		
Investment return and other income	**51**	70
Interest payable on core structural borrowings of shareholder financed operations	**(118)**	(131)
Corporate expenditure:		
Group Head Office	**(39)**	(42)
Asia Regional Head Office	**(24)**	(14)
Total	**(130)**	(117)
	1,250	1,029
UK re-engineering costs*	**(64)**	–
Operating profit before amortisation of goodwill	**1,186**	1,029
Analysed as profits (losses) from:		
New business	**673**	613
Business in force	**673**	544
Long-term business	**1,346**	1,157
Prudential Asia and Europe development expenses	**(48)**	(21)
Other operating results	**(48)**	(107)
UK re-engineering costs*	**(64)**	–
Total	**1,186**	1,029

*Comprising £48m recognised on the statutory basis and £16m of costs borne by the main with-profits fund attributed to shareholders on the achieved profits basis.

	Single		Regular		Annual Equivalents	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
UK Insurance Operations						
Prudential Intermediary Business						
Individual pensions	**219**	196	**68**	54	**90**	74
Corporate pensions	**82**	94	**19**	15	**27**	24
Life	**2,297**	1,660	**27**	36	**257**	202
Annuities	**1,172**	652	**–**	–	**117**	65
Department of Social Security rebate business	**64**	59	**–**	–	**6**	6
	3,834	2,661	**114**	105	**497**	371
Investment products	**70**	101	**2**	3	**9**	13
Total	**3,904**	2,762	**116**	108		
Prudential Financial Services						
Individual pensions	**26**	30	**26**	34	**29**	37
Corporate pensions	**469**	751	**131**	93	**178**	168
Life	**226**	534	**11**	28	**34**	82
Annuities	**663**	602	**–**	–	**66**	60
Department of Social Security rebate business	**185**	175	**–**	–	**19**	18
	1,569	2,092	**168**	155	**326**	365
Investment products	**15**	43	**4**	12	**6**	16
Total	**1,584**	2,135	**172**	167		
M&G						
Individual life and pensions	**–**	29	**–**	2	**–**	5
Investment products	**906**	1,050	**12**	16	**103**	121
Total	**906**	1,079	**12**	18		
Total UK Operations	**6,394**	5,976	**300**	293		
US Operations						
Fixed annuities	**1,899**	1,056	**–**	–	**190**	106
Equity linked indexed annuities	**271**	409	**–**	–	**27**	41
Variable annuities	**768**	1,709	**–**	–	**77**	171
Guaranteed Investment Contracts	**170**	365	**–**	–	**17**	36
GIC – European Medium Term Notes	**1,504**	1,291	**–**	–	**150**	129
Life	**–**	–	**22**	25	**22**	25
Total	**4,612**	4,830	**22**	25	**483**	508
Prudential Asia						
Insurance products	**650**	275	**369**	229	**434**	256
Investment products	**9,027**	2,259	**–**	–	**903**	226
Total	**9,677**	2,534	**369**	229		
Prudential Europe						
Insurance products	**58**	14	**20**	22	**26**	23
Group Total						
Insurance products	**10,723**	9,901	**693**	538	**1,766**	1,528
Investment products	**10,018**	3,453	**18**	31	**1,021**	376
Total	**20,741**	13,354	**711**	569		

Annual Equivalents are calculated as the aggregate of regular new business contributions and one tenth of single new business contributions.

Single new business insurance premiums include increments under existing Group pension schemes and pensions vested into annuity contracts (at the annuity purchase price). Regular new business contributions are determined on an annualised basis.

Asia Mutual Funds Under Management	India £m	Taiwan £m	Other £m	Total £m
Funds at 1 January 2001	**695**	**934**	**20**	**1,649**
Net Flows	**352**	**998**	**45**	**1,395**
Market movement	**24**	**35**	**(7)**	**52**
Funds at 31 December 2001	**1,071**	**1,967**	**58**	**3,096**

Gross Premiums Written	2001 £m	2000 £m
Long-term business	**15,196**	14,173
Investment products	**10,111**	3,587
General business	**390**	333
Total	**25,697**	18,093

Operating Profit	2001 £m	Restated† 2000 £m
Balance on the general business technical account	**72**	33
Balance on the long-term business technical account before tax	**677**	988
Profit on insurance activities	**749**	1,021
Other activities		
Investment income and gains	**37**	133
Investment return allocated to the technical accounts	**(422)**	(104)
Investment expenses and charges	**(162)**	(144)
UK investment management and products	**75**	90
US broker dealer and fund management	**16**	7
Merger break fee (net of related expenses)	**338**	–
Profit on business disposals	**–**	239
Corporate expenditure	**(63)**	(56)
Banking	**(88)**	(155)
Amortisation of goodwill	**(95)**	(84)
Loss on other activities	**(364)**	(74)
Profit on ordinary activities before tax	**385**	947
Tax on profit on ordinary activities	**(21)**	(314)
Profit for the financial year before minority interests	**364**	633
Minority interests	**25**	24
Profit for the financial year after minority interests	**389**	657
Dividends:		
Interim at 8.7p (8.2p) per share	**(172)**	(162)
Final at 16.7p (16.3p) per share	**(332)**	(322)
Total dividends	**(504)**	(484)
Retained (loss) profit for the financial year	**(115)**	173

Reconciliation of operating profit before amortisation of goodwill to profit on ordinary activities		
Operating profit before amortisation of goodwill based on long-term investment returns	**622**	840
Amortisation of goodwill	**(95)**	(84)
Short-term fluctuations in investment returns	**(480)**	(48)
Merger break fee (net of related expenses)	**338**	–
Profit on business disposals	**–**	239
Profit on ordinary activities before tax	**385**	947

Earnings per share based on operating profit	**23.3p**	30.2p
Earnings per share based on profit on ordinary activities	**19.7p**	33.5p
Dividend per share	**25.4p**	24.5p

The total emoluments of the directors, including non-executive and former directors, were £6,232,000 (£4,436,000).

† The tax charge, minority interests and earnings per share have been restated for the implementation of FRS 19 on deferred tax.

Results Analysis by Business Area	2001 £m	2000 £m
UK Operations:		
Long-term business	**435**	468
General business	**79**	33
UK Insurance Operations	**514**	501
M&G	**75**	125
Egg	**(88)**	(155)
Total UK operations	**501**	471
US Operations	**298**	466
Prudential Asia	**44**	39
Prudential Europe	**5**	8
Asia and Europe development expenses	**(48)**	(21)
Other Income and Expenditure	**(130)**	(123)
UK re-engineering costs	**(48)**	–
Operating profit before amortisation of goodwill	**622**	840

Movement in Shareholders' Capital and Reserves	2001 £m	Restated† 2000 £m
Profit for the year after minority interests (page 32)	**389**	657
Exchange movements	**52**	120
Goodwill on sale of holding in associate company	**–**	90
New share capital subscribed	**42**	184
Dividends	**(504)**	(484)
Net (decrease) increase in shareholders' capital and reserves	**(21)**	567
Shareholders' capital and reserves at beginning of year:		
As originally reported	**4,020**	3,424
Prior year adjustment on implementation of FRS 19	**(49)**	(20)
As restated	**3,971**	3,404
Shareholders' capital and reserves at end of year	**3,950**	3,971

† The movement in capital and reserves for 2000 has been restated for the implementation of FRS 19 on deferred tax.

Analysis of Borrowings at 31 December 2001	2001 £m	2000 £m
Core structural borrowings of shareholder financed operations	**2,152**	1,735
Commercial paper and other borrowings to support short-term fixed income securities reinvestment programme	**1,330**	–
Non-recourse borrowings of investment subsidiaries managed by PPM America	**530**	126
Banking subordinated notes	**124**	–
Borrowings of operations financed by with-profit operations	**100**	100
Obligations of Jackson National Life under sale and repurchase agreements	**577**	733
Other	**26**	30
	4,839	2,724

Recorded in the statutory basis summary consolidated balance sheet on page 34 as:

	2001 £m	2000 £m
Debenture loans	**2,244**	1,585
Amounts owed to credit institutions	**1,052**	909
Other borrowings	**1,543**	230
	4,839	2,724

Assets	**2001 £m**	2000 £m
Intangible assets – goodwill	**1,687**	1,611
Investments:		
Land and buildings	**10,487**	10,303
Equities	**40,948**	51,232
Fixed income securities	**59,181**	48,594
Deposits with credit institutions	**4,176**	3,875
Other investments (principally mortgages and loans)	**5,110**	4,507
	119,902	118,511
Assets held to cover linked liabilities	**17,453**	18,323
Reinsurers' share of technical provisions	**1,303**	816
Debtors	**978**	877
Banking business assets	**8,972**	8,603
Other assets	**2,002**	2,002
Prepayments and accrued income	**4,472**	4,207
Total assets	**156,769**	154,950

Liabilities	**2001 £m**	Restated† 2000 £m
Capital and reserves:		
Share capital	**100**	99
Share premium	**533**	458
Statutory basis retained profit	**3,317**	3,414
Shareholders' capital and reserves	**3,950**	3,971
Minority interests	**118**	137
Fund for future appropriations	**13,202**	20,917
Technical provisions	**99,733**	92,241
Technical provisions for linked liabilities	**17,783**	18,719
Provision for other risks and charges – deferred tax	**2,005**	2,777
Banking business liabilities	**8,333**	8,040
Debenture loans	**2,244**	1,585
Amounts owed to credit institutions	**1,052**	909
Other borrowings	**1,543**	230
Jackson National Life funding arrangements	**2,816**	1,920
Other creditors	**3,990**	3,504
Total liabilities	**156,769**	154,950

† Balance sheet comparatives for 2000 have been restated to reflect the implementation of FRS 19 on deferred tax.

The financial statements on pages 29 to 34 were approved by the Board of directors on 14 March 2002.

Sir Roger Hurn
Chairman

Jonathan Bloomer
Group Chief Executive

Philip Broadley
Group Finance Director

The Group's primary financial statements are prepared using the Modified Statutory Basis (MSB) of Reporting. These statements are set out on pages 31 to 34 and are prepared in compliance with Companies Act requirements and the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. The MSB method of accounting is based on solvency reporting methods and is not designed to indicate the value of long-term insurance business.

In order to provide value based financial results, Prudential, together with other listed UK life insurers, publishes supplementary information on the Achieved Profits basis. This information is set out on pages 29 and 30.

The achieved profits basis of financial reporting is based on conventional accounting principles and recognises profit as it accrues over the life of an insurance contract. Although total profit from each contract calculated under this method is the same as under the modified statutory basis of reporting used for the main accounts, the timing of profit recognition is advanced.

The achieved profits basis can be illustrated by considering an individual contract. Using prudent best estimate assumptions of the main elements of future income and expenditure – investment return, claims, lapses, surrenders and administration expenses – the total profit expected to be earned from the contract can be estimated at the time of its sale. The total profit expected to be earned is then allocated to individual financial years by application of a discount rate, which allows for both the time value of money and the risk associated with the future shareholder cash flows.

Provided that the actual outcome is in line with the original assumptions, profits will be earned in each accounting period as the discount rate unwinds. The balance of profit not allocated to future years is recognised in the year of sale and is known as the profit from new business. The unwind of the discount rate and variances between actual and assumed experience during the remainder of the contract period produce the profit on business in force.

The additional profit recognised at an earlier stage under the achieved profits method is retained within the long-term funds and is known as the shareholders' accrued interest in the long-term business.

The achieved profits basis is designed to report profit which reflects business performance during the year under review, particularly new business sales and fluctuations between actual and assumed experience.

The use of the achieved profits basis does not affect either the cash surpluses which are released to shareholders' funds from the long-term funds, which continue to be determined by the directors following statutory actuarial valuations of the funds, or amounts available for dividend payments to shareholders.

The additional profit recognised using the achieved profits basis is represented by the shareholders' accrued interest in the long-term business and, when combined with shareholders' funds reported on the statutory basis, provides an improved measure of total shareholders' funds of the Group.

Financial Calendar

Annual General Meeting	9 May 2002
Payment of 2001 final dividend	29 May 2002
Announcement of 2002 interim results	24 July 2002
Payment of 2002 interim dividend	28 November 2002

Analysis of Registered Shareholder Accounts
31 December 2001

Size of shareholding	Number of shareholder accounts	%	Number of shares	%
Over 10,000,000	**36**	**0.04**	**782,283,106**	**39.24**
1,000,001 – 10,000,000	**238**	**0.28**	**698,257,673**	**35.02**
500,001 – 1,000,000	**174**	**0.20**	**124,768,568**	**6.26**
100,001 – 500,000	**731**	**0.86**	**158,807,619**	**7.96**
50,001 – 100,000	**477**	**0.56**	**33,900,868**	**1.70**
10,001 – 50,000	**3,366**	**3.96**	**67,154,472**	**3.37**
5,001 – 10,000	**5,160**	**6.08**	**36,284,029**	**1.82**
1,001 – 5,000	**31,731**	**37.36**	**71,342,187**	**3.58**
1 – 1,000	**43,023**	**50.66**	**21,021,248**	**1.05**
Total	**84,936**	**100.00**	**1,993,819,770**	**100.00**

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Prudential public limited company.
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