GROUP

Results Highlights

The Group has delivered a good set of results for 2004, as illustrated by the double-digit growth of all the key performance measures shown in the table below. This is the result of strong contributions across all regions.

As a result of healthy sales in the UK, the US and Asia, the Group achieved record insurance sales and new business achieved profit (NBAP) in 2004. This, together with the significant increase in contributions from the in-force insurance business and fund management operations, drove achieved profits basis operating profit up 39 per cent on 2003.

On the modified statutory basis (MSB), operating profit was up 49 per cent on last year. This reflects a combination of solid year-on-year growth in profit in both the insurance and fund management businesses of 40 per cent and 55 per cent respectively.

Basic earnings per share on an achieved profits basis for the year after minority interests were 37.2 pence, compared with a restated figure of 25.4 pence in 2003. Following the Rights Issue in October 2004, a restatement of earnings per share is derived and reported in accordance with the requirement of Financial Reporting Standard (FRS) 14.

Basic earnings per share, based on total MSB profit for the year after minority interests, were 20.1 pence, up 10.1 pence from the restated 2003 figure of 10.0 pence.

Impact of Currency Movements

Prudential has a diverse international mix of businesses with a significant proportion of its profit generated outside the UK. In preparing the Group's consolidated accounts, results of overseas operations are converted at rates of exchange based on the year average, while shareholders' funds are converted at year end rates of exchange.

Changes in exchange rates from year-to-year have an impact on the Group's results when these are converted into pounds sterling for reporting purposes. In some cases, these exchange rate fluctuations can mask underlying business performance. For example, growth in Asia's total MSB operating profit was 83 per cent at reported rates, compared to 103 per cent at Constant Exchange Rates (CER). This reflects the close relationship between most Asian currencies and the US dollar and its depreciation against sterling during the year.

Consequently, the Board has for a number of years reviewed the Group's international performance at CER. This basis eliminates the impact from conversion, the effects of which do not alter the long-term value of shareholders' interests in our non UK businesses.

In the Business Review and Financial Review, year-on-year comparisons of financial performance are at CER, unless otherwise stated.

INSURANCE

United Kingdom and Europe

Prudential UK and Europe delivered a strong performance in 2004 increasing its market share in the medium to long-term savings market (excluding collective investments) by 2.3 percentage points to 8.9 per cent (based on data from the Association of British Insurers), reflecting not only its brand franchise and financial strength but also the significant progress made in broadening its distribution channels and product range while maintaining a clear focus on its customers.

Total annual premium equivalent (APE) sales were up 40 per cent on 2003 to £817 million, which included £111 million in relation to a substantial annuity transaction with Royal London which was concluded in December. Excluding Royal London, APE sales grew 21 per cent to £706 million. Growth was driven by increased sales of unit-linked bonds (up 219 per cent), bulk annuities (up 62 per cent), individual annuities (up 24 per cent) and credit life protection products (up 224 per cent).

This increase in new business sales and a new business margin of 27 per cent led to an increase in new business achieved profit (NBAP) of 40 per cent to £220 million. Total achieved profits basis operating profit increased 25 per cent to £450 million. The increase in profit from the in-force book was partially offset by experience and assumption changes. MSB operating profit was £305 million in 2004, an increase of 19 per cent on 2003. This was driven principally by increased annuity sales now being written through the shareholder-backed subsidiary, Prudential Retirement Income Limited (PRIL).

New business achieved profit margins, averaged across all products, remained stable at 27 per cent, however individual product performance varied. Margins on Business to Business (B2B) corporate pensions fell from 16 per cent to nine per cent principally as a result of higher proportions of less profitable unit-linked products, rather than with-profits products being sold in 2004. In line with our strategy to develop further our shareholder-backed business, we have sold an increasing volume of both unit-linked bonds and protection products. The increased scale of the

RESULTS HIGHLIGHTS

£m unless otherwise stated	2004 (as reported)	2003 (at 2004 exchange rate)	Percentage change	2004 (as reported)	2003 (as reported)	Percentage change
Annual premium equivalent (APE) sales	**1,846**	1,464	26%	**1,846**	1,557	19%
Net investment flows	**3,589**	2,908	23%	**3,589**	3,031	18%
New business achieved profit (NBAP)	**688**	561	23%	**688**	605	14%
NBAP margin	**37%**	38%	–	**37%**	38%	–
Total achieved profits basis operating profit*	**1,124**	807	39%	**1,124**	861	31%
Total modified statutory basis (MSB) operating profit*	**603**	405	49%	**603**	424	42%
Achieved profits basis shareholders' funds	**8,596**	6,762	27%	**8,596**	7,005	23%
MSB shareholders' funds	**4,281**	3,060	40%	**4,281**	3,240	32%

*Continuing operations – excluding Jackson Federal Bank (JFB) and Egg's France business.

In the Business Review and Financial Review, year-on-year comparisons of financial performance are at constant exchange rates (CER), unless otherwise stated.

unit-linked bond business has enabled it to approach a break-even position in terms of NBAP. Margins on annuities and with-profits products remained in excess of 40 per cent. As Prudential UK broadens its product range, the mix of business it expects to write in the future is likely to lead to some reduction in the overall new business profit margin. Prudential UK expects this to be offset by higher new business premiums, a greater proportion of which will be shareholder-backed.

Prudential UK operates through four diversified distribution channels. The Intermediaries (IFA) channel, which accounted for 34 per cent of APE sales in 2004, distributes a range of medium to long-term savings products primarily through independent financial advisers and will include sales generated through multi-ties. The B2B channel, which accounted for 28 per cent of 2004 APE sales, distributes corporate pensions through worksite marketing in partnership with consulting actuaries and benefit consultants. The Partnerships channel has responsibility for developing relationships with banks and other distributors and accounted for 26 per cent of APE sales in 2004, an increase from six per cent in 2003. The remaining 12 per cent of APE sales was generated by the Direct to Customer channel which focuses primarily on the sale of annuities to individual pension customers, although an increasing proportion of this is now being transacted through IFAs.

Independent financial advisers continue to be the principal channel for the distribution of life and pension products for insurers in the UK. This channel is undergoing significant change with the introduction by the Financial Services Authority (FSA) of new depolarisation rules leading to the establishment of multi-tie panels. Over the next few years, Prudential UK expects that a significant proportion of IFAs, which previously operated as whole-of-market providers, will move to a panel approach whereby they distribute the product range of a select number of life companies.

Prudential UK has already been appointed to work with Sesame, Millfield, Tenet and Burns-Anderson on the design of their respective multi-tie propositions. It has been appointed to the regulated multi-tie panels for Sesame, Millfield, Burns-Anderson and THINC Destini and has also been appointed as THINC Destini's single-tie annuity provider.

Depolarisation is also expected to have an effect on the UK bank distribution market as some banks move to offer their customers products from a panel of different providers rather than from a single product provider. Prudential UK has already seen significant growth through its partnership agreements with Lloyds TSB and Alliance & Leicester for the distribution of credit life protection products and with Zurich and Pearl for the distribution of individual annuities. The existing reassurance agreement with Zurich will be replaced in the second half of 2005 with a direct offer arrangement under which advisers of Openwork (formerly Zurich Advice Network) will sell Prudential's range of annuity products to their customers on an exclusive basis following the Openwork operational launch.

Prudential UK has also entered into a five-year partnership agreement with St. James's Place which becomes effective in May 2005 and will allow SJP Partners to sell exclusively Prudential's annuity products to their customers. On 1 March 2005, Barclays announced its intention to appoint Prudential UK as one of its nominated product providers as part of the bank's multi-tie approach to distribution to be launched later this year.

Prudential UK has maintained leading positions in many of its core product areas including annuities, corporate pensions and with-profits bonds. Nearly all of its annuity business is now written through PRIL. From July 2004, this included maturing pensions from the unit-linked and with-profits funds, the latter of which makes up a large proportion of annuity sales. In addition, shareholder capital is used to support the annuity business written on behalf of other insurers (such as the agreements with Zurich and Pearl). Prudential UK is one of the few insurers to write bulk annuity business and, including the Royal London transaction, wrote £158 million APE in 2004, representing a 72 per cent share of the market.

Prudential UK is a market leader in corporate pensions: in 2004, it was the provider to 20 per cent of FTSE 350 companies, managing more than 4,000 pension schemes, and it is the market leader in the provision of pension schemes to the UK public sector. It has enhanced its sales process to include automatic enrolment and greater use of worksite marketing to support its position.

Despite seeing reductions in sales of with-profits bonds across the market, Prudential believes that there is still customer demand for products offering a smoothed investment return; PruFund, a transparent smoothed investment product, was introduced to the market in September. Savers had invested £10 million (APE £1 million) in PruFund by the year end.

The Prudential Assurance Company's (PAC) long-term fund remains well capitalised with a free asset ratio of 14.8 per cent on the former regulatory Form 9 basis, without taking account of future profits or implicit items. The with-profits fund delivered a pre-tax return of 13.4 per cent in 2004, compared with a FTSE All Share (Total Return) of 12.8 per cent. Consequently, Prudential

UNITED KINGDOM AND EUROPE – RESULTS HIGHLIGHTS

£m unless otherwise stated	2004	2003*	Percentage change
APE sales	**817**	584	40%
NBAP	**220**	157	40%
NBAP margin	**27%**	27%	–
Total achieved profits basis operating profit	**450**	359	25%
Total MSB operating profit	**305**	256	19%

* Certain investment mandates previously reported as UK Corporate Pensions business are now reported as M&G institutional investment flows. This gives rise to a restatement of 2003 UK APE sales of £32m (from £616m to £584m) and 2003 UK NBAP of £9m (from £166m to £157m).

UK announced in February 2005 that total bonus rates were increased or maintained on all unitised plans showing that with-profits business continues to deliver attractive returns for policyholders when provided by a financially strong and well managed fund such as Prudential.

Prudential UK has also made a significant investment in its unit-linked offering and this is reflected in the increase in year-on-year sales and market share. The Flexible Investment Bond, launched late in 2003, and the recently-launched range of protected bonds continue to build share in the growing IFA unit-linked bond market.

Throughout the year, Prudential UK has continued to extend its product range. Two risk management products for defined benefit pension schemes will widen the solutions available to pension schemes considering bulk annuity buy-outs. PruHealth, a healthcare product that links health and fitness to the cost of medical insurance plans, was developed in conjunction with Discovery Holdings of South Africa, the market leader in the South African healthcare market and launched in October 2004.

Prudential UK is achieving strong growth, through both new and existing products, and by developing new distribution opportunities. Having completed the £200 million cost saving programme, it has maintained a focus on capital management and has achieved further cost efficiencies. This is reflected in Prudential UK's ability to maintain overall new business margins in 2004.

Prudential UK's performance reflects the continued impact of its brand, track record of investment performance and financial strength, as well as its successful transition from a with-profits and direct sales orientated company into a competitive, cost effective organisation. The successful diversification of its distribution channels, new distribution agreements and broadened product range place Prudential UK in a strong position to continue to gain from developments in the UK market. Prudential UK expects sales in 2005 to grow by about 10 per cent from the base established in 2004. This compares with the industry expectation for UK market growth of around five per cent for 2005.

United States

In 2004, Jackson National Life (JNL) delivered record sales despite the challenges of low crediting rates offered in the fixed annuity market, relatively flat equity markets during the first nine months of the year and an evolving regulatory environment.

APE sales for the year of £453 million were up 21 per cent on 2003, with total retail sales of £368 million, up 12 per cent on 2003. Variable annuity sales growth in 2004 was 15 per cent compared with market growth of three per cent (Source: VARDS).

New business achieved profit of £156 million was up 18 per cent on 2003. This increase reflects a 21 per cent increase in total sales, partially offset by a shift in product mix towards a higher proportion of equity-linked indexed annuity, life and institutional sales and a small impact from economic assumption changes.

Total achieved profits basis operating profit on continuing operations of £303 million was up 75 per cent on 2003. Total achieved operating profit on long-term business of £317 million was up 80 per cent on 2003. This reflects an 18 per cent increase in new business achieved profit and an in-force profit of £161 million, which was more than three times higher than in 2003. The increase in in-force profit primarily reflects an improvement in spread income on fixed annuities, lower economic assumption changes and a £28 million favourable legal settlement.

Total MSB operating profit on continuing operations of £182 million was up 46 per cent on 2003. The 53 per cent growth in long-term business operating profit reflects £169 million higher spread income and record variable annuity fee income due to significant growth in separate account assets. In addition, there were two one-off items, a £28 million favourable legal settlement and a positive £8 million adjustment arising from the adoption of SOP 03-01 'Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long Duration Contracts and for Separate Accounts'. This adjustment relates to a change in the method of valuing certain liabilities.

In 2004, JNL continued its focus on giving its customers greater freedom of choice by enhancing its product portfolio, distribution network and customer service.

In March, JNL launched its first variable universal life product and in May it introduced Fifth Third Perspective, a variable annuity product designed exclusively for customers of Fifth Third Securities. In the eight months since launch, sales of this product accounted for more than 65 per cent of JNL's total variable annuity sales through Fifth Third Securities in 2004. In October, it added further investment options to its Perspective II variable annuity product as well as two new optional benefits which customers can actively select and pay for.

JNL is a top 10 player (as measured by net flows) in the variable annuity market. Its variable annuity assets grew 36 per cent in 2004 compared to industry growth of 12 per cent and Perspective II was the best selling variable annuity contract in terms of net flows in the US (Source: VARDS). The rate of take up of the fixed account option continued at normal levels, with 29 per cent of the variable premium going into the fixed account, compared with 48 per cent in 2003. JNL offers a range of variable annuity guarantee benefits for which customers pay.

UNITED STATES – RESULTS HIGHLIGHTS

£m unless otherwise stated	**2004 (as reported)**	2003 (at 2004 exchange rate)	Percentage change	**2004 (as reported)**	2003 (as reported)	Percentage change
APE sales	**453**	374	21%	**453**	418	8%
NBAP	**156**	132	18%	**156**	148	5%
NBAP margin	**34%**	35%	–	**34%**	35%	–
Total achieved profits basis operating profit*	**303**	173	75%	**303**	194	56%
Total MSB operating profit*	**182**	125	46%	**182**	140	30%

* Continuing operations – excluding Jackson Federal Bank (JFB) which was sold in October 2004.

JNL's APE fixed annuity sales of £113 million in 2004 were down eight per cent on 2003. It was ranked the seventh largest provider of fixed annuities in the US (Source: LIMRA).

Institutional APE sales of £85 million were up 98 per cent on 2003. JNL has taken advantage of attractive issuance opportunities as they have arisen during the year, and will continue to do so in 2005.

JNL took a significant step forward in 2004, enhancing its customer servicing and support function through the reorganisation of its customer support centres to provide standardised procedures, increased operational efficiency and improved customer service.

Curian Capital, which provides innovative fee-based separately managed accounts, had net investment flows of £387 million in the year. At the end of 2004, 21 months from launch, it had accumulated over US$1 billion (£550 million) of funds under management. As the business builds scale, we expect operating losses to reduce.

A key factor in JNL's continuing success is the strength of its relationship-based distribution model, which is heavily dependent upon achieving the highest levels of customer satisfaction. In 2004, JNL received two service awards and was one of only eight companies across all sectors to earn a world-class customer satisfaction award from North America's Service Quality Measurement Group. It also received the 'highest customer satisfaction by industry' award for the financial services industry.

In October 2004, JNL completed the sale of Jackson Federal Bank (JFB) to Union Bank of California for £166 million. JFB's principal area of business was banking and commercial real estate lending, which no longer aligned with JNL's strategy.

As part of JNL's continued focus on developing its life business, in November it announced the purchase, subject to regulatory approval, of Life Insurance Company of Georgia for £137 million. This acquisition will double the number of JNL's in-force life and annuity policies, add scale to its operating platform and expand its distribution capability. This will enable JNL to grow its life business at a higher return and faster rate than it can achieve organically. JNL anticipates achieving a minimum internal rate of return after tax on this transaction of 13 per cent and the capital provided from its retained earnings will be returned over a payback period of about five years. The planning for the integration of the business is on track and full integration is anticipated within 12 months of closing the transaction. The regulatory approval process is under way.

The US is the world's largest medium and long-term savings market. Although a fragmented market, it contains many profitable segments. JNL is a scale player in its chosen segments and its position as a low cost provider gives it an expense advantage over competitors. JNL's distribution proposition is strong; it provides market leading sales support through value-added wholesaling and marketing support.

The ageing demographics of the US, combined with customers' increasing demand for professional advice, increase the potential for profitable growth. JNL is well positioned to capitalise on this given its strength among independent broker-dealers through National Planning Holdings (NPH), its independent broker-dealer network. In 2004, NPH increased gross sales by 23 per cent and increased agent productivity.

Following President Bush's State of the Union address and the items contained in the President's proposed 2006 budget, JNL anticipates a variety of initiatives to promote further individual choice, greater flexibility and a stronger orientation toward market-based solutions to savings and retirement. These proposals will include personal security accounts, as well as tax-free accounts for savings and simplified retirement accounts.

We expect the US market to grow at about four per cent in 2005 and JNL to grow sales at around twice this rate as current conditions continue to favour companies which have a range of variable and fixed annuity product offerings, a relationship-based distribution model and award-winning service. We expect to be able to maintain margins at current levels depending on the mix of business written.

Asia

In Asia, APE sales showed solid growth over 2003, up 14 per cent to £576 million with particularly high growth rates in India, Korea, Taiwan and China, offset to a certain extent by lower volumes in Vietnam due to a steadying of the market on the back of four years of explosive growth following liberalisation and in Japan where we are implementing our strategy to focus on more profitable products and distribution channels. Excluding discontinued lines in Japan, growth over 2003 was 20 per cent.

NBAP of £312 million was up 19 per cent on 2003 reflecting a combination of increased sales and higher product margins. APE increased by 14 per cent on 2003. The NBAP margin was 54 per cent, compared to 52 per cent in 2003 due to effective management of country and product mix.

ASIA – RESULTS HIGHLIGHTS

£m unless otherwise stated	2004 (as reported)	2003 (at 2004 exchange rate)	Percentage change	2004 (as reported)	2003 (as reported)	Percentage change
APE sales	**576**	506	14%	**576**	555	4%
NBAP	**312**	262	19%	**312**	291	7%
NBAP margin	**54%**	52%	–	**54%**	52%	–
Total achieved profits basis operating profit*	**381**	328	16%	**381**	365	4%
Total MSB operating profit*	**126**	77	64%	**126**	85	48%

* Excluding development and Asia regional head office expenses.

The Asian economies' consistently high economic growth rates and favourable demographics, together with the trend to allow greater access to foreign financial services players makes these markets very attractive. However, success is not guaranteed; there are many regulatory, cultural, competitive and organisational challenges which favour companies such as Prudential who have a long history and clear commitment to Asia, a track record of delivery and an operating model enabling them to 'think internationally and act locally'.

Over the last 10 years, building on its long-standing commitment to the region, Prudential has followed a proven strategy of expanding geographically, diversifying its distribution, launching innovative, customer-focused products and partnering with leading local institutions. Today, Prudential has operations in 12 countries and is Europe's leading life insurer in Asia in terms of market coverage and number of top five market positions. It has an agency force of 136,000 that generates around 75 per cent of new business with the remainder of new business coming from a variety of distribution partnerships, including a number of leading banks. The face of Prudence is well-known throughout the region and has similar recognition levels to other leading international financial services institutions.

This breadth and depth of operations across the region gives Prudential diversity backed up by collective scale that is a real competitive advantage as it can leverage expertise and experience in some countries and apply this elsewhere as appropriate. It is also able to take a longer-term view on the development of the region as a whole. Prudential Corporation Asia's consistently impressive NBAP margins illustrate not just the overall attractiveness of the Asian markets, but more specifically our success in maximising long-term value creation while effectively managing risk.

During 2004, the strength of Prudential Corporation Asia's business model was illustrated in a number of ways:

- when Prudential acquired its life operation in Taiwan in 1999, the first priority was to build distribution scale, and, consequently, agent numbers grew rapidly. In 2003 the focus shifted to broadening the product range and improving profitability by capitalising on being the first life operation in Taiwan to launch regular premium unit-linked insurance products through leveraging successes in markets such as Singapore and Malaysia. During 2004 APE volumes grew significantly by 23 per cent and the proportion of unit-linked sales is 40 per cent, significantly higher than the industry.
- in India, the ICICI Prudential joint venture continues to grow very strongly with APE up 127 per cent on 2003. With ICICI's strong local presence and reputation and Prudential's expertise, it is the leading private sector player, well ahead of its nearest competitors. In 2004, the Indian government announced its intention to increase the cap on foreign ownership from 26 per cent to 49 per cent. While Prudential remains interested in increasing its stake in the joint venture, the relevant legislation has not yet been put before the Indian Parliament.
- the Hong Kong market has seen some significant changes over the last few years with increasing emphasis on shorter-term single premium products sold through bank channels. Prudential's innovative bancassurance model, as applied with Standard Chartered Bank (SCB) in Hong Kong, has proven to be very effective in enabling Prudential to leverage its top five position in a very competitive market while still retaining a strong core agency channel which produces a higher proportion of regular premium business.
- in Singapore the market is competitive and Prudential remains focused on profitability rather than pure volume; although new business APE declined by four per cent in 2004, new business achieved profit margins increased by five percentage points. Prudential's other long-established market, Malaysia, which celebrated its 80th anniversary in 2004 recorded APE sales up 15 per cent on 2003.
- the Japanese life market remains very challenging and in the third quarter of 2003 we scaled back our operations to focus on higher value distribution channels and more profitable products. While the operation is now somewhat more efficient with lower expense levels and has made some progress with establishing new distribution channels, it will take some time to deliver material new business volumes and become a positive contributor to Prudential Corporation Asia's overall results.

However, in its other North Asian Market, South Korea, Prudential continues to have great success; new business APE growth was 113 per cent in 2004, driven by developing a multi-channel distribution model including a pioneering cable TV home shopping channel, bancassurance, proprietary distribution and a strong general agent (multi-tied) network. In 2004 we successfully launched a unit-linked insurance product, making Korea the 10th Prudential Corporation Asia market to offer these capital efficient products.

With over five million life insurance customers, Prudential Corporation Asia now has the scale to benefit from more standardisation and integration of processes and the introduction of common systems platforms. In 2004, the first step towards a more integrated back office was made with the launch of a regional processing centre, Prudential Services Asia, based in Malaysia's high tech business park Cyberjaya.

In China, Prudential's joint venture with China International Trust and Investment Corporation (CITIC) is one of the country's leading foreign players and APE growth was 70 per cent last year. CITIC Prudential already operates in three cities, has a new Shanghai operation launching in the second quarter of 2005 and in February 2005 received additional licences for cities in Guangdong province (Dongguan and Foshan), and has approval to provide group policies alongside the core individual life products. It is expected that this rapid development will continue as geographic licensing restrictions ease further.

The impact of Prudential Corporation Asia's focus on capital efficiency and its increasing scale can be seen as it is expected to become a net contributor of cash to the Group in 2006, whilst continuing to fund high growth rates.

We are confident of our ability to grow strongly and profitably in Asia: the opportunities in our newer markets, coupled with the strength of our larger operations, should enable us to accelerate our level of sales growth in 2005. We expect to be able to maintain margin while delivering this growth.

FUND MANAGEMENT

M&G

M&G is Prudential's UK and European fund management business and has over £126 billion of funds under management, of which £98 billion relates to Prudential's long-term business funds. M&G operates in markets where it has a leading position and competitive advantage, including retail fund management, institutional fixed income, pooled life and pension funds, property and private finance. We believe, based on data from the Investment Management Association, M&G ranks as the third largest asset manager in the UK.

In 2004, M&G's operating profit including performance-related fees (PRF) was £136 million, an increase of £53 million on the previous year. Underlying profit, which excludes PRF, increased by 57 per cent to £110 million reflecting the strengths of M&G's diversified business, disciplined cost management and the success it has had in developing new sources of revenue. Over the last two years, M&G's underlying profit has more than doubled even though the average of the FTSE All Share index in 2004 was at similar levels to 2002.

Performance-related fees in 2004 were £26 million, including £20 million as a result of several exceptionally profitable realisations by PPM Ventures that are not expected to recur. M&G also received £6 million of performance fees for the management of the Prudential Assurance Company long-term and annuity funds, which continued to beat their strategic and competitor benchmarks during the year.

M&G enjoyed a very strong year in terms of sales, with gross fund inflows up 54 per cent to £5.8 billion. Net fund inflows were up 48 per cent to £2 billion. External funds under management, which represent approximately one quarter of M&G's total funds under management, rose by 19 per cent during the year to £28.7 billion due to a combination of net fund inflows from both retail and institutional clients and market gains on existing funds.

In M&G's retail businesses, gross fund inflows were a record £2 billion in 2004, up 61 per cent on the previous year. In the UK, M&G maintained its fixed income sales and continued to increase fund flows into equity funds on the back of its strong fund performance. The launch of the M&G Property Fund in March 2004 provided M&G with an additional asset class for the retail market and added a significant boost to sales. The success of M&G's expansion into Germany, Austria and Italy was evident in 2004 with gross fund inflows growing fourfold to €611 million (£433 million), compared with the previous year.

In its institutional businesses, M&G continued to reap the benefits of its position as a leading innovator in fixed income and private finance, with gross fund inflows increasing by 50 per cent to £3.9 billion during 2004. The successful strategy of developing new external business lines with attractive margins, using expertise developed for internal funds, generated increased revenue streams, especially in the area of non-correlated assets such as leveraged loans. M&G's private finance business closed two more Collateralised Debt Obligations (CDOs) during the year, bringing the total number of CDOs launched since 2001 to six.

M&G's property division, Prudential Property Investment Managers (PruPIM), which invests primarily on behalf of the Prudential Assurance Company, significantly increased its funds under management during 2004 and expanded its product offering into the retail marketplace with the launch of the M&G Property Fund alongside the successful expansion of its unit-linked funds. PruPIM is one of the largest institutional property fund managers in the UK with over £14.8 billion invested in the property market.

Looking forward, we expect M&G to continue to perform strongly building on its current position.

Asia Fund Management

Prudential Corporation Asia manages £22.5 billion funds under management, a growth of 24 per cent from 2003, on behalf of the Asian life businesses, funds allocated from elsewhere in the Prudential Group to Asia and retail customers' funds principally in the form of mutual funds. Collectively it is one of the region's largest international fund managers and has investment product funds under management of £7.8 billion.

Investment flows are from our mutual fund operations in seven Asian markets and include our 36 per cent share of our joint venture with Bank of China International (BOCI) in Hong Kong for Mandatory Provident Fund (MPF) products and unit trusts.

During 2004 our Japanese mutual fund operation has seen considerable success with net inflows of £1.4 billion, primarily driven by marketing US bond funds that leverage the expertise of PPM America.

FUND MANAGEMENT – RESULTS HIGHLIGHTS

£m unless otherwise stated	**2004 (as reported)**	2003 (at 2004 exchange rate)	Percentage change	**2004 (as reported)**	2003 (as reported)	Percentage change
M&G:						
Gross investment flows				**5,845**	3,797	54%
Net investment flows				**2,004**	1,353	48%
Underlying profit before PRF				**110**	70	57%
Total MSB operating profit				**136**	83	64%
Asia Fund Management:						
Net investment flows	**1,198**	1,416	(15)%	**1,198**	1,522	(21)%
Total MSB operating profit	**19**	11	73%	**19**	13	46%

These strong fund inflows from Japan and good results from our Korean asset management business offset the marked decline in Taiwan's bond funds' assets under management, where industry-wide concerns over the liquidity of some bond funds unsettled the market during the second half of 2004. As a result, funds under management in Taiwan reduced by 33 per cent during 2004.

Looking ahead, while our Asian funds division will continue to add value to its core internal clients, there are also good opportunities for it to continue to expand its retail customer base.

BANKING

Egg

Egg is an innovative financial services company, providing a range of banking and financial services products through its internet site. The principal business includes credit cards, deposits, general insurance and mortgages.

Operating profit from the core UK business was £74 million, compared with £73 million in 2003. This represents a solid result considering the increased competition and rising interest rates that have impacted the credit card and personal loan markets.

Unsecured lending grew strongly by £1.4 billion during 2004 taking total balances to £6.2 billion as at the end of 2004, up 30 per cent on last year. The successful cross-selling of personal loans into their credit card customer base has been complemented by the MasterCard proposition launched in June, which is proving popular with Egg's customers and has now achieved almost £140 million in balances. Overall, Egg's share of the credit card market had increased to six per cent at the end of 2004.

Income arising from the UK of £497 million grew by 18 per cent on 2003, with non-interest income providing the majority of the increase. Margins were under pressure throughout the year from increased competition, especially in the first half, and rising base rates. Despite the rising interest rate and competitive landscape, net interest income increased by nine per cent on 2003. Other income also grew impressively, up 34 per cent to £210 million. Record loan disbursements and good card balance growth, with associated revenue from cross-sales of payment protection insurance, was the main factor.

Egg's effective cost management and good credit quality also contributed to the solid results from its UK operation. It has increased its provision levels to reflect the change in its product mix following growth in its unsecured lending portfolio, the stage in the life cycle of its card and loan books and the increasing proportion of personal loans business.

Egg has 3.1 million customers who are defined as 'marketable' based on their activity levels. Moving forward, Egg will focus on growing lending balances and fee income through a mix of both acquisition and cross-sales rather than by customer acquisition as the key growth metric.

The operating loss for the discontinued French operation was £37 million reflecting the results up to the date of the announcement of Egg's intention to withdraw from the market in July 2004. In 2004, Egg sold its French unsecured lending, savings and brokerage portfolios and in early 2005 closed the current account business. The expected total exit costs remain unchanged from the £113 million provision established in July 2004.

Consistent with the intention to focus on its successful UK business, Egg has sold its investment business to Fidelity at a small loss, which will release approximately £20 million of capital back to its core banking business in 2005. It has also put Funds Direct, its investment wrap platform business, up for sale and provided for a £17 million impairment charge against the full carrying value of the underlying assets in Funds Direct.

During 2005, Egg intends to undertake a restructuring of share capital and reserves with a view to eliminating its profit and loss deficit against other reserves including the share premium account. This restructuring will allow the payment of dividends as and when sufficient distributable reserves have been generated and Egg's Board considers it to be in the best interests of the Company and its shareholders.

Looking forward, Egg's highly attractive unsecured lending portfolio represents an opportunity to grow further and deliver healthy returns. In addition, it will continue to build on its strong relationship with customers and their levels of consideration to buy other products from Egg, as evidenced by general insurance cross-sales in the fourth quarter. To this end, Egg will look to offer a broader range of products and services in 2005 and beyond.

We expect Egg to finance its own growth without requiring capital support from the Group.

EGG – RESULTS HIGHLIGHTS

£m unless otherwise stated	**2004**	2003	Percentage change
Total MSB operating profit*:			
Egg UK	**74**	73	1%
Subsidiaries/Associates/ Joint Ventures	**(21)**	(4)	(425)%
Others	**(10)**	(14)	29%
	43	55	(22)%
Net interest income*	**287**	263	9%
Non-interest income*	**210**	157	34%

* Continuing operations – excluding Egg's France business.