



SIR DAVID CLEMENTI CHAIRMAN

After several years of difficult market conditions in the UK and the US, 2004 was a year in which we began to see signs of recovery. In Asia, the economies in which we operate continued to grow, and rising wealth and market liberalisation fuelled interest in savings and investment products.

Across the world we saw a continuation of the growing awareness of the impact that shifting demographics will have on people's lives, and the central role that insurers can play in helping to address the global savings gap and secure the financial well-being of those who are living longer. Against this backdrop, we continued to pursue opportunities for sustainable, profitable growth in each of our chosen markets, and we ended the year in a stronger position than we have enjoyed for some time.

For the year to 31 December 2004, total insurance sales rose 26 per cent to £1,846 million*; operating profit on an achieved profits basis increased 39 per cent to £1,124 million; operating profit under the modified statutory basis increased 49 per cent to £603 million; and the full year dividend per share has been increased by three per cent to 15.84 pence per share**.

Shareholders' funds on an achieved profits basis rose by 27 per cent to £8.6 billion, an increase which reflects the proceeds of our Rights Issue announced in October and the growth in the value of our long-term business.

In the UK we have transformed our insurance business over the last three years, and now have a robust, multi-channel operation, which is increasingly writing shareholder-backed business.

Growth in this business over the medium term will be funded from the proceeds of the Rights Issue. Jackson National Life and M&G are already delivering strong profits and funding their own growth from internal revenues. Our Asian business continues to grow and is on track to become cash positive from 2006.

Egg closed its loss-making French arm during 2004 and is now focused on delivering value from its profitable UK operations. We were disappointed that we were unable to sell Egg during the year but, although we do not see it as a long-term core business, we are determined to ensure that it is managed to protect and build the value of our investment.

Looking to the future, we see many opportunities for growth in each of our core markets. As governments and individuals seek to address the combined challenge of rising life expectancy and inadequate retirement funding, we believe they will look increasingly to the private sector to fulfil their needs. By sharing knowledge between Prudential's businesses we can adapt and export products across borders, meeting emerging needs often more quickly and efficiently than competitors. Our operational plans, in areas such as product design and IT product processing, are increasingly developed on an international, rather than a local, basis.

A sustainable business also requires commitment to the communities in which it operates; and Prudential believes that financial education must be a fundamental part of any forward-looking financial services company's approach. This is the thinking behind the financial education programme that we have developed over the past four years, more details of which are given in the Corporate Responsibility section of this Report. This programme is an integral part of our strategy to build trusting, long-term relationships with consumers.

During the year it was my pleasure to welcome to the Board two new non-executives: James Ross who joined us in May and Michael Garrett who joined in September. In December we announced that Keki Dadiseth would be joining us from 1 April 2005. All three have substantial experience of operating in overseas markets and will significantly increase the international strength of the Board.

Two directors left the Board in 2004: Sandy Stewart in May and Bart Becht in August; and I would like to thank them both for their contribution.

Shortly before publication of this Report, we also announced that Jonathan Bloomer will step down at the close of the Annual General Meeting. He will be replaced as Group Chief Executive by Mark Tucker. I would like to thank Jonathan for his significant contribution over the last 10 years, first as Group Finance Director and then as Group Chief Executive. He has brought Prudential through one of the severest markets the insurance sector has experienced and has overseen significant changes in our operations which have contributed to the very good results delivered in 2004. We wish him well for the future.

Mark Tucker previously worked for Prudential from 1986 to 2003. He was an Executive Director of Prudential from 1999 to 2003 and Chief Executive of Prudential Corporation Asia from 1993 to 2003. His background and experience mean that he is well suited to lead Prudential to the next stage in the Group's development.

While the prospects for the future are encouraging, we will continue to rely on our experienced and talented people around the world to capitalise on them; and I would like to thank our staff for their hard work and commitment to the Group over the past year.

* All year-on-year comparisons of financial performance are at constant exchange rates (CER), unless otherwise stated.

** Adjusted for the Rights Issue in 2004.