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2005 was a good year for Prudential's businesses around the world. Each of our operations made strong progress, and finished the year well positioned to take advantage of the opportunities for profitable growth in 2006 and beyond.

At a Group level, total insurance sales for the year to 31 December 2005 rose 15 per cent to £2,146 million; operating profit on a European Embedded Value (EEV) basis increased 33 per cent to £1,712 million; operating profit under the International Financial Reporting Standards (IFRS) basis increased 36 per cent to £957 million. The full year dividend per share has increased three per cent to 16.32 pence per share.

During the year, we welcomed Mark Tucker back to Prudential, as Group Chief Executive. Mark previously worked in most of the Group's businesses over nearly 20 years, and this broad knowledge, combined with his drive and energy, have brought greater clarity and confidence about the Group's longer-term plans and capital management programme, enabling us to map out the steps that we need to take to deliver long-term value to shareholders.

In the UK, where we are already a leading life and pensions company, we plan to extract significantly more value from the market as a whole by taking a more collaborative approach between our individual businesses. The decision to return Egg to full ownership within the Group has been an important step towards this, and gives us a strong base from which to pursue our ambition to build a broader retail financial services presence.

In the United States, we see enormous potential to capitalise on the emerging needs of the 'baby boomer' generation which is starting to move into retirement, using our market-leading position in variable annuities, and our strengths in IT, product innovation and relationship-based distribution.

Sir David Clementi

In Asia, the drivers of growth are as compelling as ever, and we expect to continue to expand aggressively in the region over the coming years, while still attaining our goal to go cash positive during 2006.

Turning to our asset management businesses, we see these as significant and increasing contributors to the overall Group. Not only do they underpin the performance of our traditional insurance products, they also provide an attractive enhancement to our range of products enabling us to accommodate the needs of the vast bulk of retail investors. Just as importantly, asset management provides a powerful source of non-capital-intensive profits for the Group.

Across the Group, we continue to share knowledge and skills, and are increasingly looking at resources such as IT on a global basis. We see considerable scope for further collaboration of this kind in future.

An integral part of our strategy is to ensure we build trusting, long-term relationships with consumers and, as part of this, we continue to support the communities in which we operate through a range of financial education initiatives. Details of our programme are given in the Corporate Responsibility section of this Report.

During the year, we made a number of Board changes. In addition to Mark Tucker's appointment as Group Chief Executive in May, we also appointed Nick Prettejohn as Chief Executive of Prudential UK, effective from January this year, following the departure of Mark Wood in October. Keki Dadiseth was appointed as a non-executive director in April last year. He brings to the Board considerable international experience, particularly of Asian markets.

We announced in April of this year that Lord Turnbull would join our Board following the Annual General Meeting in May. He was the Secretary of the Cabinet and Head of the Home Civil Service from 2002 to 2005, prior to which he was Permanent Secretary at HM Treasury. Following the Annual General Meeting, Rob Rowley will step down from the Board and I would like to thank him for his significant contribution since he joined in 1999.

The Group's Restricted Share Plan ends this year. At the Annual General Meeting we will put forward new long-term incentive arrangements for executive directors, which will replace the Group Restricted Share Plan and the current business unit incentive schemes. Recruiting and retaining the highest calibre executives is of course crucial to our long-term success. The new arrangements we have developed aim to be competitive within the broad international marketplace in which we operate, and we hope that shareholders will support them.

One further matter on which I must comment is the proposal we received recently from Aviva that we should combine our two businesses. Your Board did not consider that the proposal made was in the best interests of Prudential's shareholders, and it was subsequently withdrawn by Aviva. Your Board believes we are well placed: we have the business opportunities; the management depth; and the capital strength to continue to expand profitably our operations around the world and to generate further growth in the value of your Company. As always, the experience and talents of all our staff will be critical to our success, and I would like to thank them for their continued support and commitment.

Sir David Clementi
Chairman

+3 per cent

Full year dividend per share up by three per cent to 16.32 pence