Compelling positions in the world's leading financial services markets

2005 was a successful year for Prudential.

The Group has continued to expand its insurance business strongly and our asset management businesses have also had an excellent year.

Total Group operating profit before tax, on a European Embedded Value (EEV) basis, was £1,712 million, an increase of 33 per cent. Statutory IFRS operating profit before tax was up 36 per cent at £957 million.

The continuing momentum of the Group can be seen in the growth of insurance premium income in 2005 to £13.8 billion (2004: £12.2 billion) and funds under management of £234 billion at the end of 2005 (2004: £197 billion).

New business sales in our insurance operations increased by 15 per cent to £2,146 million on an annual premium equivalent (APE) basis and each of our regional operations achieved double-digit growth. New business profits increased by 15 per cent across the Group to £867 million, and operating profit before tax on the insurance business on an EEV basis increased by 30 per cent to £1,743 million.

In our asset management businesses, external funds under management increased to £46 billion up 23 per cent.

A final dividend of 11.02 pence per share has been recommended by the Board bringing the full year dividend to 16.32 pence per share, an increase of three per cent from 2004. The full year dividend is covered 1.7 times by post-tax IFRS profit after minority interests. We intend to maintain our current dividend policy, with the level of dividend growth being determined after considering the opportunities to invest in those areas of our business offering attractive growth prospects, our financial flexibility and the development of our statutory profits over the medium to long term.

Shareholders' funds, on an EEV basis, grew strongly to £10.3 billion at the end of 2005 (2004: £8.6 billion) and the Group's return on embedded value was 15.7 per cent (2004: 13.4 per cent) at reported exchange rates.

Mark Tucker

In May 2005, I set up a team of senior executives with a brief to identify the ambitions and business strategies best suited to maximise sustainable growth in value for the Group's shareholders over the longer term.

The key conclusions of the review were that:

- Demographic trends and the increasing concentration of wealth in the hands of those approaching retirement or already retired presents a major opportunity to establish the Group as a leading provider of 'financial services for retirement' by playing to our strengths and areas of competitive advantage;
- the Group is well positioned in markets that offer highly attractive opportunities for strong organic growth over the next 10 years;
- to exploit these opportunities fully we need to broaden our customer proposition and product range to align them more closely with anticipated retail financial sector profit pools;
- in addition, we must complement our strong and important intermediary links by expanding the proportion of revenue derived from direct customers; and ensure that we build deep life-cycle relationships with our customers;
- we should also develop the global reach and profile of our excellent asset management businesses.

Consistent with this strategy, and to support closer workings between our UK insurance business and Egg, we announced the terms of an Offer to acquire the 21.7 per cent of shares in Egg that the Group did not already own.

Each of our businesses has operational autonomy within its market and this is critical to our success, since it is the key to our ability to tailor products and services to meet local market needs. However, the review also concluded that there are material synergies that can be achieved through closer working across the Group, consistent with our decentralised approach; and work is underway to identify and capture these, for example by establishing a single global IT infrastructure and support unit with expected cost savings of £20-£25 million per annum.

Finally, the review concluded we must continue to enhance the effectiveness of our capital management processes, to ensure that investment and capital allocation decisions are focused on those areas of activity that will generate the best returns to shareholders.

Prudential is developing compelling positions in the world's leading retail financial services markets. I am confident of the outlook for the Group and we aim to deliver significant profitable growth.

UK insurance and retail banking operations

The Prudential-branded UK insurance business continued to develop its shareholder-backed business successfully and increased APE sales by 10 per cent in the year, to £900 million. The internal rate of return on new business written in the year was 14 per cent, meeting the target set for 2007 two years early.

We continued in 2005 to increase the scale of our annuity business and at the same time reduce the average duration of the total book.

We have also continued to develop our product range in 2005. In October we entered the lifetime mortgage market, a market that is set to grow rapidly to an estimated £7 billion by 2008. Our innovative product has been designed with the customer, adviser and regulator in mind and initial customer interest has been encouraging. We have also made good progress in unit-linked and off-shore bond sales which grew 31 per cent and 15 per cent respectively in the year.

The A-Day proposals offer the opportunity to attract new business as customers increase contributions and consolidate their pension arrangements. We have already launched a new Flexible Retirement Plan and we will undertake a review of our overall individual pensions offering during 2006. In addition, we have established a unit to communicate directly with our existing pension customers.

The UK insurance business has a balanced distribution model with strong positions across all major segments – IFA and multi-tie intermediaries, direct marketing and telesales, employee benefit consultants and a well developed single-tie Partnership channel. We continued to make good progress in diversifying distribution,

£1,712 million

Total EEV operating profit from continuing operations up 33 per cent

At constant exchange rates

reaching agreements with a range of providers including Barclays, National Australia Bank, St. James's Place and with Royal London to provide pension annuities for vesting Scottish Life policies.

In addition, we continued to be successful in gaining access to multi-ties in the year. Prudential is in a strong position to benefit as the IFA market changes over the next 18-24 months and recently achieved a '5 star' IFA service rating for its investment products and '4 star' rating overall, demonstrating strong progress in this important area.

In retail banking, Egg's UK operations delivered an underlying profit of £60 million (2004: £72 million). Egg was successful in testing market conditions improving its net interest margin against a background of falling base rates and also lowering its cost income ratio. There has been a general deterioration in consumer credit conditions, however, Egg's experience here has been substantially better than the market average.

Following our decision to acquire the minority shareholding in Egg, we have targeted annualised cost savings of £40 million across our UK operations by 2007. During 2006, we will undertake a further review of the cost base in these operations. We also see opportunities for revenue synergies across our UK brands' five million marketable customers.

Our central focus in the UK is to use the strong franchises that we have to improve returns. We are targeting growth but also managing for value and we will not commit capital if we do not see the individual product returns that we require emerging over a reasonable timeframe.

US insurance operations

Jackson National Life (JNL), the Group's US operation, is a significant cash-generative business with the market positioning to continue its strong track record of profitable growth in the retirement market.

JNL continued to show strong growth in 2005, increasing new business sales by 13 per cent to £515 million APE with growth in variable annuities of 31 per cent. Both the margin and the internal rate of return on new business moved ahead strongly in the year.

During the year, JNL also successfully integrated the Life of Georgia book of business acquired in May, transferring 1.5 million policies on to its low cost flexible platform. We fully expect to beat the 12 per cent return target for the transaction.

JNL's strength in variable annuities, its ability to bring products to market rapidly and its positioning in advice-based distribution channels means it is very well placed to take advantage of the significant retirement savings flows expected from the 'baby boomer' generation over the coming years.

JNL's priorities are to continue to focus on developing their position in the variable annuity market and to expand the business through bolt-on acquisitions that meet targeted rates of return.

Asia insurance operations

Prudential has an unrivalled exposure and weighting to the high growth and high profit markets of Asia. Prudential Corporation Asia saw new business on an APE basis increase by 23 per cent to £731 million with double-digit rates of growth achieved in Korea, China, India, Singapore and Indonesia.

Profitability on new business and internal rates of return remain high and we will continue to emphasise unit-linked products, which offer higher returns and greater capital efficiency. Unit-linked products accounted for 63 per cent of sales across the region in 2005.

We are maintaining momentum in the expansion of our distribution capability. Agency distribution is the dominant channel throughout the region and 75 per cent of our sales are from this source. Our proprietary agent distribution force across the region reached 170,000 in 2005 with particularly rapid expansion in agent numbers in India and China. We will continue to increase agent numbers in these and other markets as the bedrock on which we build our market share and market leadership positions. We will also maintain a clear focus on improving the productivity of our agent force across the whole region, and this is particularly significant for growth in those countries in which we have been long established.

We see material scope to increase sales volumes through our 40 existing bank distribution relationships and we intend to enter into new partnership agreements. We shall also continue to access direct and broker channels as they develop in individual markets.

As part of our global drive to attain new levels of cost efficiency, in Asia we are developing a 'regional hub' basis for sharing back

+15 per cent

New business APE sales of £2,146 million, up 15 per cent

At constant exchange rates

£867 million

New business profit up 15 per cent to £867 million

At constant exchange rates

office servicing and call centre facilities to leverage scale advantages beyond the reach of individual business operations. In March 2005 the first regional hub, servicing the Singapore and Malaysian life insurance operations, was launched. We have plans to open an additional hub in China in the second half of 2006, where we already have a regional IT development centre.

I am pleased to report that, whilst continuing our programme of rapid expansion and profitable growth in Asia, we are also expecting the region to become cash positive in 2006, in line with our previous predictions.

Asset management

Operating profit before tax across our asset management businesses in the UK, the US and Asia increased to £195 million up 16 per cent.

M&G in the UK had an excellent year with record gross and net inflows and strong profit growth. In Asia, underlying growth in retail funds under management was 29 per cent.

These businesses, together with PPMA, our asset management business in the US, continued to support their own sales growth and add significant value to the Group's insurance operations through their excellent investment performance.

The priorities in asset management are to continue to target growth in external funds under management by capitalising on a growth in demand for transparent investment products, access to more global products, the continuing rise of open architecture platforms and a rapidly expanding role for cross-border sales off a common platform. We will create value through superior investment performance and capitalise on international opportunities through greater collaboration.

Balance sheet and capital management

Improving capital efficiency is at the heart of the Group's commitment to deliver sustainable increases in shareholder value and we will maintain a rigorous approach to capital allocation and deployment.

As of 15 March, we estimate that the Group's capital surplus at the end of 2005 on a regulatory basis, as measured by the Financial Conglomerates Directive, was around £825 million, little changed from the previous year. In July, we took advantage of good market conditions in the US retail market to raise US$300 million of perpetual capital securities, which qualifies as Group regulatory capital. The primary use of the proceeds will be to refinance a non-qualifying £150 million bond that matures in 2007.

The Group is confident that it has the capital and cash resources to fund its planned organic growth.

In summary

- The Group delivered strong results in 2005 across all its businesses;
- we have compelling positions in the world's leading retail financial services markets and the resources to capitalise on these;
- in the UK, we have three excellent and profitable franchises in Prudential, Egg and M&G on which to build for the future;
- in the US, JNL is a significant cash-generative business with the market positioning for profitable growth in the retirement market. It has competitive advantage in the sectors in which it chooses to operate; and the ability to participate in market consolidation through bolt-on acquisitions;
- in Asia, we have an unrivalled exposure to opportunities for life insurance sales and profit growth across the region, whilst continuing our programme of rapid expansion and profit growth. We are also expecting the region to become cash positive in 2006; and
- our asset management businesses have significant growth prospects and are providing solid cash flow generation.

There is tremendous scope to deliver increasing value for shareholders from each individual business operation, and from the Group as a whole which derives both financial advantage and resilience from the diversity of its portfolio of businesses, and the opportunities for collaboration between them.

Mark Tucker
Group Chief Executive

£234 billion

Funds under management increased 19 per cent

At reported exchange rates