Operating and financial review


Philip Broadley
Group Finance Director

'Prudential is well positioned in markets that offer highly attractive opportunities for strong organic growth over the next 10 years.'

The Group's strategy is to focus primarily on the enormous opportunity offered by the retirement market as this is where the major growth trends in our sector lie. Global asset flows around retirement can be measured in trillions of pounds and the Prudential Group is ideally positioned through capability, geographic presence and powerful brands to capture growing value from this opportunity.

The following metrics represent the financial key performance indicators (KPIs) the directors use to judge the delivery of strategies and the management of the continuing operations of the business:

— New business premiums, calculated on an Annual Premium Equivalents (APE) basis and on a Present Value of New Business Premium (PVNBP) basis;
— European Embedded Value (EEV) basis new business profits;
— internal rate of return (IRR) on new business;
— external funds under management (FUM);
— EEV basis operating profit based on longer-term investment returns on long-term business;
— International Financial Reporting Standards (IFRS) basis operating profit based on longer-term investment returns; and
— holding company cash flow.

Key performance indicators

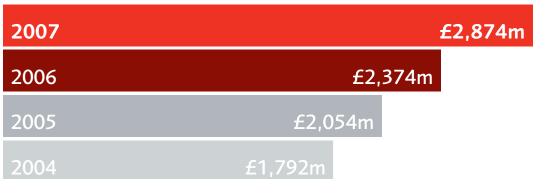
New business premiums and new business profit

Prudential's focus remains on growing sales in areas that deliver the most profitable returns. In 2007, the Group increased weighted insurance sales, calculated on an APE basis, by 21 per cent and new business profits grew by 22 per cent compared with 2006 on a constant exchange rate (CER) basis. Sales on a PVNBP basis increased by 17 per cent to £21.3 billion compared to 2006.

In line with the Group's strategy to continue to deliver strong sustainable profitable sales growth, Prudential is well positioned in markets that offer highly attractive opportunities for strong organic growth over the next 10 years, and it is broadening its customer proposition and product range.

APE new business premiums £m

+21%



New business premiums reflect premiums attaching to covered business and premiums for contracts classified as investment products or other financial instruments under IFRS.

New business premiums, on an APE basis, are calculated as the aggregate of regular new business contributions (shown on an annualised basis) plus 10 per cent of single new business contributions.

The comparatives are shown on a constant exchange rate (CER) basis.

PVNBP new business premiums £m

+17%

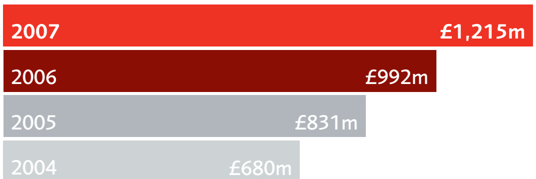
PVNBP only calculated from 2005 onwards.

New business premiums, on a PVNBP basis, are calculated as equalling single premiums plus the present value of expected new business premiums of regular premium business, allowing for lapses and other assumptions made in determining the EEV new business profit.

The comparatives are shown on a CER basis.

EEV new business profit £m

+22%



The present pre-tax value of future shareholder cash flows from new business, less a deduction for the cost of locked-in (encumbered) capital and the impact of the time value of options and guarantees.

The comparatives are shown on a CER basis.

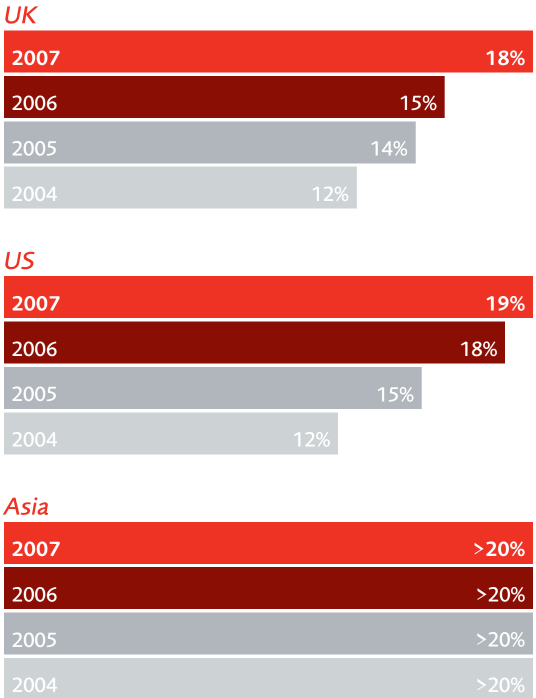
Key performance indicators
continued

Internal rate of return (IRR) on new business

Improving capital efficiency is at the heart of Prudential's commitment to deliver superior growth in value for its shareholders.

Prudential continually works to enhance the effectiveness of its 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.

IRR on new business %



The internal rate of return is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

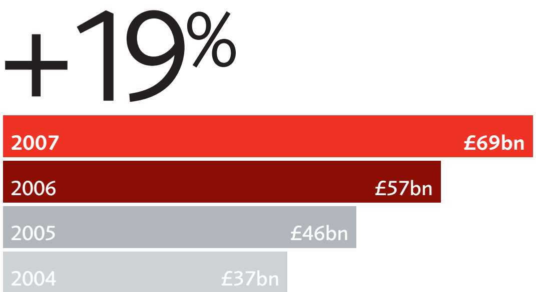
External funds under management

Prudential's focus in external asset management is to increase external funds under management and deliver sustained profitable growth from its asset management businesses.

At 31 December 2007, external FUM was £69 billion compared with £57 billion at 31 December 2006 (CER basis).

This growth has been achieved through expanding into new markets and broadening the Group's product range, and leveraging cross regional collaboration all underpinned by excellent investment performance. The fundamentals are in place to sustain this growth in the future.

External funds under management £bn



External funds under management represent principally the value of the total investment products managed by the M&G, Asia and the US asset management businesses. Jackson's US Retail Mutual Funds were launched in 2007.

The comparatives are shown on a CER basis.

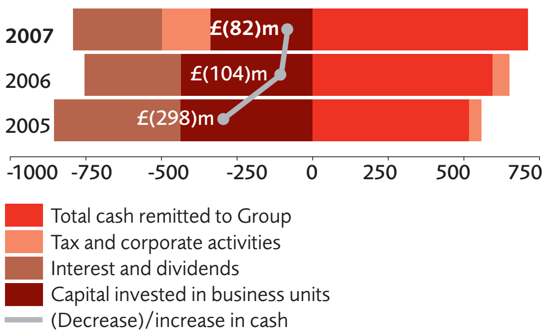
Holding company cash flow

Prudential aims to generate cash for the Group without constraining the allocation of capital to optimise return from value-creating opportunities in its businesses. The holding company had a net cash outflow of £82 million in 2007, an improvement of £22 million on 2006 primarily as a result of the increased remittances from business units in 2007, partially offset by lower group relief on taxable losses. Additionally, the holding company received £527 million from the disposal of Egg (net of expenses).

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

Holding company operating cash flow £m

+21%



The increase or decrease in holding company cash and short-term investments during the reporting period.

EEV operating profit from long-term business based on longer-term investment returns and IFRS operating profit from continuing operations based on longer-term investment returns

Prudential's objective is to achieve superior growth in value for its shareholders. This is shown by sustainable growth in operating profit, both on an EEV and IFRS basis.

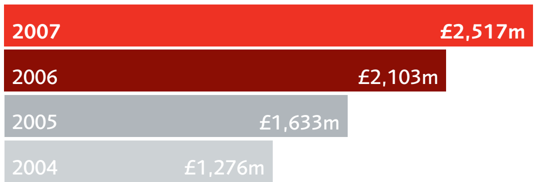
In 2007 the Group delivered a 20 per cent increase on the same period in 2006 (CER basis) in EEV operating profit on its long-term business.

Prudential's objective is to focus on its strengths and exploit opportunities in the local markets in which it operates. Prudential's strategy of leveraging its knowledge and expertise across product development, distribution and administration, is designed to allow it to continue to deliver operating profit growth in the future.

Total IFRS operating profit based on longer-term investment returns on continuing operations was 20 per cent higher in 2007 than in 2006 (CER basis) reflecting the strong performance of the Group's UK and US insurance businesses. Prior year comparatives have been restated to exclude the performance of Egg, the sale of which was completed in May 2007.

EEV operating profit based on longer-term investment returns from long-term business £m

+20%

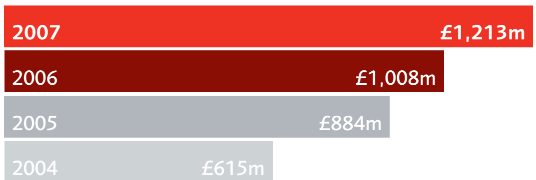


The change in pre-tax value of EEV as a result of new business, expected investment returns and the unwind of the discount rate, the effect of changes in operating assumptions and any operating experience variances. It excludes the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions, the effect of the change in time value of the cost of options and guarantees, shareholders' share of actuarial gains and losses on defined benefit pension schemes and the mark to market value movements on borrowings.

The comparatives are shown on a CER basis.

IFRS operating profit based on longer-term investment returns from continuing operations £m

+20%



These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial gains and losses on defined benefit pension schemes.

The comparatives are shown on a CER basis.

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS does not, in Prudential's opinion, properly reflect the inherent value of these future profit streams.

Prudential believes that embedded value reporting provides investors with a better measure of underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

Group overview

Results highlights

Results highlights	CER 2007 £m	CER 2006 £m	CER Change %	RER[note 5] 2006 £m	RER[note 5] Change %
Annual premium equivalent (APE) sales	**2,874**	2,374	21	2,470	16
Present value of new business premiums (PVNBP)	**21,302**	18,192	17	18,947	12
Net investment flows	**7,975**	8,511	(6)	8,633	(8)
External funds under management	**68,669**	57,497	19	57,199	20
New business profit (NBP)	**1,215**	992	22	1,039	17
NBP margin (% APE)	**42**	42		42	
NBP margin (% PVNBP)	**5.7**	5.5		5.5	
EEV basis operating profit from long-term business from continuing operations[notes 1,2]	**2,517**	2,103	20	2,208	14
Total EEV basis operating profit from continuing operations[notes 2,4]	**2,542**	2,030	25	2,133	19
Total IFRS operating profit from continuing operations[notes 3,4]	**1,213**	1,008	20	1,050	16
EEV basis shareholders' funds (£bn)	**14,779**	11,910	24	11,883	24
IFRS shareholders' funds (£bn)	**6,201**	5,483	13	5,488	13
Holding company operating cash flow	**(82)**	(104)	21	(104)	21
Holding company operating cash flow plus proceeds from the sale of Egg	**445**	(104)	528	(104)	528
Return on embedded value[note 6]	**15.4%**			14.5%	6

Notes

1 Long-term business profits after deducting Asia development expenses and before restructuring costs.
2 Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.
3 Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.
4 Prior year restated excludes Egg, and shows continuing operations only.
5 Reported exchange rate (RER).
6 Return on embedded value is based on EEV operating profit from continuing operations after tax and minority interests as a percentage of opening embedded value (shareholder's funds on a EEV basis).

In the Operating and Financial Review (OFR), year-on-year comparisons of financial performance are on a constant exchange rate (CER) basis, unless otherwise stated.

These results show the strong performance of the Group in 2007. The KPIs above show growth in sales and profits and an improvement in cash flow. The surplus capital position of Prudential plc, measured under the Insurance Groups Directive (IGD) basis, will be submitted to the FSA by 30 April 2008 but is currently estimated to be in the region of £1.4 billion. This includes a benefit of around £0.3 billion that arose during 2007 from the sale of Egg Banking plc.

At 31 December 2007, total insurance and investment funds under management are £267 billion, up from £251 billion at the end of 2006 at reported exchange rate (RER).

Basis of preparation of results

The European Union (EU) requires that all listed European groups prepare their financial statements in accordance with EU approved IFRS. Since 1 January 2005, Prudential has been reporting its primary results on an IFRS basis.

As a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential also reports supplementary results on an EEV basis for the Group's long-term business. These results are combined with the IFRS basis results of the non long-term businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on long-term investment returns. Under both EEV and IFRS, operating profits from continuing operations based on longer-term investment returns exclude short-term fluctuations in investment returns and shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under EEV, where additional profit and loss effects arise, operating profits based on longer-term investment returns also exclude the mark to market value movement on core borrowings and the effect of changes in economic assumptions and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

In broad terms, IFRS profits for long-term business contracts reflect the aggregate of statutory transfers from with-profits funds and profits on a traditional accounting basis for other long-term business. Although the statutory transfers from with-profits funds are closely aligned with cash flow generation, the pattern of IFRS profits over time from shareholder-backed long-term businesses will generally differ from the cash flow pattern. Over the life of a contract, however, aggregate IFRS profits will be the same as aggregate cash flow.

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS does not, in Prudential's opinion, properly reflect the inherent value of these future profit streams.

Prudential believes that embedded value reporting provides investors with a better measure of underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

EEV basis operating profit

EEV basis operating profit from continuing operations		CER		RER	
	2007 £m	2006 £m	Change %	2006 £m	Change %
Insurance business:					
Asia	1,046	779	34	829	26
US	627	652	(4)	708	(11)
UK	859	686	25	686	25
Development expenses	(15)	(14)	(7)	(15)	0
Long-term business profit	**2,517**	**2,103**	**20**	**2,208**	**14**
Asset management business:					
M&G	254	204	25	204	25
Asia asset management	72	47	53	50	44
Curian	(5)	(7)	29	(8)	38
US broker-dealer and asset management	13	16	(19)	18	(28)
	334	260	28	264	27
Other income and expenditure	(289)	(292)	1	(298)	3
Total EEV basis operating profit from continuing operations	**2,562**	**2,071**	**24**	**2,174**	**18**
Restructuring costs	(20)	(41)	51	(41)	51
Total EEV basis operating profit from continuing operations after restructuring costs	**2,542**	**2,030**	**25**	**2,133**	**19**

Total EEV basis operating profit from continuing operations based on longer-term investment returns was £2,542 million, up 25 per cent from 2006 at CER and up 19 per cent at RER. This result reflects the significant growth of new business profit of £1,215 million and in-force profit of £1,317 million by insurance businesses, up 17 per cent over 2006, and strong asset management profit growth.

Record new business profit from insurance business of £1,215 million, was 22 per cent higher than in 2006, driven by strong sales momentum in Asia and the US. At RER, new business profit was up 17 per cent. The average Group new business profit margin was 42 per cent (2006: 42 per cent) on an APE basis and 5.7 per cent (2006: 5.5 per cent) on a PVNBP basis. This reflects an increase in the average UK margin offset by a fall in the average Asia margin. In-force profit increased 17 per cent on 2006 to £1,317 million. At RER, in-force profit was up 11 per cent. In aggregate, net assumption changes were £97 million positive, and experience variances and other items were £48 million positive.

The in-force profit in 2007 for the UK business included a charge in respect of a mortality operating assumption change on annuity and deferred annuity pension business of £312 million, which is fully offset by a release of excess margins previously held.

Asia's development expenses (excluding the regional head office expenses) were £15 million (2006: £14 million).

Operating profit from the asset management business was £334 million (2006: £260 million), up 28 per cent on 2006, driven by growth in M&G and Asia Asset Management.

Other income and expenditure totalled a net expense of £289 million compared with £298 million in 2006 at RER. This result primarily includes interest expense on central borrowings of £168 million (2006: £177 million); £117 million of Group Head Office (GHO) costs (2006: £83 million) and £38 million of costs for the Asia head office (2006: £36 million). The increase in Group Head Office (GHO) costs reflects costs in respect of the process to consider a reattribution of the inherited estate.

Group overview
continued

New business capital usage

	2007 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business	Total long-term business
Asia	(194)	21	(173)	653	480
US	(200)	183	(17)	202	185
UK	(150)	104	(46)	246	200
	(544)	308	(236)	1,101	865

The Group wrote £2,874 million of sales on an APE basis. To support these sales, the Group invested £544 million of capital. This amount covers both new business acquisition expenses, including commission of £236 million and the required capital of £308 million. The total investment of capital for new business amounts to approximately £19 million per £100 million of APE sales. These sales provided a post-tax new business contribution to embedded value of £865 million.

In Asia, capital was invested to support sales at an average rate of £15 million per £100 million of APE sales.

In the US, capital was invested to support sales at an average rate of £30 million per £100 million of APE sales.

In the UK, capital was invested to support sales at an average rate of £17 million per £100 million of APE sales.

The following year-on-year comparisons are presented on a RER basis.

In the calculation of EEV operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. Short-term fluctuations in investment returns are reported separately in the analysis of profit.

In Asia, long-term business short-term investment fluctuations were £226 million, compared to £286 million last year. This reflects favourable equity performance in most territories, principally Hong Kong, Vietnam and Singapore offset by an unfavourable valuation movement of £30 million on an investment of the Taiwan life business in a CDO fund.

The US business short-term fluctuations in investment returns of £(8) million primarily include: a negative £44 million in respect of the difference between actual investment returns and longer-term returns included in operating profit in respect of fixed income securities and related swap transactions; a negative £16 million in relation to changed expectations of future profitability on variable annuity business in force due to the actual variable investment account (separate account) return being lower than the long-term return reported within operating profit, offset by the impact of the associated hedging position; and a positive £51 million in respect of the difference between actual investment returns and long-term returns

EEV basis profit after tax and minority interests RER

	2007 £m	2006 £m	Change %
Total EEV basis operating profit from continuing operations after restructuring costs	2,542	2,133	19
Short-term fluctuations in investment returns:	174	738	
Asia	226	286	
US	(8)	64	
UK	(42)	378	
Other	(2)	10	
Actuarial gains and losses on defined benefit pension schemes:	116	207	
Effect of change in economic assumptions:	748	(1)	
Asia	201	(132)	
US	81	(51)	
UK	466	182	
Effect of change in time value of cost of options and guarantees:	0	60	
Asia	9	14	
US	8	6	
UK	(17)	40	
Movement in mark to market value of core borrowings:	223	85	
US	9	3	
Other	214	82	
Profit from continuing operations before tax	3,803	3,222	18
Tax	(961)	(904)	
Profit from continuing operations after tax before minority interests	2,842	2,318	23
Discontinued operations (net of tax)	241	(105)	
Minority interests	(21)	(1)	
Profit for the period	3,062	2,212	38

included within operating profit in respect of equity-based investments and other items.

The UK business component of short-term fluctuations in investment returns of negative £42 million primarily reflects reduced asset values in PRIL, the shareholder-backed annuity business, from widened credit spreads and the difference between the actual investment return for the with-profits life fund of 7.2 per cent and the long-term assumed return of 7.85 per cent.

The actuarial gain of £116 million (2006: £207 million) included in total profit reflects the shareholders' share of actuarial gains and losses on the Group's defined benefit pension schemes. On the EEV basis, this gain includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits sub-fund for the Prudential Staff and Scottish Amicable Pension Schemes. The full year 2007 gains mainly reflect changes in economic assumptions, partly offset by the effect of strengthened mortality assumptions. The very high level of gains in 2006 reflected the excess market returns over the long-term assumption and the increase in discount rate applied in determining the present value of projected pension payments from 4.8 per cent at 31 December 2005 to 5.2 per cent at December 2006.

In Asia positive economic assumption changes were £201 million, of which £110 million is due to Taiwan and £80 million is due to Hong Kong. The Taiwan credit primarily reflects a change of projected fund earned rate, offset by an increase in risk discount rate, whereas Hong Kong primarily reflects a decrease in the risk discount rate. Taiwan interest rates performed in line with the assumed EEV trended basis.

In the US, economic assumption changes of positive £81 million primarily reflect a reduction in the risk discount rates following a reduction in the US 10-year Treasury rate, partially offset by a reduction in the separate account return assumption.

In the UK, economic assumption changes of positive £466 million primarily reflect the impact of the increase in the investment return assumption and a decrease in the risk free rate.

The mark to market movement on core borrowings was a positive £223 million reflecting the reduction in fair value of core borrowings as the decrease in interest rates is more than offset by the widening of the credit spread, thereby increasing overall market yields on comparable debt securities.

The effective tax rate at an operating tax level was 27 per cent (2006: 30 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level was 25 per cent (2006: 28 per cent) on a profit of £3,803 million.

On 1 May 2007, Prudential completed the sale of Egg Banking plc to Citi for a consideration, net of transaction expenses, of £527 million. The profit from discontinued operations is £241 million being the profit on disposal of £290 million, net of the post-tax loss of £49 million from 1 January 2007 to the date of sale.

IFRS basis operating profit

IFRS basis operating profit based on longer-term investment returns from continuing operations

		CER		RER	
	2007 £m	2006 £m	Change %	2006 £m	Change %
Insurance business:					
Asia	189	177	7	189	0
US	444	367	21	398	12
UK	528	500	6	500	6
Development expenses	(15)	(14)	(7)	(15)	0
Long-term business profit	**1,146**	**1,030**	**11**	**1,072**	**7**
Asset management business:					
M&G	254	204	25	204	25
Asia asset management	72	47	53	50	44
Curian	(5)	(7)	29	(8)	38
US broker-dealer and asset management	13	16	(19)	18	(28)
	334	260	28	264	27
Other income and expenditure	(248)	(244)	(2)	(248)	0
Total IFRS basis operating profit based on longer-term investment returns before restructuring costs	**1,232**	**1,046**	**18**	**1,088**	**13**
Restructuring costs	(19)	(38)	(50)	(38)	(50)
Total IFRS basis operating profit based on longer-term investment returns after restructuring costs	**1,213**	**1,008**	**20**	**1,050**	**16**

Group overview
continued

The increase in Prudential Corporation Asia's operating profit of seven per cent for long-term business before development expenses reflects improved profitability in mature markets with significant contributions to operating profit from Singapore, Malaysia and Hong Kong, representing £153 million of the total operating profit in 2007, up 15 per cent on 2006. There were increased contributions from each of Indonesia, Taiwan and Vietnam as these operations continue to build scale. Five life operations made IFRS losses: £43 million in India which is a relatively new business, incurring costs in rapidly building scale through its expansion strategy and losses of £16 million in Japan. Korea's loss reflects new business growth. China and Thailand are marginally loss making.

In the US, IFRS operating profit of £444 million was up 21 per cent on 2006 at CER. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS as the Group's basis of presenting operating profit is based on longer-term investment returns. Longer-term returns for the US operations' fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. The growth in the US operations' IFRS operating profit for long-term business mainly reflects increased fee income driven by a 34 per cent increase in separate account assets during the year and higher overall election of optional benefits. Profits from the annuities spread business were broadly in line with prior year and continue to represent the key contributor to overall IFRS operating profit. One-off items affecting the spread-based income were £26 million, net of related amortisation of deferred acquisition costs (DAC).

In the UK, IFRS operating profit for the long-term business increased six per cent to £528 million in 2007. This reflected a seven per cent increase in profits attributable to the with-profits business to £394 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses. 2007 includes the net impact of the mortality strengthening and a release of excess margins previously held in other assumptions which was a positive £34 million.

M&G's operating profit for 2007 was £254 million, an increase of 25 per cent over 2006, due to strong net investment inflows and positive market conditions for the first three quarters of 2007.

The Asian asset management operations reported operating profits of £72 million, a growth of 53 per cent over 2006, driven by strong contributions from Vietnam, India and Taiwan.

The operating profit from the US broker-dealer and asset management businesses was £13 million, a 19 per cent decrease on 2006. Curian recorded losses of £5 million in 2007, down from losses of £7 million in 2006, as the business continues to build scale.

IFRS basis profit after tax

	RER		
	2007 £m	2006 £m	Change %
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	**1,213**	**1,050**	**16**
Short-term fluctuations in investment returns	(137)	155	
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	90	167	
Profit before tax from continuing operations attributable to shareholders	**1,166**	**1,372**	**(15)**
Tax attributable to shareholders' profits	(382)	(392)	
Profit from continuing operations for the financial year after tax	**784**	**980**	**(20)**
Discontinued operations (net of tax)	241	(105)	
Minority interests	(3)	(1)	
Profit for the year attributable to equity holders of the company	**1,022**	**874**	**17**

The following year-on-year comparisons are presented on a RER basis.

Total IFRS basis profits before tax attributable to shareholders and minority interests were £1,166 million in 2007, compared with £1,372 million for 2006. The decrease reflects a reduction in short-term fluctuations in investment returns of £292 million and a reduced positive movement from the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

In the calculation of IFRS operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. The actual movements in asset values beyond the longer-term assumptions appear in the profit and loss account as short-term fluctuations in investment returns, with the exception of Jackson where unrealised gains or losses on debt securities feature directly as movements to shareholder reserves.

The £137 million charge for short-term fluctuations in investment returns comprises £71 million, £18 million, £47 million and £1m in respect of Asian operations, US operations, UK operations and other respectively.

The fluctuations for the Asian operations primarily reflect reduced values for debt securities in Taiwan and a

£30 million reduction in the value of an investment in a CDO fund, partially offset by strong equity movements in Vietnam.

In the US there was a £18 million charge for short-term fluctuations in investment returns. During 2007 the US life insurance operations recorded net credit losses of £78 million (2006: £25 million). This charge is reflected in two parts of the accounting presentation of the results. Included within the IFRS operating profit based on longer-term investment returns is a risk margin reserve (RMR) charge, representing long-term expected credit defaults, of £48 million (2006: £54 million). The difference between the credit related losses and the RMR charge in the year was, therefore, a charge of £30 million (2006: £29 million credit) which is recorded within short-term fluctuations in investment returns, within the overall £18 million charge for US life insurance operations.

The fluctuations for the UK operations primarily reflect reduced asset values in PRIL, the shareholder-backed annuity business, from widened credit spreads on corporate bond securities.

Profit after tax and minority interests was £1,022 million compared with £874 million in 2006. The effective rate of tax on operating profits, based on longer-term investment returns, was 32 per cent (2006: 29 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 33 per cent (2006: 29 per cent). The effective tax rates in 2007 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

Earnings per share

	2007 p	2006 p
EPS based on operating profit from continuing operations after tax and minority interest:		
EEV	74.9	62.1
IFRS	33.8	30.9
Basic EPS based on total profit after minority interest		
EEV	125.2	91.7
IFRS	41.8	36.2

Dividend per share

The directors recommend a final dividend for 2007 of 12.30 pence per share payable on 20 May 2008 to shareholders on the register at the close of business on 11 April 2008. The interim dividend for 2007 was 5.70 pence per share. The total dividend for the year, including the interim dividend and the recommended final dividend, amounts to 18.00 pence per share compared with 17.14 pence per share for 2006, an increase of five per cent. The total cost of dividends in respect of 2007 was £444 million.

The full year dividend is covered 1.9 times by post-tax IFRS operating profit from continuing operations.

Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

The Board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 31 December 2007 were £14.8 billion, an increase of £2.9 billion from the 2006 year-end level (2006: £11.9 billion at RER). This 24 per cent increase primarily reflects: total EEV basis operating profit of £2,542 million; a £174 million favourable movement in short-term fluctuations in investment returns; a £748 million positive movement due to changes in economic assumptions and in time value of cost of options and guarantees; a positive movement on the mark to market of core debt of £223 million; the proceeds for the share capital issue of the parent company for £182 million; a positive movement in the actuarial gains on the defined benefit pension schemes of £116 million and the positive impact of £64 million for foreign exchange movements. These were offset by: a tax charge of £961 million and dividend payments of £426 million made to shareholders.

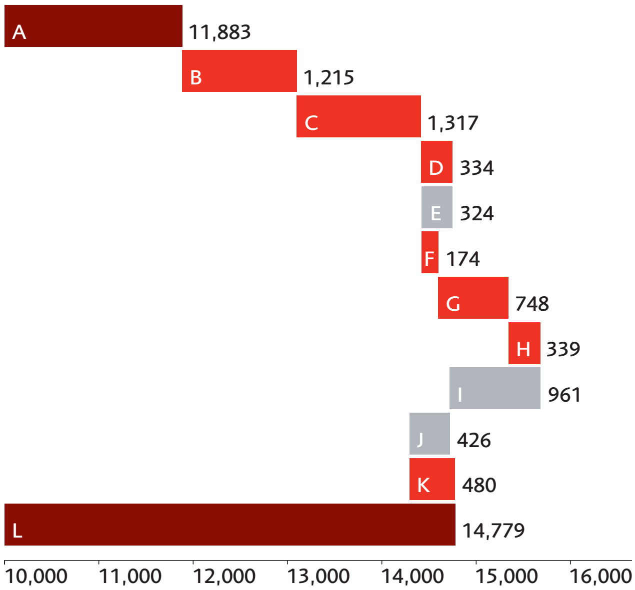
The shareholders' funds at 2007 of £14.8 billion comprise:
— £3.7 billion for the Asian long-term business operations;
— £3.6 billion for the US long-term business operations;
— £6.5 billion for the UK long-term business operations; and
— £1 billion for other operations.

At the year end the embedded value for the Asian long-term business was £3.7 billion. The established markets of Hong Kong, Singapore and Malaysia contribute £2,704 million to the embedded value generated across the region with Korea (£304 million) and Vietnam (£234 million) making further substantial contributions. Prudential's other markets, excluding Taiwan, in aggregate contribute £496 million in embedded value. Taiwan has a negative embedded value of £12 million; this positive movement against prior year (2006: negative £216 million) is a reflection of an increase in new business and a change in economic assumptions.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 75 per cent and 15 per cent of new business APE in 2007, respectively. As a result, interest rates have little effect on new business profitability and a one per cent reduction in assumed interest rates would reduce new business margins in Taiwan by less than one percentage point. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a £91 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by £67 million. On the assumption that bond yields remained flat during 2008 and then trended towards 5.5 per cent in December 2014, this would have reduced the 2007 Taiwan embedded value by £70 million. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a negligible percentage change to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 31 December 2007 were £6.2 billion. This compares with £5.5 billion at 31 December 2006 at RER. The increase primarily reflects: profit after tax and minority interests of £1,022 million, the proceeds from the share capital issue of the Company for £182 million, offset by the impact of negative unrealised holding losses on available for sale investments of £231 million, and dividend payments to shareholders of £426 million.

Analysis of movement in EEV shareholders' funds £m: 31 December 2006 to 31 December 2007



A 2007 opening shareholders' funds
B Life new business profits
C Life in-force profit
D Asset management and other operating profit
E Other income and expenditure (including Asia development expenses and restructuring costs)
F Short-term fluctuations in investment returns
G Effect changes in economic assumptions and time value of cost of options and guarantees
H Mark to market movement on core borrowings, actuarial gains and losses on defined benefit pension schemes
I Tax
J Dividends
K Other including result for discontinued operations and increase in share capital
L 2007 closing shareholders' funds

Holding company cash flow

	2007 £m	2006 £m
Cash remitted by business units:		
UK life fund transfer	261	217
UK other	3	0
US	122	110
Asia	186	175
M&G	139	94
Total cash remitted to Group	**711**	**596**
Net interest paid	(96)	(128)
Dividends paid	(426)	(399)
Scrip dividends and share options	183	91
Cash remittances after interest and dividends	**372**	**160**
Tax received	40	122
Corporate activities	(200)	(67)
Cash flow before investment in businesses	**212**	**215**
Capital invested in business units:		
Asia	(149)	(147)
UK	(145)	(172)
Total capital invested in business units	**(294)**	**(319)**
Decrease in operating cash	**(82)**	**(104)**
Egg sale net proceeds	**527**	**0**
Total holding company cash flow	**445**	**(104)**

The Group holding company received £711 million in cash remittances from business units in 2007 including the shareholders' statutory life fund transfer of £261 million from the UK business.

After dividends and net interest paid, there was a net cash inflow of £372 million (2006: £160 million). There was a high take-up of scrip dividends in 2007.

During 2007, the Group holding company paid £200 million in respect of corporate activities, which included costs in respect of the process to consider a reattribution of the inherited estate together with a repayment to HMRC in respect of tax recoveries in previous years following a change in tax legislation. Tax received of £40 million (2006: £122 million) was lower than prior year as a result of foreign exchange gains reducing the level of taxable losses and a payment to HMRC. Asia contributed a net remittance of £37 million to the holding company cash flow.

In aggregate this gave rise to an improvement in operating cash outflow to £82 million from £104 million in 2006.

The Group received £527 million from the disposal of Egg (net of expenses), and the reduction in net interest paid in 2007 includes the investment income earned on these proceeds.

In 2008, the UK shareholders' statutory transfer relating to the bonus declarations is expected to be £279 million.

Depending on the mix of business written and the opportunities available, Prudential expects that the UK shareholder-backed business will become cash positive in 2010.

Taking into account plans for future growth, our ability to surrender group tax relief, a normalised level of scrip dividend, the reducing UK capital requirement and increased remittances from the other life and asset management operations it is expected that the operating cash flow of the Group holding company will be positive in 2008.

410,

The scale and reach of our Asian franchise is unparalleled, with top five market share positions in seven of our 12 insurance markets. At the heart of our success lies our multi-distribution platform, which includes a tied agency force of over 410,000 people as well as a significant network of bank and other partnerships, and an emerging direct channel.

There's more to Prudential.

Business unit review
Insurance operations
Asia

Barry Stowe
Chief Executive, Prudential Corporation Asia

'In 2007 Prudential delivered new business APE of £1,306 million from Asia, representing very strong growth that averaged 44 per cent over 2006, with all operations delivering double-digit growth.'

Prudential's strategy in Asia is to build quality, multi-channel distribution that delivers customer-centric and profitable products in segments with the potential for sustained growth. By necessity, the approach to each market varies, but all operations are unified under the Prudence icon and common brand values and Prudential has the proven ability to leverage learning and expertise from within the region and the wider Group to accelerate the development of unique opportunities as they arise in each market.

The ability to execute the strategy is highly dependent on the strength and depth of the management talent pool in the region and consequently Prudential invests in continually strengthening and developing its teams. The operating model empowers local management teams with a regional team overseeing control functions such as risk management and providing strategic guidance and technical support in areas such as distribution optimisation and product design.

Prudential has a market-leading platform with top five market share positions, in terms of new business APE, in seven of its 12 markets. Prudential has the leading private sector life insurance joint ventures in China and India.

Current year initiatives

The core business priorities were outlined as:

- Building on existing strengths in agency channel.
- Improving and extending partnership distribution.
- Continuing product innovation.
- Strengthening and deepening customer relationships.
- Developing retirement solutions.
- Starting work on direct distribution.
- Re-examining approach to health products.

'Prudential has already begun positioning itself as a provider of retirement solutions through the roll-out of the successful 'What's your number?' campaigns in six countries.'

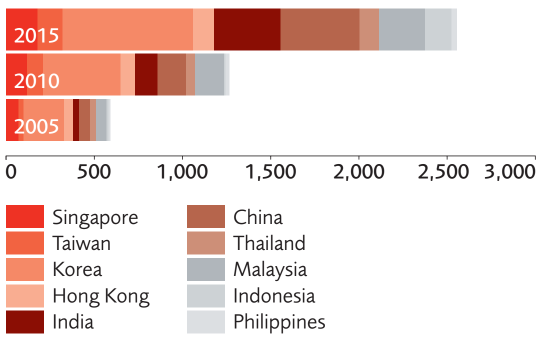
Agency is the predominant distribution channel in Asia and for Prudential, the agency force again generated 70 per cent of new business volumes in 2007. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers whilst also providing the infrastructure to manage agent training and skills development to drive agency productivity. Prudential's agency priority depends on the stage of development of each individual market and Prudential's operation within it. For example in India, Prudential's joint venture with ICICI has been rapidly expanding, with the addition of 593 new branches during the year to give a total 1,065 and correspondingly average agent numbers in 2007 increased by 123 per cent and at 31 December there were 277,000 agents.

Similarly in China, although the rate of geographic expansion is slower as each new city requires separate regulatory approvals, the emphasis is also on expanding the agency channel; average numbers were up 38 per cent and at 31 December there were 20,500 agents. In markets where we have sufficient agency scale, the emphasis is on helping those agents become more productive through intensified training and sales management support. Agent productivity, in terms of average APE per agent, increased by 67 per cent in Vietnam and 21 per cent in Singapore during 2007.

Prudential has a large partnership distribution network in Asia. During 2007, Prudential extended its agreements with Standard Chartered Bank to include Taiwan where it will exclusively provide bancassurance products in their newly acquired HsinChu International Bank with its 83 branches and 2.4 million customers. In Korea regulation states that a bank can only source a maximum of 25 per cent of its total insurance sales from any one insurer, and with Prudential's existing bank partners regularly reaching their maximum shares, adding new banks is a priority. In 2007 Prudential secured two major new banks, Industrial Bank of Korea and Kookmin Bank. Prudential's regional bancassurance relationship with Citibank also grew strongly, with new business APE generated of £23 million being 12 per cent of total bank distribution for 2007.

In 2007 Prudential continued to broaden its range of linked products. These included the new Global Property Fund in Singapore and a new Takaful range in Indonesia, launched in September 2007. In Taiwan, a new variable annuity product and an agency incentive programme contributed to the growth in new business of 71 per cent for the year.

Projected Asia pensions market (excluding Japan) US$bn



Source: IMF

Asia	2007 £m	CER 2006 £m	CER Change %	RER 2006 £m	RER Change %
APE sales	**1,306**	909	44	956	37
NBP	**653**	487	34	514	27
NBP margin (% APE)	**50%**	54%		54%	
NBP margin (% PVNBP)	**9.3%**	10.0%		10.0%	
Total EEV basis operating profit*	**1,046**	779	34	829	26
Total IFRS operating profit*	**189**	177	7	189	0

* Based on longer-term investment returns excluding fund management operations, development and regional head office expenses.

Business unit review
Insurance operations
Asia continued

Good results were attained from systematic cross-sell campaigns across the region, contacting more than two million of our existing customers. These included the initiation of a regular up-sell in Hong Kong through the indexation of policy benefits and initiatives to capture maturity proceeds in Singapore as well as a targeted offer of guaranteed increases in protection benefits in Malaysia.

Although still small, new business from direct marketing grew by 65 per cent over 2006 with Thailand performing well and recording growth of 52 per cent. The regional Direct Marketing team has been strengthened and work is now under way on exploring further opportunities.

In Asia, there are very material opportunities arising in the provision of healthcare solutions. Prudential successfully piloted new supplemental health products in Singapore, India and Hong Kong during the year, selling over 125,000 new policies.

Helping people address their financial needs for retirement is also a major growth opportunity and whilst Prudential already has a number of products designed to support the accumulation phase of a retirement fund, work is now under way on drawdown options and supporting related protection and health products. Prudential has already begun positioning itself as a provider of retirement solutions through the roll-out of the successful 'What's your number?' campaigns in six countries that encourage people to think about what resources they are likely to need to finance their retirement aspirations.

Prudential has a unique position in Vietnam with its market-leading life insurance business and well-respected brand. To further leverage this platform, Prudential launched a consumer finance company in September 2007.

Financial performance

In 2007 Prudential delivered new business APE of £1,306 million from Asia, representing very strong growth that averaged 44 per cent over 2006 and with all operations delivering double-digit growth including Taiwan, India and Indonesia, up 71 per cent, 67 per cent and 75 per cent respectively.

'What's your number?' retirement campaign
Prudential's 'What's your number?' campaign encourages individuals to identify and save toward a retirement goal that will support their lifestyle. Since 2005, the campaign has been launched in Korea, Hong Kong, Taiwan, Malaysia, Singapore and India.

'Asia expects to deliver doubling of 2005 EEV NBP a year early by 2008.'

New business profit increased by 34 per cent as the average profit margin reduced from 54 per cent to 50 per cent mainly due to a change in the country mix of the sales. China, Hong Kong, Korea and Taiwan all reported increases in new business profit margins compared to 2006. In India, the branch expansion programme has led to an increase in policy acquisition and maintenance costs and therefore a rebasing of the expense assumptions. The reduction in average margin for the other countries was due to a change in country mix.

In-force embedded value profits of £393 million are driven principally by the unwind of discount, with net assumption changes of £54 million and net experience variances of £(1) million. Assumption changes were principally due to favourable changes in corporation tax and positive mortality assumption changes. Negative persistency assumption changes are offset by positive expense assumption changes. Experience variances mainly reflected positive mortality across all operations partially offset by expense overruns in the newer operations of China, India and Vietnam.

IFRS profits	CER		
	2007 £m	2006 £m	Change %
Established markets (Hong Kong, Singapore, Malaysia)	153	134	15
North Asia (Taiwan, Korea, Japan)	16	20	(20)
Joint venture markets (China, India)	(49)	(20)	(146)
Other SE Asian markets (Indonesia, Vietnam, Thailand, the Philippines)	68	43	58
Total Life IFRS profits	189	177	7

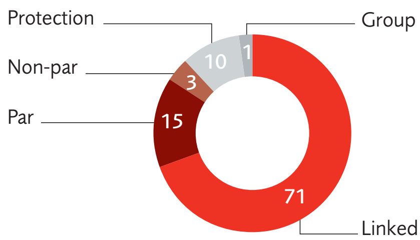
The total IFRS Operating profit of £189 million was up seven per cent on 2006. Within this, the Established markets (Singapore, Hong Kong and Malaysia) generated £153 million, up 15 per cent from 2006. The North Asia markets (Taiwan, Japan and Korea) generated £16 million, down 20 per cent from last year reflecting increased losses in Japan of £16 million. Excluding Japan, profits from North Asia almost doubled reflecting a strong increase in Taiwan of 47 per cent due to in-force profits, especially from long-term health products and favourable other experience. Losses from the joint ventures in India increased to £43 million, reflecting the fast pace of new business growth and investment in growing the branch networks. Losses from the joint venture in China reduced to £6 million. In the other markets (Vietnam, Thailand, Indonesia and the Philippines), profits grew by 58 per cent to £68 million reflecting the expected emergence of IFRS profits and a one-off £16 million favourable item in Vietnam.

In 2007 the Asian Life operations were again net remitters of cash to the Group of £56 million. Remittances totalling £148 million were from Hong Kong, Indonesia, Malaysia, Singapore and included the first remittance from Vietnam. The Life operations received injections of £92 million, of which £49 million was injected into India to support branch expansion with the balance primarily injected into China and Korea to support solvency requirements as a result of new business growth.

IRR for Asia was in excess of 20 per cent for 2007. In Asia, Prudential targets IRRs on new business to be at least 10 percentage points over the country risk discount rate, where these vary from five per cent to 17 per cent. During 2007 all markets except India and Japan met this target.

Having achieved compound growth of 26 per cent since 2005, Asia expects to deliver doubling of 2005 EEV NBP a year early by 2008.

Increasing proportion of APE sales from unit-linked business %



The United States is the largest retirement market in the world, with some 78 million baby boomers, the first of whom are now reaching retirement age. As the fastest growing variable annuity provider in the US for the past six years, Jackson is well positioned to meet the needs of this generation as it retires over the next decade and beyond.

There's more to Prudential.

Clark Manning
President and Chief Executive Officer of
Jackson National Life Insurance Company

'Jackson achieved record APE sales of £671 million in 2007, representing a 19 per cent increase on 2006. This growth was led by a continued increase in variable annuity sales.'

The US is the largest retirement savings market in the world and continues to grow rapidly. By mid-2007, total retirement assets in the US exceeded US$17.4 trillion, up from US$16.5 trillion at the end of 2006 (Source: Investment Company Institute). As 78 million baby boomers (Source: US Census Bureau) move into retirement age, these assets will shift from asset accumulation to income distribution. Currently, US$1.6 trillion of assets are generating retirement income. This amount is estimated to grow to US$7.3 trillion by 2017 (Source: Financial Research Corporation).

Despite these favourable demographics, US life insurers face challenges from both within and outside the industry. The industry remains highly fragmented, with the top 15 annuity companies sharing only 74 per cent of the total market share in 2007 (source: LIMRA). Competition is intensifying through aggressive price competition. Life insurers also find themselves competing with other financial services providers, particularly mutual fund companies and banks, for a share of US retirement savings assets.

During 2007, the Standard & Poor's (S&P) index increased 3.5 per cent (2006: 13.6 per cent), and the US equity markets experienced significant volatility during the second half of the year. The S&P index increased six per cent through June 2007, yet ended the year 2.5 per cent lower than in June and 5.7 per cent lower than at the end of October. This volatility and concerns about the US economy are expected to increase investors' interest in guarantees on products with equity-based returns.

In addition, for much of 2007, the yield curve was flat and credit spreads were relatively low, resulting in a difficult environment for the sale of properly priced fixed annuities. During the second half of 2007, the yield began to normalise and credit spreads began to widen, ending closer to normalised historical levels. The market for fixed annuities was further complicated during the year by artificially high deposit rates offered by banks to attract assets.

Jackson National Life Insurance Company's (Jackson) primary focus is manufacturing profitable, capital-efficient products, such as variable annuities, and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings, Jackson leverages a low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, banks and registered investment advisers. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the south-eastern US.

Current year initiatives

The core business priorities were outlined as:

- Continue enhancement and expansion of the existing product offering.
- Continue to take profitable share of variable annuities market.
- Increase penetration of existing distribution channels.
- Increase share of the US retail asset management market.

Jackson continues to base its success in the evolving US market on industry-leading distribution and product innovation coupled with sound evaluation of product economics. Jackson's long-term goals include the continued expansion of its share of the US annuities and retail asset management markets, which it plans to achieve by leveraging its relationship-based distribution advantage in the advice-based channels. Growth in Jackson's share of the US annuities market will be largely contingent upon continued enhancement and expansion of the existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic acquisition activity.

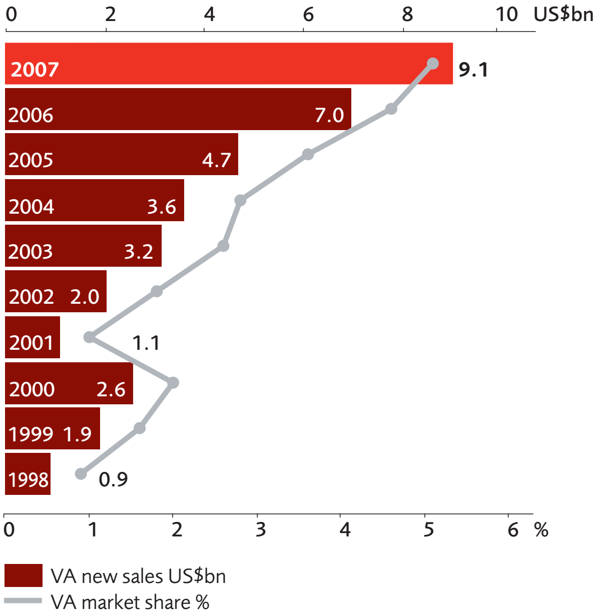
'Jackson continues to base its success in the evolving US market on industry-leading distribution and product innovation coupled with sound evaluation of product economics.'

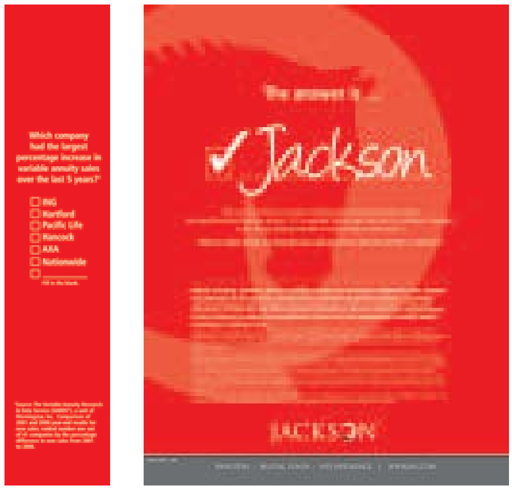
Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. High-quality, cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customised to meet the needs of individual customers. Products are offered on an unbundled basis, allowing customers to select those benefits that meet their unique financial needs and pay only for those benefits that they truly need. This advantage, coupled with distribution through advice-based channels, allows Jackson to effectively meet individuals' long-term retirement savings and income needs. Jackson believes that leveraging this advantage is a more sustainable long-term strategy than price competition and, as a result, will not sacrifice product economics for a short-term increase in market share.

United States		CER		RER	
	2007 £m	2006 £m	Change %	2006 £m	Change %
APE sales	671	565	19	614	9
NBP	285	239	19	259	10
NBP margin (% APE)	42%	42%		42%	
NBP margin (% PVNBP)	4.3%	4.2%		4.2%	
Total EEV basis operating profit*	627	652	(4)	708	(11)
Total IFRS operating profit*	444	367	21	398	12

* Based on longer-term investment returns excludes broker dealer, fund management and Curian.

Jackson VA new sales and market share





Jackson's advertising campaign, emphasising its leading position in VA sales

Jackson supports its network of independent agents and advisers with award-winning customer service and marketing support. In 2007, the Service Quality Measurement Group rewarded Jackson with its third World Class Customer Satisfaction Award. Jackson's marketing campaigns continue to win awards for achievement in graphic design, editorial content and overall communications excellence.

Through organisational flexibility and excellence in execution, coupled with product innovation, a successful distribution model and a strong service offering, Jackson increased its share of the US variable annuity market to 5.1 per cent for full-year 2007 (source: Morningstar Annuity Research Center), up from 4.6 per cent for the full-year 2006.

Jackson continues to expand its product portfolio, adding a variety of new features during 2007. The company enhanced its variable annuity portfolio by adding 20 new underlying investment options, four new guaranteed minimum withdrawal benefits (GMWBs), one new guaranteed minimum income benefit (GMIB) and its first guaranteed minimum accumulation benefit (GMAB).

In 2007, Jackson also introduced a line of retail mutual funds and launched two new fixed index annuity products that offer new index options and multiple crediting methods. These additions provide even more product choices to advisers and create more opportunities to capture a larger portion of the US retirement market.

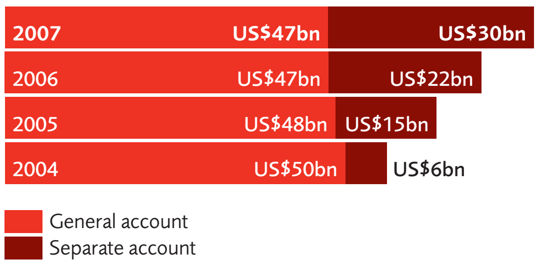
Jackson continues to seek bolt-on acquisitions that will complement its long-term organic growth strategy. Transactions will need to meet or exceed Jackson's targeted rate of return and will likely be in the life insurance channel, which provides stable future cash flows. Depending on the opportunities that become available, Jackson may consider utilising securitisation financing for these bolt-on transactions.

Financial performance

Jackson achieved record APE sales of £671 million in 2007, representing a 19 per cent increase on 2006. This growth was led by a continued increase in variable annuity sales. On a PVNBP basis, new business sales were £6.7 billion. Retail APE sales in 2007 of £577 million were up 19 per cent over 2006.

Jackson delivered record variable annuity APE sales of £455 million in 2007, up 29 per cent over 2006. In 2007, Jackson maintained its ranking of 12th in gross variable annuity sales (Source: Morningstar Annuity Research Center).

US statutory admitted assets US$bn



'Jackson delivered record variable annuity APE sales of £455 million in 2007, up 29 per cent over 2006.'

Fixed annuity APE sales of £57 million were 10 per cent down on 2006, while industry sales of traditional individual deferred fixed annuities were 13 per cent lower in 2007 compared to 2006 (Source: LIMRA).

Fixed index annuity sales continued to be affected by the uncertain regulatory environment in the US and the impact of low interest rates on caps and participation rates that are offered. As a result, industry sales were nearly one per cent lower in 2007 compared to 2006 (Source: Advantage Group

Associates). Jackson's APE sales of £45 million were 12 per cent down on 2006. In the third quarter of 2007, Jackson ranked first in fixed index annuity sales through banks for the ninth consecutive quarter (Source: The Kehrer-LIMRA Report). Jackson continues to pursue profitable growth and hence has been unwilling to compromise target margins in this market.

Institutional APE sales of £94 million were up 15 per cent on 2006. Jackson continues to participate in this market on an opportunistic basis when margins are attractive.

EEV basis new business profits of £285 million were 19 per cent above the prior year, reflecting a 19 per cent increase in APE sales with a shift in the mix of business toward variable annuities as well as increased sales of institutional business with longer duration. Total new business margin was 42 per cent, in line with 2006.

The variable annuity new business margin decreased from 49 per cent in 2006 to 42 per cent in 2007, primarily due to a 70 basis point decrease in the risk-free rate from 2006 to 2007. The lower risk-free rate resulted in a decrease in the assumed separate account return that was partially offset by a decrease in the risk discount rate. In addition, Jackson reviewed its experience assumptions during the year and revised certain partial withdrawal and expense assumptions, which also decreased the new business margin.

The fixed index annuity new business margin decreased from 31 per cent in 2006 to 26 per cent in 2007, primarily as a result of a change in expected future surrender charges.

The fixed annuity new business margin increased significantly from 16 per cent to 28 per cent, primarily as a result of a decrease in the risk discount rate for the year.

The new business margin on institutional business improved significantly, from 39 per cent in 2006 to 58 per cent in 2007 due to the much longer average duration contracts written during 2007 and a lower risk discount rate.

Total EEV basis operating profit for the long-term business for 2007 was £627 million compared to £652 million in the prior year at CER. In-force EEV profits of £342 million were 17 per cent below prior year profit of £413 million at CER. Experience variances were £58 million lower in 2007 due to lower spread income and the impact of persistency adjustments. Operating assumption changes were less favourable than the prior year by £17 million including the impact of updated persistency and lapse rates during 2007. One-off items favourably affected the spread income variance by £40 million during 2007.

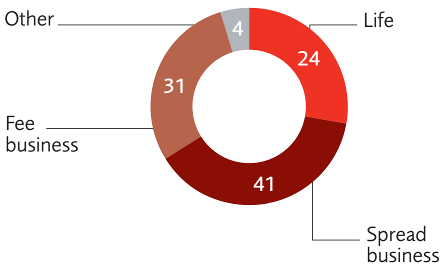
IFRS operating profit for the long-term business was £444 million, up 21 per cent on the prior year of £367 million at CER, primarily reflecting an increase in fee income and continued low mortality rates during 2007. Higher fee income was driven primarily by higher separate account assets given the growth in variable annuity sales, and an improvement in the average fees generated from those assets given the increase in election of guaranteed optional benefits. In 2007, IFRS spread income included a number of non-recurring items, totalling £26 million net of DAC amortisation (2006: £31 million at CER).

At 31 December 2007, Jackson had more than £41 billion in US GAAP assets. Of this total, £15 billion were separate account assets, an increase of £4 billion from year-end 2006, further increasing Jackson's earnings from fee-based products.

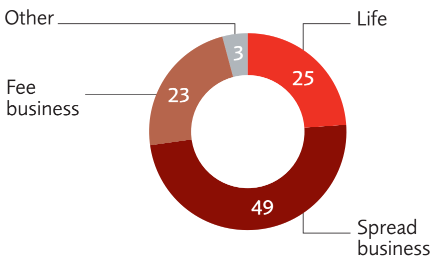
During the second half of 2007, equity market volatility increased materially primarily due to liquidity concerns and valuation issues in the US sub-prime mortgage market. Much of the market movement was due to concerns regarding the risk in this market that resulted in a tightening in the level of credit available. While the financial services industry was hardest hit by these events, losses were generally limited to those companies with significant levels of sub-prime or Alt-A mortgage exposure. Jackson's exposure to the sub-prime mortgage market is limited at only £237 million at the end of 2007. Most of this exposure is in fixed rate, residential mortgage-backed securities that are AAA rated and hold first liens on the underlying collateral. Exposure to Alt-A was £660 million and direct exposure to monoline insurers was £23 million.

The average IRR on new business was up slightly to 19 per cent, primarily due to a larger proportion of variable annuity sales in 2007.

Jackson IFRS operating profit 2007 %



Jackson IFRS operating profit 2006 %



In the United Kingdom, we focus on those segments of the retirement income and savings markets where we can generate attractive returns. In 2007 we retained our leadership position in individual annuities, writing one in four of the contracts sold during the year. This success was achieved without compromising overall margins and returns which were among the highest in the UK insurance sector.

There's more to Prudential.

Business unit review
Insurance operations
United Kingdom

Nick Prettejohn
Chief Executive, Prudential UK & Europe

'A strong Retail performance saw a four per cent increase in sales and a 17 per cent increase in new business profit to £223 million, demonstrating the continuing benefits of selectively participating in product lines that can deliver attractive returns.'

In 2007, Prudential UK continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns.

The UK business remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions. With an ageing population and the concentration of UK wealth in the mass affluent and high net worth sectors, the retirement and near-retirement population will represent the fastest growing segments of the market over the next 10 years. Low savings rates and high levels of consumer debt, combined with a shift in responsibility for providing income during retirement from Government and employers towards individuals, have resulted in individuals being inadequately provided for during increasingly long periods of retirement. These consumers will have a need for high-quality financial advice and service and are increasingly seeking guarantees and longevity protection from their financial products.

Prudential UK has a unique combination of competitive advantages including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. These put it in a strong position to pursue its value-driven strategy in its two principal businesses: Retail and Wholesale.

Prudential UK's Retail business is focusing on savings and income for those customers nearing or in retirement. Its retirement income business aims to continue to drive profitable growth in its core annuities operation and grow its presence in the equity release market. The significant 25-year pipeline of internal vestings annuity business from maturing individual and corporate pensions policies is enhanced by strategic partnerships with third parties, where Prudential UK is the recommended annuity provider for customers vesting their pension at retirement. This scale enables our selective value-based participation in the external vestings market. Annuities remain core drivers of the sales and profit derived by Prudential UK, which now has approximately 1.5 million annuities in payment.

Prudential UK remains a market leader in the with-profits market. These products offer a medium to long-term, medium-risk investment with exposure to a diverse range of assets that is particularly important to many customers against the backdrop of market uncertainty.

In the Retail accumulation business, Prudential UK continues to be a market leader in the corporate pensions market where it is a provider of over 20 per cent of FTSE 350 companies and the largest provider of pension schemes to the UK public sector. Prudential now administers corporate pensions for over 600,000 members.

In addition, the Retail business has used its brand and strength with Discovery to build branded distribution in Health and Protection, further using the joint venture to access Discovery's Vitality concept and lifestyle protection capabilities.

Prudential UK's strategy in the Wholesale market is to participate selectively in bulk annuity and back-book buy-outs, where Prudential UK is able to win business based on its financial strength, superior track record, market-leading investment capability as well as its extensive annuitant mortality risk assessment capabilities. The Wholesale business, which has been in operation for over 10 years and has already written more than 400 bulk buy-outs, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment or longevity liabilities. Prudential UK will maintain a strict focus on value, only participating in transactions that generate an acceptable rate of return.

Current year initiatives

Prudential UK's key priorities in 2007 were:

— Maintaining leadership position in individual annuities.
— Building share of the equity release market.
— Growing the volume of products that utilise Prudential's multi-asset management expertise.
— Deepening relationships with chosen distributors including the introduction of customer-agreed remuneration across some product lines.
— Realigning cost base to the selective business strategy.
— Delivering wholesale transactions with attractive rates of return.

'Prudential UK has a unique combination of competitive advantages including its significant longevity experience, multi-asset management capabilities and its brand and financial strength.'

During 2007, Prudential UK maintained its market leadership in individual annuities, where it has continued to create value by maintaining high retention rates. This has been augmented by partnership deals with insurers such as Zurich, Royal London and Save and Prosper. We also announced a new partnership with Barclays, where Prudential will be the preferred supplier of conventional annuity products to their retail customers in the UK.

United Kingdom		CER		RER	
	2007 £m	2006 £m	Change %	2006 £m	Change %
APE sales	897	900	0	900	0
NBP	277	266	4	266	4
NBP margin (% APE)	31%	30%		30%	
NBP margin (% PVNBP)	3.6%	3.4%		3.4%	
Total EEV basis operating profit*	859	686	25	686	25
Total IFRS operating profit*	528	500	6	500	6

* Based on longer-term investment returns.

Business unit review
Insurance operations
United Kingdom continued

Capitalising on the need for inflation protection in retirement, Prudential remains the market leader in the growing with-profits annuity market, with over 75 per cent market share. Early in 2007 Prudential made a number of product enhancements including the facility to accept Protected Rights monies, which was a first in the with-profit annuity market.

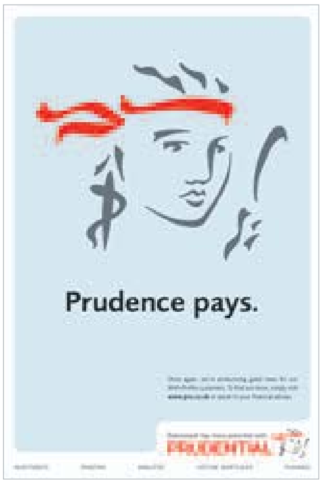
In the fourth quarter, Prudential UK launched an income drawdown product. This product helps customers manage their pension through the various stages of retirement, and offers flexibility whilst providing potential for growth through investment. Together with the Flexible Lifetime Annuity this gives Prudential a full range of retirement income solutions.

Investing in property has been an increasingly important component for many people saving for their retirement. However, this has left many retirees income poor but asset rich. Prudential UK's lifetime mortgage business grew its share of the lifetime mortgage market to 14 per cent through its distinctive drawdown product and strong brand. In the third quarter a number of product enhancements were introduced, including an inheritance guarantee and a new lump sum product. Prudential expects both its market share and the overall market size to grow.

In a relatively volatile investment market there has been a marked increase in demand for cautious managed solutions providing enhanced returns. In February 2007, Prudential UK launched the Cautious Managed Growth Fund and the Managed Defensive Fund, using Prudential's strengths in investment expertise and in disciplined approach to asset allocation. These funds have the potential to offer a better longer-term return than a bank or building society account and allow the customer to access real returns with lower volatility. These funds are available across the full tax wrapper suite, including onshore and offshore bonds, individual pensions and mutual funds.

During 2007, Prudential UK introduced customer-agreed remuneration across some of its product lines. Under this model, financial advisors agree their remuneration directly with the customer and not with the product provider, and in doing so make commission structures far more transparent. This is in line with Prudential UK's focus on building strong long-term relationships with advisers as well as offering market-leading retirement solutions.

The agreement announced in 2007 with Capita to outsource a large proportion of its in-force and new business policy administration is another important milestone for the UK business. This agreement will deliver £60 million per annum of savings to Prudential UK, and is an important element in achieving its total cost-saving target of £195 million. The contract will result in approximately 3,000 employees transferring to Capita and helps the UK deliver its long-term cost savings strategy by removing fixed costs from the business and achieving significant operating efficiencies. This provides a significant reduction in long-term expense risk by providing certainty on per-policy costs as the number of policies in the mature life and pensions book decreases over the coming years. Unit costs per policy are expected to reduce by over 30 per cent by 2011.



Prudential's advertising campaign in the UK, focusing on its market-leading Life Fund investment returns and related bonus declaration

By the end of 2007 £115 million of the cost-saving target had been delivered. The remaining £80 million, including the £60 million generated from the Capita contract, will be delivered by the end of 2010.

In December, Prudential completed the transfer of Equitable Life's portfolio of in-force with-profits annuities. This book covers approximately 62,000 policies with assets of approximately £1.74 billion. This deal grows Prudential's with-profits business and creates value for both Equitable policyholders and Prudential's shareholders and policyholders.

Financial performance

Total APE sales of £897 million were in line with 2006 and there was a four per cent increase in new business profit to £277 million, reflecting an improved new business margin of 31 per cent in an increasingly competitive market. The 2006 comparator included credit life sales of £63 million and associated new business profit of £20 million written under a single contract that was not renewed in 2007.

A strong Retail performance saw a four per cent increase in sales and a 17 per cent increase in new business profit to £223 million, demonstrating the continuing benefits of selectively participating in product lines that can deliver attractive returns. Retail sales growth was driven by strong performances in individual annuities, corporate pensions, with-profits bonds and lifetime mortgages.

'A strong Retail performance saw a four per cent increase in sales and a 17 per cent increase in new business profit.'

In the wholesale bulk annuity and insurer back-book market, Prudential UK achieved a 26 per cent year-on-year increase with sales in 2007 of £180 million. In the fourth quarter Prudential completed the transfer of Equitable Life's portfolio of in-force with-profit annuities. In the previous year, Prudential UK completed two back-book insurer deals with a total volume of £143 million. New business profits relating to the Wholesale business were £54 million in 2007.

EEV basis operating profit based on longer-term investment returns of £859 million, before restructuring costs of £8 million, were up 25 per cent on 2006. The in-force operating profit of £582 million was up 39 per cent on 2006, due to the increase in profits arising from the unwind of the in-force book (reflecting an increased opening embedded value) and a £67 million positive operating assumption change in 2007 reflecting the change in the long-term tax rate assumption from 30 per cent to 28 per cent. A charge in respect of a mortality operating assumption change on annuity and deferred annuity pension business of £312 million was fully offset by the release of excess margins previously held.

Other charges of £77 million include £36 million of costs associated with product and distribution development; £13 million for an annual fee paid by the shareholder business to the Prudential Assurance Company's (PAC) with-profits sub-fund for the use of the Prudential and Scottish Amicable trademarks; £14 million in respect of the tariff arrangement with Scottish Amicable Insurance Finance (SAIF), which terminates at the end of 2007 and £14 million in relation to other items.

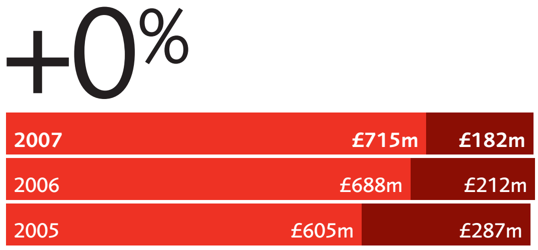
Prudential continues to manage actively the retention of the in-force book. During 2007, experience at an aggregate level has been in line with our long-term assumptions as evidenced by the small positive experience variance.

IFRS operating profit increased six per cent to £528 million before restructuring costs of £7 million. This reflects a seven per cent increase in profits attributable to the with-profits business which contributed £394 million, reflecting strong investment performance and its impact on terminal bonuses. The net impact of the mortality strengthening and release of margins held in other assumptions under the IFRS basis was a positive net £34 million.

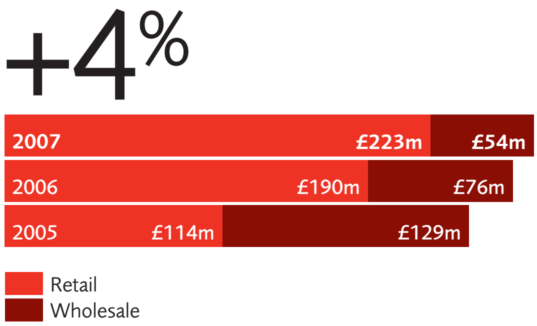
In 2007, Prudential received a £4 million net commission payment from Winterthur relating to general insurance sales under the Prudential brand in the UK. From early 2008, on settlement of an advance payment made by Winterthur in 2002, the business expects to receive approximately £30 million a year in commission payments, although this will depend on the new business volumes and persistency rates.

Prudential UK writes with-profit annuity, with-profits bond and with-profits corporate pension business in its life fund with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business growth in the UK was 14 per cent, excluding the Equitable Life deal (18 per cent including this business).

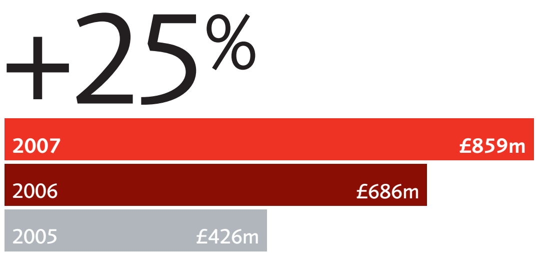
APE new business premiums £m



EEV new business profit £m



Total EEV basis operating profits £m



£267b

Around the world, Prudential manages over £267 billion of assets. These include the underlying funds for our insurance businesses, as well as nearly £70 billion of external funds. The growth in our funds under management is underpinned by our strong track record of investment performance, which is also a key driver of success for our insurance businesses.

There's more to Prudential.

Business unit review
Asset management
M&G

Michael McLintock
Chief Executive, M&G

'M&G recorded another year of record profits in 2007 with an operating result of £203 million.'

M&G is comprised of the M&G asset management business and Prudential Capital.

M&G asset management

M&G is an investment-led business with a demonstrable focus on performance delivery and aims to offer attractive products in a variety of macro-economic environments. M&G aims to

Global

The Prudential Group's asset management businesses provide value to the insurance businesses within the Group by delivering sustained superior performance. They are also important profit generators in their own right, having low capital requirements and generating significant cash flow for the Group.

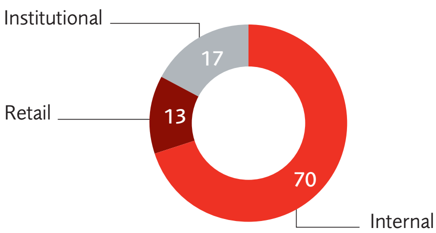
The asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services (RFS) markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths, however they continue to work together by managing money for each other with clear regional specialism, distribute each others' products and share knowledge and expertise, such as credit research.

Each business and its performance in 2007 is summarised in this and the following pages.

deliver superior investment performance and maximise risk-adjusted returns for our retail, wholesale and internal clients. External funds under management account for nearly a third of M&G's total funds under management and it is this higher-margin external business that drives profitability and cash generation for the Group.

Funds under management by client %
Total £167bn



M&G's retail strategy is based on obtaining maximum value from a single manufacturing function through a multi-channel, multi-geography distribution approach. Over the last five years, M&G's retail business has expanded beyond the UK into the major European markets, the Middle East, South America and Asia. By operating through multiple channels, M&G's retail business is well placed to profit from current trends away from direct selling towards intermediation, and the growth of online fund platforms and third-party product wrappers.

M&G's wholesale strategy centres on leveraging the skills developed primarily for internal funds to create higher-margin products for external clients. In recent years, this strategy has consolidated M&G's position at the forefront of the leveraged finance, structured credit and infrastructure investment markets. The same strategy is now being applied to develop the more traditional pooled and segregated fixed income areas of M&G's wholesale business.

M&G has significant scale in all major asset classes: it is believed to be one of the largest active managers in the UK stock market, one of the largest bond investors in the UK and one of the UK's largest property investors. In addition, M&G has profitable businesses in a number of specialist areas such as leveraged loans, structured credit, infrastructure finance and macro investment.

Current year initiatives

Delivering fund performance remains critical and is the key determinant of success for an asset management business. M&G has continued to deliver market-leading investment performance in 2007 with impressive results. M&G's retail funds have performed exceptionally well, with 45 per cent delivering top-quartile performance[1]. In addition, 86 per cent of M&G's segregated institutional funds have met or exceeded their benchmark performance[1].

Returns[1] on Prudential's Life Fund assets were 66 basis points ahead of benchmark and 143 basis points better than peer group.

Overall, the demand for asset management products in M&G's distribution markets continued to grow strongly in 2007 driven, in part, by the same retirement-related demographic trends that are creating opportunities for the Group as a whole.

With a diversified business across different asset classes and across retail and wholesale markets, both in the UK and internationally, M&G remains well positioned for a variety of macro-economic and market conditions.

The way that clients purchase asset management products continued to evolve during 2007. The retail asset management sector benefited from the increasing shift by retail investors towards more transparent investment products, such as unit trusts, and M&G's range of market-leading funds has positioned it well to benefit from this trend. M&G extended its range of innovative new funds during 2007 with the launch of the M&G Cautious Multi Asset Fund and M&G Global Convertibles Fund.

1 Over three years.

M&G	2007 £m	CER 2006 £m	CER Change %	RER 2006 £m	RER Change %
Net investment flows	**4,958**	6,101	(19)	6,101	(19)
Revenue*	**482**	429	12	429	12
Other income	**30**	27	11	27	11
Staff costs	**(224)**	(216)	(4)	(216)	(4)
Other costs	**(113)**	(106)	(7)	(106)	(7)
Underlying profit before performance-related fees	**175**	134	31	134	31
Performance-related fees	**28**	27	4	27	4
Operating profit from asset management operations	**203**	161	26	161	26
Operating profit from Prudential Capital	**51**	43	19	43	19
Total IFRS operating profit†	**254**	204	25	204	25

*Revenue excludes income earned by Prudential Capital and by investment funds controlled by the asset management operations.
†Based on longer-term investment returns.

Business unit review
Asset management
M&G continued

European cross-border distribution of retail funds has accelerated and the trend in favour of 'Open Architecture' in both the UK and Europe continues to open up significant bank and life company distribution opportunities. Parallel to this, distribution of mutual funds has become increasingly intermediated and has been accompanied by the rise of professional buyers who demand higher levels of service and investment information, areas in which M&G has considerable expertise. M&G has continued to expand its geographic coverage in Europe with the first full year of operations in Spain and the launch of M&G's funds in France in October 2007, which has given M&G access to Europe's largest mutual fund market.

'In order to support its retail and wholesale strategy, M&G places a high priority on the recruitment, development and retention of top-quality staff.'

Wholesale markets are demanding increasingly sophisticated and tailored products and there is a continued shift from balanced to specialist mandates. These trends, plus the increased role of fixed income within portfolios, continue to play to the strength and scale of M&G's wholesale business. In 2007, M&G launched three new funds aimed at the institutional and pensions markets – the M&G Alpha Opportunities Fund, M&G Secured Property Income Fund and the M&G Secured Debt Fund. All of these funds offer innovative alternatives to traditional fixed income assets and leverage off M&G's expertise and scale in both property and private finance.

M&G's infrastructure investment business has grown from inception in 2005 to manage £471 million (2007 year end fair value) in its principal fund, Infracapital. The business contributed £7.1 million to M&G profits in 2007.

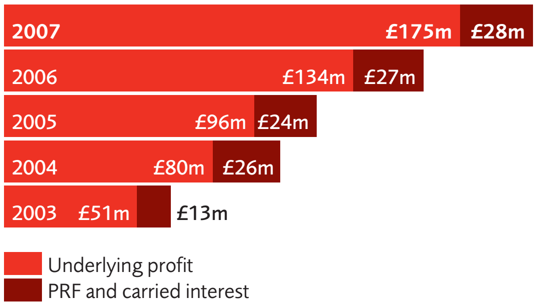
M&G's global macro investment business was established in 2005 and has grown to £1.5 billion in external funds under management as at the end of 2007. It contributed £11.2 million in profits to M&G in 2007, including performance-related fees.

In order to support its retail and wholesale strategy, M&G places a high priority on the recruitment, development and retention of top-quality staff. In a highly competitive market for the best talent, this entails providing an inclusive and supportive environment as well as offering appropriate levels of compensation. At the same time, M&G has a policy of prudent cost control, ensuring that top-line growth is translated into enhanced operational gearing. During 2007 turnover of staff remained in line with industry averages at 10 per cent and the company spent £2.1 million on training and development programmes.

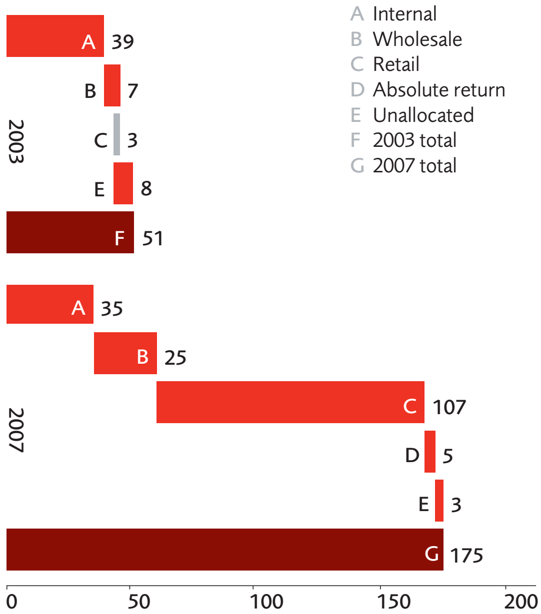
Financial performance

M&G recorded another year of record profits in 2007 with an operating result of £203 million (2006: £161 million), representing profit compound annual growth rate (CAGR) of 34 per cent since 2003. Underlying profit growth, which excludes volatile performance related fees (PRFs) and carried interest earned on private equity investments, has grown at 36 per cent CAGR over the same period to £175 million (2006: £134 million).

Underlying and total operating profit 2003-2007 £m



Underlying operating profit contribution by business area £m



M&G continues to target increased diversity in profit-generating activities. In 2007, 80 per cent of underlying profits were generated as a result of managing external funds, compared to 23 per cent in 2003.

Profit growth is driven by four key factors: appreciation of underlying assets, positive net sales, increasing mix of higher-margin business and decreasing cost/income ratio.

The underlying growth in M&G's principal investment markets over recent years has been strongly supportive of its performance. While this growth is beyond the company's control, M&G has been successful at increasing diversity in terms of both asset class and distribution channel in order to reduce exposure to cyclical downturns in individual markets.

M&G has performed strongly against the other three measures. Net sales for 2007 of £5.0 billion (2006: £6.1 billion) were driven by both the retail £2.7 billion (2006: £3.1 billion) and wholesale £2.3 billion (2006: £3.0 billion) businesses. Gross inflows of £14.7 billion were the highest on record, offset to some extent by higher gross redemptions, particularly in the more volatile international retail marketplace.

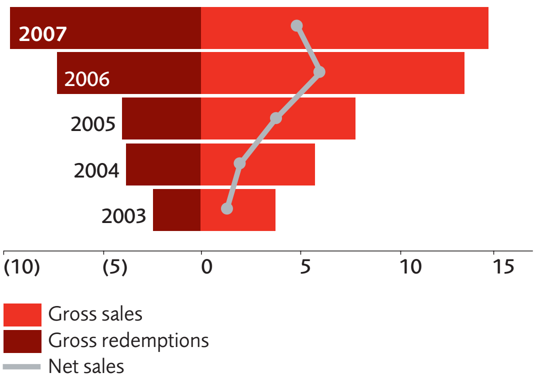
The continued strong growth in external funds under management, coupled with a small decline in the value of funds managed for Prudential, has resulted in an increasing mix of higher-yielding business for M&G. This has supported an increase in gross margin (revenue as a proportion of FUM) from 28.0 basis points in 2003 to 30.8 in 2007.

'M&G continues to provide capital efficient profits and cash generation for the Prudential group, as well as strong investment returns on its long-term business funds.'

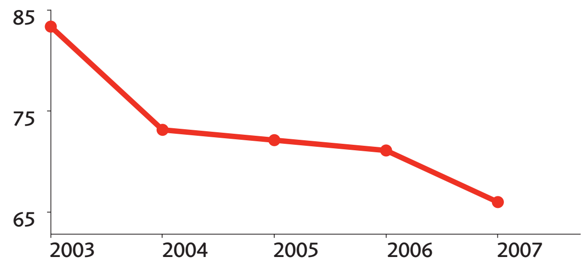
During 2007, M&G has exercised continued cost discipline to ensure that top-line growth feeds through to profitability and cash generation. M&G's cost/income ratio for 2007 was 66 per cent (2006: 71 per cent), having fallen from 83 per cent in 2003.

M&G continues to provide capital efficient profits and cash generation for the Prudential group, as well as strong investment returns on its long-term business funds. Cash remittances were £99 million in 2007.

External sales and redemptions 2003-2007 £bn

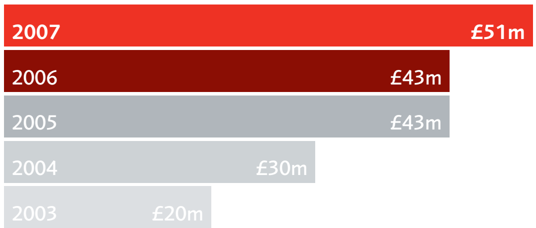


Cost/income ratio 2003-2007 %



Prudential Capital

Prudential Capital operating profit 2003-2007 £m



Prudential Capital (re-branded from Prudential Finance in 2007) manages Prudential's balance sheet for profit through leveraging Prudential's market position. The business has three strategic objectives: to operate a first class wholesale and capital markets interface; to realise profitable proprietary opportunities within a tightly controlled risk framework; and to provide professional treasury services to Prudential. Prudential Capital generates revenue by structuring transactions, providing bridging finance, and operating a securities lending and cash management business for Prudential and its clients.

The business has continued to grow in terms of investment, infrastructure and personnel in a controlled way while maintaining the dynamism and flexibility that it requires to identify and realise opportunities for profit. Prudential Capital is committed to working closer with other Group business units to deliver opportunities and to improve value creation for the Group. Prudential Capital is also taking a more holistic view on hedging strategy, liquidity and capital management for the Group.

Prudential Capital has a diversified earnings base derived from bridging, structured finance and wholesale markets. Prudential Capital delivered a good financial result in 2007, driven by increased investment activity and strong securities lending performance. As a result of increased revenue and maintaining a low cost/income ratio, operating profits increased by 19 per cent to £51 million, resulting in a cash remittance to the holding company of £40 million.

Business unit review
Asset management
Asia

Prudential's asset management business in Asia supports the Life Business, and has established itself as an increasingly material retail business in its own right. Today it has retail operations in 10 markets and is the only foreign fund manager with a top five market share position in more than one Asian country.

The mutual fund industry continues to diversify its investments; expectations are for a significant increase in net flows over the coming years. Bank distribution continues to dominate in most markets in Asia, and Prudential has established strong relationships with both regional and local banks and places great emphasis on providing good service.

Current initiatives

Fund innovation is essential in maintaining sales levels and distribution agreements, and during 2007 Prudential's operations launched 71 new funds. The largest of which include two India funds for Japan; the India Equity Fund and the India Infrastructure Fund. The China Dragon A Share Equity Fund in Korea reached its regulatory cap in two weeks and the Asia Pacific REIT in Taiwan also reached its regulatory cap.

A key achievement in 2007 was the expansion of regional distribution relationships with Citi and HSBC. The Asian asset management business also signed a global partnership agreement with HSBC Private Banking and is now part of the Credit Suisse Fundslab platform.

Greater deregulation and higher allocations by sovereign wealth and other institutional investors in foreign investments is driving the growth of offshore funds in the market and Prudential is also developing its institutional asset management business in Asia, winning mandates of £0.5 billion during 2007.

Prudential launched a retail mutual fund business in Hong Kong in October 2007. Since launch six distribution relationships have been signed, including banks, financial advisers and an online portal.

The United Arab Emirates operation also made good progress with 13 distribution agreements signed since launch a year ago and with funds under management of £397 million.

In August 2007, Prudential increased its stake in CITIC Prudential Fund Management, its joint venture with CITIC Group in China, from 33 per cent to 49 per cent, following approval from regulators. This joint venture launched its first Qualified Foreign Institutional Investor fund in Korea in May 2007 and hit its £100 million quota.

Financial performance

Prudential's asset management business achieved record net inflows for 2007 of £3 billion, up 23 per cent on 2006. The growth in net flows was primarily driven by strong performance in India, Taiwan and Japan. Funds under management in these three countries increased by 65 per cent, 49 per cent and 46 per cent respectively. In total during 2007, retail funds under management grew by 39 per cent to £17.4 billion.

IFRS profits from asset management operations were £72 million, up 53 per cent on 2006. Operating profits in terms of basis points on funds under management increased from 18 basis points in 2006 to 21 in 2007. The asset management business requires very little capital to support its growth and in 2007 it remitted a net £31 million to the Group.

	CER			RER	
Asia	2007 £m	2006 £m	Change %	2006 £m	Change %
Net investment flows	2,961	2,410	23	2,532	17
Total IFRS operating profit*	72	47	53	50	44

* Based on longer-term investment returns.

Business unit review
Asset management
United States

US asset management

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides investment services to other affiliated and unaffiliated institutional clients including collateralised debt obligations (CDOs), private equity funds, institutional accounts and mutual funds. PPMA's strategy is focused on effectively managing existing assets, maximising synergies with international asset management affiliates and leveraging investment management capabilities across the Prudential Group. PPMA also opportunistically pursues third-party mandates.

Current year initiatives

During 2007, PPMA successfully leveraged its investment management capabilities as evidenced by:

— Obtaining over £329 million of funds under management in the Jackson variable annuity programme.
— Assuming management of over £194 million of funds under management from Curian.
— Assuming additional responsibilities for the UK life fund, growing assets by £2 billion.
— Launching three new products offered by Prudential Corporation Asia.
— Raising over £638 million of third-party funds under management.

Financial performance

IFRS operating profit in 2007 was £4 million, down from £10 million in 2006, primarily due to lower investment income and performance-related fees, partially offset by asset-driven fee growth.

Year-end 2007 funds under management of £39 billion were as follows:

PPMA funds under management £bn

	Asia	US	UK	Total
Insurance	0	23	10	33
Unitised	3	0	1	4
Institutional	0	0	0	0
CDOs	0	2	0	2
Total	**3**	**25**	**11**	**39**

US broker-dealer

National Planning Holdings (NPH), Jackson's affiliated independent broker-dealer network, is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation and SII Investments.

NPH continues to grow through significant recruiting efforts. By leveraging its high-quality, state-of-the-art technology, NPH provides its advisers with the tools they need to operate their practices more efficiently. Through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, in addition to receiving valuable insight into the needs of financial advisers and their clients.

Current year initiatives

NPH increased sales of Jackson's enhanced product offering and the overall distribution of the network during the year. NPH also introduced several operational enhancements, which increased the efficiency of its production processes. In addition, NPH executed a focused recruitment initiative to expand the total assets under management and the representative base of INVEST Financial Corporation.

Financial performance

NPH had a very successful year in 2007, generating record revenues of £300 million versus £246 million in 2006 on gross product sales of £7.1 billion. The network continues to generate profitable growth with 2007 IFRS operating profit of £9 million, a 50 per cent increase at CER from £6 million in 2006. NPH also increased the number of registered advisers in its network to 3,000 at year-end.

		CER		RER	
PPM America	2007 £m	2006 £m	Change %	2006 £m	Change %
Total IFRS operating profit*	4	10	(60)	12	(67)

		CER		RER	
Broker-dealer	2007 £m	2006 £m	Change %	2006 £m	Change %
Revenue	300	246	22	267	12
Costs	(291)	(240)	21	(261)	11
Total IFRS operating profit*	9	6	50	6	50

* Based on longer-term investment returns.

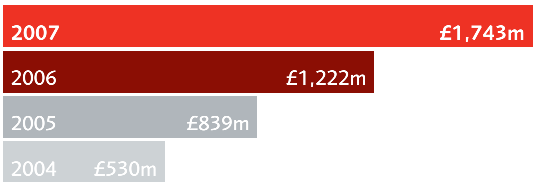
Business unit review
Asset management
United States continued

Curian

Curian Capital (Curian), Jackson's registered investment adviser, provides innovative fee-based separately managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers and provides a complement to Jackson's core annuity product lines.

Current year initiatives
During 2007, Curian implemented its Simplified Proposal Process, which allows financial professionals to generate proposals in a matter of minutes, while maintaining the flexibility and customisation that make separately managed accounts an attractive alternative to traditional investment vehicles. Curian also expanded its wholesaling force during the year in an effort to accelerate growth.

Curian funds under administration £m



Financial performance
As a result of these initiatives, Curian continued to build its position in the US retail asset management market with total assets under management at the end of December 2007 of £1.7 billion, up from £1.2 billion at the end of December 2006. Curian also generated record deposits in 2007 of £663 million, up 57 per cent over 2006. Curian's IFRS operating loss declined to £5 million in 2007 (2006: £7 million at CER).

Curian	CER 2007 £m	CER 2006 £m	CER Change %	RER 2006 £m	RER Change %
Gross investment flows	**663**	422	57	459	44
Revenue	**20**	15	33	16	25
Costs	**(25)**	(22)	14	(24)	4
Total IFRS operating profit*	**(5)**	(7)	(29)	(8)	(38)

* Based on longer-term investment returns.

Other corporate information

Explanation of balance sheet structure

The Group's capital on an IFRS basis comprises of shareholders' funds of £6,201 million, subordinated long-term and perpetual debt of £1,570 million, other core structural borrowings of £922 million and the unallocated surplus of with-profits funds of £14.4 billion.

Subordinated or hybrid debt is debt capital which has some equity-like features and which would rank below other senior debt in the event of a liquidation. These features allow hybrid debt to be treated as capital for FSA regulatory purposes. All of the Group's hybrid debt which qualifies in this way is held at the Group level and is therefore taken as capital into the parent solvency test under the Insurance Groups Directive (IGD).

The FSA has established a structure for determining how much hybrid debt can count as capital which is similar to that used for banks. It categorises capital as Tier 1 (equity and preference shares), Upper Tier 2 and Lower Tier 2. Up to 15 per cent of Tier 1 can be in the form of hybrid debt and called 'Innovative Tier 1'. At 31 December 2007, the Group held £763 million of Innovative Tier 1 capital, in the form of perpetual securities, and £932 million of Lower Tier 2 capital. Following the implementation of the IGD, it is advantageous to the Group from a regulatory capital standpoint to raise its long-term debt in hybrid form and it is the Group's policy to take advantage of favourable market conditions as they arise to do so.

The unallocated surplus of the with-profits funds represents assets in the life fund which have not yet been allocated either to policyholders or shareholders. They are not generally available to the Group other than as they emerge through the statutory transfer of the shareholders' share of the surplus as it emerges from the fund over time.

Financial instruments

The Group is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The financial risk factors affecting the Group include market risk, credit risk and liquidity risk. Information on the financial risk management objectives and policies of the Group and the exposure of the Group to the financial risk factors is given in the Risk Management section of the Operating and Financial Review and in Section C of the financial statements on pages 165 to 168.

Further information on the sensitivity of the Group's financial instruments to market risk and the use of derivatives is also provided in notes D1 to D4 and G2 and G3 of the financial statements on pages 169 to 211 and pages 237 to 244 respectively.

Shareholders' borrowings and financial flexibility

Core structural borrowings of shareholder-financed operations at 31 December 2007 totalled £2,492 million, compared with £2,612 million at the end of 2006 (excluding Egg). This decrease reflected the repayment of £150 million long-term borrowings upon maturity, exchange conversion losses of £16 million and other adjustments of negative £14 million.

After adjusting for holding company cash and short-term investments of £1,456 million, net core structural borrowings at 31 December 2007 were £1,036 million compared with £1,493 million at 31 December 2006. This reflects the net cash inflow of £445 million (including £527 million net proceeds from the sale of Egg), exchange conversion gains of £49 million and other adjustments of negative £37 million.

Explanation of balance sheet structure – Capital Tiers £m

Core structural borrowings at 31 December 2007 included £1,473 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. Of the core borrowings £888 million were denominated in US dollars, to hedge partially the currency exposure arising from the Group's investment in Jackson.

Prudential has in place an unlimited global commercial paper programme. At 31 December 2007, commercial paper of £320 million, US$3,479 million and €483 million has been issued under this programme. Prudential also has in place a £5,000 million medium-term note (MTN) programme. At 31 December 2007, subordinated debt outstanding under this programme was £435 million and €520 million, and senior debt outstanding was €65 million and US$12 million. In addition, the holding company has access to £1,600 million committed revolving credit facilities, provided in equal tranches of £100 million by 16 major international banks renewable in December 2009 and an annually renewable £500 million committed securities lending liquidity facility. These facilities have not been drawn on during the year. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are available for general corporate purposes and to support the liquidity needs of the parent company.

The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 31 December 2007, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 6.6 per cent compared with 11.2 per cent at 31 December 2006.

Prudential plc enjoys strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential long-term senior debt is rated A+ (stable outlook), A2 (stable outlook) and AA- (stable outlook) from Standard & Poor's, Moody's and Fitch respectively, while short-term ratings are A-1, P-1 and F1+.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 16.1 times in 2007 compared with 13.1 times in 2006.

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 Prudential's capital funding programme, which includes the £5,000 million MTN programme together with the unlimited commercial paper programme, is to maintain a strong and flexible funding capacity.

Prudential UK and Prudential Corporation Asia use derivatives to reduce equity risk, interest rate and currency exposures, and to facilitate efficient investment management. In the US, Jackson uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management and to match liabilities under fixed index 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.

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon conversion of results into pounds sterling. The currency exposure relating to the conversion of reported earnings is not separately managed, as it is not in the economic interests of the Group to do so. The impact of gains or losses on currency conversions is recorded as a component of shareholders' funds within the statement of recognised income and expense. The impact of exchange rate fluctuations in 2007 is discussed elsewhere in this financial review.

Unallocated surplus of with-profits

During 2007, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on a statutory basis, grew from £13.6 billion at 1 January to £14.4 billion at 31 December. This reflects an increase in the cumulative retained earnings arising on with-profits business that have yet to be allocated to policyholders or shareholders.

Regulatory capital requirements

Prudential is subject to the capital adequacy requirements of the Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA). The IGD pertains to groups whose activities are primarily concentrated in the insurance sector, and applies for Prudential from December 2007, following the sale of Egg Banking during 2007. Prior to this, Prudential was required to meet the requirements of the Financial Conglomerates Directive (FCD), which applies to groups with significant cross-sector activities in insurance and banking/investment services.

The FSA implemented the FCD by applying the sectoral rules of the largest sector of the group. Prudential was therefore classified as an insurance conglomerate under the FCD, and was required to focus on the capital adequacy requirements relevant to that sector. Prudential's move from FCD to IGD during 2007, therefore, did not have a significant impact on the Group, as the FSA's implementation of both directives is closely aligned. In particular, from 31 December 2006 the FSA made the continuous parent solvency testing mandatory for all insurance groups covered by the IGD. This involves the aggregating of surplus capital held in the regulated subsidiaries, from which Group borrowings, except those subordinated debt issues which qualify as capital, are deducted. No credit for the benefit of diversification is allowed for under this approach. The test is passed when this aggregate number is positive, and a negative result at any point in time is a notifiable breach of UK regulatory requirements.

Due to the geographically diverse nature of Prudential's operations, the application of these requirements to Prudential is complex. In particular, for many of our Asian operations, the assets, liabilities and capital requirements have to be recalculated based on FSA regulations as if the companies were directly subject to FSA regulation.

The IGD surplus as at 31 December 2007 will be submitted to the FSA by 30 April 2008 but is currently estimated to be around £1.4 billion. This includes a gain of around £0.3billion that arose during 2007 from the sale of Egg Banking plc.

The European Union (EU) is continuing to develop a new prudential framework for insurance companies, 'the Solvency II project' that will update the existing life, non-life and Insurance Groups Directives (IGD). The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through establishing solvency requirements better matched to the true risks of the business. Like Basel 2, the new approach is expected to be based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements. However, the scope is wider than Basel 2 and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements.

A key aspect of Solvency II is the focus on risks and, for example, capital requirements will be calibrated to a one-year Value at Risk with a 99.5 per cent confidence level. Companies will be encouraged to improve their risk management processes and will be allowed to make use of internal economic capital models to enable a better understanding of risks. The emphasis on transparency and comparability would ensure a level playing field but not delivering this remains one of the key risks for the project.

The European Commission (EC) published a draft framework directive on 10 July 2007 containing high-level principles. The directive is now being reviewed by the European Parliament and the Council of Ministers. The EC expects the institutions to agree the Solvency II framework directive in the second half of 2008. The principles in the directive will be supplemented by implementing measures that will be adopted by the EC and EU member states. Solvency II is then intended to be implemented during 2012. It is important that the EU policy makers keep up the progress to enable implementation by the suggested date.

During 2007, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) invited the EU insurance industry to participate in the third quantitative impact study, which provided useful input for supervisors and industry alike. The EU insurance industry will be participating in a fourth quantitative impact study during the first half of 2008 with a view to providing further quantitative input into the calibration of the capital requirements. This study will include a particular focus on groups. Participation in these exercises involves a substantive commitment and is expected to yield benefits by providing evidence leading to a truly risk-based capital requirement.

Prudential is also actively engaged in policy discussions mainly through its participation in the Chief Risk Officer (CRO) Forum of major European insurance firms. We have been emphasising the importance of Solvency II delivering an economic based approach for groups reflecting diversification benefits across all the group's insurance activities; an appropriate level playing field, in particular in connection with the treatment of operations outside the European Economic Area (EEA); and the provision of instruments of group support that enhance the efficiency of capital management within the EEA.

Financial strength of insurance operations

Asia

Prudential Corporation Asia maintains solvency margins in each of its operations so that these are at or above the local regulatory requirements. Both Singapore and Malaysia have discrete life funds, and have strong free asset ratios. The Hong Kong life operation is a branch of The Prudential Assurance Company Limited and its solvency is covered by that business. Taiwan has Risk Based Capital regulatory solvency margins and Prudential ensures sufficient capital is retained in the business to cover these requirements.

Asia invested asset mix excluding linked funds:

Asia			
Equities	**44**	38	36
Bonds	**44**	48	47
Other asset classes	**12**	14	17
Total	**100**	100	100

United States

The capital adequacy position of Jackson remains strong, with the capital ratio improving from 9.8 per cent in 2006 to 10.6 per cent in 2007. Jackson's statutory capital, surplus and asset valuation reserve position of £2,251 million at 31 December 2007 improved year-on-year by £327 million, after deducting the £122 million of capital remitted to the parent company. Jackson's financial strength is rated AA by Standard & Poor's and A1 by Moody's.

Jackson's invested asset mix on a US regulatory basis (excludes policy loans and reverse repo leverage) is as follows:

Jackson			
Bonds:			
Investment Grade Public	**59**	60	58
Investment Grade Private	**18**	18	19
Non-Investment Grade Public	**3**	4	5
Non-Investment Grade Private	**2**	1	2
Commercial mortgages	**12**	12	11
Private equities and real estate	**3**	3	3
Equities, cash and other assets	**3**	2	2
Total	**100**	100	100

United Kingdom

The PAC's long-term fund remains very strong. On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets are valued at approximately £8.7 billion at 31 December 2007, before a deduction for the risk capital margin. The financial strength of PAC is rated AA+ (stable outlook) by Standard & Poor's, Aa1 (negative outlook) by Moody's and AA+ (stable outlook) by Fitch Ratings.

The with-profits sub-fund delivered a pre-tax return of 7.2 per cent in 2007, and over the last five years the fund has achieved a total return of 91 per cent. Much of this excellent investment performance was achieved through the active asset allocation of the fund. As part of its asset allocation process, Prudential UK constantly evaluates prospects for different markets and asset classes. During the year PAC's Long Term Fund reduced its exposure to property and increased the quality of its corporate bond portfolio. The fund includes the assets of the Equitable Life with-profit annuity business, transferred during the year, which were almost entirely fixed interest corporate bonds.

UK fund			
UK equities	**35**	36	40
International equities	**17**	17	19
Property	**14**	15	15
Bonds	**27**	25	21
Cash and other asset classes	**7**	7	5
Total	**100**	100	100

Inherited estate of Prudential Assurance

The assets of the main with-profits fund within the long-term insurance fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

PAC believes that it would be beneficial if there were greater clarity as to the status of the inherited estate. As a result PAC has announced that it has begun a process to determine whether it can achieve that clarity through a reattribution of the inherited estate. As part of this process a Policyholder Advocate has been nominated to represent policyholders' interests. This nomination does not mean that a reattribution will occur.

Given the size of the Group's with-profits business any proposal is likely to be time consuming and complex to implement and is likely to involve a payment to policyholders from shareholders funds. If a reattribution is completed the inherited estate will continue to provide working capital for the long-term insurance fund.

Prudential aims to be in a position to determine whether reattribution is in the best interests of policyholders and shareholders in the first half of 2008.

Defined benefit pension schemes

The Group operates four defined benefit schemes, three in the UK, of which the principal scheme is the Prudential Staff Pension Scheme (PSPS), and a small scheme in Taiwan. The level of surplus or deficit of assets over liabilities for defined benefit schemes is currently measured in three ways: the actuarial valuation, FRS 17 (for subsidiary accounting in the UK), and IAS 19 for the Group financial statements. FRS 17 and IAS 19 are very similar. As at 31 December 2007 the shareholders' share of the £447 million surplus for PSPS and the deficits of the other schemes amounted to an £76 million surplus net of related tax relief.

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years to assess the appropriate level of funding for schemes having regard to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. PSPS was last actuarially valued as at 5 April 2005 and this valuation demonstrated the Scheme to be 94 per cent funded, with a shortfall of actuarially determined assets to liabilities of six per cent, representing a deficit of £243 million.

The finalisation of the valuation as at 5 April 2005 was accompanied by changes to the basis of funding for the scheme with effect from that date. Deficit funding amounts designed to eliminate the actuarial deficit over a 10-year period have been and are being made based on that valuation. Total contributions to the Scheme for deficit funding and employer's contributions for ongoing service for current employees are expected to be of the order of £70 million to £75 million per annum over a 10-year period. In 2007, total contributions for the calendar year including expenses and augmentations were £82 million.

Under IAS 19 the basis of valuation differs markedly from the full triennial valuation basis. In particular, it requires assets of the Scheme to be valued at their market value at the 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. As a result, the difference between IAS 19 basis assets and liabilities can be volatile. For those schemes such as PSPS, which hold a significant proportion of their assets in equity investments, the volatility can be particularly significant. For 2007, a £23 million pre-tax shareholder charge to operating results based on longer-term returns arises. In addition, outside the operating result, but included in total profits is a pre-tax shareholder credit of £90 million for net actuarial gains. These gains primarily represent the effect of changes in economic assumptions which more than offsets the losses from the effect of strengthened mortality assumptions for the UK pension schemes.

Surpluses and deficits on the Group's defined benefit schemes are apportioned to the PAC life fund and shareholders' funds based on estimates of employees' service between them. At 31 December 2005, the deficit of PSPS was apportioned in the ratio 70/30 between the life-fund and shareholders' backed operations following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2007. The IAS 19 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity. The deficit of the Scottish Amicable Pension Scheme has been allocated 50 per cent to the PAC with-profits fund and 50 per cent to the PAC shareholder fund.

Reflecting these two elements, at 31 December 2007, the total share of the surplus on PSPS and the deficit on the smaller Scottish Amicable scheme attributable to the PAC with-profits fund amounted to a net surplus of £304 million net of related tax relief.

Products and drivers of insurance operations' profits

Asia

The life insurance products offered by Prudential Corporation Asia include a range of with-profits (participating) and non-participating term, whole life and endowment and unit-linked policies. Prudential also offers health, disablement, critical illness and accident cover to supplement its core life products.

Prudential's business in Asia is focused on regular premium products that provide both savings and protection benefits.

In 2007, the new business profit mix was 63 per cent unit-linked, 15 per cent non-linked and 22 per cent Accident & Health products.

Unit-linked products combine savings with protection and the cash value of the policy depends on the value of the underlying unitised funds. Participating products provide savings with protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the insurer. Non-participating products offer savings with protection where the benefits are guaranteed or determined by a set of defined market related parameters. Accident & Health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident covers. Accident & Health products are commonly offered as supplements to main life policies but can also be sold separately.

The profits from participating policies are shared between the policyholder and insurer (typically in a 90:10 ratio) in the same way as with-profits business in the UK. Under unit-linked products the profits that arise from managing the policy, its investments and the insurance risk accrue entirely to shareholders, with investment gains accruing to the policyholder within the underlying unitised fund. The profits from Accident & Health and non-participating products consist of any surplus remaining after paying policy benefits.

Unit-linked products tend to have higher profits on the EEV basis of reporting than traditional non-linked products as expenses and charges are better matched and solvency capital requirements are lower. At the end of 2007 Prudential Corporation Asia offered unit-linked products in 10 of the 12 countries in Asia in which it operates. From January 2008 unit-linked products are offered in 11 countries.

In addition to the life products described above, Prudential offers mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam and China, allowing customers to participate in debt, equity and money market investments. It is also licensed in United Arab Emirates. Prudential Corporation Asia earns a fee based on assets under management.

United States

Jackson's product offerings include variable, fixed and fixed index annuities, as well as life insurance, retail mutual funds and institutional products.

Annuities

Annuity products are long-term individual retirement products, which offer tax-deferred accumulation on the funds invested until proceeds are withdrawn from the policy.

Interest-sensitive fixed annuities are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible payout options. The contract holder pays Jackson a premium, which is credited to the contract holder's account. Periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment. Fixed annuity policies are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson's profits on fixed annuities arise primarily from the spread between the return it earns on investments and the interest credited to the contract holder's account (net of any surrender charges or market value adjustment) less expenses. Jackson's fixed annuities continue to be a profitable book of business, benefiting from favourable spread income in recent years. However, the fixed annuity portfolio could be impacted by the continued low interest rate environment as lower crediting rates could result in increased surrenders and lower sales as customers seek alternative investment opportunities. However, if customers become more risk averse to equity-based returns due to recent market volatility, fixed annuities could be viewed as an attractive alternative to variable annuities.

Fixed index annuities (formerly referred to as equity-indexed annuities) are similar to fixed annuities in that the contract holder pays Jackson a premium, which is credited to the contract holder's account and periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. Jackson guarantees an annual minimum interest rate, although actual interest credited may be higher and is linked to an equity index over its indexed option period. Jackson's profit arises from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of the guarantees, and the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Fixed index annuities continue to be a profitable product, benefiting from favourable spread and the effective management of equity risk. The fixed index book provides a natural offsetting equity exposure to the guarantees issued in conjunction with Jackson's variable annuity products, which allows for an efficient hedging of the net equity exposure.

Variable annuities are tax-advantaged deferred annuities where the rate of return depends upon the performance of the underlying portfolio, similar in principle to UK unit-linked products. They are also used for asset accumulation in retirement planning and to provide income in retirement. The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or guaranteed fixed-rate options. The contract holder's premiums allocated to the variable accounts are held apart from Jackson's general account assets, in a separate account, which is analogous to a unit-linked fund. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Variable annuity policies are subject to early surrender charges for the first four to seven years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers one variable annuity that has no surrender charges. Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect and pay for. These include the guaranteed minimum death benefit (GMDB), which guarantees that, upon death of the annuitant, the contract holder or beneficiary receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the return of original premium, the highest past anniversary value of the contract, or as the original premium accumulated at a fixed rate of interest. In addition, there are three other types of guarantee: guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum income benefits (GMIB). GMWBs provide a guaranteed return of the principal invested by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder's life without annuitisation. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. The GMIB is reinsured.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to manage Jackson's equity exposure in a cost-effective fashion. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging programme. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Jackson continues to believe that, on a long-term economic basis, the equity exposure remains well managed.

Life insurance

Jackson also sells several types of life insurance including term life, universal life and variable universal life. Term life provides protection for a defined period of time and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Survivorship universal life is a form of permanent life insurance that insures two people and pays the policy benefits after the death of the last surviving insured. Variable universal life is a life insurance policy that combines death benefit protection and the important tax advantages of life insurance with the long-term growth potential of professionally managed investments. Jackson's life insurance book has also delivered consistent profitability, driven primarily by positive mortality and persistency experience.

Institutional products

Jackson's institutional products division markets institutional products such as traditional Guaranteed Investment Contracts (GICs), Funding Agreements and Medium Term Note (MTN) funding agreements. The institutional product offerings also include Jackson's funding agreements issued to the Federal Home Loan Bank. Jackson distributes its institutional products directly to investors, through investment banks or through funding agreement brokers.

Mutual funds

During 2007, Jackson launched a line of retail mutual funds as a complement to the broad product offering.

United Kingdom

In common with other UK long-term insurance companies, Prudential UK's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending upon the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies.

With-profits policies are supported by a with-profits sub-fund and can be single premium (for example, Prudence Bond) or regular premium (for example, certain corporate pension products).

Prudential's primary with-profits sub-fund is part of PAC's long-term fund. The return to shareholders on virtually all with-profits products is in the form of a statutory transfer to PAC shareholders' funds which is analogous to a dividend from PAC's long-term fund and is dependent upon the bonuses credited or declared on policies in that year. There are two types of bonuses: 'annual' and 'final'. Annual bonuses are declared once a year, and once credited, are guaranteed in accordance with the terms of the particular product and are determined as a prudent proportion of the long-term expected future investment return on the underlying assets. 'Final' bonuses are only guaranteed until the next bonus declaration and are primarily determined on the actual smoothed investment return achieved over the life of the policy. Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies and shareholders receive 10 per cent as a statutory transfer.

The defined charge participating sub-fund (DCPSF) forms part of the PAC long-term fund and comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France, and the defined charge participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd. All profits in this fund accrue to policyholders in the DCPSF.

The profits from almost all of Prudential's new non-participating business accrue solely to shareholders. Such business is written in the non-profit sub-fund within PAC's long-term fund, or in various shareholder-owned direct or indirect subsidiaries, the most significant of which is Prudential Retirement Income Limited (PRIL), which also writes all new immediate annuities arising from vesting deferred annuity policies in the with-profits sub-fund of PAC.

There is a substantial volume of in-force non-participating business in PAC's with-profits sub-fund and that fund's wholly owned subsidiary Prudential Annuities Limited (PAL) which is closed to new business; profits from this business accrue to the with-profits sub-fund.

Description of EEV basis reporting

Prudential's results are prepared on two bases of accounting, the supplementary EEV basis and the IFRS basis for the financial statements. Over the life of any given product, the total profit recognised will be the same under either the IFRS or the EEV basis. However, the two methods recognise the emergence of that profit differently, with profits emerging earlier under the EEV basis than under IFRS. This section explains how EEV differs from IFRS and why it is used.

In broad terms, IFRS profits for long-term business reflect the aggregate of statutory transfers from UK-style with-profits funds and profit on a traditional accounting basis for other long-term business. The products sold by the life insurance industry are by their nature long-term, as it commits to service the products for many years into the future. The profit on these insurance sales is generated over this long-term period and the IFRS result does not, in Prudential's opinion, properly reflect the inherent value of these future profits as it focuses instead on the amounts accruing to shareholders in the current year.

In May 2004 the CFO Forum, representing the Chief Financial Officers of 19 European insurers, published the European Embedded Value Principles which were designed to promote transparent and consistent embedded value reporting. Key features of the principles are:

- Inclusion of an explicit allowance for the impact of options and guarantees. This typically requires stochastic calculations, under which a large number of simulations are performed that provide a representation of the future behaviour of financial markets;
- an active allowance for the combined impact of risk profile and encumbered capital in the selection of discount rates. This ensures that the risks to the emergence of shareholder cash flows are properly accounted for; and
- sufficient disclosure to enable informed investors to understand the key risks within the business and the basis of preparation of the results.

The EEV basis not only provides a good indicator of the value being added by management in a given accounting period but it also demonstrates whether shareholder capital is being deployed to best effect. Indeed insurance companies in many countries use comparable bases of accounting for management purposes.

The EEV basis is a value-based method of reporting in that it reflects the change in value of the business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future profits expected to arise from the current book of long-term insurance business plus the net worth of the Company. In determining these expected profits, Prudential makes full allowance for the risks attached to their emergence and the associated cost of capital and takes into account recent experience in assessing likely future persistency, mortality and expenses.

The change in value is typically analysed into the following components:

- The value added from new business sold during the year;
- the change in value from existing business already in place at the start of the year;
- short-term fluctuations in investment returns;
- change in the time value of cost of options and guarantees and economic assumption changes;
- other items (for example, profit from other Group operations, tax, foreign exchange, exceptional items); and
- dividends.

The value added from new business (being the present value of the future profits arising from new business written in the year) is a key metric used in the management of the business. The change in value of business in force at the start of the year demonstrates how the existing book is being managed. Together they provide management and shareholders with valuable information about the underlying development of the business and the success or otherwise of management actions.

EEV basis results are prepared by first of all setting best estimate assumptions, by product, for all relevant factors including expenses, surrender levels and mortality. Economic assumptions as to future investment returns and inflation are based on market data. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the risks associated with the cash flows. The risk discount rate is determined by adding a risk margin to the appropriate risk free rate of return. The actual outcome may be different from that projected in which case the effect will be reflected in the experience variances for that year.

The assumptions used for the EEV basis of accounting are set out on pages 310 to 313 in the notes that accompany the supplementary EEV basis information. An indication of the sensitivity of the results to changes in key assumptions is provided on pages 330 to 332.

The EEV Principles were a significant step towards the harmonisation of embedded value reporting in Europe. However, even with these principles and the accompanying guidance, a divergence of approaches between companies has emerged in practice. In order to further improve consistency and transparency of embedded value reporting, the CFO Forum is currently developing revised principles based on a market-consistent approach to embedded value reporting. These are expected to be published during 2008.

Risk management

Philosophy, principles and objectives

Philosophy

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. Prudential believes that effective risk management capabilities are a key competitive advantage. A strategic risk, capital and value management framework and risk management culture has been developed to enhance the Group's embedded and franchise value.

Principles

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

The Group's policy is to proactively identify, assess, control, and monitor risk. This forms an essential element of delivering the Group's performance ambition. In so doing, material risks will only be retained where this is consistent with Prudential's risk appetite framework, i.e.:

- The retention of the risk contributes to value creation.
- The Group is able to withstand the impact of an adverse outcome.
- The Group has the necessary capabilities, expertise, processes and controls to manage the risk.

Objectives

The Group has five objectives for risk and capital management:

a *Framework* Design, implement and maintain a consistent risk management framework and policies spanning: economic, regulatory and rating agency capital management; risk appetite; and risk-adjusted profitability (RAP).

b *Monitoring* Establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers.

c *Control* Implement risk mitigation strategies and remedial actions where exposures are deemed 'inappropriate' and manage the response to extreme events.

d *Communication* Communicate the Group risk, capital and profitability position to internal and external stakeholders and rating agencies.

e *Culture* Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice risk measurement and management across the Group and industry.

Categorisation model

A common risk language is used across the Group, which allows meaningful comparisons to be made between different business units. Risks are broadly categorised as shown below.

Governance

The Group's internal control processes are detailed in the Group Governance Manual. This is supported by the Group Risk Framework, which provides an overview of the Group-wide philosophy and approach to risk management.

Risk categorisation

Category	Risk type	Definition
Financial risks	Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.
	Credit risk	The risk of loss if another party fails to perform its obligations, or fails to perform them in a timely fashion.
	Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.
	Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost.
Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

For joint ventures where the Group does not control management, the business unit party to the arrangement must satisfy itself that suitable governance and risk management arrangements are in place to protect the Group's interests and comply with the Group's requirements in respect of any operations it performs in support of the joint venture's activities.

Prudential's risk governance framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The risk governance framework is based on the concept of 'three lines of defence': risk management, risk oversight and independent assurance (see diagram below).

Risk management

Primary responsibility for strategy, performance management and risk control lies with the Prudential plc Board of directors (the Board), the Group Chief Executive and the chief executives of each business unit. Additionally, the Board has delegated responsibility to the Approvals Committee to approve actions which could significantly change the risk profile of any business, capital commitments and divestments within defined materiality thresholds, and certain legal matters involving trademarks, contracts, material guarantees and specific interactions with third parties.

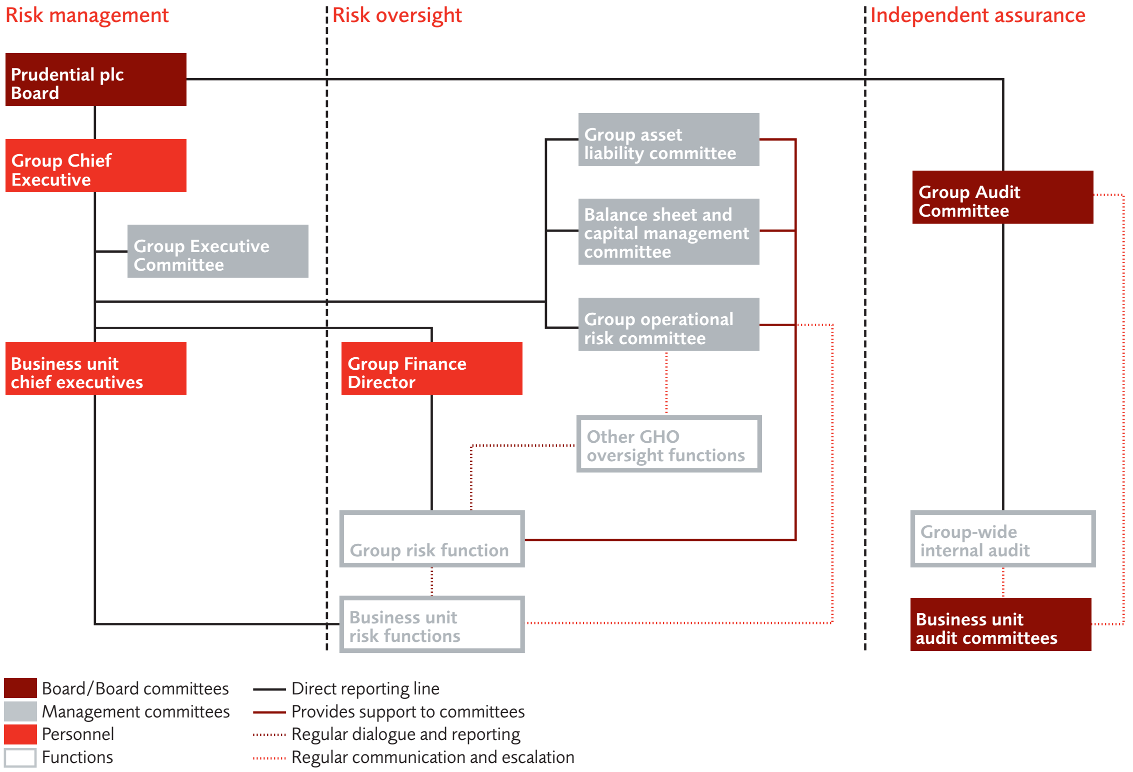
Where appropriate, more detailed policies and procedures have been developed at Group and/or business unit levels. These include Group-wide mandatory policies on certain operational risks, including: health, safety, fraud, money laundering, bribery, business continuity, information security and operational security. Additional guidelines are provided for some aspects of actuarial and finance activity.

Board: The Board has overall responsibility for the system of internal control and risk management. It approves the overall framework for managing the risks faced by the Group and provides strategic direction on the amount and type of risk that the Group is prepared to accept.

Group executive management: The Group Chief Executive has overall responsibility for the risks facing the Group. The Group Chief Executive recommends to the Board the amount and type of risk that the Group is prepared to accept, and recommends risk management strategies as well as an overall framework for managing the risks faced by the Group with support from the Group Executive Committee, Group Finance Director and Group level risk committees. The Group Chief Executive provides regular updates to the Board on the risk position and risk policy.

Business unit management: Business unit chief executives are accountable for the implementation and operation of appropriate business unit risk frameworks and for ensuring compliance with the policy and minimum standards set by the Group. Business units must establish suitable governance structures that are based on the concept of 'three lines of defence', tailored as appropriate to the scale and complexity of the business unit. As the first line of defence, business unit management is responsible for identifying and managing business unit risks and providing regular risk reporting to the Group.

Risk governance framework



Risk management
continued

Risk oversight
Risk management oversight is provided by Group-level risk committees, the Group Finance Director and the Group Risk function, working with counterparts in the business units in addition to other Group Head Office (GHO) oversight functions.

Group-level risk committees
Group Asset Liability Committee (Group ALCo): The Group ALCo is responsible for oversight of financial risks (market, credit, liquidity and insurance risks) across the Group. It is chaired by the Group Finance Director and its membership includes senior business unit and Group executives (chief actuaries, principal asset liability management officers and chief investment officers) who are involved in the management of the aforementioned risks. Group ALCo meetings are held on a monthly basis.
Balance Sheet and Capital Management Committee (BSCMC): The BSCMC is responsible for managing the balance sheets of Prudential plc and oversight of the Prudential Capital business unit. It is chaired by the Group Finance Director and its membership includes senior representatives from GHO, M&G and Prudential Capital. BSCMC meetings are held on a monthly basis.
Group Operational Risk Committee (GORC): The GORC is responsible for the oversight of non-financial risks (operational, business environment and strategic risks) across the Group. Responsibilities include monitoring operational risk and related policies and processes as they are applied throughout the Group. It is chaired by the Group Finance Director and its membership includes senior representatives of the Group and business unit risk functions. GORC meetings are held on a quarterly basis.

Group Risk
Group Risk's mandate is to establish and embed a strategic risk, capital and value management framework and risk management culture, consistent with Prudential's risk appetite, that protects and enhances the Group's embedded and franchise value.

Group Risk is responsible for the continued enhancement and evolution of the Group Risk Framework; provides functional leadership to the business units for the oversight of risk management across the Group; and acts as secretariat to the Group ALCo and GORC.

Group Risk also has certain finance and actuarial responsibilities related to Group regulatory and rating agency capital requirements, development of actuarial and financial reporting requirements and the RAP value management framework.

Independent assurance
Group Audit Committee: The Group Audit Committee provides independent assurance to the Board on the effectiveness of the Group's system of internal controls and risk management. The Group Audit Committee reviews the Group's risk management framework, and regular risk reports. The Group Audit Committee is supported by Group-wide Internal Audit.
Group-wide Internal Audit (GwIA): The GwIA function independently assures the effective operation of the Group's risk management framework. This involves the validation of methodology application, policy compliance and control adequacy. The GwIA Director reports all audit-related matters to the Group Audit Committee (and business unit audit committees where appropriate) and reports for management purposes (but not audit-related matters) to the Group Chief Executive.

Risk appetite
The Group risk appetite framework sets out the Group's overall tolerance to risk exposures, approach to risk and return optimisation and management of risk. The Board and Group Executive Committee have set up Group-level risk appetite statements concerning the key risk exposures faced by the Group. The Group risk appetite statements set out the Group's risk tolerance, or risk appetite, to 'shocks' to the key financial risk exposures (market, credit and insurance risk).

Limits
Aggregate risk limits are defined in terms of earnings volatility and capital requirements:

a *Earnings volatility:* The objectives of the limits are to ensure that (a) the volatility of earnings is consistent with stakeholder expectations; (b) the Group has adequate earnings (and cash flows) to service debt and expected dividends; and (c) that earnings (and cash flows) are managed properly across geographies and are consistent with the Group's funding strategies. The two measures used are European Embedded Value (EEV) operating profit and International Financial Reporting Standards (IFRS) operating profit.

b *Capital requirements:* The objectives of the limits are to ensure that (a) the Group is economically solvent; (b) the Group achieves its desired target rating to meet its business objectives; (c) supervisory intervention is avoided; (d) any potential capital strains are identified; and (e) accessible capital is available to meet business objectives. The two measures used are EU Insurance Groups Directive (IGD) capital requirements and economic capital requirements.

Earnings measures (flow)

EEV	IFRS	
Maintain target EEV operating profit	**Maintain target IFRS operating profit**	Business as usual
No large unexpected falls in EEV operating profit	**No large unexpected falls in IFRS operating profit**	Earnings stress

Capital measures (stock)

Economic	Regulatory (local/IGD)	
Maintain target level of capitalisation **Individual tail events should not significantly reduce financial resources**	**Planned IGD coverage**	Business as usual
Remain above minimum capitalisation	**Meet Group solvency requirement and hold sufficient resources to pay dividends and fund new business**	Capital stress

Business units must establish suitable market, credit, underwriting and liquidity limits that maintain financial risk exposures within the defined risk appetite.

In addition to business unit operational limits on credit risk, counterparty risk limits are also set at the Group level. Limits on total Group-wide exposures to a single counterparty are specified for different credit rating 'buckets'. Actual exposures are monitored against these limits on a quarterly basis.

Usage by business units

Risk appetite is part of the annual business planning cycle. The risk profile of the Group is monitored against the agreed limits throughout the year by Group Risk. Using submissions from business units, Group Risk calculates the Group's position (allowing for diversification effects between business units) relative to the limits implied by the risk appetite statements.

In order to determine its risk position, each business unit calculates the impacts (on earnings and capital measures) of a shock to market, credit, insurance and operational risk exposures.

A two-tier approach is used to apply the limits at business unit level. Firstly, indicative business unit risk limits are calculated; these ensure that, if each business unit keeps within its limits, the Group risk position would be within the Group limits. Secondly, the impact on the risk position is considered as part of Group Risk's scrutiny of large transactions or departures from plan proposed by individual business units.

Any potential breaches of the risk limits implied by a business unit plan will necessitate a dialogue process between GHO and the business units. Group limits may not be breached if, for example, limits in other business units are not fully utilised, or the diversification effect at Group level of a particular risk with other business units means that the Group limit is not breached. Ultimately, authorisation to breach Group limits would require Group Executive Committee approval.

Risk management process

Risk mitigation

The Group expects active management of its actual risk profile against its tolerance of risk. Primary responsibility for identifying and implementing controls and mitigation strategies rests with the business units. Group Risk provides oversight and advice.

Risk registers are maintained that include details of the controls and mitigating actions being employed for identified risks. The effectiveness of controls and progress with actions are routinely assessed. Any mitigation strategies involving large transactions (e.g. a material derivative transaction) would be subject to scrutiny at Group level before implementation.

Prudential employs a range of risk mitigation strategies aimed at reducing the impact of a variety of risks. Key mitigation strategies include: adjustment of asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); use of derivatives to hedge market risks; reinsurance programmes to limit insurance risk; and corporate insurance programmes to limit impact of operational risks. Revisions to business plans (such as reassessment of bonus rates on participating business and scaling back of target new business volumes) may also be used as a mitigating strategy.

Contingency plans are in place for a range of operational risk scenarios, including incident management and business continuity plans. As a contingency plan for liquidity risk, the Group has arranged access to committed revolving credit facilities and committed securities lending facilities.

Asset liability management

Prudential manages its assets and liabilities locally, in accordance with local regulatory requirements and reflecting the different types of liabilities of each business unit. Stochastic asset-liability modelling is carried out locally by the business units to perform dynamic solvency testing and assess economic capital requirements. Reserve adequacy testing under a range of scenarios is also carried out, including scenarios prescribed by local regulatory bodies.

The investment strategy for assets held to back liabilities is set locally by business units, taking into account the nature, term and currency of the liabilities, and any local regulatory requirements. The main principles are as follows:

- For liabilities that are sensitive to interest rate movements (in particular, UK non-profit annuities and Jackson fixed annuities), cash flow analysis is used to construct a portfolio of fixed income securities whose value changes in line with the value of liabilities when interest rates change;
- for participating business (in particular, the UK with-profits fund), stochastic asset-liability modelling is used to derive a strategic asset allocation and policyholder bonus strategy that (based on the model assumptions) will optimise policyholder and shareholder returns, while maintaining financial strength.

  The bonus strategy on participating business is an integral part of the asset-liability management approach for participating business; and
- for unit-linked business, the assets held to cover policyholder unit accounts are invested as per the stated investment strategy or benchmark index given in the product marketing literature. Assets in respect of non-unit reserves (e.g. sterling reserves) are invested in fixed income securities (using a cash flow matching analysis).

Derivative hedging strategies are also used on a controlled basis across the Group to manage exposure to market risks. Surplus assets held centrally are predominantly invested in short-term fixed income securities. The Group's central treasury function actively manages the surplus assets to maximise returns, subject to maintaining an acceptable degree of liquidity.

Risk reporting

Group Risk and other GHO oversight functions have individually defined and publicised frameworks, escalation criteria and processes for the timely reporting of risks and incidents by business units. As appropriate, these risks and incidents are escalated to the various Group-level oversight and risk committees and the Board.

Internal business unit routine reporting requirements vary according to the nature of the business. Each business unit is responsible for ensuring that its risk reporting framework meets both the needs of the business unit (for example reporting to the business unit risk and audit committees) and the minimum standards set by the Group (for example, to meet Group-level reporting requirements).

Business units review their risks as part of the annual preparation of their business plans, and review opportunities and risks to business objectives regularly with Group executive management. Group Risk reviews, and reports to Group executive management, on the impact of large transactions or divergences from business plan.

The Group Executive Committee and Board are provided with regular updates on the Group's economic capital position, overall position against risk limits and RAP. They also receive the annual financial condition reports prepared by the Group's insurance operations.

Economic capital

Economic capital provides a realistic and consistent view of Prudential's capital requirements across the Group, allowing for diversification benefits. Economic capital provides valuable insights into the risk profile of the Group and is an integral part of the Group's risk management framework.

The Group distinguishes between two distinct types of 'economic capital' approaches:

- *Group economic capital* Prudential's Group economic capital is calculated using an integrated model of Group-wide risk, capturing dependencies and diversification benefits between different business units and risk categories. The capital requirement is determined based on a multi-year projection, thus taking into account the long-term nature of Prudential's liabilities. The Group economic capital position is calculated using the Group Solvency Model (GSM) – an integrated stochastic asset-liability model of the Group economic solvency position. Projected economic scenarios in the GSM are generated using a stochastic economic scenario generator that captures the correlations between different asset classes and geographies.
- *One-year Value at Risk Capital (1yr VaR Capital)* 1yr VaR Capital is defined as the capital required to withstand a maximum loss over a time period of one year, consistent with a confidence level of 99.5 per cent. This measure was developed internally as part of Prudential's RAP approach to risk/return optimisation within the Group risk appetite framework. This measure captures the risk arising from individual risk types, and generally allows for diversification by using a correlation matrix approach. The methodology is continually being developed and improved. In addition to its risk management applications, the 1yr VaR Capital framework is used for Individual Capital Assessments in the UK and anticipated to form the basis of Prudential's capital modelling for future regulatory reporting developments, such as Solvency II.

These measures provide a consistent basis for comparing the risk profiles and capital requirements of different business units. The Group economic capital position and risk profile is reported to the Board annually, with more frequent updates on an ad hoc basis. Group Risk is responsible for developing and maintaining the economic capital models, and for calculating the Group economic capital position.

Methodology

Prudential's internal Group economic capital requirement is defined as the minimum amount of capital that the Group needs to hold in order to remain economically solvent over a 25-year horizon, given a target probability of insolvency appropriate for AA-rated debt. The target confidence level is based on historic default rates for AA-rated debt, and varies over the time horizon of the projection. The economic capital requirement is calculated for in-force liabilities only, excluding the impact of future new business and dividend distribution.

For the purposes of calculating Group economic capital, Group 'economic solvency' is defined as the position where both: (a) the capital balance of the parent company is positive, and (b) all business units are solvent on the applicable local regulatory basis. This definition of solvency allows the Group's capital position to be assessed on an economic basis while taking into account the actual regulatory constraints at the business unit level.

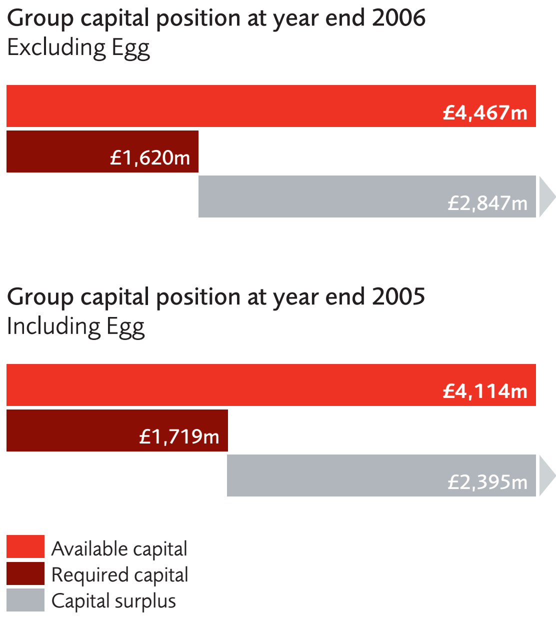
Results

As at 31 December 2006, the Group economic capital requirement was £1.6 billion, compared to available capital resources of £4.5 billion. The Group economic capital requirement quoted is after allowance for diversification benefits between risk types and business units, and inclusive of the local regulatory capital requirements at the business unit level. The economic capital requirement is calculated for in-force liabilities only, excluding the impact of future new business and dividend distributions.

The Group position at the end of 2006 shows a surplus position of £2.8 billion, representing an improvement of £0.5 billion from last year. Most of this improvement comes from the sale of Egg, which has reduced the Group's exposure to credit risk. Note that the economic capital surplus quoted above excludes any surplus in respect of the Group's participating with-profits funds. For Group economic capital, it is assumed that any free assets in participating funds are ring-fenced to support the relevant fund (and excluded from the Group's economic surplus). Any capital injections required by participating funds (on top of the ring-fenced free assets) are captured in the Group economic capital requirement calculation. For year end 2006, none of the Group's participating funds required additional economic capital on top of the ring-fenced free assets.

The allocation of economic capital (diversified) by risk type is shown below. The largest risk exposure continues to be credit risk, which reflects the relative size of the exposure in Jackson and Prudential UK. However, credit risk has reduced due to the sale of Egg and Jackson's maturing fixed annuity business. The market risk exposure mainly reflects equity risk in Jackson and interest rate risk in Taiwan. An increasingly significant component of the underwriting risk is attributable to longevity risk, which has increased due to the growth in annuity business being written in the UK shareholder fund.

Group economic capital position (AA basis) £m



Scenario testing

The impact of a range of deterministic 'shock' scenarios is tested using the Group economic capital model. The purpose is to assess the resilience of the Group's economic solvency position to a range of key threat scenarios.

Scenarios tested include economic capital scenarios relating to stable, falling and rising interest rates, as well as scenarios relating to high oil prices, lower consumption and US dollar depreciation. In addition, scenarios proposed by the FSA's Financial Risk Outlook are tested. These scenarios have included a credit and house price crisis, global risks reappraisal, and a pandemic.

The impact of each scenario was tested by analysing the projected Group cash flow balances over 25 years, assuming in the model that the initial capital held by the Group is zero and the initial capital held in each business unit is equal to the local regulatory capital requirement. The results of the analysis showed that the projected net cash flow balance to the Group remains positive in all future years under each scenario tested.

Business unit local economic capital

Business units must also monitor their own economic capital requirements locally on a 'stand alone' basis (without allowance for diversification effects with the rest of the Group). The business unit economic capital assessments allow management to put the local regulatory capital requirements into an economic context. These assessments must be reported annually, and included in the business unit financial condition reports.

Market risk

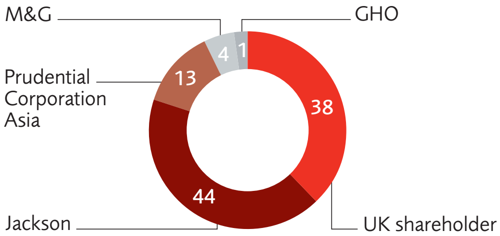
Market risk is the risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates. Prudential's businesses are inherently subject to market fluctuations and general economic conditions.

In the UK, this is because a significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

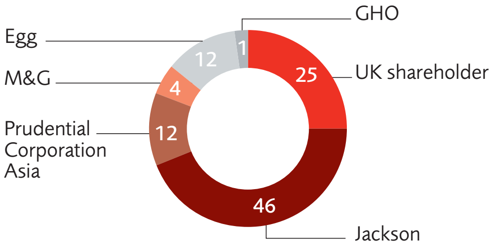
In the US, fluctuations in interest rates can affect results from Jackson, which has a significant spread-based business and where the majority of investments are in fixed-income securities. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. Any cost of the guarantees that remain unhedged will affect the Company's results.

Economic capital requirement split by business unit (AA basis) %

Risk exposure at year end 2006
Excluding Egg

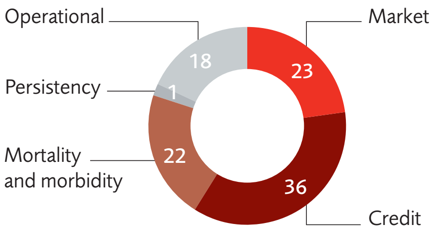


Risk exposure at year end 2005
Including Egg

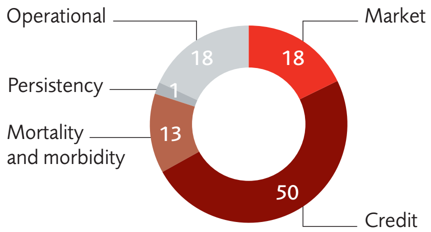


Economic capital requirement split by risk type (AA basis) %

Risk exposure at year end 2006
Excluding Egg



Risk exposure at year end 2005
Including Egg



For some non-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets, such as Taiwan, where regulated surrender values are set with reference to the interest rate environment prevailing at time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. This residual asset-liability mismatch risk can be managed but not eliminated. Where interest rates for these markets remain lower than those implied by surrender values over a sustained period this could have an adverse impact on the Group's reported profit.

For each of the major components of market risk, described in more detail below, Prudential has put in place policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

Foreign exchange risk

Prudential currently operates in the UK, the US, 13 countries in Asia and Europe. Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not separately managed. Consequently, this could impact on the Group's gearing ratios (defined as debt over debt plus shareholders' funds). The impact of gains or losses on currency translations is recorded as a component within the statement of changes in equity.

Prudential does not generally seek to hedge foreign currency revenues, as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, where foreign surplus is deemed to be supporting UK capital or shareholders' interests this exposure is hedged if it is deemed optimal from an economic perspective. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

Interest rate risk

Interest rate risk arises primarily from Prudential's investments in long-term debt and fixed income securities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall.

The Group manages this risk by adopting close asset-liability matching criteria, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements. Interest rate risk is also controlled through the use of a variety of derivative instruments, including futures, options and swaps, in order to hedge against unfavourable market movements in interest rates inherent in the underlying assets and liabilities. The impact of exposure to sustained low interest rates is regularly monitored.

Equity risk

The Group is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. The Group's shareholders are exposed to both direct equity shareholdings in its shareholder assets, and indirectly to the impact arising from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken, as well as from its interest in the free estate of long-term funds.

At a business unit level, equity price risk is actively managed through the use of derivative instruments, including futures and options, in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of the fund concerned. Business units actively model the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

In particular, Jackson actively hedges its exposure to the guarantees arising from its variable annuity business. Where possible, Jackson will seek to find offsetting exposures across its asset and liability portfolios and to conduct its hedging activities on a macro basis, and relies on option-based strategies to address extreme risks. Although the macro approach and the hedging of extreme events are not consistent with the way certain accounting methods test for effectiveness, our view is that the efficiency of execution and the need to hedge on an economic basis outweighs the need to avoid any short-term accounting volatility.

The Group does not have material holdings of unquoted equity securities. In addition, local asset admissibility regulations require that business units hold diversified portfolios of assets, thereby reducing exposure to individual equities.

Credit risk

Credit risk is the risk of loss if another party fails to meet its obligations, or fails to perform them in a timely manner. Credit risk is Prudential's most significant financial risk, and it is actively monitored by business units via business unit investment committees and ALCos.

In addition to business unit operational limits on credit risk (requiring business units to implement local credit risk policies), Prudential's management of credit risk includes monitoring exposures at Group level. Large individual counterparty exposures are aggregated and monitored on a quarterly basis against centrally-set red zone, amber zone and green zone limits. This active monitoring of counterparty exposures, on a consolidated Group level, is undertaken by the Group ALCo.

Financial assets are graded according to current credit ratings issued by the rating agencies. Financial assets are classified within the range of AAA to D ratings, with AAA being the highest possible rating. Typically, around 95 per cent of the Group's assets are rated within the investment grade category (BBB- and higher). The level of financial assets which fall outside the range of the ratings is also monitored on an ongoing basis, and this tends to be less than one per cent of shareholder assets at any given point in time.

Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products and for reporting the results of its long-term business operations. In common with other industry participants, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity trends, voluntary discontinuance rates, investment performance, unit cost of administration and new business acquisition expenses.

For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business where, in exchange for their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, for as long as they live. Prudential conducts rigorous research into longevity risk using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential UK assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations (CMI) medium cohort table projections as published by the Institute and Faculty of Actuaries.

Prudential's voluntary discontinuance (persistency) assumptions reflect recent past experience for each relevant line of business, and any expectations of future persistency. Where appropriate, allowance is also made for the relationship, which is either assumed or historically observed, between persistency and investment returns and the resulting additional risk is allowed for.

Liquidity risk

Liquidity risk is the risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure the resources only at excessive cost.

Business units have their own liquidity policies, which also depend on the maturity of the business, and the available assets in the markets. For Prudential UK, liquidity risk is managed through holding assets at the greater of a specified percentage of total funds managed or a specified multiple of the average peak daily cash flow over the last 12 months. For Jackson, modelling is performed on how quickly their different liabilities could be called, and how quickly they could also liquidate their assets, ensuring that at 30 days, 90 days and one year the cash available exceeds potential obligations.

For Prudential Group, there is a committed corporate credit facility for liquidity.

Non-financial risk

Prudential's Group Risk Framework also covers non-financial risks – operational risk, business environment risk and strategic risk. Prudential processes a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Prudential outsources several operations, including certain UK processing and IT functions and is thus reliant upon the operational processing performance of its outsourcing partners.

Business units are responsible for the management of the non-financial risks associated with their business. They conduct a formal self-assessment of material operational risks and assess their impact and likelihood. Business units also identify controls available to mitigate the impact and/or likelihood of the identified risk. The quality of the control's design is also assessed.

Quantitative analysis is carried out for operational risks with material and potential direct losses (i.e. excluding opportunity costs and lost revenue). For each risk, the analysis describes the possible manifestations of the risk and the controls against it in each business unit and, on this basis, frequency and severity parameters are assigned to each risk. The effect of operational risk on the Group as a whole is analysed by aggregating the individual risks using a Group operational risk capital model, allowing for the correlations and diversification effects between different risk types and business units.

Corporate responsibility review

Acting responsibly

Corporate Responsibility (CR) is fundamental to how Prudential operates and as a philosophy is firmly embedded in the business.

Prudential recognises that its stakeholders, including its customers, employees, shareholders and the communities around its businesses, increasingly support those companies that define and exhibit sound values around trust, ethics and environmental responsibility. These values have been fundamental to Prudential since its foundation 160 years ago.

Prudential also believes that its performance in key areas of conduct such as corporate governance, environmental management and employment practices can have a significant and positive impact on the Group's financial performance.

Prudential's main focus in 2007 was to ensure that its CR strategy continued to align with its business objectives and with its stakeholder concerns.

Management and policy

The Group's internal control processes are detailed in the Group Governance Manual. The manual includes the Group Code of Business Conduct, its CR Policy and its Health and Safety Policy. While business units are required to establish any additional processes required for compliance with local statutory and regulatory requirements, the Group's policies often go further than local/domestic legislative requirements.

The manual is itself supported by the Group Risk Framework, which provides an overview of the Group-wide philosophy and approach to risk management. The Group's risk categorisation encompasses all of the principles in the Group Code of Business Conduct. Risks are assessed against non-financial impacts such as the customer experience, statutory and regulatory requirements and, not least, reputation and brand.

Prudential's Group Finance Director, Philip Broadley, has Board level responsibility for social, environmental and ethical risk management. The Board discusses Prudential's performance on these areas at least once a year. The Board also annually reviews and approves Prudential's CR report and strategy.

Below the Board, the Corporate Responsibility Committee is a specialist Group-wide committee chaired by the Group Finance Director. It is responsible for reviewing business conduct and social and environmental policy and ensures consistency of approach across the Group's international businesses.

The Corporate Responsibility team, which is located in Group Head Office (GHO), develops Prudential's CR strategy, provides training across the Group, and works closely with individual business units to provide advice, ensuring that the Group's core values are consistently maintained. The CR team also assists with the development and adaptation of Group-wide initiatives so that they not only fit the overall Group principles but are also adapted to meet local needs.

Group Code of Business Conduct

Prudential's Group Code of Business Conduct (the Code) sets out the ethical standards the Board requires of itself, its employees, agents and others working on behalf of the Group, in their dealings with employees, customers, shareholders, suppliers, competitors, the wider community and the environment. This policy is in force across the Group and compliance by all business units is mandatory. The Code is published both internally on the Group Head Office (GHO) intranet and externally on the Prudential website. It is also integrated within the Group Governance Manual and is covered by the annual compliance certification process. In 2007, the Code was revised to incorporate a clause on anti-money laundering and financial crime. This is now available on Prudential's website at www.prudential.co.uk

Stakeholder dialogue

Stakeholder engagement enables employees and relevant external groups to help shape what Prudential does and ensure that their reasonable expectations are translated into business value. This means listening to and working with our stakeholders and being very clear about our intentions and priorities.

To obtain feedback from our stakeholders and to ensure our brand values are maintained, Prudential conducts periodic surveys on a range of topics such as: how the Company is perceived; what it does well, and where it could improve.

Improving financial capability

The Group's core financial education programme remains focused on the need to play our part in enabling consumers to make the right decisions for their individual savings/financial needs. Such decisions range from debt management to savings. Informing and empowering consumers to make such decisions will, Prudential believes, build better and more permanent relationships between consumers and providers.

Prudential began developing its Financial Capability programme in the United Kingdom in 2001. Seven years later, Prudential is seeing significant continued progress, both in the UK and, increasingly internationally.

In the UK, via partnerships with such diverse organisations as Citizens Advice; the Personal Finance Education Group (pfeg); Specialist Schools and Academies Trust and National Institute of Adult Continuing Education, thousands of adults and children are now benefiting from learning how to make decisions that will have a profound effect on their financial well-being.

Prudential extended its initiative to Asia in 2004, with an innovative programme called 'Investing in Your Future', which focuses on women, who are often responsible for planning their family's financial needs. This was first launched in China and rolled out in Vietnam in 2005 and to India in 2006. To date, more than 14,400 women have graduated from the programme in Asia.

Investing in our communities

In 2007, Prudential invested £4.9 million in a wide range of projects around its business, supporting education, welfare and environmental initiatives. This total includes the significant contribution made by many of the employees around the Group through volunteering, often linked with professional skills development. It also includes direct donations to charitable organisations of £3.1 million.

Prudential recognises that many employees already make a significant contribution to charities as volunteers in their own free time. The Chairman's Award was set up to recognise this considerable involvement in the local community and to give all the Group's employees the opportunity to get involved with a local charitable project by increasing the value of the community support they offer through additional contributions.

The charities that Prudential supports were selected following a Group-wide survey of its employees, which identified a preference for projects that address the needs of children and the elderly within their local community. Prudential has identified sustainable projects which, where possible, have education at their core. This lies at the heart of our CR programme to raise levels of financial capability worldwide.

In 2007, over 2,000 employees registered to volunteer and The Chairman's Award supported over 50 projects around the world. Similarly, Jackson National Life Insurance Company (Jackson) formed the Jackson National Community Fund (JNCF) and Jackson in Action, an employee volunteering programme. In its inaugural year, JNCF and the Jackson in Action programme donated more than US$1 million in corporate sponsorships, in-kind donations, and donation matches to charitable organisations that benefit children and the elderly. Jackson's employees have also shared more than 2,250 hours of their time with the community.

Responsible Investment (RI)

M&G's approach to responsible investment (RI) is set out in the booklet '*Issues Arising from Share Ownership*', available at (www.mandg.co.uk). RI has focused principally on equity markets. However, with around £19.3 billion (as at 31 December 2007) of funds under management, PRUPIM, is one of the UK's largest commercial property investment managers and accounts for over 75 per cent of Prudential's direct environmental impact in the UK. Through participation in the Institutional Investors Group on climate change and its participation on the property working group of the United Nations Environment Programme Finance Initiative (UNEPFI), PRUPIM is creating awareness of the implications of climate change for property investment and how Prudential can constructively address this important issue.

In 2007, PRUPIM set up an innovative project called the Improver Portfolio to examine ways it can reduce a 'typical' property portfolio's carbon footprint while maintaining or even enhancing investment returns. The Improver Portfolio consists of 25 PRUPIM-managed properties covering all sectors.

Employees

We strive to create an environment in Prudential that attracts and retains the right people – those who are committed and able to deliver top performance for our customers and shareholders. We understand that to support our aim of being a leading international retail financial services company we need to have the right people in the right number at the right time.

Our key driver in Human Resources (HR) is to deliver the leaders and leadership the Prudential Group needs now and into the future. Our HR Strategy is to achieve this by focusing on five key challenges:

— Getting the right people into the business.
— Building and rewarding performance.
— Growing a strong talent pipeline.
— Developing credible successors.
— Developing an organisation that works.

Employee engagement

We recognise that key to the success of our business is having engaged and committed staff. We believe that effective communication is invaluable in achieving this goal. Each of our business units has its own intranet site which is used to keep staff updated on the performance of the business and other relevant issues. They also provide staff with an opportunity to pose questions to their business Chief Executive. Annually the Group Chief Executive hosts a conference for our top 100 people (Group Leadership Team) to provide direction on the strategic intent of the Group and help them to fulfil their business roles within the context of the requirements of the Group.

There are also a number of employee consultation forums, such as the M&G staff Consultative Committee and the UK Insurance Operations' Employee Forum. This gives employees an opportunity to express their views and discuss issues of concern.

Employee surveys are an effective way of gauging the opinions and level of satisfaction of our employees. Several of our business units run surveys, for example, Jackson National Life has conducted an employee satisfaction survey in its Denver office for the last few years and has seen an increase in employee satisfaction over this period. In 2007, Jackson conducted an employee satisfaction survey in its Lansing office and has established a number of task forces to address concerns that employees raised in the survey. Jackson also conducted an employee satisfaction survey in its affiliated network of four independent broker-dealers, National Planning Holdings. The survey identified that career development was a priority for its employees. To address this, an online career exploration and development tool was developed. The online tool delves further into career development with participants completing self-assessments and documenting their career goals while aligning their activities with opportunities for growth within the Jackson network.

As part of our reward practices we believe it is important to enable employees to share in the success of the Group through share ownership. In the UK we operate two all employee share plans: a share investment plan and a save as you earn scheme. Fifty three per cent of eligible employees in the UK participate in the save as you earn scheme and nine per cent in the share investment plan. In Asia we operate two save as you earn schemes similar to the UK scheme: one for employees and one for agents. Twenty-one per cent of eligible employees and 15 per cent of eligible agents participate in these schemes.

Diversity

We strive to ensure that Prudential employees work in an environment where everyone is respected and treated equally. We believe that our workforce should represent the diversity of our customer base. We fully recognise the value that a diverse workforce brings to our organisation. It is Group policy to give full and fair consideration and encouragement to the employment of applicants with suitable aptitudes and abilities, and to continuing the employment of staff who become disabled, and to providing training and career development opportunities to disabled employees.

In 2007, we were featured in the UK Times newspaper's Top 50 places for women to work and 13 per cent of our Group Leadership Team are women. The majority of our business is outside the UK. In the areas where we operate, we recognise the importance of hiring and developing individuals from the local talent market. In our Asia business 82 per cent of senior managers are recruited from the local workforce.

In the UK, we are a founding member of Race for Opportunity and are also members of Opportunity Now, the Employee Forum on Age and the Employee Forum on Disability.

Training and development

Prudential has a long history of success – from its early roots in the UK right through to today's international, diverse and innovative business. Our continued success depends on investing in people today and developing the next generation of leadership.

To deliver the Leaders and Leadership that Prudential needs both now and into the future, we undertake an annual review of our talent across the Group, identifying, developing and rewarding those people who will enable us to fulfil the strategic options we want to consider.

In 2007, we implemented a series of Group-wide management development programmes to assess senior talent within the business and identify the development activity they need to be credible successors to future leadership roles. These programmes help us benchmark our best people in a consistent way and will support the movement of senior people around the Group.

Also in 2007, we introduced the Momentum Programme; a Group-wide initiative designed to identify high-potential individuals early in their careers and provide them with stretching opportunities to grow and develop the skills needed to manage an international business. This programme is open to both internal and external candidates and has attracted applicants from across the world.

Within Prudential there is an array of different learning and development activities which take place and which are readily available to employees. For example, M&G meets employees' individual learning needs through online training, one-to-one coaching and more traditional classroom delivery. Prudential UK has developed an online portal 'Learning Space', which enables staff to access relevant learning for their personal and professional development.

In Asia, employee education is provided across the Group's Asian markets through PRUuniversity, which is available to all staff and is offered in a number of languages. Programmes covering management, leadership, technical and business skills as well as a comprehensive range of self-improvement materials including language courses are available with many being endorsed by external learning institutions.

We see the quality of our people as a key component of our success and will continue to invest in both short and long-term development activity over the coming years.

Working together

To support the Group's ambitions it is important that the HR teams maintain a consistent approach to our people agenda across the Group through having a shared strategy and by working together on joint projects. To effect this the worldwide leadership team of the HR function meets regularly throughout the year and the senior professionals worldwide meet in function groups quarterly and as a senior team annually. However, within our diverse organisation we recognise that a one size fits all approach would not be appropriate therefore individual business units need to assess the needs of their business and use the relevant parts of the tools and processes which are developed to support their individual business.

Customers

Prudential has approximately 10 million customers in Asia, over three million policies and contracts in force across the US through Jackson, and over seven million customers in the UK through Prudential UK. 160 years after its foundation, Prudential remains committed to providing a high level of customer service, communicating openly with customers, providing clear information and to monitoring levels of satisfaction.

In the UK, the financial services industry is working with the UK regulator, Government and consumers to improve the way they treat customers. Prudential UK has signed up to the Association of British Insurers' (ABI) Customer Impact Scheme. This Scheme is part of the industry's commitment to continuously build on customers' experiences, and Prudential will participate in an annual customer survey, to measure changes in its customers' experiences and attitudes.

Jackson measures its customer service quality through annual benchmarking surveys. Prudential Corporation Asia has also developed a regional survey, to assess the likelihood of its customers recommending Prudential Corporation Asia to their family and friends.

Environment/sustainable development

Protecting the environment is essential for the quality of life of current and future generations. The challenge is to combine continuing economic growth with long-term sustainable development. Prudential is committed to ensuring that its policies and business actions promote the consideration of the environment.

In 2007, Prudential became one of 38 companies from the financial services sector to endorse the ClimateWise principles. The principles have been developed by leading global insurers, reinsurers, brokers and asset managers to promote positive action on climate change. They will enable companies to build climate change into their business operations (www.climatewise.org.uk/).

Under the European Union Energy Performance of Buildings Directive, Energy Performance Certificates (EPCs) will be required for any building that is constructed, sold, or rented. EPCs will rate the energy performance of a building, enabling both property investors and prospective occupiers to consider energy efficiency ratings and levels of carbon emissions. Prudential will be introducing EPCs, initially in the UK, for its commercial investment property portfolio and its occupied property portfolio. Prudential will implement the directive elsewhere in accordance with national regulations.

In the US, Jackson has carefully monitored and worked to minimise any negative environmental impact since it moved to its current headquarters in 2000, working with state and local authorities on new projects which protect the environment.

Supply chain management

Prudential recognises that its own social, environmental and economic impacts go beyond the products and services it supplies to include the performance of its suppliers and contractors.

It is therefore Prudential's policy to work in partnership with its suppliers who operate with policies and procedures consistent with the standards set out in its Group Code of Business Conduct and to help them reduce their impact on the environment. Procurement practices in Prudential UK have been successfully accredited with the Chartered Institute of Purchasing and Supply certification, which is an industry benchmark of recognised good practice.

Donations

Prudential is committed to supporting the communities where it is an employer. In 2007, the Group spent £4.9 million in support of its various communities. Direct donations to charitable organisations amounted to £3.1 million, of which approximately £2.2 million came from EU operations.

This is broken down as follows: Education £1,175,000; Social and Welfare £611,000; Environment and Regeneration £86,000; Cultural Activities £96,000 and Staff Volunteering £228,000. The aggregate figure for charitable donations from Prudential's non-EU subsidiaries (Jackson National Life Insurance Company and Prudential Corporation Asia) amounted to £0.9 million.

It is the Group's policy not to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and Referendums Act 2000, and the Group did not make any such donations or incur any such expenditure in 2007.

Further information can be found in '*Acting Responsibly*', the Group's Corporate Responsibility Report 2007/8, accessed at www.prudential.co.uk/prudential-plc/cr/ Hard copies of the report are available from the Group's CR team: Laurence Pountney Hill, London EC4R 0HH. Tel: 020 7548 3706.