Group Chief Executive's review

Introduction
The Group has announced a strong set of results for the first half of 2007.

Prudential's performance in the first half of the year demonstrates the real shareholder value that we are delivering through consistent implementation of our retirement-focused strategy. This strategy is generating both continued excellent results and creating substantial longer term opportunities from our advantaged regional platforms and global capabilities.

Capturing the retirement opportunity
Developments in the global retirement market represent one of the most significant and important global trends in retail financial services. In the UK and the US alone, it is estimated that over the next five years, as much as £7 trillion of assets will be available for investment into the retirement savings and retirement income market sectors. In Asia, the retirement opportunity is also expanding rapidly driven by rising incomes, increasing longevity, and a growing realisation among individuals of the need to save for retirement and to protect their income.

Prudential's strategy focuses on capturing the ever-increasing revenue and value from these material opportunities.

Prudential is well positioned – capabilities and geographic coverage
While many financial institutions are moving to capture this opportunity, Prudential has an outstanding combination of assets and capabilities to succeed:

- Sophisticated risk management;
- integrated solutions to address retirement needs;
- privileged access to retirement advisers;
- trusted brands which are strongly associated with retirement;
- financial strength and reliability; and
- geographic reach.

Moreover, Prudential has the additional advantage of being able to draw on expertise and experience across international frontiers to advance product innovation, distribution and the quality of customer service. These initiatives transfer learning and value from one business to another, creating competitive advantage above and beyond what each could individually achieve.

Group performance
The operating performance of the Group was again very strong in the first half of 2007. Group operating profit before tax from continuing operations, on the European Embedded Value (EEV) basis, was up 39 per cent, to £1,326 million building on the momentum established in 2005 and 2006. On the statutory International Financial Reporting Standards (IFRS) basis, operating profit before tax on continuing operations was up 27 per cent to £601 million.

The Group had a positive cash flow from operations in the period to 30 June 2007. The benefit of a significant increase in the uptake of the scrip dividend helped to achieve this. Our expectation remains that operations will provide a positive cash flow in the 2008 full year.

The Group's cash balances also benefited by £527 million from the sale of Egg. In addition, the already robust regulatory capital surplus of the Group was improved by around £300 million from the sale of this business.

Regional performance
As outlined earlier, Prudential's operations in Asia, the US and the UK are all well positioned to capitalise on the retirement opportunity, and each has specific strategies in place to build on and strengthen our established market positions.

Performance in all of our regional markets over the first half has been strong, indicating that our approach to the market is delivering material financial benefits.

Asia
Prudential's geographic spread in Asia, the strength and scale of our distribution, and the recognition of and trust in the Prudential brand in the region, continue to be key differentiating factors for the Group.

Agent numbers have reached 350,000 and at the same time, almost 30 per cent of new business is being derived from non-agency sources.

In addition to capitalising on and further building these strengths, we are increasing the focus on the fast emerging retirement opportunity by developing and providing integrated protection and savings solutions to meet consumers' increasingly sophisticated needs.

Work is progressing well on our initiatives to deepen our Health business and we are putting in place the infrastructure to facilitate greater cross-selling and up-selling to our established customer base of some 8.5 million in the region.

Growth across the region continues to be strong, with new business up 48 per cent to £619 million APE in the half year. Compound annual growth in APE over the last five years is 29 per cent. New business profit was up 31 per cent to £282 million.

A significant contributor to this growth was the 'What's Your Number?' retirement campaign which has already seen great success in Korea and Hong Kong, and was rolled out to Taiwan at the end of April. As a result, new business in Taiwan in the second quarter was £106 million APE and half year new business was up 103 per cent. We will continue to identify other opportunities in retirement across the region.

We are also making good progress in two additional areas; firstly we are developing a regionwide infrastructure to support our approach to develop systematic cross-selling and up-selling to our 8.5 million customers, with plans already in place in three markets and with the first pilots due to begin later this year. Secondly, on health products we saw a 62 per cent increase in the first half. We launched a new product in Singapore in the second quarter and we have recently launched a new product in India.

These strong first half results, and the continuing development of our operations in the region, mean that we are very confident that we will achieve our target of at least doubling 2005 EEV new business profits by 2009. The outlook beyond 2009 also remains very positive.

United States

In the US, our long-term strategy has been to position Jackson National Life Insurance Company (Jackson) to meet the retirement needs of the baby boomer generation pre and post retirement. We recognised early on the central role of advice as the key source of success in this market and Jackson has developed a very effective and hard to replicate business model, with particular success in the independent broker channel – the key channel for advice.

The Jackson brand is trusted to provide integrated retirement planning solutions to financial professionals and their clients, including variable annuity products that provide the most flexibility and customisation in the industry.

We are continuing to develop our variable annuity offering, adding a number of new guaranteed minimum withdrawal benefits and a new guaranteed minimum accumulation benefit. The total number of benefit combinations available is now in excess of 2,100.

At Curian, our separately managed account platform, we also recently launched a new proposal system which cuts the time required to open a separately managed account by a factor of three. This is just one example of how we continue to leverage Jackson's superior technological capabilities to enhance our efficiency and effectiveness.

We have also continued to add to Jackson's distribution strength, increasing the number of external wholesalers by 30 per cent. Over the last two years, Jackson's wholesaling force has been one of the fastest growing in the market whilst still growing productivity per producer and sales per territory. This increase in numbers of wholesalers will allow us to take an even more granular approach to our segmentation of the market.

Today, Jackson is already one of the fastest growing variable annuity franchises in the market. Variable annuity sales grew by 31 per cent in the first half to £2.2 billion, continuing to gain profitable market share. Our market share of variable annuities reached 5.1 per cent at the end of the first quarter, compared to 4.2 per cent in the first quarter of 2006, and share in the main target Independent Broker Dealer channel was 11.7 per cent, up from 10.4 per cent in the first quarter of 2006.

Overall margins on new business in the US remained strong at 41 per cent (2006: 41 per cent) with an IRR of 18 per cent.

United Kingdom

In the UK, our manufacturing capabilities in the retirement space, combined with the Prudential brand – which is strongest among pre and post retirement age groups – provides an excellent platform from which to develop the business.

In line with our stated plans we are exiting those product areas that are structurally uneconomic and we are developing a new range of trail-based commission products centred on the multi-asset investment capabilities. Our new unit-linked product, for instance, will be launched later this month.

To further strengthen our distribution, we have entered into an agreement with Barclays to be the preferred provider of conventional annuity products to retail customers of Barclays in the UK. This is a five-year agreement which will take effect from later in 2007.

UK retail sales grew by 10 per cent in the first half of the year. Momentum is particularly strong in individual annuities, up 23 per cent, a market segment in which we are a clear leader with 23 per cent market share in 2006. This is a high growth, high return sector of the market where Prudential benefits from significant and recurring internal flows of maturing pensions as well as flows from both new and existing partnerships. All of this, combined with sophisticated risk management and competitive pricing, is enabling us to deliver good returns to shareholders.

In the bulk annuity market we reached an agreement in principle to acquire Equitable Life's portfolio of in-force with-profits annuities, now estimated at around £1.7 billion. This transaction remains on track to complete in the fourth quarter and on its own represents almost 20 per cent growth on the bulk annuities written by our UK business in the whole of 2006. We will continue to exercise pricing discipline in this market, and to pursue specific opportunities which play to our distinctive capabilities.

Margins on new business in the UK of 30 per cent (2006: 29 per cent) remain high compared to the overall UK market and the Internal Rate of Return (IRR) was 15 per cent against our target of 14 per cent. This represents an attractive return in both absolute and relative terms.

We remain confident of achieving our already-announced cost savings target of £195 million by 2010. By the end of 2007 we will have taken all of the actions to secure £115 million of the announced savings, and we are making good progress in determining the approach we will take to deliver the remaining £80 million, whether that is through offshoring, outsourcing or a combination of the two. We are on track to confirm our final decision by the middle of the fourth quarter this year.

Prudential's main with-profit fund in the UK was the top performing life fund in 2006 in terms of gross investment return ranking first, in the WM Company's survey of with-profit funds, over one, three, five and 10 years – an outstanding performance. Investment performance has remained strong in the first half of 2007.

Our work on the inherited estate is progressing well and as previously disclosed, if a decision is taken to proceed, a formal appointment of the Policyholder Advocate could be expected to take place later this year. We will only proceed if there are clear benefits to both policyholders and shareholders.

Group Chief Executive's review continued

Asset management

Our asset management businesses continue to both add value to our insurance operations as well as growing their external funds under management.

Key to this is our ability to develop retirement savings and retirement income products based on sophisticated asset allocation strategies which match customers' risk profiles and strong investment performance.

This is clearly evidenced in the UK, where our strength in the with-profits business – both bonds and annuities – has been driven by our multi-asset allocation capabilities which can deliver the kind of cautious growth that customers want. In the US, these capabilities enable us to deliver our fully unbundled variable annuity proposition.

These capabilities also position us well in the emerging area of lifecycle finance where we can create products that adapt to consumers changing circumstances, risk appetites, and needs over different stages of the retirement cycle. These products need to be underpinned by adaptable and creative asset management.

Across the Group's asset management businesses net inflows were £5 billion and at similar levels to those achieved in the first half of 2006. Retail net sales at M&G surpassed last year's record half year net flows and in Asia net flows remained strong at £1.7 billion, with a number of successful fund launches in Taiwan and Korea, plus ongoing strong net sales in India and Japan. External funds under management increased to £63 billion.

This is contributing to very strong growth in operating profit from these businesses, with M&G and Asia fund management up 40 per cent and 65 per cent respectively.

Capital efficiency

Prudential benefits from greater capital efficiency and an increased risk appetite by actively managing its product and geographic diversification. Prudential's economic capital modelling indicates that the capital requirements of the businesses on a stand-alone basis would be £1.3 billion higher than for the Group as a whole, as at 31 December 2006.

While the dialogue with both regulators and rating agencies continues to develop, for example over the draft Solvency II Directive, it is already clear that in future there will be material and enduring opportunities for greater regulatory capital efficiency within broader-based groups.

Outlook

In summary:

- Our strategy is focused on the growing global market for retirement savings and retirement income;
- our advantaged regional platforms and our global capabilities place the Group in a strong position to capture a disproportionate share of the retirement opportunity around the world;
- delivery of that strategy is generating continuing excellent short-term operating performance both in the regions and at the Group level, which in turn is creating superior shareholder value;
- our diversified geographic footprint across three regions provides a strong and operationally efficient base for future growth; and
- Prudential is extremely well placed to deliver real long-term sustainable profit growth for its shareholders.

Mark Tucker
Group Chief Executive
31 July 2007