Chief Financial Officer's overview

Group

'In 2009, we will focus on balancing new business with cash generation and capital preservation. We will continue, in a volatile environment, to manage risk in a prudent but proactive manner.'

Tidjane Thiam
Chief Financial Officer

Prudential achieved a strong performance in 2008, despite extremely challenging global economic and financial markets. The results, as summarised below, show that we have delivered solid growth in sales and operating profits, maintained a robust capital position, and met the target we set ourselves of generating a positive Group holding company cash flow in 2008.

We have also continued to act on our commitment to increased transparency, by giving additional disclosures on International Financial Reporting Standard (IFRS) basis results and free surplus generation.

We expect markets to remain challenging for some while. However, our long-term growth and profitability potential remains intact and we are well positioned to take advantage of the opportunities existing in the pre and post-retirement market in our chosen geographies. In 2009, we will focus on balancing new business with cash generation and capital preservation. We will continue, in a volatile environment, to manage risk in a prudent but proactive manner.

During 2008, our continued and targeted investment in areas that deliver profitable growth enabled us to improve our operating performance on both an European Embedded Value (EEV) and IFRS basis.

Group operating profit before tax from continuing operations on the EEV basis increased by 17 per cent to £3.0 billion. This was largely driven by a 23 per cent increase in in-force profit from £1.3 billion to £1.6 billion and an eight per cent increase in new business profit from £1.2 billion to £1.3 billion. After tax and minority interest the Group saw a loss for the period of £1.3 billion. This was driven primarily by short-term fluctuations of £5.1 billion. Insurance companies hold a large number of assets over the long term, the value of which will vary over time, therefore negative and positive fluctuations are to be expected.

On the statutory IFRS basis our operating profit increased by 12 per cent to £ 1.3 billion. A particularly significant factor in this increase was a rise of 70 per cent in our Asia IFRS operating profit. After tax and minority interest the Group saw a loss of £396 million largely driven by short-term fluctuations. As with EEV reporting, positive and negative short-term fluctuations are expected in an insurance company.

Performance and key metrics

	AER [4/8]			CER [4/8]	
	2008 £m	2007 £m	Change %	2007 £m	Change %
Annual premium equivalent (APE) sales	3,025	2,868	5	3,003	1
Present value of new business premiums (PVNBP)	22,529	21,308	6	22,348	1
New business profit (NBP)	1,307	1,205	8	1,278	2
NBP margin (% APE)	43%	42%		43%	
NBP margin (% PVNBP)	5.8%	5.7%		5.7%	
Net investment flows	4,266	7,975	(47)	8,474	(50)
External funds under management	62,279	68,669	(9)	74,523	(16)
EEV basis operating profit on long-term business from continuing operations [notes 1,2]	2,906	2,509	16	2,651	10
Total EEV basis operating profit from continuing operations [notes 2,5]	2,961	2,530	17	2,676	11
EEV basis shareholders' funds	14,956	14,600	2	16,447	(9)
Return on Embedded Value [note 6]	15.0%	15.4%			
Total IFRS operating profit from continuing operations [notes 3,5]	1,347	1,201	12	1,262	7
IFRS shareholders' funds	5,058	6,062	(17)	6,765	(25)
Holding company cash flow [note 7]	54	(82)	166	(82)	166
IGD capital surplus (as adjusted*) (£bn)	1.7	1.9	(11)	1.9	(11)

* IGD before allowing for final dividend estimated at £1.7 billion (£1.4 billion at 31 December 2008 and in addition £0.3 billion subsequently allowed by the FSA). 2007 IGD surplus was £1.9 billion.

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, and the shareholder's share of actuarial gains and losses on defined benefit schemes.

4 Actual exchange rate (AER) and Constant exchange rate (CER).

5 The comparative results for 2007 have been adjusted for the effects of adoption of the principles of IFRIC 14 as described in notes 20 and I1 of the EEV supplementary information and IFRS financial statements.

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).

7 Prior Year excludes sale proceeds from Egg.

8 The 2007 comparative for new business sales and premiums have been adjusted to reflect the inclusion of sales for the Group's UK health insurance joint venture operation, PruHealth. The presentation of the operating profit for 2007 has been adjusted to allocate £10 million of profit from the result of new to in-force business to prevent distortion to the published new business margin, so as to reflect consistently in the 2008 and 2007 results the 50 per cent economic interest in the Group's China joint venture.

In the Business Review (BR), year-on-year comparisons of financial performance are on a Actual exchange rate (AER) basis, unless otherwise stated.

Chief Financial Officer's overview
continued

In the extremely volatile environment we have experienced in 2008, we have maintained a strong focus on risk, capital and cash management. We achieved our target of being cash flow positive in 2008 at the holding company level, with a cash surplus of £54 million.

Risk and capital

Our capital position is strong, driven by our conservative risk and capital management. Our Insurance Groups Directive (IGD) capital surplus is estimated at £1.7 billion before allowing for the 2008 final dividend, giving a solvency ratio of 162 per cent. This total is composed of our IGD surplus at 31 December 2008, estimated at £1.4 billion; together with an additional £0.3 billion that the FSA has subsequently allowed us to include in our IGD surplus going forward as a result of an innovative structure we have developed. Our IGD capital surplus on a consistent basis (i.e. before allowing for a dividend) was £1.9 billion at the end of 2007 and £1.4 billion at the end of the third quarter of 2008.

The £0.3 billion of additional IGD capital reflects our ability to realise a portion of the shareholders' economic interest in the future transfers from the UK with-profits fund, which in total was worth £1.7 billion at 31 December 2008. Going forward, we have an opportunity to develop similar transactions, which may allow us to access more of the residual £1.4 billion if required.

The reported results for 2008 include the results of the agency distribution business in Taiwan. However, on 20 February 2009 we entered into an agreement to transfer the assets and liabilities of this business to China Life Insurance Company (Taiwan) pending regulatory approval. The business to be transferred includes Prudential's legacy interest rate products in Taiwan, and the agreement is significantly value enhancing for the Group. On completion the transfer will give rise to a net increase in the Group's IGD surplus of approximately £0.8 billion, further strengthening our already robust capital position. Embedded value will increase by approximately £90 million after restructuring costs.

In addition to this strong capital position, the total credit reserve for the UK shareholder annuity funds stood at £1.4 billion at the end of the year. We increased this credit reserve by £0.8 billion in 2008, and it is now equivalent to 80bps per annum over the lifetime of the assets. This reserve would allow us to withstand a recurrence of the average Moody's default experience during the Great Depression, occurring every year for the remaining life of the book.

These factors, combined with the Group's strong underlying earnings capacity, our established hedging programmes and additional areas of financial flexibility, position the Group to withstand significant further deteriorations in market conditions should they occur.

- An instantaneous further 40 per cent fall in equity markets from 31 December 2008 levels would reduce the IGD surplus by £350 million
- A 150bps reduction in interest rates from 31 December 2008 would reduce the IGD surplus by £300 million (the effect would be less following the completion of the sale of our Taiwan legacy agency book)
- Credit defaults of 10 times the expected level would have an impact of £500 million in excess of the annual reserve release.

The global debt markets have experienced unprecedented conditions in 2008, with illiquidity and credit spreads reaching all-time highs. Our debt portfolio on an IFRS basis was approximately £95 billion at 31 December 2008. Total defaults experienced for shareholder backed business on the book in 2008 were £174 million (0.4 per cent of the portfolio).

Our main area of shareholder credit risk exposure is within Jackson. As at 31 December 2008, Jackson's fixed income portfolio was approximately £24 billion, of which 93 per cent was investment grade and seven per cent high yield. Total defaults and impairment charges were £624 million in 2008, of which £78 million was in respect of default experience, £419 million in respect of impairment charges, and the remaining £127 million reflecting losses incurred on the sale of assets.

Given the movement in spreads observed in the US, unrealised losses for the year were £3.2 billion. It should be noted that we apply a policy of holding assets to maturity, which in economic terms limits the impact of current price levels.

Our strategy, focused on the pre and post-retirement market in Asia, the US and the UK, our distribution expertise, our product strength, our prudent but proactive risk management are key competitive advantages in a challenging environment. We have defined our plans and growth ambitions so as to be able to generate cash and conserve capital. This will position us well to take advantage of any improvement in market conditions whenever, and wherever they occur.

EEV results

Prudential plc is the holding company of Prudential Group. The principal activity of our subsidiary operations is the provision of financial services to individuals and businesses in Asia, the US and UK. The principal subsidiaries are listed in note I6 on page 301.

In 2008, Prudential Group's total EEV basis operating profit from continuing operations based on longer-term investment returns was £2,961 million, up 17 per cent from 2007.

During the year, the Group generated long-term profits of £2,906 million, comprising new business profits of £1,307 million (2007: £1,205 million), in-force profits of £1,625 million (2007: £1,319 million) and Asia development costs of £26 million (2007: £15 million). New business profit from insurance business, at £1,307 million, was eight per cent higher than in 2007, reflecting a resilient sales performance in Asia and sales in the US and UK broadly in line with the previous year. The average Group new business profit margin was 43 per cent (2007: 42 per cent) on an APE basis and 5.8 per cent (2007: 5.7 per cent) on a PVNBP basis. This rise reflects an increase in the average margin in Asia, partly offset by a slight decline in the average US and UK margin. In-force profit increased by 23 per cent on 2007 to £1,625 million. In aggregate, net assumption changes had an impact of £118 million positive, and experience variances and other items were £271 million positive.

Operating profit from the asset management business rose to £345 million, up three per cent from £334 million in 2007, reflecting a very strong performance from M&G despite the market volatility experienced in the second half of 2008.

Other income and expenditure totalled a net expense of £302 million compared with £297 million in 2007. This result primarily consists of interest payable on core structural borrowings of £172 million (2007: £168 million), Group Head Office costs of £130 million (2007: £129 million) and Asia Regional Head Office costs of £41 million (2007: £38 million), offset by investment return and other income of £47 million (2007: £49 million). Investment return income includes a one-off profit of £47 million crystallised on the sale of a seed capital investment in an Indian mutual fund, partly offset by lower interest income.

Restructuring costs of £32 million (2007: £20 million) comprised £28 million (2007: £19 million) recognised on an IFRS basis, and an additional £4 million (2007: £1 million) recognised on the EEV basis for the shareholders' share of costs incurred by the PAC with-profits fund.

In our calculation of EEV operating profit, we use longer-term investment return assumptions rather than the actual investment returns achieved. Short-term fluctuations in investment returns represent the difference between the actual investment return and the unwind of discount on the value of in-force and expected returns on net worth. Group short-term investment fluctuations were negative £5,127 million in 2008, compared to positive £174 million in 2007.

In our Asian business, short-term investment fluctuations in investment returns were negative £1,063 million, compared to positive £226 million in 2007. This sharp change reflects the lower-than-expected returns achieved in most territories and significantly higher volatility in investment markets. The main negative contributors in absolute amounts were our businesses in Hong Kong, Singapore and Taiwan.

Business review

EEV basis operating profit from continuing operations

	AER 4/8			CER 4/8	
	2008 £m	2007 £m	Change %	2007 £m	Change %
Insurance business:					
Asia	**1,309**	1,042	26	1,135	15
US	**586**	627	(7)	678	(14)
UK	**1,037**	855	21	855	21
Development expenses	**(26)**	(15)	(73)	(17)	(53)
Long-term business profit	**2,906**	2,509	16	2,651	10
UK general insurance commission	**44**	4		4	
Asset management business:					
M&G	**286**	254	13	254	13
Asia asset management	**52**	72	(28)	78	(33)
Curian	**(3)**	(5)	40	(5)	44
US broker-dealer and asset management	**10**	13	(23)	14	(29)
	345	334	3	341	1
Other income and expenditure	**(302)**	(297)	(2)	(300)	(1)
Total EEV basis operating profit from continuing operations	**2,993**	2,550	17	2,696	11
Restructuring costs	**(32)**	(20)	(60)	(20)	(60)
Total EEV basis operating profit from continuing operations after restructuring costs	**2,961**	2,530	17	2,676	11

Notes
See page 21.

In our US business, short-term fluctuations in investment returns were negative £1,344 million, primarily consisting of: a negative £412 million resulting from the difference between the actual investment returns included in operating profit in respect of fixed income securities and the assumed long-term investment return; a negative £733 million resulting from the capitalisation changes in the expectations of future profitability on variable annuity business in force, due to the return on the actual variable investment account ('separate account') being lower than the long-term return reported within operating profit, offset by the impact of the associated hedging position; and a negative £199 million resulting from the difference between the actual investment returns and the longer-term returns included within operating profit relating to equity-type investments and other items.

In our UK business, the short-term fluctuations in investment returns were negative £2,407 million. This figure primarily reflects the difference between the actual investment return of negative 19.7 per cent for the with-profits life fund and the long-term assumed return of positive 6.6 per cent. Short-term fluctuations on the shareholder-backed annuity business of negative £213 million represent negative investment return on surplus assets and default experience. Short-term fluctuations on the unit linked business of negative £111 million represent the capitalised reduction in future fees arising from the fall in market values experienced during the year.

The actuarial loss of £15 million (2007: loss of £5 million) included in total profit reflects the shareholders' share of actuarial gains and losses on the Group's defined benefit pension schemes.

In our Asian business, economic assumption changes were negative £34 million. This mainly comprises a negative charge in Taiwan of £239 million as a result of extending the phased bond yield progression period out by five years from 31 December 2013 to 31 December 2018, offset by the positive changes in other territories, mainly reflecting the reduction in risk discount rates.

In our US business, economic assumption changes were positive £267 million. These primarily reflected 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 our UK business, economic assumption changes were negative £783 million, primarily reflecting the net effect of changes to the assumed fund earned rate and the risk discount rate due to the reduction in gilt rates. The impact of these effects on with-profits business is negative £466 million. The economic assumption changes relating to the shareholder annuity business is negative £317 million.

The mark-to-market movement on core borrowings was a positive £656 million. This reflected a reduction in fair value of core borrowings, as the decrease in interest rates was 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 26 per cent (2007: 27 per cent), generally reflecting the expected tax rates. The effective tax rate at a total EEV level was 37 per cent (2007: 25 per cent) on a loss of £2,106 million, primarily reflecting that there is no deferred tax charge associated with the mark to market value movement on core borrowings.

EEV basis profit after tax and minority interests (AER)

	2008 £m	2007 £m	Change %
Total EEV basis operating profit from continuing operations after restructuring costs	2,961	2,530	17
Short-term fluctuations in investment returns:	(5,127)	174	
Asia	(1,063)	226	
US	(1,344)	(9)	
UK	(2,407)	(42)	
Other	(313)	(1)	
Actuarial gains and losses on defined benefit pension schemes:	(15)	(5)	
Effect of change in economic assumptions:	(550)	748	
Asia	(34)	201	
US	267	81	
UK	(783)	466	
Effect of change in time value of cost of options and guarantees:	(31)	0	
Asia	8	9	
US	11	8	
UK	(50)	(17)	
Movement in mark to market value of core borrowings:	656	223	
US	37	9	
Other	619	214	
(Loss) profit from continuing operations before tax	(2,106)	3,670	(157)
Tax	771	(927)	
(Loss) profit from continuing operations after tax before minority interests	(1,335)	2,743	(149)
Discontinued operations (net of tax)	0	241	
Minority interests	(3)	(21)	
(Loss) profit for the period	(1,338)	2,963	(145)

IFRS results

Group operating profit before tax from continuing operations based on longer-term investment returns on the IFRS basis after restructuring costs was £1,347 million an increase of 12 per cent on 2007.

Our Asian operations IFRS operating profit for long-term business increased from £189 million in 2007 to £321million in 2008. In Indonesia the results increased from £35 million to £55 million whilst in the established operations the growth was more muted, growing from £153 million to £162 million. For our Korean operation the result improved from a loss of £13 million to a profit of £12 million. The driver for the growth was the implementation, for IFRS reporting purposes, of a more appropriate basis of deferring and amortising acquisition costs rather than continue with the local regulatory basis reporting. Our Indian operation posted a loss of £6 million, before development expenses for the agency field force which are now shown separately in the analysis. The result also reflects that as the business matures it is appropriate to now defer and amortise acquisition costs, resulting in a benefit of £19 million. In Taiwan, where the IFRS basis of reporting reflects US GAAP for the insurance assets and liabilities of the business the result increased by £15 million to £60 million. The result for other operations increased from £12 million to £38 million reflecting mainly reserve releases in the Japanese operation.

Our US business's IFRS operating profit of £406 million was down by nine per cent on 2007. This was mainly due to accelerated levels of Variable Annuities DAC amortisation as a result of large negative equity market movements. These impacts were partially offset by positive operating derivative income on variable annuity business, reflecting the increase in market value of the net short derivative positions due to falling equity prices. The decision to acquire additional hedging protection in the derivatives markets in 2007 at favourable prices demonstrated its value amid the falling equity markets experienced in 2008. The US operation's 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 operation's fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. Jackson's hedging of its variable annuity guarantees offset the effect of the 38.5 per cent drop experienced in the US equity markets in 2008.

In our UK business, total IFRS operating profit increased by 12 per cent in 2008 to £589 million. The increase of four per cent achieved for the long-term business reflected profits attributable to the with-profits business of £395 million together with 15 per cent growth from the long-term shareholder backed business. IFRS profits from the shareholder annuity business includes the impact of strengthening the allowance for credit defaults partly offset by profits emerging from a rebalancing of the asset portfolio. Non-long-term business IFRS profit reflected profit from General Insurance commission which increased to £44 million, with cash beginning to emerge following the 2002 sale of the business to Churchill.

M&G's operating profit for 2008 was £286 million, an increase of 13 per cent over 2007. This represented a strong financial performance in the light of the prevailing challenging market conditions. Higher profits from the fixed income business and higher performance-related fees were partially offset by the negative impact of market conditions, particularly in the retail business.

The Asian asset management operations reported operating profits of £52 million, down by 28 per cent on 2007, reflecting decreases in funds under management and performance-related fees due to market volatility.

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

	AER [4]			CER [4]	
	2008 £m	2007 £m	Change %	2007 £m	Change %
Insurance business:					
Asia	321	189	70	212	51
US	406	444	(9)	480	(15)
UK	545	524	4	524	4
Development expenses	(26)	(15)	(73)	(17)	(56)
Long-term business profit	1,246	1,142	9	1,199	4
UK general insurance commission	44	4		4	
Asset management business:					
M&G	286	254	13	254	13
Asia asset management	52	72	(28)	78	(33)
Curian	(3)	(5)	40	(5)	44
US broker-dealer and asset management	10	13	(23)	14	(29)
	345	334	3	341	1
Other income and expenditure	(260)	(260)	0	(263)	1
Total IFRS basis operating profit based on longer-term investment returns before restructuring costs	1,375	1,220	13	1,281	7
Restructuring costs	(28)	(19)	47	(19)	47
Total IFRS basis operating profit based on longer-term investment returns before restructuring costs	1,347	1,201	12	1,262	7

Note
See page 21.

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The operating profit from the US broker-dealer and asset management businesses was £10 million, a decrease of 23 per cent on 2007. Curian recorded losses of £3 million in 2008, an improvement on its losses of £5 million in 2007, as the business continued to invest to build scale.

The total loss before tax and minority interests on an IFRS basis was £450 million in 2008, compared with a profit of £1,063 million for 2007. This reduction primarily reflects adverse short-term fluctuations experienced in investment returns.

In calculating the IFRS operating profit, we use longer-term investment return assumptions 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 in shareholder reserves.

The £1,783 million charge for short-term fluctuations in investment returns mainly comprises £200 million, £1,058 million and £212 million relating to our Asian, US and UK operations respectively.

Our Asian operations' negative short-term fluctuations of £200 million primarily reflected movements in Vietnam, Taiwan and Japan of £81 million, £65 million and £34 million respectively. The result in Vietnam mainly reflected the two-thirds fall in the Vietnam equity market. Taiwan's short-term fluctuations mainly reflected CDO losses of £40 million combined with losses of £103 million resulting from the 39 per cent fall in the country's stock market, offset by gains of £108 million in the bond portfolio. In Japan there were a number of contributory factors, the largest of these being losses of £14 million reflecting the 42 per cent fall in the country's stock market and unrealised losses of £13 million on Leveraged Super Senior notes.

Our US results include a £1,058 million charge (2007: £18 million charge) for short-term fluctuations in investment returns. This comprises £535 million in respect of debt securities, £439 million in respect of freestanding derivatives and embedded derivative liabilities, £69 million for equity type securities and a net £15 million for other items.

The £535 million charge for debt securities reflects the levels of defaults, losses on sale, and writedowns in excess of the allowance for longer-term defaults included in the operating result. The main constituent of the £439 million charge is £369 million for freestanding derivatives held to manage the fixed annuity and other general account business. There is also a charge of £70 million in respect of Guaranteed Minimum Withdrawal Benefit and other embedded derivative liabilities for the difference between the effect of applying year-end AA corporate bond rate and equity volatility curves in the total result rather than longer-term levels, as applied in determining the operating result.

Our UK operations' short-term fluctuations charge of £212 million reflects asset value movements, principally for the shareholder-backed annuity business, of negative £170 million and £42 million for the effect of credit downgrades on the measurement of annuity liabilities.

Other short-term fluctuations charge of £313 million include £190 million for unrealised value movements in Prudential Capital and £71 million on the sale of an investment in an Indian Mutual Fund.

IFRS basis profit after tax

	AER[4]		
	2008 £m	2007 £m	Change %
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	1,347	1,201	12
Short-term fluctuations in investment returns	(1,783)	(137)	
Asia	(200)	(71)	
US	(1,058)	(18)	
UK	(212)	(47)	
Other	(313)	(1)	
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(14)	(1)	
(Loss) profit before tax from continuing operations attributable to shareholders	**(450)**	**1,063**	**(142)**
Tax attributable to shareholders' profits	59	(354)	
(Loss) profit from continuing operations for the financial year after tax	**(391)**	**709**	**(155)**
Discontinued operations (net of tax)	0	241	
Minority interests	(5)	(3)	
(Loss) profit for the year attributable to equity holders of the company	**(396)**	**947**	**(142)**

Note
See page 21.

The effective rate of tax on operating profits, based on longer-term investment returns, was 22 per cent (2007: 32 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 13 per cent (2007: 33 per cent). The effective rate of tax on operating profits is lower than 2007 reflecting a combination of the settlement of issues with HM Revenue and Customs at amounts below those previously provided and a reduction in amounts previously provided on outstanding issues with HM Revenue and Customs. The effective rate of tax at total IFRS profits level is lower than expected, substantially due to a restriction on the ability to recognise deferred tax assets on all losses in Asia and the US.

Earnings per share

	2008 p	2007 p
EPS based on Operating Profit from continuing operations after Tax and minority interest		
• EEV	88.6	74.5
• IFRS	42.5	33.3
Basic EPS based on total profit (loss) after minority interest		
• EEV	(54.1)	121.2
• IFRS	(16.0)	38.7

Dividend per share

The directors recommend a final dividend for 2008 of 12.91 pence per share payable on 22 May 2009 to shareholders on the register at the close of business on 14 April 2009. The interim dividend for 2008 was 5.99 pence per share. As a result, the total dividend for the year, including the interim dividend and the recommended final dividend, amounts to 18.90 pence per share compared with 18.00 pence per share for 2007, an increase of five per cent. The total cost of dividends in respect of 2008 was £469 million.

The full year dividend is covered 2.24 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 maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account our Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

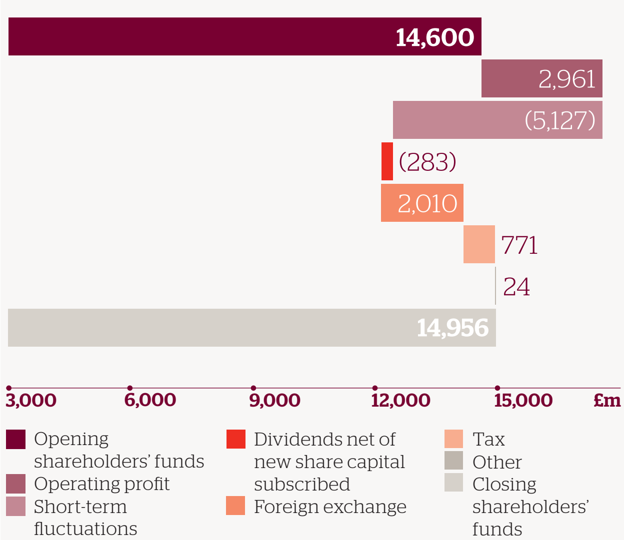
Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 31 December 2008 were £15.0 billion, an increase of £0.4 billion from the 2007 year end level (2007: £14.6 billion). This two per cent increase primarily reflects the following components: a total EEV basis operating profit of £2,961 million; a positive impact of exchange movements of £2,010 million; a tax credit of £771 million; a positive movement on the mark to market of core debt of £656 million; partially offset by a £5,127 million adverse movement in short-term fluctuations in investment returns and dividend payments of £453 million which is itself partially offset by proceeds for new share capital subscribed of £170 million.

The shareholders' funds of £15.0 billion at year end 2008 comprised:

- £5.3 billion for our Asian long-term business operations;
- £4.3 billion for our US long-term business operations;
- £4.9 billion for our UK long-term business operations; and
- £0.5 billion for our other operations.

Analysis of movement in EEV shareholders' funds: 31 December 2007 to 31 December 2008 £m



Chief Financial Officer's overview
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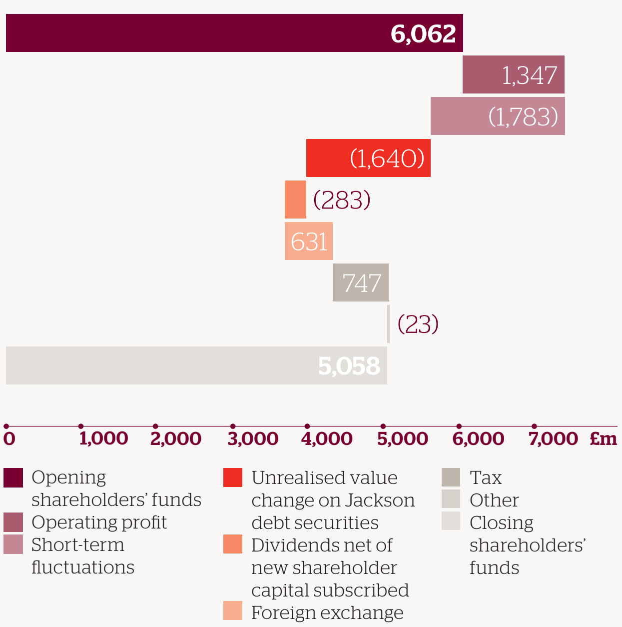
At the year end, the embedded value for the Asian long-term business was £5.3 billion. The established markets of Hong Kong, Singapore and Malaysia contributed £3,982 million to the embedded value generated across the region. Korea (£338 million), Indonesia (£314 million) Vietnam (£269 million) also made substantial contributions. Prudential's other Asian markets, excluding Taiwan, contributed an aggregate £567 million in embedded value. Taiwan had a negative embedded value of £205 million.

The sensitivity of the embedded value of our country operations to interest rate changes varies widely across the region. In aggregate, a one per cent decrease in interest rates, along with all the consequential changes noted above, would result in a negligible change to our Asian business' embedded value.

Statutory IFRS basis shareholders' funds at 31 December 2008 were £5.1 billion, compared with £6.1 billion at 31 December 2007. This result represented a decrease of £1.0 billion, reflecting operating profit of £1,347 million, a foreign exchange credit of £631 million, and a tax credit of £747 million; offset by unfavourable movement in short-term fluctuations in investment returns of negative £1,783 million, a net unrealised value change on Jackson debt securities of negative £1,640 million and the balance of dividend payments of £453 million partially offset by proceeds of new share capital subscribed of £170 million.

The net unrealised value change on Jackson debt securities is explained by net unrealised losses of negative £2,710 million, (being the gross unrealised losses of £3,197 million less unrealised gains of £487 million) reflecting temporary market movements due to the effects of widening global credit spreads offset partially by the effect of reduced risk-free interest rates and a steepening yield curve. These unrealised losses were further offset by associated DAC of £1,070 million.

Analysis of movement in IFRS shareholders' funds: 31 December 2007 to 31 December 2008 £m



Holding company cash flow

	2008 £m	2007 £m
Cash remitted by business units:		
Life businesses:		
UK	295	261
US	144	122
Asia	163	148
	602	531
Other:		
Asia	234	38
M&G	167	139
UK	30	3
Total cash remitted to Group	1,033	711
Net interest paid	(128)	(96)
Dividends paid	(453)	(426)
Scrip dividends and share options	167	183
Cash remittances after interest and dividends	619	372
Tax received	130	40
Corporate activities	(177)	(200)
Cash flow before investment in business	572	212
Capital invested by business units:		
Life businesses:		
Asia	(310)	(92)
UK	(126)	(145)
	(436)	(237)
Other:		
Asia	(82)	(57)
Total capital invested in business units	(518)	(294)
Increase (decrease) in operating cash	54	(82)
Egg sale net proceeds	0	527
Total holding company cash flow	54	445
Contributed by Life Business	166	294

Our Group holding company received £1,033 million in cash remittances from the various business units in 2008, up from £711 million in 2007. This figure includes the shareholders' statutory life fund transfer of £279 million from the UK business.

Cash remitted increased in 2008 by £322 million compared to 2007. This was primarily due to the growth in Asia remittances and the increase in UK General Insurance commission. Asia's remittances grew by £211 million, primarily due to a one-off remittance of £115 million related to Singapore. Asia also realised seed capital from E.Sun Bank and ICICI Asset Management totalling approximately £77 million, and recorded additional cash flow releases from Asian operations as their in-force books matured.

Capital invested in business units grew from £294 million in 2007 to £518 million in 2008, due to an increase of £243 million in Asia's requirements. The growth in Asia was primarily due to the injection of £186 million to meet solvency requirements, of which £66 million was in Taiwan and £72 million in Japan. The remainder was predominately due to business-driven cash injections to support new business growth. Capital of £126 million was injected into UK shareholder-backed business, mainly to support new business. Jackson's capital position remained robust in 2008, and no capital injection was required.

Net interest paid in 2008 increased by £32 million to £128 million compared to 2007, as lower interest rates prevailing in 2008 led to a decrease in interest received on central shareholders' funds.

After dividends and net interest paid, there was a net cash inflow of £619 million (2007: £372 million). There was a significant take-up of scrip dividends in 2008 and 2007.

Tax received in 2008, at £130 million, was £90 million higher than the previous year, reflecting the fact that the 2007 figure was exceptionally low as a result of foreign exchange gains reducing the level of taxable losses. During 2008 the Group holding company paid £177 million in respect of corporate activities, including costs related to the process of considering a reattribution of the inherited estate.

In aggregate, there was an operating cash inflow of £54 million in 2008, compared to an outflow of £82 million in 2007.

Depending on the mix of business written and the opportunities available, we continue to expect the UK shareholder-backed business to become cash positive in 2010.

Free surplus generation

Sources and uses of free surplus generation for the Group's life and asset management operations

Free surplus generation for the Group's life business represents the free surplus generated from the in-force operations during the period less the investment in new business.

For asset management operations we have defined free surplus generation to be IFRS profits for the period. Group free surplus also includes the general insurance commission earned during the period and excludes head office, restructuring and net financing costs.

We believe that the underlying free surplus generated from the in-force book is an important measure in understanding the performance of our business. During 2008 we generated £1,680 million of underlying free surplus (2007: £1,388 million).

Free surplus is used by our life companies for investment in new business, and to provide for specific items, such as the provision established in 2008 for additional credit reserves under statutory reporting. In 2008 we invested £825 million of free surplus (2007: £544 million) in new business and established £770 million (2007: nil) for statutory credit reserves on a Pillar 1 statutory basis.

The total movement in free surplus net of tax in the period can be analysed as follows:

	2008 £m	2007 £m
Free surplus at 1 January*	1,915	1,375
Free surplus generation		
Underlying free surplus generated in the period	1,680	1,388
Provisions for additional allowance for credit risk	(770)	0
Market related items	(1,068)	141
Investment in new business	(825)	(544)
Free surplus generated in the period prior to methodology changes	(983)	985
Gross cash remitted by business units	(1,033)	(711)
Capital injected by business units	518	294
Net cash remitted by the business units	(515)	(417)
Other movements	442	(28)
Free surplus at 31 December*	859	1,915

* Includes IFRS net assets excluding goodwill for asset management.

The negative £1,068 million of market-related movements in 2008 includes £268 million of bond losses in the US; £268 million in respect of the drop in interest rates in Taiwan, including the impact of extending out the phased bond yield progression period by five years from 2013 to 2018; and £532 million of other short-term fluctuations in investment returns.

Other movements comprised reallocations of certain statutory reserves and required capital from value in-force to net worth of £187 million in 2008, foreign exchange movements, the mark to market of Jackson's assets backing surplus and required capital, and other capital movements.

Excluding Taiwan, free surplus for the remaining life and asset management operations would have been approximately £1.8 billion at 31 December 2008.

The embedded value for the life operations assumes 45 per cent of the value in-force and required capital at 31 December 2008 will convert to free surplus in the next five years, and 68 per cent within 10 years. The actual free surplus generated from the current in-force policies in any future period will depend on the level of future assumption and experience variances that will actually arise. Over the last four year cumulative period, operating variances (after excluding the statutory credit reserve in 2008 and reallocations between net worth and value in-force of £187 million undertaken in 2008) have been £42 million which represented approximately one per cent of the projected in-force for the life business.

The table below shows Group free surplus generated for life and asset management operations, as defined above, over the last four years.

Investment of free surplus in new business by life operations

The average free surplus undiscounted payback period[1] for business written in 2008 was:

Asia	4 years
US	5 years
UK	6 years

Overall, our Group wrote £3,025 million of sales on an APE basis during the year. To support these sales, we invested £825 million of capital (2007: £544 million). This amount covers both new business strain, including commissions, of £353 million and the required capital of £472 million. The total capital investment for new business amounted to approximately £27 million per £100 million of APE sales (2007: £19 million). These sales provided a post-tax new business contribution to embedded value of £937 million (2007: £858 million).

In Asia, capital was invested to support sales at an average rate of £18 million per £100 million of APE sales. (2007: £15 million).

In the US, capital was invested to support sales at an average rate of £40 million per £100 million of APE sales (2007: £30 million).

In the UK, capital was invested to support sales at an average rate of £31 million per £100 million of APE sales (2007: £16 million).

Note
1 Cash payback period is defined as the time at which the value of the undiscounted post tax cash flows, net of required capital releases, is sufficient to recoup the initial free surplus invested in new business.

The increase in capital requirements year-on-year was caused predominantly by a change in business mix in our UK annuity business, with bulk annuity business being written by shareholder-backed companies in 2008, rather than by the with-profits fund as in 2007, and with higher reserves being established for credit contingency. Higher capital usage in the US resulted from the change in business mix from variable annuities to other business.

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. We combine these results with the IFRS basis results of the non long-term businesses to provide a supplementary operating profit under EEV. References in this report to operating profit relate 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 and other 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, together with the effect of changes both in economic assumptions and also in the time value of the cost of options and guarantees arising from changes in economic factors.

Cumulative free surplus analysis

	2008 £m	2007 £m	2006 £m	2005 £m	2005-2008 (cumulative) £m
Expected in-force cash flows (including expected return on net assets)*	**1,744**	1,299	1,182	992	5,217
Changes in operating assumptions and variances	**(64)**	89	(29)	46	42
	1,680	1,388	1,153	1,038	5,259
Provision for additional allowance on credit risk	**(770)**	0	0	0	(770)
Changes in non-operating assumptions and variances	**(1,068)**	141	56	(189)	(1,060)
Actual in-force cash flow	**(158)**	1,529	1,209	849	3,429
New business	**(825)**	(544)	(554)	(562)	(2,485)
Free surplus generated in the period prior to methodology changes	**(983)**	985	655	287	944
Reallocations between net worth and value in-force	**(187)**	0	0	0	(187)
Free surplus generated in the period	**(1,170)**	985	655	287	757

* Expected in-force cash flow includes asset management IFRS operating profits and GI commission.

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 long-term by their nature, and the profit on them is generated over several years. In Prudential's opinion, accounting under IFRS alone does not fully reflect the inherent value of these future profit streams. Instead, adding embedded value reporting to the IFRS accounting and specific additional disclosures, particularly on capital and cash flow, provides investors with a better sense of underlying profitability of our Group's long-term businesses. Embedded value reporting is a valuable supplement to statutory accounts.

The results for the year ended 31 December 2008 have been prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The results in this preliminary announcement have been prepared in accordance with IFRS applicable at 31 December 2008 and have been taken from the Group's Annual Report and Accounts which will be available on the company's website on 15 April 2009.

The preliminary announcement for the year ended 31 December 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results on an IFRS basis for the full year 2008 and 2007 have been audited by KPMG Audit Plc. The auditor has reported on the 2008 and 2007 financial statements and the report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Group's 2007 Report and Accounts have been filed with the Registrar of Companies.

Tidjane Thiam
Chief Financial Officer

Value created through investment in new business by life operations

	2008 £m				2007 £m			
	Asia	**US**	**UK**	**Group**	**Asia**	**US**	**UK**	**Group**
Free surplus invested in new business	(243)	(289)	(293)	(825)	(194)	(200)	(150)	(544)
Increase in required capital	42	265	165	472	21	183	104	308
Net worth invested in new business	(201)	(24)	(128)	(353)	(173)	(17)	(46)	(236)
Value of in-force created by new business	751	214	325	1,290	646	202	246	1,094
Post tax new business profit for the period	550	190	197	937	473	185	200	858
Tax	191	103	76	370	170	100	77	347
Pre tax new business profit for the period	741	293	273	1,307	643	285	277	1,205
New business sales (APE)	1,362	716	947		1,287	671	910	
New business margin % (APE)	54%	41%	29%		50%	42%	30%	
Internal rate of return	>20%	18%	14%		> 20%	18%	18%*	

* In 2007, the UK IRR excluding the Equitable Life deal was 14%.

more: strength

Our capital position is strong and robust. Our Insurance Groups Directive (IGD) capital surplus is estimated at £1.7 billion before allowing for the 2008 final dividend. Our robust capital position, combined with the proven resilience of our retirement-led strategy, selective geographic presence, product expertise, distribution and trusted brands, means we are well-placed to continue to outperform.