GROUP CHIEF EXECUTIVE'S REPORT

Tidjane Thiam Group Chief Executive

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I am pleased to report that Prudential delivered an outstanding performance in 2009, generating significantly higher profits while consuming less capital. Our discipline in allocating capital to the most profitable products and channels, combined with our proactive management of the Group's balance sheet, has allowed us to completely transform our capital position, which is now one of the strongest in the industry.

We have delivered excellent results against a backdrop of unprecedented market turbulence. After the severe difficulties encountered by the world economy and financial markets in the second half of 2008, we entered 2009 with a deliberately defensive position. We recognised early on the implications of the new economic climate and focused our strategy on capital conservation and cash generation. We prioritised value over volume and allocated capital strictly to the products and channels with the highest rates of return and shortest payback periods. This led us to significantly reduce our volumes of wholesale business, allowing us to grow our relatively more profitable retail sales by 11 per cent in a year when many companies saw a contraction or stagnation of sales. This highly disciplined approach meant that, as conditions started to improve, our capital strength allowed us to capture a more than proportionate share of our target markets.

We have consistently said our strategy is a formula for outperformance, and these results demonstrate that we have been able to execute it with discipline and effectiveness.

Total EEV operating profit before tax

+8%

IFRS operating profit before tax

+10%

As Group Chief Executive, my overriding objective is to deliver sustainable increases in shareholder value. I am pleased to report that we achieved this once again in 2009, outperforming the sector in our chosen markets and in total returns for shareholders. Going forward, I believe we have the right strategy, products, geographic presence, brands, management and capital strength to sustain this outperformance into the future.

We have consistently said our strategy is a formula for outperformance, and these results demonstrate that we have been able to execute it with discipline and effectiveness.

On 1 March 2010 we announced our agreement with AIG for the combination of Prudential and AIA Group Limited, a wholly owned subsidiary of AIG. The strength of AIA's business, its market-leading positions in South-East Asia and the potential for accelerated growth of the combined business in the future present a compelling and unique opportunity for Prudential.

Group performance

Turning to our performance in 2009, our total Group operating profit before tax from continuing operations, on the European Embedded Value (EEV) basis, rose to £3,090 million, an increase of 8 per cent. Our EEV new business profit increased by £407 million, or 34 per cent to £1,607 million. Margins improved across the Group rising from 42 per cent to 56 per cent, an exceptional level of performance given the market conditions prevailing in 2009. We achieved our objective of increased profitability while consuming less capital, through investing our free surplus in those markets and products which deliver the highest returns within our new business strain targets. In 2009 our investment in new business was 16 per cent lower at £675 million (2008: £806 million).

EEV new business profit

+34%

On the statutory International Financial Reporting Standards (IFRS) basis, operating profit based on longer-term investment returns increased by 10 per cent to £1,405 million. IFRS operating profit increased across all three life operations: in Asia it increased 62 per cent to £416 million; in the US it increased 13 per cent to £459 million; and in the UK it increased 11 per cent to £606 million, a very strong performance. Operating profit at M&G decreased 17 per cent to £238 million, reflecting the impact of the volatility in equity and property markets during the year, while our asset management business in Asia increased operating profits by 6 per cent to £55 million. We saw a change in other income and expenditure to negative £395 million (2008: negative £260 million), as a result of lower returns on central funds and an increase in interest payable on core structural borrowings.

Net inflows increased strongly in our asset management businesses, as our sustained investment outperformance attracted investors. M&G recorded £13,478 million of net inflows, 296 per cent higher than in 2008, and our asset management business in Asia recorded £1,999 million of net inflows, 134 per cent higher than in 2008.

Importantly, we also succeeded in significantly strengthening our Group capital position, making us one of the best-capitalised insurers and underpinning our ability to exploit growth opportunities. Using the regulatory measure of the Insurance Groups Directive (IGD), the Group's capital surplus was estimated at £3.4 billion at the 2009 year-end, more than double its level of £1.5 billion at the end of 2008, with a solvency ratio of 270 per cent, or 2.7 times our regulatory requirement.

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the business to cover the progressive dividend (after corporate costs); and maximising value for shareholders through the reinvestment of the free surplus generated at business unit level in the particularly profitable opportunities available to the Group, given its established positions in key life insurance markets. On this basis, the holding company cash flow at an operating level should generally balance to close to zero before exceptional items. Our cash flow position remained strong during the year. In 2008 we achieved our target of being operating cash flow positive at the holding company level, and we maintained this position in 2009, with a cash surplus after dividend of £38 million.

Given the Group's outstanding financial performance in 2009 and increasingly robust financial position, the Board has recommended a final dividend of 13.56 pence per share, bringing the full-year dividend to 19.85 pence per share, an increase of 5 per cent. The dividend is covered 2.2 times by post-tax IFRS operating profit based on longer-term investment returns.

Our strategy

Our strategy is to profitably meet our customers' changing needs for savings, income and protection in our chosen markets. By maintaining our focus and discipline in the implementation of this strategy, and by allocating capital to the most attractive opportunities, we believe we are able to generate sustainable and differentiated value for our shareholders. Over the last year our strategy has proven its worth under the most testing conditions, delivering a significant outperformance in Total Shareholder Return (TSR) in 2009.

Through our international, selective and disciplined approach we maintain a diverse portfolio of businesses, which embrace countries at different stages of economic development, but which all share one key attribute: the opportunity for us to build a market-leading operation with prospects for sustainable, long-term, profitable growth and a superior rate of return on capital.

Our financial strength is fundamental to our strategy and as a result of our disciplined risk management approach and targeted Group-wide actions to grow and protect our capital, we are emerging stronger from the global economic downturn. This capital strength has been instrumental in our ability to invest in profitable growth opportunities in 2009, especially in our chosen markets in Asia and the US.

The main engine of our growth strategy is our unique presence in Asia, which includes 28 businesses, spread over 13 countries. Asia offers us the highly attractive combination of strong growth and high margins. In 2006 we made an external commitment to double our 2005 new business profit in Asia by 2009 and I am very pleased to announce that we have met this target. This achievement was important to me, and is particularly remarkable given the economic conditions prevailing in the second half of that four-year period.

Asia is complex, dynamic and exciting, and its economies differ significantly, with varying levels of economic development, from the OECD members, Japan and Korea, to the fast-growing markets of South-East Asia, such as Indonesia and Malaysia. Our approach to the region is highly sophisticated and discriminating in terms of product offering, distribution and branding. Given our strong presence in this fast-growing region, where savings ratios tend to be higher than in the west, and the agreement we announced on 1 March 2010 concerning AIA, we believe we are uniquely placed to continue to deliver sustained profitable growth for many years to come.

In the US, which remains the world's largest retirement market, we continued to focus on building our share of the expanding and cash-generative annuities market. We have emerged from the crisis with a significantly stronger position in the variable annuities market, a key product for baby boomers as they reach retirement. We have continued to grow our share of the fixed index annuities market, while limiting our appetite for fixed annuities in order to conserve capital and maximise profits.

In the UK our strategy remained to rigorously focus on balancing new business with cash and capital preservation, while maintaining margins. This approach delivered the sales performance we wanted, combined with improved margins. This strategy allows us to generate surplus capital for investment Group-wide at significantly higher returns than in the UK. Our business in the UK provides the foundation and fuel for the Group's strategy.

Our asset management businesses in the UK and Asia continue to capitalise on our strong investment track record and trusted brands. Asset management is a core competence of Prudential and is a key component of our strategy, providing a reliable source of cash and high quality profits. Asset management remains a unique, differentiating feature of the Group in our sector.

We believe that our strategy, and the consistency and discipline with which we execute it, is what differentiates us.

As a Group we have a portfolio of highly trusted brands including Prudential, M&G and Jackson and we remain committed to this successful multi-brand strategy. This approach gives us the flexibility to tailor our brands to our different businesses and the customers these businesses serve. We believe the strength of our brands was a significant differentiator in 2009, as many customers looked for companies with a heritage and history that they knew and trusted, as safe havens for their assets amid the widespread financial uncertainty.

We believe that our strategy, and the consistency and discipline with which we execute it, is what differentiates us. In 2010 we intend to continue our disciplined execution of this strategy, amplifying and accelerating it to deliver continued profitable growth and increased shareholder value.

Product and distribution strategy

Our operating model enables each of our business units to stay close to its customers, allowing them to be flexible in identifying and developing the specific product and distribution mix that is right for each market.

Looking at our products, our consistent aim in all our markets is to have a suite of savings, income and protection products that delivers good value, and meets customers' needs in a profitable and capital efficient manner. We use every opportunity, from product design to channel management, to reduce the exposure of the Group and our capital position to downturns in the economic cycle. The experience of the past two years has demonstrated that this strategy is the right one, generating highly resilient revenue streams. This is supported by our ability to respond flexibly to customers' changing product and investment needs.

In Asia, a challenging economic climate in the first half of 2009 gave way to more positive conditions in the second half of the year. While we saw our single premium volumes decline as a result of economic uncertainty, our regular premium and higher-margin protection business remained resilient, ensuring we outperformed the competition, while remaining protected, especially in the second half.

Our distribution in Asia is unique. We have developed both the largest regional network of tied agents, over 410,000, as well as strong partnerships with banks across the region. A significant development in our Asian distribution capabilities is our new long-term strategic bancassurance distribution partnership with United Overseas Bank Limited (UOB). This partnership, announced on 6 January 2010, will mean our life insurance products will be distributed through UOB's 414 bank branches across Singapore, Indonesia and Thailand. This alliance, which complements our long-standing successful partnerships with Standard Chartered and other banks across the region, offers us significant new profitable growth opportunities.

In the US, the volatility in US equity markets in 2009 saw customers seek safer, but lower, returns by buying fixed annuities, fixed index annuities or variable annuities with guaranteed living benefits. Jackson responded quickly and was able to capitalise on this shift in demand across all its annuity product lines. Supported by our core skills in product manufacturing and distribution, our purposeful focus on variable annuities and maintaining capital strength enabled us to gain significant market share while achieving a strong rise in margins and profitability.

Going forward, we aim to build on our progress in the US in 2009 by maintaining our focus on value over volume and continuing to target the most profitable business. Our highly successful distribution model focuses on our industry-leading wholesaler teams, who offer genuine added-value to the independent financial advisor channel while also distributing products through regional broker-dealers and banks. We will also look to diversify our earnings growth and capitalise on our scaleable platform by making bolt-on acquisitions of closed books when suitable opportunities emerge.

In the UK we continued to focus on the retail market, with an emphasis on our market-leading with-profits and annuities products. We restricted our appetite for the capital intensive bulk annuity market and ceased to offer lifetime mortgages. These decisions reflect our focus on higher margin products, with shorter payback periods. In the UK, we have a diverse multi-channel approach including direct sales, financial advisers and partnerships. We continue to use our strong foundation, brand heritage and customer franchise to support our business.

In asset management we had another excellent year in a challenging market environment. Both M&G and our Asia asset management businesses continued to capitalise on their strong track records in investment performance to deliver strong rises in inflows. M&G benefited from its high levels of trust and brand loyalty among investors, achieving record net fund inflows, at a time when many other asset managers suffered net redemptions.

In Asia, where savers are increasingly becoming investors, our asset management business put in a resilient performance, while focusing on maintaining profitability across our internal life and third-party clients. In terms of distribution, our asset management businesses achieved flexibility through a multi-channel, multi-geography distribution approach in both the retail and institutional marketplaces.

2009 priorities

GROUP

- Balancing growth with cash and capital conservation
- Effectively manage the Group's risk profile
- Deliver growing dividend, determined after taking into account the Group's financial flexibility and opportunities to invest in areas of business offering attractive returns
- Targeting 2 times cover over time

PRUDENTIAL CORPORATION ASIA

- Expand the agency force and continue to improve productivity
- Maximise the potential from non-agency distribution and add new partners
- Further develop direct marketing channels and up-sell and cross-sell
- Increase focus on retirement services and health products

JACKSON NATIONAL LIFE INSURANCE COMPANY

- Capitalise on market dislocation to advance Jackson market position
- Write profitable business and conserve IGD capital
- Grow existing retail distribution through organic growth of National Planning Holdings (NPH), Jackson's independent broker-dealer network

PRUDENTIAL UK

- Build on our strengths in the retirement market and risk products
- Make the most of our core capabilities and assets including our longevity experience, multi-asset investment expertise, brand, financial strength and large customer base
- Strengthen our distribution capabilities
- Deliver improvement in operational performance and customer service whilst preserving our focus on costs
- Selectively participate in the wholesale market

M&G

- Maintain superior investment performance for both internal and external funds
- Continue growth in third-party retail and institutional businesses

2009 achievements	2010 priorities
• Through prudent and proactive management we enhanced the strength and flexibility of our capital base, increasing our Insurance Groups Directive capital surplus to an estimated £3.4 billion • Full Year dividend increased by five per cent • Dividend cover of 2.2 times	• Accelerate execution of our strategy and operational delivery • Prudent but dynamic management of capital • Deliver growing dividend, determined after taking into account the Group's financial flexibility and opportunities to invest in areas of business offering attractive returns • Targeting dividend cover of 2 times over time
• Record results across a number of metrics in challenging markets • Maintained agency channel momentum • Improved proportion of Health and Protection products • Successful disposal of capital intensive Taiwan agency back book • Increased new business profit margins • Excellent investment performance	• Expand the agency force and continue to improve productivity • Maximise the potential from non-agency distribution and add new partners • Further develop direct marketing channels and up-sell and cross-sell • Increase focus on retirement services and health products
• Retail sales set a record of £8.9 billion (28 per cent increase year-on-year). Jackson benefited from 'Flight to Quality' as many competitors were downgraded • Total annuity market share grew from 2.3 per cent in 2001 to 5.9 per cent in 2009, and Jackson climbed from 17th to 4th in the annuity sales rankings • Jackson had the largest increase in VA market share in the industry from 2001 to 2009, growing from 1 per cent in 2001 to 8 per cent during 2009 • New business was written at an aggregate after-tax IRR of more than 20 per cent on fully allocated 'AA' capital	• Continue to innovate around our key variable annuity product • Continue to focus on improving efficiency of operation • Expand retail distribution
• Continued to deploy cash, capital and resources effectively across the UK business • Focused on core strengths including annuities, pensions and investment products, where we can maximise the advantage we have in offering with-profits and other multi-asset investment funds • Launched a new Income Choice Annuity product • The With-Profits Fund has consistently outperformed the market for our long-term investors • Gained over 50 new panel positions across 24 key accounts, meaning our products are more widely available to intermediaries • Won two Five-Star awards at the Financial Adviser Service Awards as well as the award for best annuity provider at the Professional Adviser Awards 2010	• Compete selectively in areas of the retirement income and savings market where we can play to our core strengths and generate attractive returns on capital employed • Maintain a disciplined approach to pricing and capital usage • Continue to build our distribution capabilities • Deliver further improvements to operational performance and customer service whilst maintaining our strict focus on costs • Maximise the opportunities arising from our significant competitive advantages including our financial strength, significant longevity experience, multi-asset investment capabilities, strong investment track record, brand and large customer base
• Over the three years to December 2009, 38 per cent of M&G's retail funds delivered top-quartile investment performance • M&G had a very strong year in 2009 posting record external gross fund inflows of £24.9 billion, an increase of 54 per cent on 2008 • External net inflows of £13.5 billion • Ranked number 2 based on retail FUM in the UK	• Maintain superior investment performance for both internal and external funds • Continue growth in third-party retail and institutional businesses

Risk and capital management

Our strong and sustained financial performance is the result of disciplined and rigorous management. In no aspect of our business is this discipline more evident than in our approach to risk and capital. As a result of our unwavering focus on increasing our financial resilience, our capital position has been dramatically enhanced despite significant market shocks. Our free surplus generation and proactive and innovative capital management underpin an extremely strong solvency ratio. Furthermore, we lead the sector in disclosure, reporting a combination of IFRS, cash and EEV. Having clearly demonstrated our defensive capabilities and transparency in the downturn, we believe we are now well positioned to outperform as markets recover.

In late 2008 and early 2009, the balance sheets and capital positions of all insurance companies were under close scrutiny. With this in mind, we began 2009 by taking a disciplined and defensive stance, focusing on building our capital base and strengthening our IGD surplus. Despite our defensive position, we remained alert to growth opportunities, and as these emerged in the second half of the year, our greater capital strength enabled us to seize them aggressively.

During the course of the year we enhanced the strength and flexibility of our capital base, increasing our IGD capital surplus from £1.5 billion at year-end 2008 to £3.4 billion at 31 December 2009, equivalent to approximately 270 per cent cover of the required capital. This increase resulted from a series of measures that clearly demonstrated our disciplined approach to capital management.

In addition to internal capital generation of £1.1 billion, we transferred the assets and liabilities of our agency distribution business in Taiwan to China Life of Taiwan, which boosted our IGD capital surplus by approximately £0.8 billion. A further £0.9 billion was contributed by issues of subordinated and hybrid debt, and £0.9 billion by financial restructuring and internal reorganisation of Group capital. These gains of some £3.7 billion, were partially offset by about £0.4 billion of credit impacts in Jackson, £0.6 billion of debt interest and other central costs, £0.3 billion of dividends net of scrip, £0.2 billion from regulatory changes and £0.3 billion of foreign exchange movements.

Our prudent but dynamic management of our capital will remain a key differentiator of our business going forward.

Outlook

As we go into 2010 we will continue to capitalise on our competitive differentiators to amplify and accelerate the execution of our strategy. The agreement we announced on 1 March 2010 with AIG represents a compelling and unique opportunity to transform our position in Asia, giving us market-leading positions in all of the critical growth markets in the region. In the US we continue to write high-margin, capital efficient variable annuities and in the UK we will focus on our strong positioning, brand and products to continue to generate cash and capital for the Group. In asset management we will optimise both M&G and our asset management business in Asia as a core capability of the Group.

As we go into 2010 we will continue to capitalise on our competitive differentiators to amplify and accelerate the execution of our strategy.

Going forward, we are increasingly positive on the outlook for Asia and this is reflected in our announcement concerning AIA. We remain cautious on the major Western economies, because of a number of imbalances threatening their return to higher growth, including high levels of consumer and government debt, budget deficits and unemployment. In Asia we enjoy a unique combination of market-leading positions in the fastest growing, most profitable markets; strong brands; unrivalled multi-channel distribution and well-designed products. Asia, with its GDP growth rates, saving habits and low penetration, remains the primary focus of our growth and investment. This is the most attractive opportunity in our industry today and the agreement we announced on 1 March 2010 demonstrates that I have every intention of ensuring that the Group makes the most of it, while also capitalising on our strong presence in the US, the UK and our market leading asset management platform.

I end my first annual review as Group Chief Executive proud of what our teams have accomplished in delivering our highest ever margins, profits and capital surplus, a fantastic achievement in a hugely challenging environment.

I am committed to managing the Group with discipline and a relentless focus on execution and operational delivery. I am confident that the quality of our teams, coupled with our culture of discipline and focus, will position us well to continue to outperform our industry, not only through the current economic cycle but also through those yet to come.

Tidjane Thiam
Group Chief Executive

THERE'S MORE TO PRUDENTIAL

In 2009, we delivered an outstanding performance generating significantly higher profits while consuming less capital. This performance demonstrates the success of our strategy to focus on the most profitable growth opportunities in our chosen markets around the world.

In 2010, we intend to continue our disciplined execution of our strategy, amplifying and accelerating it to deliver further profitable growth and increased shareholder value.


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ACCELERATING

The main engine of our growth strategy is our unique presence in Asia, which includes 28 businesses, spread over 13 countries.

We have top three positions in the fast-growing markets of Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore and Vietnam. We will accelerate our investment in the region to capture future growth, fuelled by our unrivalled distribution, products, customer service and brands.

Read more:
Asia business review
Pages 46-49

STRENGTHENING

With 78 million baby boomers approaching retirement age, the US is the world's largest retirement savings and annuity market. We emerged from the global financial crisis as a clear winner in variable annuities, and are continuing to gain market share.

Going forward, we will strengthen our US business still further by writing high-margin, capital-efficient annuities and seizing growth opportunities.

Read more:
US business review
Pages 50-53

FOCUSING

In the UK, our strategy remains to focus rigorously on balancing writing new business with cash and capital preservation, while generating attractive returns on capital employed. We continue to prioritise value over volume by leveraging our unique positioning, brand and products.

Our business in the UK provides the foundation and fuel for the Group's strategy.

Read more:

UK business review
Pages 54-57

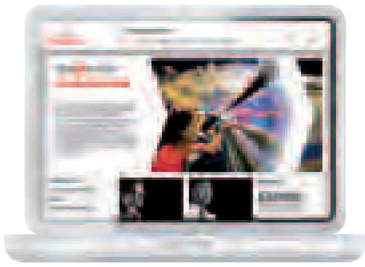
OPTIMISING

Our asset management businesses in the UK, Europe and Asia are continuing to deliver outstanding results by capitalising on their strong investment track records and trusted brands. The excellent investment performance of our asset management businesses is a differentiating feature of the Group in our sector.

Asset management in both regions remains a core capability for the Group.

Read more:

Asset management business review
Pages 58-62



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