

GROUP CHIEF EXECUTIVE'S REPORT

TIDJANE THIAM
GROUP CHIEF EXECUTIVE

“At the centre of our strategy is the acceleration of our profitable growth in Asia, which offers many of the highest growth and return opportunities.”

I am pleased to report a very strong performance in 2010, with results significantly ahead of 2009. We achieved this by remaining focused on rigorous capital allocation and effective management of our balance sheet.

These principles have served us well during the financial crisis allowing us to emerge from the 2008-2009 period with a stronger balance sheet, higher profits, higher cash flows and an increased dividend. Our 2010 results confirm that our strategy, underpinned by our operating principles, should increasingly allow us to differentiate ourselves through our ability to combine growth and cash generation, as we announced at our Investor Day on 1 December 2010.

Our strategy

At the centre of our strategy is the acceleration of our profitable growth in Asia, which offers many of the highest growth and return opportunities. The emerging markets of South-East Asia – such as Indonesia, Malaysia, Vietnam, the Philippines and Thailand, together with Hong Kong and Singapore – are particularly attractive. They remain the priority destination for our new capital investment. With our compelling platform of distribution, brand and product development capabilities in the high growth markets of Asia, we believe we are particularly well positioned to take advantage of the considerable opportunity that the region offers.

In the US, we continue to build on the strength of our operations to make them a more significant component of the Group in terms of IFRS earnings as well as cash generation. In the UK, we remain focused on generating cash and capital and providing resilience to the Group's balance sheet.

In asset management, our strong track record, both at M&G and in our asset management business in Asia, is enabling us to grow our funds under management. These businesses make an increasingly important contribution to our profits and cash generation.

Each part of the Group plays a key role in our strategy. Our flexibility and diversification were instrumental in allowing us to navigate successfully the economic and market cycle in 2008 and 2009.

In executing this strategy, we are guided by three clearly defined Group-wide operating principles. The first of these is that from 2008, we decided to take a more balanced approach to performance management across the three key measures of Embedded Value (EEV), IFRS and cash, with an increased emphasis on IFRS and cash. When this operating principle was introduced, it was a clear break with how our industry, and our company, had operated previously. As a consequence of this new focus, we have been able in 2010, for the third year in a row, to report results that are in fast progression across all three key measures – EEV, IFRS and cash.

Second, we have focused on allocating capital with total discipline to the highest return and shortest payback opportunities across the Group. This means that we restrict new business to areas of the market where these stringent criteria are met. As a result, we have not hesitated to take and implement a number of challenging decisions.

“We have focused on allocating capital with total discipline to the highest return and shortest payback opportunities across the Group.”



GROUP CHIEF EXECUTIVE'S REPORT

“We have significantly more capital today than before the financial crisis.”

Even in our preferred region of Asia, we acted decisively when necessary for the Group, as illustrated by our decision to sell our back book of business in Taiwan, to curtail writing new life business in Japan, or exchange short-term sales volume in Korea for long-term shareholder value. In the UK, we have closed down the equity release business and significantly increased our minimum return criteria for bulk purchase annuities. In the US, we have managed our sales of annuities, fixed and variable, with a clear focus on returns and payback periods, not hesitating to lose market share when necessary and putting value ahead of volume.

Finally, our third operating principle – of equal importance – is to take a proactive approach to managing risk across the cycle. We have transformed the capital position of the Group during the last three years, closing 2010 with more than £4 billion of Insurance Groups Directive (IGD) capital surplus against £1.5 billion at the end of 2008. We have significantly more capital today than before the financial crisis, and we have put in place a set of processes to hedge and manage the key risks to which we are exposed.

Our strategy and the disciplined implementation of our operating principles have produced excellent results.

Group performance

In 2010, APE sales¹ were up 23 per cent in life insurance to £3,485 million (2009: £2,844 million) and new business profit¹ has increased by 25 per cent to £2,028 million (2009: £1,619 million) as our new business margins increased to 58 per cent (2009: 57 per cent).

Net inflows in our asset management businesses were £8.9 billion, following an exceptional year in 2009 (2009: £15.4 billion). These continued strong inflows underpin the robust performance of our asset management operations during the year and are a direct driver of the growth in our profits.

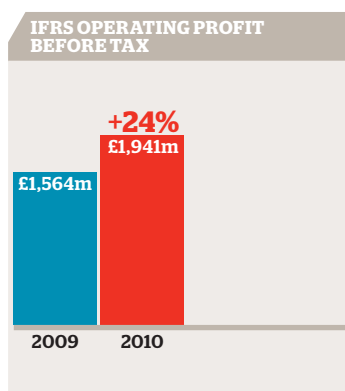
On the statutory IFRS basis, our operating profit before tax from continuing operations increased by 24 per cent in 2010 to £1,941 million (2009: £1,564 million). IFRS profit for the year after tax increased by 112 per cent to £1,431 million (2009: £676 million). IFRS shareholder funds increased 28 per cent in 2010 to £8.0 billion (2009: £6.3 billion).

On the EEV basis, Group operating profit before tax increased by 20 per cent in 2010 to £3,696 million (2009: £3,090 million). New business profit¹ for the year was £2,028 million, an increase of 25 per cent (2009: £1,619 million), and we continued to deliver very strong margins of 58 per cent (2009: 57 per cent). Our total investment in new business¹ in 2010 was £643 million (2009: £660 million), a reduction of 3 per cent. As a result of our focus on rigorous capital allocation, we are delivering higher returns on capital invested for our shareholders, while managing to use less capital in absolute terms.

Since 2008, we have been using free surplus as the primary indicator of our ability to generate cash and capital. In 2010, free surplus increased 32 per cent to £3.3 billion, up from £2.5 billion at the end of 2009 and £0.9 billion at the end of 2008.

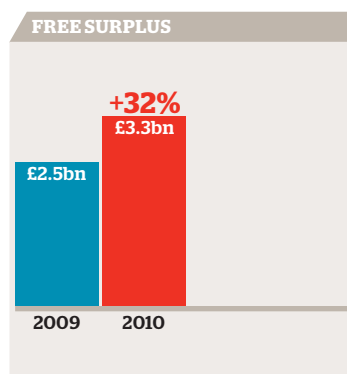
As these results show, we achieved strong growth on our three key metrics of EEV, IFRS and cash simultaneously. From 2009 to 2010, both our IFRS and EEV operating profits have grown by 20 per cent or more, while consuming less capital in absolute terms.

Our ability to generate significant growth while providing increasing cash returns to our shareholders – ‘growth and cash’ – is the result of our differentiated strategy. This strategy and the quality of our teams, both in our business units and our head office, allows us to provide value to our customers and shareholders. Each of our businesses is a clear leader in its market.



Note

¹ Excluding Japan, which ceased writing new business in 2010.



“In the US, we have maintained our focus on value over sales volume growth, ensuring sales are delivered at highly profitable margin levels.”

A year ago, we announced an agreement with AIG to acquire its Asia operations, AIA. The proposed acquisition was a unique opportunity to accelerate our strategy of focusing on the fast growing markets in Asia. We could not agree a purchase price that was acceptable to the AIG Board. The costs associated with the transaction were announced at our half year results and are detailed in the full year results statement.

Our operating performance by business unit

Our aim across all our businesses is to develop and market a suite of products that deliver good value solutions that meet our customers' needs, in a way that is profitable and capital efficient for the Group.

Prudential Corporation Asia

In 2010, in line with our strategy, our core investment was in the fast growing and highly profitable markets of South-East Asia and Hong Kong and Singapore. Due to the long-term structural changes taking place in these economies, we continue to believe they offer the most attractive opportunity in the global life insurance market today.

Distribution remains critical to our business in Asia, and our unique combination of proprietary agency distribution and bank partnerships continues to deliver excellent results. Agency will remain the dominant and most profitable channel in Asia for many years to come. It is clear that Prudential's agency distribution platform compares favourably to our peer group, whether in terms of scale, training or productivity. In addition, we will continue developing our presence in the bancassurance channel. The performance of our new partnership with UOB reinforces our view that the bancassurance channel will be increasingly important as Asian middle classes become wealthier and increasingly use banks and their services. This, together with our strategy of growing health and protection business, has been central to increasing our profitability and margins.

Our financial performance in Asia will continue to be based on three principal drivers. First, as a result of our strong new business growth, and its contribution to the increase in our in-force policies book, net inflows will be a major contributor to our IFRS earnings. Second, there will continue to be a contribution from investment returns, which will increase as the business grows. Third, as the scale of the business increases, our profitability will continue to benefit from the efficiency of our Asian platform, with revenues growing faster than our cost base. These three drivers support our confidence in our ability to double our 2009 IFRS profits by 2013.

Jackson

In the US, we have maintained our focus on value over sales volume growth, ensuring sales are delivered at highly profitable margin levels. We have maintained our pricing discipline and have been consistent in our approach of not chasing market share for its own sake. In 2010 we continued to benefit from the market changes following the financial turmoil in 2008 and 2009. As part of a trend, mostly driven by distributors who guide their customers towards the companies that held firm through the crisis and never closed to business, Jackson has significantly improved its position in the key variable annuity market. This flight to quality has allowed the Jackson team to increase sales volumes and market share. Our consistent pricing approach, product flexibility and Jackson's strong credit rating, which has remained unchanged for eight years, have served us well.

We have continued to grow the number of advisers appointed to sell our products, increasing licensed agents and registered representatives in 2010 to more than 130,000.

GROUP CHIEF EXECUTIVE'S REPORT

“In the UK, we maintained our focus on balancing the writing of new business with the generation of cash and capital.”

Prudential UK

Our business in the UK is highly disciplined and generates differentiated returns relative to the market. We continued to be a market leader in both individual annuities and with-profits business. We maintained our focus on balancing the writing of new business with the generation of cash and capital, successfully delivering attractive returns on capital employed. This strategy led the UK to deliver net cash of £420 million to the Group in 2010.

Our emphasis on value and generating strong returns saw the UK business continue to prioritise the retail market, while selectively participating in the wholesale market. Wholesale market opportunities have only been pursued when they meet our strict financial criteria and deliver an appropriate return on the capital invested both in terms of quantum but also, and equally important, of payback period. In 2010 we also continued to make good progress against our cost reduction plans, meeting our 2010 savings target of £195 million per annum six months early.

Asset management

M&G had a very good 2010, a performance which is all the more impressive as it comes after an exceptional year in 2009. M&G continues to focus on offering customers superior investment performance over the longer term, building on its proven track record of success in the retail investment market through ongoing expansion in Europe. M&G's retail business achieved net inflows of £7.4 billion. M&G's IFRS operating profit was £284 million, up 19 per cent compared to 2009.

In Asia, our asset management business also had a very successful year, with operating profits of £72 million, 31 per cent ahead of 2009. It is a key feature of our strategy that asset management profits are very capital efficient and are 'cash rich' profits. For the first time, funds under management passed the £50 billion mark, up from £42.4 billion in 2009, a trend that should also lead to continued profit growth.

These achievements underline the potential we see for asset management across Asia. We continue to believe that this is one of the most exciting opportunities for the Group today. In 2010, we appointed a new Chief Executive, and we are determined to continue to invest to capture a significant share of the growth and profits available in asset management in Asia. The priorities for our asset management business in Asia are: to build and develop institutional relationships, securing pan-Asia discretionary mandates; to increase our focus on Japan and China, as the region's largest and fastest growing markets respectively; and, finally, to grow our offshore funds business.

Capital and risk management

A strong capital position is key to our development. It gives confidence to our customers in what is a long-term business, and it allows us to write large amounts of new business. Strict management and allocation of capital remain a core focus for our Group. Using the regulatory measure of the IGD, our Group capital surplus at 31 December 2010 was estimated at £4.3 billion (31 December 2009: £3.4 billion). The Group's required capital is covered 3.0 times. This ratio means we continue to be one of the world's best-capitalised insurers.

We have strengthened our risk management practices by forming a Group Risk Committee headed by Howard Davies reporting directly to the Board. We also appointed a new Chief Risk Officer (CRO), John Foley, and have elevated the CRO position to board level.

“M&G continues to focus on offering customers superior investment performance over the longer term, building on its proven track record.”

Dividend

In view of the progress that the Group has made in recent years to improve IFRS operating profitability and free surplus generation, the Board has decided to rebase the full year dividend upwards by 4 pence per share, equivalent to an increase of 20 per cent. In line with this, the directors recommend a final dividend of 17.24 pence per share, which brings the total dividend for the year to 23.85 pence per share (2009: 19.85 pence per share).

The scrip dividend scheme is not being offered in respect of this dividend. In its place shareholders will be offered a Dividend Reinvestment Plan (DRIP).

The Board will maintain its focus on delivering a growing dividend from this new higher base, which will continue to be determined after taking into account the 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.

Our financial objectives¹

In December 2010, we announced new objectives for the Group that reflect our determination to accelerate growth in Asia and our belief that we can continue to deliver both growth and cash sustainably to our shareholders.

Our core objectives are:

- (i) In Asia, to double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million) and to double the 2009 value of new business profits in 2013 (2009: £713 million).
- (ii) For each business unit to remit net cash to the Group: Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million); Jackson to deliver £200 million of net cash remittance to the Group in 2013 (2009: £39 million); UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284² million).
- (iii) All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus generation of £6.5 billion over the same period.

These objectives are clear evidence of our determination to provide – through our strategy and disciplined execution – both growth and cash to our shareholders at a sustained pace.

Notes

¹ The following discussion and the discussion under 'Outlook' below, contain forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under the heading 'Risk factors' in this report). See the discussion under the heading 'Forward-looking statements' at the end of this report. The objectives assume current exchange rates and a normalised economic environment consistent with the economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half year ended 30 June 2010. They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II, which remains uncertain.

² Representing the underlying remittances excluding the £150 million impact of pro-active financing techniques used to bring forward cash emergence of the in-force book during the financial crisis.

GROUP CHIEF EXECUTIVE'S REPORT

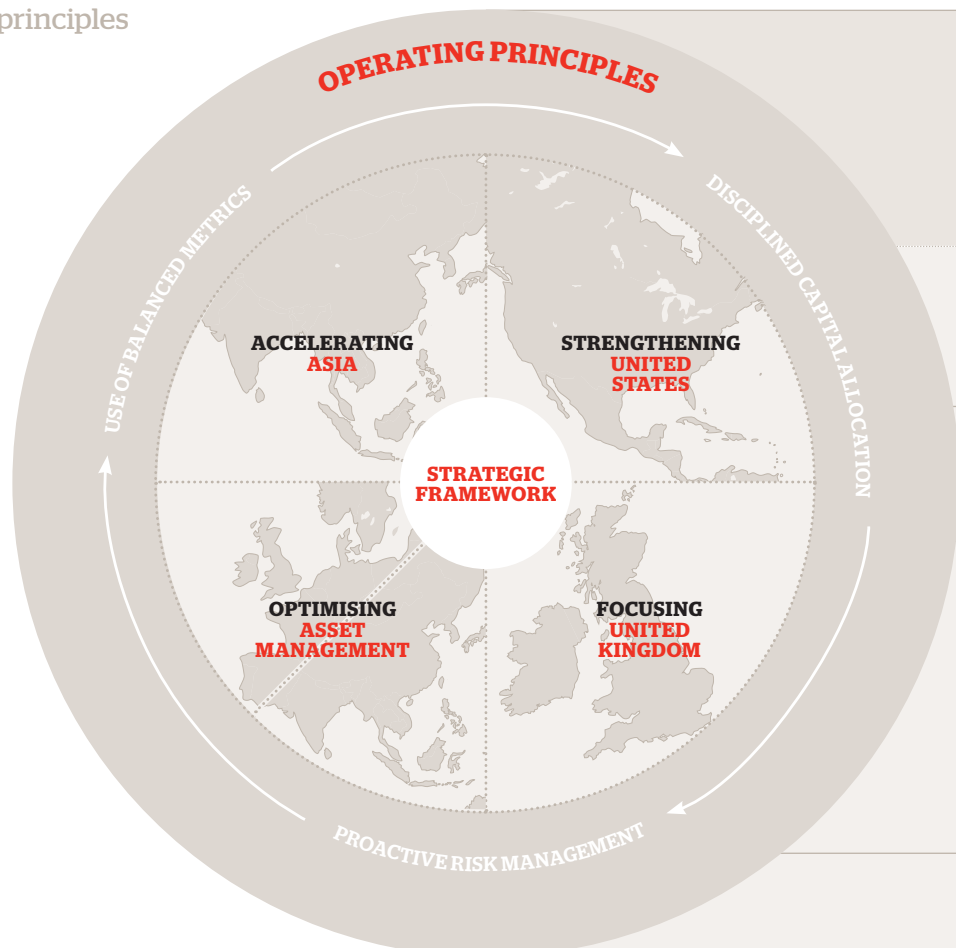
Outlook

By continuing to implement our strategy with discipline, allocating capital to the most attractive markets and products, and managing risk and capital prudently, but proactively, we have generated differentiated performance from our peers.

The outlook for economic growth in Asia, particularly in our preferred markets in South-East Asia, remains positive. The prospects for sustainably growing our leading platform in the region continue to be strong. Our confidence is reflected in the ambitious, yet achievable, objectives we have set for our business in Asia in December 2010.

Regarding Western economies, we continue to be more cautious about the outlook, with some clear differences between the US and Europe. The US economy is recovering, and the combination of the transition of 78 million 'baby boomers' into retirement, and our skill base and products, creates a unique and exciting opportunity for us. The economic outlook in Europe is more challenging. However, having focused our UK business, and relying largely on our existing seven million customers, we believe that we will continue to achieve our objectives in terms of margins and capital and cash generation.

Strategy and operating principles



Our disciplined process of capital allocation will, I believe, enable us to continue to deliver improved cash returns to shareholders. Our diversification, combined with our flexibility to choose where to allocate our capital, have proved to be significant sources of competitive advantage. We successfully navigated the extreme economic and market cycle of the past two years and are confident we will continue to outperform in the markets where we compete in the future.

I believe that the quality of our strategic options, our discipline in putting value ahead of volume and our focus on execution will continue to allow us to grow profitably and to generate significant returns for our shareholders.

Tidjane Thiam

	2011 PRIORITIES	2013 FINANCIAL OBJECTIVES
GROUP	<ul style="list-style-type: none"> Continue to implement strategy with discipline, allocating capital to the most attractive markets and products Manage risk and capital prudently, but proactively Focus on delivering a progressive dividend, determined after taking into account the Group's financial flexibility and opportunities to invest in areas of business offering attractive returns 	<ul style="list-style-type: none"> All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013 Net remittances underpinned by targeted level of cumulative underlying free surplus generation of £6.5 billion over the period 2010 to end-2013
ASIA	<ul style="list-style-type: none"> Continue expanding multi-channel distribution platform and improving its productivity Focus on regular premium products with comprehensive suite of protection riders Drive value through operational efficiency 	<ul style="list-style-type: none"> Double 2009 value of IFRS life and asset management pre-tax operating profit Double 2009 value of new business profits Deliver £300 million of net cash remittance to the Group
UNITED STATES	<ul style="list-style-type: none"> Continue to drive positive net retail flows Innovate around our key variable annuity product Further enhance operational efficiency 	<ul style="list-style-type: none"> Deliver £200 million of net cash remittance to the Group
UNITED KINGDOM	<ul style="list-style-type: none"> Balance writing profitable new business at attractive returns on capital with sustainable cash generation and capital preservation Continue to pursue a value-driven strategy built around our core strengths in with-profits and annuities Deliver further improvements to operational performance and customer service while maintaining a strict focus on costs Continue building complementary distribution channels 	<ul style="list-style-type: none"> Deliver £350 million of net cash remittance to the Group
M&G	<ul style="list-style-type: none"> Maintain superior long-term investment performance for both internal and external funds Continue growth in third-party retail and institutional businesses 	

