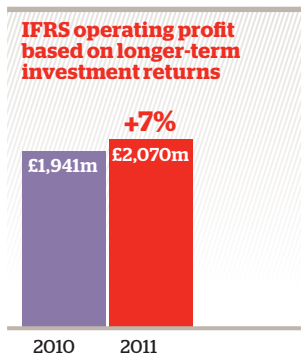


Group Chief Executive's report

‘Our life insurance business in Asia¹ is now the biggest contributor to Group IFRS operating profit², making it our largest business on both IFRS and EEV profitability measures.’

Tidjane Thiam
Group Chief Executive



I am pleased to report a strong performance in 2011. We announced in December 2010 clear 'Growth and Cash' objectives for 2013. 2011 has marked another year of progress towards achieving these objectives: (i) doubling 2009 Asia IFRS and new business profit by 2013, (ii) cumulative net remittances to the Group of at least £3.8 billion over 2010 to 2013 and (iii) UK, Asia and Jackson to deliver respectively £350 million, £300 million and £200 million of cash in 2013.

We have achieved two key milestones which emphasise the good progress that we have made towards these objectives.

First, our life insurance business in Asia¹ is now the biggest contributor to Group IFRS operating profit², making it our largest business on both IFRS and EEV profitability measures. Since 2008, we have made considerable progress in translating the promise of our Asian life insurance franchise into a solid business, delivering significant growth in sales but also IFRS operating profit and cash. Asia offers some of the most attractive opportunities within the global insurance market and the potential for long-term profitable growth for Prudential in the region is clear. Our focus on Asia is simply a consequence of our approach to shareholder value and capital allocation that prioritises our investment towards the markets, products and channels that offer the most profitable returns and the most attractive payback periods.

We have continued to make progress in Asia as measured by our primary growth metric, new business profit. Six markets have achieved new business profit growth in excess of 20 per cent in 2011. Our focus on profitable growth has not stopped us from continuing to grow our absolute and relative scale: six of our 11 Asian life insurance operations are now market leaders in terms of absolute new business sales and, excluding India, all of our markets have grown their sales in 2011.

Second, as a Group, we have enjoyed a track record of sales growth for a number of years. What is particularly pleasing in our 2011 performance is that our progress on cash has been as visible as our progress on our traditional growth agenda. All four of our business units have remitted significant amounts of cash to the Group. Achieving a balanced funding structure is one of our explicit strategic objectives, moving us away from an operating model that relied historically on our UK life business for cash generation. Our business units' ability to generate cash is possibly the best evidence that they have navigated well through the financial crisis.

Group performance

APE sales were up 6 per cent in life insurance in 2011 to £3,681 million (2010: £3,485 million³). New business profit increased by 6 per cent to £2,151 million (2010: £2,028 million³) at attractive new business margins which remained stable at 58 per cent (2010: 58 per cent). Net inflows in our asset management businesses were £4.5 billion (2010: £8.9 billion) following two years of exceptionally high performance. The inflows we have generated in 2011 remain an impressive result in what was a particularly challenging year for the asset management industry due to the weak and volatile performance of global stock markets.

In executing our strategy, we are guided by three clearly defined Group-wide operating principles.

The first of these is a balanced approach to performance management across the three key measures of IFRS, EEV and cash, with an increased emphasis on IFRS and cash. As a result, in 2011, we are reporting results which show growth across all three key measures. This puts us in a strong position to continue to capture the profitable growth opportunities available in our chosen markets.

Group operating principles

- Use of balanced metrics
- Disciplined capital allocation
- Proactive risk management

Strategic framework

Accelerating Asia

For further information go to page 24

Strengthening United States

For further information go to page 34

Focusing United Kingdom

For further information go to page 40

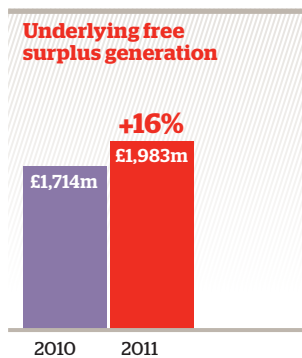
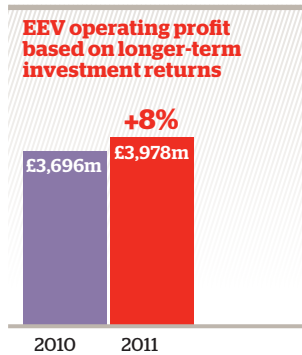
Optimising Asset Management

For further information go to page 46

Notes

- 1 Excluding Eastspring Investments, development costs and Asia regional head office expenses.
- 2 If long-term business is considered separately from asset management and UK general insurance commission.
- 3 Excludes Japan, which ceased writing new business in 2010.

Group Chief Executive's report



'We continue to believe that our prospects in the region are exciting, as indicated by our commitment to double our key metrics of IFRS operating profit and new business profit between 2009 and 2013.'

On a statutory IFRS basis, our operating profit based on longer-term investment returns increased by 7 per cent in 2011 to £2,070 million (2010: £1,941 million). IFRS shareholders' funds increased in 2011 to £9.1 billion, up 14 per cent compared to £8.0 billion as at 31 December 2010. On an EEV basis, Group operating profit based on longer-term investment returns increased by 8 per cent in 2011 to £3,978 million (2010: £3,696 million). Since 2008, we have been using free surplus as the primary indicator of our ability to generate cash and capital and at the end of 2011, free surplus increased to £3.4 billion (2010: £3.3 billion). Underlying free surplus generation was up 16 per cent to £1,983 million (2010: £1,714 million).

Second, we have focused on allocating capital to the highest return and shortest payback opportunities across the Group. This means that we focus our investment on writing new business in the areas of the market where our demanding return and payback criteria are met. In 2011, new business profit increased 6 per cent while investment in new business was £553 million (2010: £643 million¹), 14 per cent lower. Since 2008, new business profit has increased 79 per cent while investment in new business has fallen 30 per cent over the same period, a material increase in capital efficiency.

Third, we take a proactive approach to managing risk across the cycle. We have transformed the capital position of the Group since 2008 with an estimated £4.0 billion of Insurance Groups Directive (IGD) capital surplus against £1.5 billion at the end of 2008. We are continuously improving our risk management process and systems to ensure that our key risks are tracked and managed both locally and centrally.

Our operating performance by business unit

Prudential Corporation Asia

Our medium and long-term growth opportunities are driven by the rapidly expanding middle class across the region, with its strong appetite for savings and protection products. Although the global economic environment has been more challenging in recent times, we continue to believe that our prospects in the region are exciting, as indicated by our commitment to double our key metrics of IFRS operating profit and new business profit between 2009 and 2013.

Across Asia, we continue to innovate both in products and technology, where our investment drives improvements in operational efficiency, helps manage persistency and ensures that we can continue to meet profitably the evolving demands of our customers. Our business is aided by a positive regulatory environment as governments in the region seek to increase insurance penetration, recognising the social role and economic benefits of life insurance as a key provider of long-term capital.

In South East Asia, our 'sweet spot', our growth has been largely led by the rising market of Indonesia as well as the more developed economies of Hong Kong, Singapore and Malaysia. These operations are generating sustainable growth and value, supporting our investments in more emerging markets such as the Philippines, Vietnam and Thailand.

Prudential Indonesia is now our largest business in Asia across virtually all metrics and is the clear market leader in a country where the opportunities for continued growth are significant. It is a market that has low insurance penetration, of just 1 per cent. It is the world's fourth most populous country and a member of the G20. Indonesia has the largest Muslim population in the world; in Syariah products, which are compliant with Islamic law, we have a 54 per cent market share. With 142,000 licensed agents, we have the largest agency network in the country. We believe that the opportunities to further enhance our distribution scale there are significant.

Note

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

In the more emerging markets, we continue to make good operational progress, and over time expect to see a steadily increasing contribution to growth and profits from our businesses in these territories. The Philippines provides a good illustration of these trends. Our business had excellent APE sales growth of 30 per cent, helping it leapfrog from third place to become this rapidly developing country's largest life insurance provider in terms of new business, a very creditable achievement in this highly competitive market.

As previously indicated, the market in India has been challenging since the fourth quarter of 2010 due to significant regulatory reforms across the industry in that year. We are now coming out of this difficult period, a year after the reform, and our joint venture with ICICI continues to be the leading private sector player. In the fourth quarter of 2011, our sales increased notably, demonstrating that our business in India is gathering some momentum. We remain confident about the long-term prospects of that market as we train our extensive agency force to sell a new product suite.

Central to our success in Asia is distribution. Agency continues to be our largest distribution channel, consistent with our customers' preference for face-to-face contact when buying life, health and protection products. In addition, and in parallel, Prudential has a number of highly successful bancassurance partnerships across the region. Our distribution through bank branches complements well our agency distribution and gives us a broader and more diversified footprint. These partnership agreements include regional relationships with international banks such as Standard Chartered, which this year was extended to an eleventh country, the Philippines, and local banks such as E.Sun in Taiwan. 2011 has been the first full year in our relationship with UOB. We have already extended our relationship beyond the three original markets of Singapore, Thailand and Indonesia to include Malaysia and China. This partnership has contributed materially to our strong performance, notably in Singapore where APE sales were up 34 per cent, new business profit up 25 per cent and IFRS operating profit up 29 per cent.

Prudential Corporation Asia's delivery of both profitable growth and cash has validated the central element of the Group's strategy, to focus on the region as a means to deliver sustainable shareholder value.

Jackson National Life Insurance Company (Jackson)

In the United States, the transition of the 'baby boomer' generation from employment to retirement which became visible around 2005 to 2006 is now firmly under way.

Over the next 20 years, more than 10,000 people a day will reach retirement age in the US¹ and these individuals will look to the insurance industry among others to help them convert their accumulated wealth into a steady stream of retirement income.

Jackson's strategy focuses on capturing this opportunity while balancing value, volume, capital efficiency, cash generation, balance sheet strength and strict pricing discipline. Our capital has primarily been directed towards higher-margin and more capital-efficient variable annuities. Our approach to pricing and hedging is conservative and enables us to mitigate the impact of macroeconomic challenges and ensure that we are able to meet our commitments to our customers.

Policyholder behaviour across our book of in-force policies continues to trend in line with our assumptions. Jackson is financially strong, with a risk-based-capital ratio of 429 per cent at the end of 2011, after paying a large remittance to the Group in June 2011.

Note
1 Source: US Census Bureau.

Group Chief Executive's report

'Prudential shareholders are seeing the benefits of Jackson's counter-cyclical expansion in variable annuities.'

In the US, customers and distributors are attracted by Jackson's track record of financial discipline and strong credit rating. We implemented a number of changes in 2010 and 2011 to proactively manage our sales levels, to comply with revised regulations, enhance risk management flexibility and increase profitability. Our monthly variable annuity sales declined from September 2011 onwards from the peak levels seen in the early summer as a result of, first, a number of proactive changes we made to manage the balance between growth, capital and profitability and second, the performance of US equity markets in the period. We have continued to write our business at attractive internal rates of return (IRRs) throughout the year.

Looking ahead, variable annuity sales volumes are likely to continue to show a good degree of correlation with the performance of the S&P 500 index and will also be impacted by our competitors' behaviour. Our approach will continue to focus on profitability ahead of sales. Our disciplined approach to pricing will remain unchanged as we continue to manage conservatively the balance of risk and returns. Prudential shareholders are seeing the benefits of Jackson's counter-cyclical expansion in variable annuities following the financial crisis as Jackson was able to remit £322 million in 2011, the largest net remittance it has ever paid to the Group.

'In the UK, we focus on the lines of business where we have a clear competitive advantage and can generate attractive returns on capital invested.'

Prudential UK

Like Jackson in the US, Prudential UK is well positioned to help British 'baby boomers' as they approach retirement. In the UK, like our other chosen markets, in terms of new business, we focus on the lines of business where we have a clear competitive advantage and can generate attractive returns on capital invested; and we manage our in-force book for value.

Our performance in 2011 shows we continue to be a market leader both in individual annuities and in with-profits products. In individual annuities, we registered a decrease in our sales as we continued to proactively control capital consumption. The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite the market volatility in 2011, with-profits customers' policy values were augmented by a total of £2.1 billion. Our customers continue to benefit from solid returns and the security offered by the large inherited estate. Our results in 2010 benefited from a large bulk annuity contract. There were no similar opportunities of comparable size which met our strict value criteria so our level of activity in that segment was materially reduced.

At the end of 2010, the business announced a number of cost-saving initiatives to reduce costs by £75 million per annum by the end of 2013. We remain on track to achieve this objective.

Asset management

Our asset management businesses have continued to perform well, with M&G IFRS operating profit exceeding £300 million. Our fund managers have a strong track record of outperforming their respective benchmarks and our performance track record has driven another good year for net inflows in what was a challenging environment for the industry. Over the last four years, M&G has risen from being the fifth largest player in the UK retail market in terms of funds under management to now being the second largest, and our UK retail assets have almost trebled over this period to over £35 billion.

After two successive years of extremely high net sales, it was our expectation that net fund flows would revert closer to historic levels in 2011. This was amplified by the macroeconomic environment in Continental Europe, particularly in the second half. However, in the UK, sales remain strong, demonstrating M&G's strength across asset classes and distribution channels. As at December 2011, we have been number one in retail sales for 13 consecutive quarters¹.

Regarding our asset management activities in Asia, we announced in November 2011 that our Asian asset management business would be rebranded Eastspring Investments. It is already a market-leading onshore third party fund management business. This new branding will enable it to establish a more cohesive regional presence, and to market its Asian expertise in Europe and North America. The business had a good year, growing profits by over 11 per cent in spite of a challenging environment characterised by weak stock market performance and the impact of the natural disaster in Japan.

Capital and risk management

Proactive and disciplined management and allocation of capital are the foundations of a robust balance sheet and remain critical in the current economic and financial environment. Using the regulatory measure of the Insurance Groups Directive (IGD), before allowing for the final dividend, our Group capital surplus at 31 December 2011 was estimated at £4.0 billion (2010: £4.3 billion). The Group's required capital is covered 2.75 times.

Solvency II, which is currently anticipated to be implemented from 1 January 2014, represents a major overhaul of the capital adequacy regime for European insurers. We are supportive in principle of the development of a more risk-based approach to capital but we have concerns about the potential consequences of some aspects of the Solvency II regime under consideration. With the continued delays to policy development, the final outcome of Solvency II remains uncertain. We are continuing to engage directly with our peers, policymakers and regulators so that the industry ultimately operates under a fair, effective and reasonable capital adequacy regime. Lack of certainty over the policy content and timetable continues to impede the industry's ability to prepare fully for the new regime.

Therefore, in parallel to continuing our preparation for eventually implementing the Solvency II rules, we also evaluate actions to mitigate the possible negative effects. We regularly review the range of options available to us to maximise the strategic flexibility of the Group. Among these options is consideration of optimising the Group's domicile, including as a possible response to an adverse outcome on Solvency II.

'Our asset management businesses have continued to perform well, with M&G IFRS operating profit exceeding £300 million.'

Note

¹ Source: Fundscape. (Q4 issue, February 2012). The Pridham Report. Fundscape LLP.

Group Chief Executive's report

2013 Financial Objectives

Group

- 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

Accelerating Asia

- 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

Strengthening United States

- Deliver £200 million of net cash remittance to the Group

Focusing United Kingdom

- Deliver £350 million of net cash remittance to the Group

Dividend

In light of the continued strong performance of the business and our focus on a growing dividend, the Board has recommended a final dividend of 17.24 pence per share (2010: 17.24 pence), giving a full 2011 dividend of 25.19 pence (2010: 23.85 pence), representing an increase of 5.6 per cent over 2010.

The Board will maintain its focus on delivering a growing dividend, 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.

Outlook

We continue to believe our long-term success rests on our substantial presence in fast-growing economies across Asia. Our chosen markets benefit from solid economic growth, increasing wealth, favourable demographics – particularly a rapidly expanding middle class – with significant and increasing health and protection demands.

We expect Jackson to continue to benefit from the opportunity created by the transition of the 'baby boomers' into retirement and to make significant remittances to the Group. Our UK life operations should continue in 2012 to deliver significant remittances to the Group and maintain their balance sheet strength. Our asset management businesses, M&G and Eastspring Investments should continue to support our strategy, providing both profitable growth and cash.

The Group's results are a clear sign of the success of our strategy of focusing our energies and capital on the most attractive opportunities and we are in a strong position to continue to deliver relative outperformance in the medium term. We have made a positive start to 2012 and over the course of the year we expect to continue to make progress towards our 2013 'Growth and Cash' objectives.



Tidjane Thiam
Group Chief Executive