Prudential helps people de-risk their lives and deal with their biggest financial concerns. We provide our customers with the freedom to face the future with confidence.

Our year in numbers

Summary financials	2019	2018	Change on an actual exchange rate basis[8]	Change on a constant exchange rate basis[8]
Adjusted operating profit from continuing operations[1]	$5,310m	$4,409m	20%	20%
Operating free surplus generated from continuing operations before US EEV modelling enhancements[2,3]	$3,764m	$3,410m	10%	10%
Life new business profit from continuing operations[4]	$4,405m	$4,707m	(6)%	(6)%
IFRS profit after tax from continuing operations[5]	$1,953m	$2,881m	(32)%	(33)%
Net cash remittances from business units from continuing operations[6]	$1,465m	$1,417m	3%	–
LCSM shareholder surplus over Group minimum capital requirement[7]	$9.5bn	$9.7bn	(2)%	–

Total full-year ordinary dividend

46.26 cents

The Group's 2020 dividend will be determined under the Group's dividend policy from a 2019 base of 36.84 cents[9]

Notes

1 'Adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations. This alternative performance measure is reconciled to IFRS profit for the year in note B1.1 of the IFRS financial statements.

2 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Further information is set out in note 11 of the EEV basis results.

3 During 2019, as part of the implementation of the NAIC's changes to the US statutory reserve and capital framework enhancements were made to the model used to allow for hedging within US statutory reporting which have been incorporated into the EEV model. This resulted in a fall in operating free surplus of $(903) million from a lower expected transfer to net worth. After allowing for this, operating free surplus generated is $2,861 million, down 16 per cent on both a constant and actual exchange rate basis.

4 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV principles.

5 IFRS profit after tax from continuing operations reflects the combined effects of operating results determined on the basis of longer-term investment returns, together with short-term investment variances which for 2019 were driven by non-operating losses in Jackson, corporate transactions, amortisation of acquisition accounting adjustments and the total tax charge for the year.

6 Net cash remitted by business units are included in the holding company cash flow, which is disclosed in detail in note I(iii) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

7 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum capital requirement of participating business in Hong Kong, Singapore and Malaysia. 2018 surplus excludes M&G plc and includes $3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.

8 Further information on actual and constant exchange rate bases is set out in note A1 of the IFRS financial statements.

9 The Group's dividend policy will be determined from a 2019 US dollar base of 36.84 cents per share, representing the full-year ordinary dividend for 2019 of 46.26 cents less the contribution of the discontinued M&G plc business (9.42 cents per share).

Contents

The Directors' Report of Prudential plc for the year ended 31 December 2019 is set out on pages 3 to 9, 90 to 135 and 362 to 403, and includes the sections of the Annual Report referred to in these pages.

Second ordinary dividend

25.97¢

Continuing to deliver long-term value

I am pleased to report that Prudential has produced a positive performance during 2019. We continue to focus on how we deliver for our customers, shareholders and wider stakeholders.

Prudential helps people de-risk their lives and cope with their biggest financial concerns, helping them to face the future with confidence. Our continued progress in 2019, a year of considerable economic uncertainty, is a reflection of our purpose-driven approach.

Our successful completion of the demerger of M&G plc from the Group, ahead of schedule in 2019, was one of the most complex changes to our business for many years. I am proud of the way our people worked towards this significant achievement while continuing to perform for our customers and investors.

Our ambition for Jackson is that it should play a broader role in the US retirement income market, through a strategy of diversifying its product range and distribution network. In view of this, Jackson will need access to additional investment, which we believe would best be provided by third parties. Over the past nine months, we have undertaken significant work with our advisers to assess options for introducing third-party finance into Jackson. The Board has determined that the preferred route to achieve this is to seek a listing of Jackson in the US, subject to market conditions. We will now begin detailed engagement with key stakeholders, with a view to ensuring that Jackson will have the capital strength as a separately listed business to support its continued success as a broad provider of retirement solutions for America's ageing population.

Dividend

The Board has approved a 2019 second interim ordinary dividend of 25.97 cents per share, equivalent to the 19.60 pence per share previously announced in the demerger Circular alongside the new dividend policy for the Group post-demerger.

The Group's 2020 dividend under this new progressive dividend policy will be determined from a 2019 US dollar base of 36.84 cents per share.

Board changes

A strong and decisive Board is at the core of a well run company. The robust governance provided by our Board is key to ensuring we continue to meet all our objectives. Developing the skills, diversity and experience of our Board requires a flexible approach and openness to change, just as the Group's shape is itself changing. During 2019, we made a number of changes to the Board's composition, all of which have helped to reinforce its capabilities and position it strongly for the future, and we put plans in place for refreshing the Board in the years to come. Amy Yip joined us in September as a Non-executive Director and a member of the Remuneration Committee, bringing considerable expertise in financial services in China and South-east Asia. At the beginning of January 2020, Jeremy Anderson joined us as a Non-executive Director and a member of the Risk and Audit Committees, providing substantial experience in international financial services, particularly in audit and risk management. I would like to welcome Amy and Jeremy to the Board and I would particularly like to thank Howard Davies, who will step down from the Board at the conclusion of the 2020 Annual General Meeting, for his significant contribution during his tenure and his leadership of the Risk Committee since its inception. Jeremy Anderson will succeed Howard as Chair of the Risk Committee at the conclusion of the Annual General Meeting in May 2020.

At the end of January 2020, we announced that Shriti Vadera will join the Board on 1 May as a Non-executive Director and member of the Nomination & Governance Committee, and that she is expected to succeed me as Chair of the Board and the Nomination & Governance Committee on 1 January 2021. Shriti is an excellent choice for the future Chair, and I look forward to working with her on the Board and during the transition.

Our customers and wider stakeholders

We are determined to build new capabilities in our structural growth markets, offering our products to more customers in Asia across an increasing range of channels; and reaching new customers in Africa, one of the fastest-growing regions in the world. In the US, the world's largest retirement market, we are a leader in providing asset accumulation and income products. The loyalty of our existing customer base is an important source of financial resilience for the Group, and we work continuously to improve service and outcomes. The nature of our business model means that we invest our customers' savings in companies and infrastructure that help to drive prosperity and strengthen the communities we serve.

Our business provides social benefits to our customers and to their communities. In particular, we are committed to broadening access to healthcare and finance and to providing solutions to issues emerging from demographic change. We are well aware of the risk climate change presents and are broadening the role our businesses can play in the transition to a sustainable economy. We are a signatory to the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures, and we are deepening our understanding of the risks faced by the business. We will continue to work with governments, regulators, civil society and other businesses as we develop a range of approaches to these issues.

The Board remains committed to ensuring that we make a positive impact across all our activities. You will find references throughout this report to that impact, while an overview of what we have done across all areas of environmental, social and governance (ESG) activity in 2019 can be found in our ESG Summary on page 72 of this report. Further details are in our 2019 ESG Report on the Prudential plc website.

Our shareholders

The Board's role is to represent the interests of all of the Company's shareholders. We have delivered significant change to the business during a period of macroeconomic and industry headwinds, and we have stepped up our regular and frank dialogue with our shareholders to ensure we are responsive to their priorities and concerns, while ensuring they fully understand the wider backdrop to our performance. Ongoing shareholder engagement enables us to gather important feedback that informs our decisions as a Board. For me personally, these discussions are highly valuable and the ideas and suggestions generated are invariably useful and always taken seriously.

Changes in the policy and regulatory environment in which we work can have a significant impact on our business and what we can do for our customers. We build and develop positive and open relationships with our supervisors, governments and civil society, and we are grateful for the constructive work of our regulators, in particular the Hong Kong Insurance Authority. We look forward to continuing to work closely with them into the future.

Our people

Our business is built around our purpose and our strategy, but it is our people who implement that strategy. In our businesses around the world we have excellent teams working hard to ensure we meet our commitments to our customers. The needs, priorities and concerns of our colleagues are a focal point for the Board. During 2019, two of our Non-executive Directors, Kai Nargolwala for Asia and Africa and Tom Watjen for the US and the UK, were appointed to act as a conduit between employees and the Board, and they will continue to deepen their activity in this area. You can read more about their activities in this area on page 74 of this report.

We are committed to providing an inclusive working environment in which we develop our talent, reward performance, protect our people and value our differences. Diversity and inclusion is an important priority for the Group. We are making good progress in this area and I am confident we will continue to do so.

We are continuing our active programme of community investment in our businesses around the world. As we collect premiums in the many markets in which we operate, we also understand the need to help those communities to strengthen and develop. Our contribution includes projects covering a number of areas such as Safe Steps, which provides advice around natural disasters, road safety and first aid; First Read, which helps parents to develop their children's numeracy and literacy; and Cha-Ching, the first global financial education programme. Our people around the world continue to make a remarkable effort volunteering their time and skills for the benefit of their communities. I am particularly proud of these contributions, and I support this volunteering activity personally through the Chairman's Challenge, our flagship international volunteering programme, which brings teams together across the Group to help in their communities. This programme continues to appeal to colleagues, with more than 5,400 signing up in 2019 to participate across 21 projects.

During early 2020, our business has been responding with agility to the global challenges posed by the coronavirus outbreak. We have been providing customers with additional benefits and service, offering advice and flexible working options to colleagues, and collaborating with governments to directly support affected communities. The virus outbreak is also impacting financial markets. We are monitoring developments closely and will continue to be proactive in helping our colleagues and customers.

I would like to thank all my colleagues on the Board, in management and throughout the business, and all our stakeholders for their support and for everything they have done to ensure the success of Prudential during my time as Chairman.

Looking forward

Our Board is highly responsive to the interests of our stakeholders and we will continue to make improvements to the structure of the Group where we believe they will generate material benefits over the long term. We are well positioned to benefit from strong structural growth opportunities and continue to provide benefits for our customers and value for our investors well into the future.

Paul Manduca
Chairman

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20%

Increase in adjusted operating profit from continuing operations[2]

$1,953m

IFRS profit after tax from continuing operations (2018: $2,881m)

Delivering profitable growth and positioning ourselves for the future

We have delivered a positive operating performance during 2019, led by continued growth in our Asian business.

Our clear strategy and focused execution, combined with improvements in our operations, have enabled us both to deliver profitable growth and to position ourselves for continued growth into the future.

We exist to take the financial risk out of the biggest events in the lives of our customers, enabling them to face the future with confidence. In addition to fulfilling our traditional role of providing life and health protection, savings opportunities to meet family goals and retirement income, we aspire to lead in new areas aligned with this purpose. During 2019, collectively our continuing businesses agreed to pay over $29 billion to our customers in claims and savings pay-outs. Our products help consumers postpone and prevent ill-health through digital innovation, increase access to finance, and provide solutions for an ageing world. At the same time, we are investing our customers' savings in the real economy, helping to drive sustainable growth.

Our business is built around long-term structural opportunities. In our fast-growing markets in Asia there is a strong and growing need for health and protection, for savings opportunities and for ways to invest, and there is a significant gap for products that meet those needs. By meeting important financial needs, we expect to build long-term relationships with our customers. This translates into recurring income streams and low lapse rates, which in turn produce high-quality earnings.

We are well positioned to meet structural opportunities. We are diversified by geography, with operations in 15 markets in the region, through our products offering health and protection, savings and asset management, and in our mix of channels, providing our products through our large agency force and our network of partnerships with banks across the region. We are also innovating at pace and scale to digitalise the customer journey end-to-end, and delivering new value-added solutions, such as Pulse by Prudential, our new digital health app.

In the US, where the continuing transition of millions of Americans into retirement creates a substantial opportunity for Jackson's products, we have delivered organic diversification and Jackson has paid a dividend of $525 million[1].

During 2019, we successfully completed the demerger of M&G plc from the Group, enabling us to focus on structural growth markets. We are working collaboratively with our new Group-wide regulator, the Hong Kong Insurance Authority, and our other supervisors across our markets.

The US is the world's largest retirement market with trillions of dollars expected to move from savings into retirement income products over the next decade. As a top-two annuity provider, Jackson is a leader in meeting the needs of Americans who aspire to a secure retirement with a guaranteed income.

Jackson's ambition is to play the fullest role possible through a strategy of diversifying both its product range and distribution network. Over time, this is expected to lead to a more balanced mix of policyholder liabilities and enhance statutory capital and cash generation.

As we stated at our half-year results, in order to diversify at pace, Jackson will need access to additional investment which we believe would best be provided by third parties. Since then, we have undertaken significant work with our advisers to assess options for introducing third party finance into Jackson. The Board has determined that the preferred route to achieve this is to seek a listing of Jackson in the US in due course, subject to market conditions.

Accordingly, we are today announcing that preparations have commenced for a minority initial public offering (IPO) of Jackson and have already taken a number of management actions to support this path. We will now commence detailed engagement with key stakeholders, with a view to ensuring that Jackson will have the capital strength as a separately listed business to support its continued success as a broad provider of retirement solutions for America's aging population. We will provide an update at our HY20 results scheduled for 11 August 2020.

Macroeconomic environment

The core demand for our long-term savings and protection products has remained strong despite uncertain conditions in the macroeconomic environment. A combination of low interest rates, trade disputes and volatile international politics has created difficult conditions across many sectors. The US government 10-year bond yield fell to 1.9 per cent at the end of 2019 (2018: 2.7 per cent). Equity markets finished 2019 higher than the start of the year, especially in the US, where the S&P500 index was up 28.9 per cent, and valuations in the credit markets were also elevated well above historic norms. We continue to manage our business conservatively for the long term, with a cautious allocation of shareholder funds and extensive hedge programmes in Jackson. These hedge programmes manage the economic risk, with consideration of the local regulatory position, of the guarantees contained within the products sold to customers.

Financial performance

The adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit[2]) for 2019 from our continuing operations increased by 20 per cent on both a constant and actual exchange rate basis, reflecting the continued growth and resilience of our Asian businesses and the beneficial impact of strong 2019 capital returns on deferred acquisition cost amortisation in the US. The IFRS profit after tax from continuing operations was $1,953 million in 2019 (2018: $2,881 million on an actual exchange rate basis). This is after a $(380) million post-tax loss in Jackson, where accounting volatility continues to be expected given the economic nature of our hedging programme and the related accounting mismatches that exist.

Alongside our financial performance we have made significant investments, funded regionally and centrally. During 2019, this included the renewal of our regional strategic bancassurance alliance with United Overseas Bank Limited for an initial fee of $853 million, ($301 million of which was paid in 2019), entering into an exclusive bancassurance partnership with SeABank, our acquisition of 50.1 per cent of Thanachart Fund Management Co., Ltd for $142 million[3] and a total investment of $619 million of free surplus in writing profitable new business in Asia, along with an investment of $539 million in free surplus in US new business.

Asia

Our Asian operations continued to drive our performance. The fast-growing markets of Asia offer long-term structural opportunities for us, with the region's growing population having a clear and increasing need for the products we deliver. Insurance penetration in Asia is only 2.7 per cent of GDP, compared with 7.5 per cent in the UK[4], while mutual fund penetration is just 12 per cent in Asia, compared with 96 per cent in the US[5].

We have demonstrated the strength of our portfolio of businesses in the region by delivering double-digit growth in APE[6] sales in six markets and in new business profit[7] in eight, reinforcing the value of our diverse portfolio and demonstrating the breadth of earnings streams and new business spread in Asia.

Outside Hong Kong, we delivered a 17 per cent[8] increase in APE[6] sales and a 29 per cent[8] rise in new business profit[7]. Within Hong Kong, our domestic business was resilient despite the effect of social unrest, with APE[6] sales growing by 8 per cent[8]. Our domestic Hong Kong business has continued to expand and invest, driven by new health, protection and retirement solutions and supported by focused sales initiatives. Fewer visitors from mainland China caused a fall in total Hong Kong APE[6] sales by 11 per cent[8] and a fall in new business profit[7] of 12 per cent[8].

We have continued to accelerate our joint venture business in China, where APE[6] sales over the year were 53 per cent[8] higher, driving new business profit[7] growth of 38 per cent[8]. We recently established a new branch in Shaanxi, our 20th in the country, and added seven cities and 14 sales and servicing offices. We are developing rapidly in a number of our other markets in the region, including Vietnam and the Philippines, where APE[6] sales grew by 12 per cent[8] and 34 per cent[8] respectively and we are making good progress in Indonesia, where our sales grew by 23 per cent[8] in the year including 41 per cent[8] in the second half. Overall our Asia life businesses delivered 4 per cent[8] growth in overall APE[6] sales and a 2 per cent[8] growth in overall new business profit[7].

The benefits of our long held focus on writing high quality, recurring premium business, contributing to resilient and broad-based in-force growth are evident in the 12 per cent[8] increase in renewal insurance premium[9] and 14 per cent[8] increase in adjusted operating profit[2], with double-digit growth[8] in eight insurance markets including 24 per cent adjusted operating profit growth in Hong Kong and 20 per cent[8] growth in mainland China.

At the same time, our Asian asset manager, Eastspring, has continued to grow well. Average assets under management were up by 15 per cent (on an actual exchange rate basis), while earnings were up by 18 per cent[8] and net external inflows totalled $8.9 billion[10]. Eastspring is continuing to expand its footprint in the region, and in December acquired a controlling stake in one of Thailand's leading asset managers, Thanachart Fund Management Co., Ltd, with the option to acquire the remaining equity in this business in due course.

We have broad and efficient channels in Asia, through both our agency force and our bank partners. During 2019, we continued to strengthen our network of bank partnerships, renewing and expanding our successful strategic alliance with United Overseas Bank in five markets across the region and signing two new partnership agreements in Vietnam.

We are continuing to deliver digital innovation to support our successful agency and bank channels. We are diversifying into new areas, including employee benefits insurance for both large and small employers in the region, and at the same time we are building new value-added services such as Pulse by Prudential, our new end-to-end digital health app.

Africa

We are continuing to make good progress in our newer markets in Africa. In 2019 we enhanced our growing scale in the region by acquiring a majority stake in a leading life insurer operating in Cameroon, Côte d'Ivoire and Togo, which have a combined population of more than 65 million. We now operate in eight markets in Africa with a total population of almost 400 million. In 2019, the Africa business delivered a 76 per cent[8] increase in APE[6] sales to $82 million (2018: $47 million).

US

In the US, our product innovation and distribution leave us well positioned to provide an ageing population with financial strategies for stable retirements. The US is the world's largest retirement savings market[11], with approximately four million Americans reaching retirement age every year[12]. This transition continues to trigger the unprecedented shift of trillions of dollars from savings accumulation to retirement income generation[13].

We provide products that offer Americans the retirement strategies they need, including variable, fixed and fixed index annuities. Our diversified product approach has enabled us to deliver APE[6] sales up 8 per cent, with increases in both fixed index and fixed annuity products. New business profit[7] declined by 28 per cent, reflecting lower interest rates and changes in product mix.

In the US, we have one of the leading distribution teams[14]. We are agile and successful in launching well designed, customer-centric products, have successful risk management and hedge programmes are investing in technology platforms and have award-winning customer service. We are continuing to work towards further diversification and growth, within a highly competitive industry.

Our US business has taken important steps in the delivery of its diversification announced with our half year results in August 2019 and has maintained a cautious approach to managing risk through its dynamic hedging programme. The financial results of the US business reflect the execution of this strategy. While adjusted operating profit[2] increased by 20 per cent to $3,070 million, the effects of strong US equity market performance and lower interest rates in the period led to a post-tax IFRS loss in the US of $(380) million. We continue to accept a degree of volatility in our IFRS results since our hedging programme is based on managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. Further detail is provided in the Group Chief Financial Officer and Chief Operating Officer's report.

Outlook

We continue to monitor closely the development of the coronavirus outbreak. Our priority is the health and wellbeing for our customers and staff during this challenging time.

While the coronavirus outbreak has slowed down economic activity in the year to date and dampened our sales momentum in Hong Kong and China, we remain confident in the medium to long-term prospects of these economies and their respective insurance sectors. Our broad geographic spread across the region and the strength of our recurring premium business model lends considerable resilience to our earnings.

Given the impact of the coronavirus outbreak on travel and activity in the markets in which we operate, lower levels of new sales activity in those affected markets are to be expected. Our book of existing business is proving resilient and we are taking measures to manage the effect of lower activity while maintaining our investment in products, distribution and technology. Existing customers in both Hong Kong and mainland China continue to contribute to their policies with premiums being paid through a broad range of remote payment facilities.

The longer term structural drivers of growth in our Asia markets remain unchanged and compelling. The resilient and high quality nature of the IFRS operating earnings growth of our Asia business remains supported by the compounding nature of a highly enduring regular premium income base and focus on health and protection products. These drivers, combined with the diversity of the Asia platform and quality of its execution, are expected to outweigh the effects of any one period's new sales.

In the US, we have commenced preparations for a minority IPO of Jackson as our preferred route to introduce third party finance into Jackson. As previously announced, from 2020 Jackson's remittances are expected to be more evenly spread over the calendar year than in prior periods.

The Group's strategy remains focused on structural growth opportunities. The Group will prioritise the considerable attractive investment opportunities available when considering the deployment of capital and applying its progressive dividend policy.

Interest rates have declined materially in 2019 and are trending lower in 2020. Equity markets have been volatile and have declined in the current year to date from their peaks in Q4 2019. These market conditions, as well as the coronavirus outbreak, create headwinds in respect of near-term new business profit and IFRS fee-based and spread earnings. However, our performance in 2019 demonstrates that the opportunities we have identified are clear and long term and that we are addressing these opportunities well. We are continuing to deliver growth based on the strength of those opportunities, the diversification of our business and the resilience of our earnings. I am confident that, with our clear focus on our structural growth markets and our continuing operational improvements, we will continue to deliver profitable growth for our investors and benefits for our stakeholders over the medium and long term.

Mike Wells
Group Chief Executive

Notes

1 During 2019, the Group's holding company cash flow was managed in sterling and significant remittances were hedged and recorded on that basis. Amounts received were therefore distorted by the onwards translation into US dollars. The dividend paid by Jackson in the US in US dollars in 2019 was $525 million (2018: $450 million). The amount recorded as received in the holding company cash flow was $509 million (2018: $452 million).

2 Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the year is set out in note B1.1 of the IFRS financial statements.

3 Cash payments made over 2019 and 2020.

4 Source: Swiss Re Sigma 2017. Insurance penetration calculated as premiums on per cent of GDP. Asia penetration calculated on a weighted population basis.

5 Source: Investment Company Institute, industry association and Lipper.

6 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written down during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.

7 New business profit on a post-tax basis, on business sold in the period, calculated in accordance with EEV principles.

8 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated. As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in periods of currency movement.

9 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.

10 Excludes Money Market Funds.

11 Source: Willis Towers Watson Global Pension Asset Study 2019.

12 Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: 1 April 2010 to 1 July 2018. Source: US Census Bureau, Population Division.

13 2016 Federal Reserve Board's Triennial Survey of Consumer Finances.

14 Source: Independent research and Market Metrics, a Strategic Insight Business: U.S. Advisor Metrics 2019, as of 30 September 2019.