

The Directors' Report of Prudential plc for the year ended 31 December 2004 comprises these pages and the sections of the Annual Report referred to in these pages.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

Prudential plc is the Group holding company and the principal activity of its subsidiary undertakings is the provision of financial services in the UK, the US and Asia. Particulars of principal subsidiary undertakings are given in note 31 on page 89. The Group's businesses and likely future developments are reviewed in the Chairman's Statement on page 2, the Group Chief Executive's Review on pages 3 and 4, the Business Review on pages 5 to 11 and the Financial Review on pages 12 to 29, which contain details of the development of the businesses of the Group during the financial year and of the Group's position at the end of it. No important events affecting the Group have occurred since the end of the financial year.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

The consolidated balance sheet on pages 60 and 61 shows the state of affairs of the Group at 31 December 2004. The Company's balance sheet appears on page 62 and the consolidated profit and loss account on pages 56 to 58. Information prepared on the achieved profits basis of financial reporting is provided on pages 113 to 124. A summary of the statutory basis results is shown on page 55. There is a five year review of the Group on pages 98 and 99.

Changes in the Company's share capital during 2004 are given in note 28 on page 88.

DIVIDENDS

The directors recommend that the shareholders declare a final dividend for 2004 of 10.65 pence per share payable on 25 May 2005 to shareholders on the register of members at the close of business on 18 March 2005. After adjusting for the bonus element of the Rights Issue in 2004, the interim dividend for 2004 was 5.19 pence per share (actual amount paid in 2004 was 5.40 pence). The total dividend for the year, including the adjusted interim dividend and the recommended final dividend, amounts to 15.84 pence per share compared with 15.38 pence per share as adjusted for 2003. The total cost of dividends for 2004 was £362 million.

PAYMENT POLICY

It is the policy of the Group to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms. Trade creditor days, based on the ratio of amounts which were owed to trade creditors at the year end to the aggregate of the amounts invoiced by trade creditors during the year, were 22 days.

DIRECTORS

A list of the present directors is set out on pages 32 and 33. Mark Norbom, James Ross and Michael Garrett were appointed as directors on 1 January 2004, 6 May 2004 and 1 September 2004 respectively. Keki Dadiseth was appointed as a director with effect from 1 April 2005. In accordance with the Articles of Association, James Ross, Michael Garrett and Keki Dadiseth will retire and offer themselves for election at the Annual General Meeting on 5 May 2005. Sandy Stewart resigned as a director on 6 May 2004, and Bart Becht resigned as a director on 31 August 2004. Clark Manning, Roberto Mendoza and Mark Wood will retire by rotation at the Annual General Meeting and offer themselves for re-election. Details of each director's interests in shares and debentures of the Company and its listed subsidiary, Egg plc, are set out in the Remuneration Report on page 46.

EMPLOYEES

The following information is given principally in respect of employees of the Group in the United Kingdom. The policy towards employees overseas is the same but the practical application of the policy varies according to local requirements.

Equal Opportunity

Prudential recognises, respects and values difference and diversity. Its equal opportunities policy is to be fair, responsible and caring in all aspects of the business. The Group seeks to ensure all employees and applicants to its businesses are given equal opportunity in all aspects of employment to ensure that the Group's businesses attract, retain and promote the best available talent. All the businesses work to embed these principles in all aspects of their management practices and to ensure that this is evident to employees in their day-to-day work.

It is Group policy to give full and fair consideration and encouragement to the employment of applicants with suitable aptitudes and abilities, and to continuing the employment of staff who become disabled, and to providing training and career development opportunities to disabled employees.

Employee Involvement

The Group has effective communication channels through which employees' views can be sought on issues which concern them. Throughout the Group there is close consultation between management and other employees on appropriate matters of concern, with a view to keeping employees informed about the progress of the Group's business and the economic factors affecting it. Communication with employees is achieved in a number of ways, including one-to-one staff briefings and through the Group's intranet site. Prudential's European Employee Forum provides an opportunity for elected employee representatives to consult with senior management on strategic European business issues. M&G's Staff Consultative Committee promotes communication and consultation throughout M&G and is the forum for dialogue on a range of issues of interest to its staff.

During 2004 all Prudential UK based operations began a process of reviewing their staff consultative arrangements with a view to improving their effectiveness, consulting trade unions and staff as relevant. This review was given impetus by the impending UK legislation on Information and Consultation. Some changes were implemented in 2004 and plans to consult on and change other arrangements in 2005 were developed.

In 2004 employees were again invited to participate in the Prudential Savings-Related Share Option Scheme. The Scheme has now been operating for 21 years and 63 per cent of UK staff currently participate. The Prudential International Savings-Related Share Option Scheme (ISSOS) for employees has been operating since 2000 in Hong Kong, Malaysia and Singapore; since 2001 in Taiwan and India; and since 2003 in Korea. On average 27 per cent of employees in those countries covered by the ISSOS currently participate. In addition, since 2002 Prudential has operated the International Savings-Related Share Option Scheme for Non-Employees (ISSOSNE) for its agents in Hong Kong. Currently 13 per cent of agents participate.

Following shareholder agreement in 2000 to authorise the Board to introduce a Share Incentive Plan, The Prudential UK Share Incentive Plan (SIP) was introduced in 2004 for employees of Prudential UK Services Limited and The Prudential Assurance Company Limited. This SIP enables employees to buy Prudential shares on a tax efficient basis. For every four Partnership Shares bought, an additional Matching Share is granted. Currently 12 per cent of eligible staff participate.

The trustees of each of the Group's UK pension schemes include elected individuals.

DONATIONS

Prudential is committed to supporting the communities where it is an employer. In 2004 the Group spent £4.5 million in support of the community. Within this, direct donations to charitable organisations amounted to £2.7 million, of which approximately £2.2 million came from EU operations. This is broken down as follows: Education £940,000; Social and Welfare £898,000; Environment and Regeneration £84,000; Cultural £176,000 and Staff Volunteering £69,000. The aggregate figure for charitable donations from Prudential's non-EU subsidiaries (Jackson National Life and Prudential Corporation Asia) amounted to £0.5 million. It is the Group's policy not to make donations to political parties or to incur political expenditure, within the meaning of those expressions as defined in the Political Parties, Elections and Referendums Act 2000, and the Group did not make any such donations or incur any such expenditure in 2004.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held on 5 May 2005 at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

AUDITOR

A resolution for the re-appointment of KPMG Audit Plc as auditor of the Company until the end of the 2006 Annual General Meeting will be put to the Annual General Meeting on 5 May 2005.

SHAREHOLDERS

The number of accounts on the share register at 31 December 2004 was 69,632 (2003: 76,805). Further information about shareholdings in the Company is given on page 126. As at 1 March 2005 the Company had received notification in accordance with Sections 198 to 208 of the Companies Act 1985 from Legal & General Investment Management Limited of a holding of 4.02 per cent of the Company's ordinary share capital. Changes (if any) to significant shareholdings are updated to 22 March 2005 on page 126.

On behalf of the Board of directors



PETER MAYNARD
Company Secretary
1 March 2005