



From our origins as a UK domestic life insurance company we have rapidly grown our international operations over the last 20 years, and in 2007 over 75 per cent of our EEV new business profits came from Asia and the United States.

**There's more to Prudential.**

# Business overview

Prudential plc is an international retail financial services group with significant operations in Asia, the US and the UK. Our purpose is to promote the financial well-being of our customers and their families, with a particular focus on saving for retirement and security in retirement.

The Group is structured around four main business units: Prudential Corporation Asia, Jackson National Life Insurance Company, Prudential UK and M&G. These are supported by central functions which are responsible for leading Group strategy, cash and capital management, leadership development and succession, reputation management, and other core Group functions.



## Asia

Prudential Corporation Asia is the leading European-based life insurer in Asia in terms of market coverage and number of top five market positions. The Company has life and asset management operations in 13 markets, covering China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Vietnam and the United Arab Emirates.

% of Group EEV long-term operating profits



2007	£1,046m
2006*	£829m

% of Group IFRS operating profits†



2007	£246m
2006*	£224m

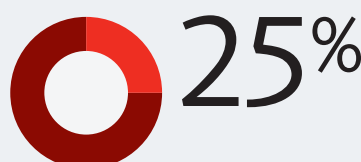
## Customers

10m+

## United States

Jackson National Life Insurance Company is one of the largest life insurance companies in the US and provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those nearing retirement.

% of Group EEV long-term operating profits



2007	£627m
2006*	£708m

% of Group IFRS operating profits†



2007	£452m
2006*	£408m

## Customers

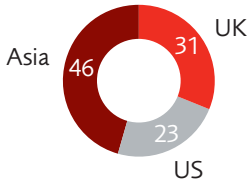
3m+

\*2006 comparatives at reported exchange rates (RER).

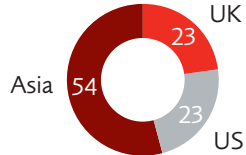
†IFRS operating profits based on longer-term investment returns before restructuring costs and other income and expenditure.

Life assurance

% of Group APE new business premiums

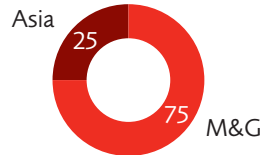


% of Group EEV new business profit



Asset management

% of Group external funds under management (FUM)



United Kingdom

Prudential is a leading provider of retirement savings and income solutions and life assurance in the UK and has a unique combination of competitive advantages including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. Prudential provides a range of financial products and services including annuities, corporate pensions, with-profits and unit-linked bonds, savings and investments products, protection, equity release and health insurance products.

% of Group EEV long-term operating profits



% of Group IFRS operating profits<sup>†</sup>



Customers

7m+

United Kingdom and Europe

M&G is Prudential's UK and European fund management business and has £167 billion of assets under management (as at 31 December 2007) of which £116 billion relates to Prudential's long-term business funds. M&G aims to maximise profitable growth by operating in markets where it has a leading position and competitive advantage, including retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

% of Group IFRS operating profits<sup>†</sup>



Customers

1m+

<sup>†</sup>IFRS operating profits based on longer-term investment returns before restructuring costs and other income and expenditure.

# Key performance indicators

APE new business premiums £m

## +21%

2007	£2,874m
2006 <sup>†</sup>	£2,374m

EEV operating profit from long-term business\* £m

## +20%

2007	£2,517m
2006 <sup>†</sup>	£2,103m

PVNB new business premiums £m

## +17%

2007	£21,302m
2006 <sup>†</sup>	£18,192m

IFRS operating profit £m

## +20%

2007	£1,213m
2006 <sup>†</sup>	£1,008m

EEV new business profit £m

## +22%

2007	£1,215m
2006 <sup>†</sup>	£992m

Holding company operating cash flow £m

## +21%

2007	£(82)m
2006	£(104)m

External funds under management £bn

## +19%

2007	£69bn
2006 <sup>†</sup>	£57bn

\* Including Asia development costs.

<sup>†</sup> 2006 comparatives at constant exchange rates (CER).

# Financial highlights

## Results summary

European Embedded Value (EEV) basis results*	2007	2006
Asian operations	£1,103m	£864m
US operations	£635m	£718m
UK operations:		
UK insurance operations	£859m	£686m
M&G	£254m	£204m
Other income and expenditure	£1,113m	£890m
Restructuring costs	£(289)m	£(298)m
Operating profit from continuing operations based on longer-term investment returns*	£(20)m	£(41)m
Short-term fluctuations in investment returns	£2,542m	£2,133m
Mark to market value movements on core borrowings	£174m	£738m
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	£223m	£85m
Effect of changes in economic assumptions and time value of cost of options and guarantees	£116m	£207m
	£748m	£59m
Profit from continuing operations before tax (including actual investment returns)	£3,803m	£3,222m
Operating earnings per share from continuing operations after related tax and minority interests*	74.9p	62.1p
Basic earnings per share	125.2p	91.7p
Shareholders' equity, excluding minority interests	£14.8bn	£11.9bn

### International Financial Reporting Standards (IFRS) basis results\*

Statutory IFRS basis results	2007	2006
Profit after tax attributable to equity holders of the Company	£1,022m	£874m
Basic earnings per share	41.8p	36.2p
Shareholders' equity, excluding minority interests	£6.2bn	£5.5bn
<b>Supplementary IFRS basis information</b>		
Operating profit from continuing operations based on longer-term investment returns*	£1,213m	£1,050m
Operating earnings per share from continuing operations after related tax and minority interests*	33.8p	30.9p
Dividends per share declared and paid in reporting period	17.42p	16.44p
Dividends per share relating to reporting period	18.00p	17.14p
Funds under management	£267bn	£251bn

\*Basis of preparation.

#### Results bases

The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. The basis of preparation of statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2006 results and financial statements.

#### Operating profit based on longer-term investment returns

Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits from continuing operations based on longer-term investment returns, after related tax and minority interests. These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. After adjusting for related tax and minority interests, the amounts for these items are included in the calculation of basic earnings per share.

#### Discontinued operations

The results for continuing operations shown above and throughout this preliminary announcement exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg. Accordingly, the presentation of the comparative results for 2006 has been adjusted from those published in March 2007.

# Chairman's statement



'We feel that the prospects for the Group continue to be exciting, and that we have the positioning, the skills and the capabilities to continue to deliver profitable growth for our shareholders.'

*David Clementi*

Full year dividend per share

**+5%**

2007	18.00p
2006	17.14p

**2007 was a highly successful year for Prudential, building on our strong performances in both 2005 and 2006. Over the last three years we have doubled EEV operating profits and almost doubled statutory profits by pursuing our international growth ambitions in a targeted and disciplined way.**

In 2007 more than three quarters of the Group's new business profits came from Asia and the US, which truly differentiates us from other UK and EU life insurers. At the same time, our UK insurance operation is achieving some of the highest returns in its market, and continues to be a significant contributor to IFRS profits through its strong with-profits fund and shareholder-backed annuity business. Our growing asset management businesses also provided almost a quarter of statutory profits in 2007.

Throughout the year we continued to strengthen the Group's cash flow and capital position, and the Board has recommended a full year dividend of 18 pence per share, an increase of five per cent on 2006.

Perhaps the most significant trend affecting retail financial services today is the transition into retirement of an unprecedented proportion of the working population. This demographic trend is well documented in the UK and the US, but is also happening in many other markets in which we operate. Individuals worldwide are accepting the need to take charge of their own retirement planning and finances to an extent that has not happened before.

This retirement opportunity plays well to Prudential's strengths. We have trusted brands and the distribution, investment management, risk management and product innovation skills to meet customers' changing needs as they save for, and draw an income in, retirement.

Over the last three years the Group's senior management, led by Mark Tucker, has developed a robust and sustainable operating model, designed to capitalise on these strengths and capture a significant share of the retirement opportunity in our chosen markets.

We are also successfully leveraging the knowledge and experience of our more mature businesses to create solutions for our newer markets more quickly and effectively than would be possible on a standalone basis.

During the year we made a number of Board changes. In August we announced the appointments of Win Bischoff and Ann Godbehere as non-executive directors. We are delighted by the addition of their talents to our Board.

In September we announced that Philip Broadley, the Group's Finance Director, would leave the company in May 2008 after eight years' service. I would like to thank him for his immense contribution over that time. His successor, Tidjane Thiam, has an outstanding track record, and his broad knowledge and experience of the industry will be of great value to the Group.

This year Prudential will be 160 years old, and the values that have guided the organisation throughout its history remain evident today. Our founding principles of integrity, security and prudence continue to underpin our ambition to promote the financial well-being of our customers and their families, and we remain committed to supporting the communities in which we operate.

In 2007 over 2,000 of our people gave their time to projects to improve their local environment, through the Chairman's Award scheme. At the end of the year, employees across the Group were invited to vote for the project which they felt had had the greatest impact. This year's winning project involved some 370 employees in Thailand in a reforestation and forest conservation project supporting 16 communities in the Chiang Rai region of the country.

**'Our founding principles of integrity, security and prudence continue to underpin our ambition to promote the financial well-being of our customers and their families.'**

Financial capability remains at the heart of our Corporate Responsibility programme and, during the year, we added a new scheme in the US to our existing programmes in the UK and Asia. More details about our Corporate Responsibility programme can be found later in this Report.

Looking to the future, we feel that the prospects for the Group continue to be exciting, and that we have the positioning, the skills and the capabilities to continue to deliver profitable growth for our shareholders. As ever, my thanks go to all our people around the world for their contribution to our ongoing success.

# Market overview

## Capturing the global retirement opportunity

The retail financial services industry is undergoing a fundamental transformation as one of the biggest demographic waves in history transitions out of the workforce and into active retirement. Some estimates suggest that, in the US and the UK alone, some £7 trillion of assets could move into the retirement market over the next five years, and there is also a significant and growing retirement opportunity in Asia.

Not only are these people likely to live longer than previous generations, but their needs are fundamentally different from their predecessors. In particular, many are looking for a more active lifestyle in retirement, but often underestimate the savings required for this. In addition,

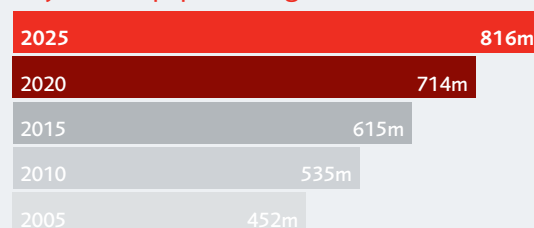
there is a move towards greater self-provision as a result of declining state support. The increased cost of long-term care is also a significant factor, as is the need to protect the value of assets against inflation over longer periods of time.

We believe that this global retirement opportunity will be a significant driver of growth and profitability over the coming years, and that we have a set of assets and capabilities which position us extremely well to capture a disproportionately large share of that opportunity in our chosen markets. These include our brands, our investment and risk management skills, our product innovation and our powerful distribution networks.

### Asia

Asian households are changing rapidly: they are becoming wealthier, smaller and older, with a growing need for financial solutions.

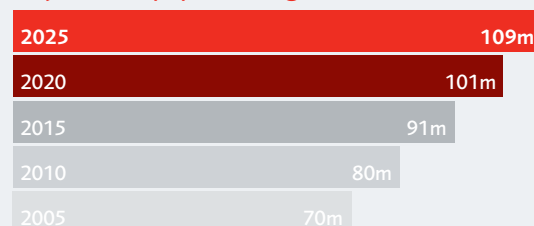
#### Projection of population aged 55+



### United States

As 78 million baby boomers move into retirement age, their assets will shift from asset accumulation to income distribution.

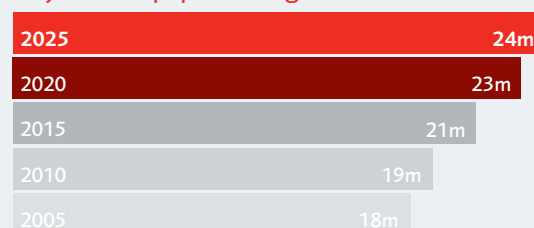
#### Projection of population aged 55+



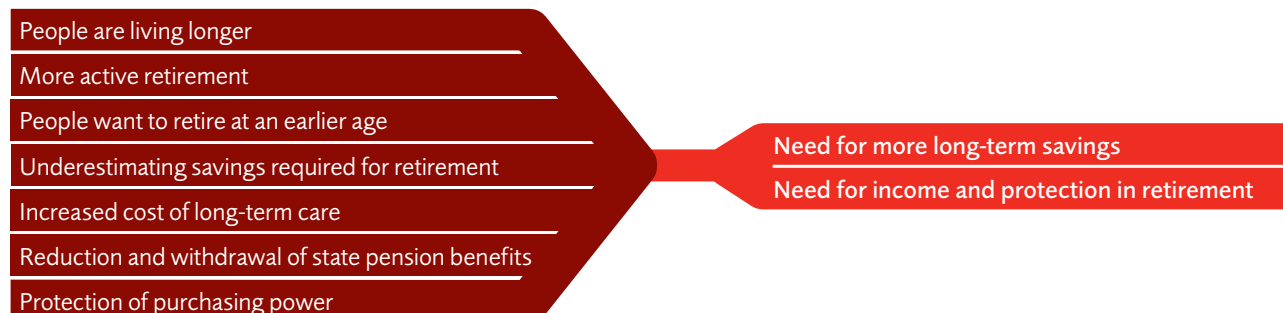
### United Kingdom

The retirement and near-retirement population will represent the fastest-growing segments of the market over the next 10 years.

#### Projection of population aged 55+



## Changing dynamics



Asia remains a very attractive region for growth opportunities due to its high levels of economic activity translating into higher levels of personal wealth, greater disposable incomes, a comparatively higher propensity to save and a growing appetite for good quality protection and savings products. Traditionally, older people have relied on their children to provide for them, but within just one generation this will be far less common. Within this environment, ageing demographics are also beginning to drive increased household savings rates and an emerging need for healthcare and retirement solutions.

Asian governments have little appetite to increase the provision of state-funded retirement benefits and healthcare, and are actively encouraging the development of a strong, dynamic private sector to meet people's growing need for financial solutions.

The US is the largest retirement savings market in the world and is expected to continue to grow significantly over the next 10 years as the post-war generation reaches retirement.

The combination of increasing life expectancy and decreasing retirement age in the US is leading to an increase in the average time individuals will spend in retirement. At the same time, the responsibility for providing income during retirement continues to shift away from institutions such as government and employers, towards individuals. As a result, consumers have a growing need for independent financial advice and increasingly seek guarantees and longevity protections from the financial products they purchase.

The US life insurance industry remains highly fragmented and competition for market share is intensifying through aggressive pricing. Life insurers find themselves competing with other financial services providers, particularly mutual fund companies and banks, for a share of retirement savings assets in the US.

Prudential is focusing on the retirement savings and income market in the UK. The accumulation market is huge, with over 50 per cent of total assets including pensions, housing equity and liquid assets, held by those approaching, or in, retirement. In addition, wealth is concentrated in the mass affluent and high net worth individuals. With an ageing population and wealth concentration, the retirement and near-retirement population will represent the fastest-growing segments of the market over the next 10 years.

Additionally, the responsibility for providing income during retirement is continuing to shift away from the government and employers towards the individual. This coupled with low savings and high indebtedness in the UK, increases the risk

that individuals will be inadequately provided for during increasingly long periods of retirement. Consequently, there is a growing demand for financial advice and financial products including guarantees and longevity protection.



Some estimates suggest that, in the United States and the United Kingdom, some £7 trillion of assets could move into the retirement market over the next five years, and there is also a significant and growing retirement opportunity in Asia. Prudential's capabilities, geographic presence and powerful brands position it well to capture value from this retirement opportunity.

**There's more to Prudential.**

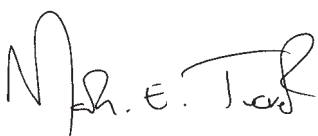


# Group Chief Executive's strategic review



Mark Tucker  
Group Chief Executive

**'The combination of our retirement-led strategy, a clear focus on generating profitable growth, and excellence in the delivery of our plans is driving shorter-term performance and also placing the Group in a strong position from which to outperform in the longer term.'**



In 2007, the Group's operating performance was outstanding building on the very strong momentum established in 2005 and 2006.

The combination of our retirement-led strategy, a clear focus on generating profitable growth, and excellence in the delivery of our plans is driving shorter-term performance and also placing the Group in a strong position from which to outperform in the longer term.

The retirement market offers significant long-term sustainable growth opportunities as the biggest demographic wave in history transitions out of the workforce and into retirement. The Prudential Group has a strong presence in this sector based on our financial strength, our investment and risk management skills, our brands and our product and distribution expertise.

The Group has the flexibility to optimise its capture of the retirement opportunity as it develops in each of our chosen markets and our business model creates significant financial and operational synergies. Within each market our focus is to operate in areas where we see sustainable competitive advantage and in products and distribution channels that have sound and sustainable economics.

## Group performance

Group operating profit before tax from continuing operations, on the European Embedded Value (EEV) basis increased by 25 per cent in the year to £2,542 million and has doubled over a three-year period. The Group's return on embedded value was 15.4 per cent (2006: 14.5 per cent).

On the statutory International Financial Reporting Standards (IFRS) basis, operating profit before tax from continuing operations was up 20 per cent to £1,213 million, almost doubling over a three-year period.

## Group strategy overview

### Our objective

Prudential's overriding objective is to generate sustainable value for our shareholders by combining a clear focus on delivering profitable growth in the short term, with sound strategic positioning to capture long-term growth opportunities.

### Our strategic focus

Our strategy is centred on the global retirement opportunity, where we believe we have the assets and capabilities to capture a disproportionate share of this growing profit pool over the coming years.

### Our key markets

Geographically, we will focus on expanding our existing franchises in Asia, the US and the UK, where we already hold strong and often market-leading positions.

### Our assets and capabilities

Within these markets, we will continue to leverage our brands, our product innovation skills and our investment management and risk management expertise to develop and deliver solutions that meet the changing needs of customers throughout their pre- and post-retirement years, and we will further strengthen our powerful distribution networks to enable us to bring those products to market successfully.

We will use our local knowledge to ensure we tailor solutions to local market needs while, at the same time, continuing to leverage the benefits of the Group as a whole in terms of greater capital efficiency, greater risk appetite and operational synergies.

Across the Group's insurance operations new business increased by 21 per cent to £2,874 million on an Annual Premium Equivalent (APE) basis and profit on new business was £1,215 million, up 22 per cent. Average margin across the Group was maintained at 42 per cent (2006: 42 per cent).

Operating profit in the Group's asset management operations increased by 28 per cent, to £334 million in what was an excellent year for these businesses in increasingly challenging conditions.

The cash flow position continued to improve and we are progressing well towards our target of being operating cash flow positive at the Group level in 2008. The holding company's operating cash flow in 2007 was negative £82 million. During the year the Group received £527 million from the sale of Egg, the UK internet banking operation. This resulted in an overall holding company cash inflow of £445 million.

The Group's balance sheet and regulatory capital position remain robust. In particular, across the Group we have been cautious on credit for some time and we have been increasingly moving the portfolio to a more defensive position. Outside the normal market value movements across the Group related to interest rates and widening credit spreads, net credit losses on debt securities in the US were £78 million.

The Board has recommended a final dividend of 12.3 pence per share, bringing the full year dividend to 18 pence per share, an increase of five per cent. The dividend was covered 1.9 times by post-tax IFRS operating profit from continuing operations.

The Board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term a dividend cover of around two-times is appropriate.

### Insurance operations

In Asia we continue to power ahead with the region accounting for 54 per cent of new business profits. New business on an APE basis increased by 44 per cent to £1,306 million and all businesses across the region grew by 15 per cent or more.

New business profit was £653 million, up 34 per cent. Having achieved compound growth of 26 per cent since 2005 we expect to deliver, one year earlier than previously stated, on our target of at least doubling 2005 new business profit by 2009. EEV operating profit in Asia exceeded £1 billion for the first time this year as the business goes from strength to strength.

Growth in our proprietary agency force, greater agency productivity and the continuing development of non-agency distribution, in particular bancassurance, remain central to our success.

The agency force across the region increased by 125,000 to 410,000 during the year and there was significant expansion in India where average agent numbers more than doubled to 238,000. Throughout the rest of the region the average number of agents increased by 10 per cent to 112,000. Agency productivity has also moved ahead strongly in a number of markets including Singapore, Hong Kong and Vietnam. The continuing success of our multi-distribution approach led to sales through non-agency channels increasing by 44 per cent and we added a number of important new distribution relationships.

The retirement opportunity in the region is emerging rapidly and we are developing innovative, integrated savings and protection solutions to meet consumers' increasingly sophisticated needs. Our retirement campaigns under the banner 'What's your number?' have had considerable success in Korea, Taiwan and Hong Kong and we are now rolling this concept out into other markets.

## Business unit strategies

### Asia

Prudential's strategy in Asia is to continue to build quality, multi-channel distribution that delivers customer-centric and profitable products in segments that have the potential for sustained growth, with an increasing emphasis on retirement solutions.

### United States

The US is the largest retirement savings market in the world, and the strategy of Jackson National Life Insurance Company (Jackson) is to leverage its product innovation skills, relationship-based distribution model and low cost infrastructure to capture a growing and profitable share of this market.

### United Kingdom

Prudential UK's strategy is to concentrate on those areas of the retirement savings and income markets where it can generate attractive returns, capitalising on its longevity experience, multi-asset management capabilities, brand and financial strength.

### M&G

M&G's strategy is to focus on delivering superior investment performance and maximising risk-adjusted returns for its retail, wholesale and internal clients.

# Group Chief Executive's strategic review continued

## 2007 Summary Priorities

### Group

- Improve Group holding company cash flow and maintain robust capital position
- Deliver growing dividend, targeting two-times cover over time
- Share expertise and innovation across the Group

### Asia

- At least double 2005 new business profits by 2009
- Expand distribution and improve productivity
- Continue product innovation with focus on retirement and health

### United States

- Continue to enhance and expand the existing product offering
- Continue to take profitable share of variable annuities
- Increase share of US retail asset management market

### United Kingdom

- Build retirement income business
- Focus on profitable retirement savings and wholesale opportunities
- Deliver targeted cost savings
- Consider reattribution of the inherited estate

### Asset management

- Maintain strong investment performance
- Develop product range
- Expand distribution reach

## 2007 Summary Achievements

- Operating cash flow improved and we are on target to be operating cash flow positive in 2008. The Group's Insurance Groups Directive (IGD) surplus is estimated at £1.4 billion.
- The full year dividend is up five per cent with 1.9 times cover.
- We continue to share expertise across borders. For example, we have drawn on Jackson's experience to offer variable annuity products in Asia.

- Asia expected to deliver doubling of 2005 EEV new business profit a year early.
- Agent numbers grew by 125,000 to 410,000, and agency sales were up 44 per cent. Agent productivity increased, including improvements of 67 per cent in Vietnam and 21 per cent in Singapore.
- We launched the 'What's your number?' retirement campaign in six Asian markets, and new health products in Singapore, India and Hong Kong.

- We introduced six guaranteed living benefits and a further 20 investment options to our variable annuity product.
- Our variable annuity market share grew to 5.1 per cent, up from 4.6 per cent in 2006.
- We launched a range of retail mutual fund products. Curian increased assets under management by 42 per cent in 2007.

- We wrote one in four of the UK's individual annuities and grew our lifetime mortgage business to a 14 per cent market share.
- We have withdrawn from unprofitable product areas and developed a factory gate proposition aimed at distribution partners with good persistency. We completed the £1.7 billion Equitable Life transaction.
- By the end of 2007, £115 million of the cost saving target of £195 million had been delivered and plans are in place to deliver the additional £80 million.
- We nominated a Policyholder Advocate. A decision whether to proceed will be made in the first half of 2008.

- 45 per cent of M&G's retail mutual funds delivered top quartile performance. 86 per cent of segregated institutional mandates met or exceeded their benchmarks.
- New funds were launched in five Asian markets, the US and the UK.
- M&G increased its distribution reach in Europe, and our Asian business broadened its multi-channel distribution network across the region.

There is also significant scope to develop our positioning in the health insurance market across the region and, with the launch of a number of new products, notably in Singapore and India, sales of health products in the year have increased by 45 per cent.

The US is the largest retirement market in the world and our long-term strategy has been to position Jackson to meet the pre- and post-retirement needs of the baby boomer generation. In 2007, variable annuity new business increased by 29 per cent to £455 million on an APE basis. Jackson has been the fastest-growing variable annuity provider in the US over the past six years, clearly demonstrating the success of our strategy and our advice-based approach.

The variable annuity product in the US is increasingly being used by the consumer to provide an income in retirement. In 2007, almost two-thirds of Jackson's customers were over 55 and two-thirds of all variable annuity sales included a guaranteed minimum withdrawal benefit. Jackson continues to innovate and develop its market-leading Perspective II product, which has been the top-selling variable annuity contract in the fast-growing Independent Broker channel for each of the last five years.

**'We will focus on expanding our existing franchises in Asia, the US and the UK where we already hold strong and often market-leading positions.'**

Overall new business in the US increased by 19 per cent to £671 million, on an APE basis, new business profit also increased by 19 per cent with margins maintained at 42 per cent and an internal rate of return of 19 per cent.

In 2007 we set out our strategy in the UK to focus primarily on the retirement income market based in particular on our strengths in the annuity market but also the developing lifetime mortgage and income drawdown markets. In the retirement savings market we have exited those product areas that are structurally unprofitable and launched a new range of factory gate priced savings products.

Retail new business increased by four per cent in a market where the competitive pressures increased still further during the year. In 2007 we also completed the transfer of Equitable Life's £1.7 billion in-force portfolio of with-profits annuities: however in general, pricing across the bulk market was not adequate to meet our return on capital requirements and we chose not to write business at uneconomic levels.

The margin at 31 per cent (2006: 30 per cent) remained high in comparison to the overall UK market as did the internal rate of return which was 18 per cent including the Equitable Life transaction and 14 per cent excluding it. Our target internal rate of return in the UK is 14 per cent.

**EEV operating profit from continuing operations before tax £m**

**+25%**

2007	£2,542m
2006*	£2,030m

\* Comparative on a CER basis.

**IFRS operating profit from continuing operations before tax £m**

**+20%**

2007	£1,213m
2006*	£1,008m

\* Comparative on a CER basis.

# Group Chief Executive's strategic review continued

By the end of 2007, £115 million of the cost saving target of £195 million had been delivered and plans are in place to deliver the additional £80 million. A key milestone this year in the UK was the signing of a major contract to outsource a large proportion of its back book and new business policy administration. The outsource agreement will allow us to remove fixed costs from our operations and to achieve significant operating efficiencies, with an expected positive effect on embedded value estimated at £60 million by 2011.

The in-force profit for the UK business includes a charge in respect of a mortality assumption change on the annuity business of £312 million which is fully offset by a release of excess margins previously held.

In 2007 we announced that the Group would consider a reattribution of the inherited estate held in the with-profits sub-fund of The Prudential Assurance Company Limited. We are continuing to explore the possibility of a reattribution and we aim to be in a position in the first half of 2008 to determine whether this would be in the best interests of policyholders and shareholders.

## Asset management

The Group's asset management businesses had another excellent year. Our international investment management expertise continues to add value to our insurance operations and also supported the growth in external funds under management to £69 billion at the end of 2007 (2006: £57 billion).

M&G's net inflows were the second highest on record at £5 billion and profit increased by 25 per cent to £254 million. Our business in Asia continued its excellent growth record with net inflows of £3 billion and operating profit growing to £72 million, up 53 per cent.

Our skills in risk management and our strength across all asset classes in the UK, the US and in Asia, combined with our multi-asset allocation capabilities, position us well to meet the diverse needs of our customers for savings, retirement income and protection products.

This is clearly evidenced in the UK where the main with-profits fund, with assets of over £74 billion, was ranked first in 2006 in the WM Company's survey of with-profits funds, based on gross investment performance over one, three, five and 10 years. In the US, one of the key drivers of our success is our ability to provide customised and highly flexible benefit options within our main variable annuity product that are individually priced for the customer and in Asia we continue to see success in our targeted unit-linked and protection products.

## EEV shareholders' funds £m

# +24%

2007	£14,779m
2006*	£11,910m

\* Comparative on a CER basis.

## External funds under management £bn

# +19%

2007	£69bn
2006*	£57bn

\* Comparative on a CER basis.

## Outlook

There is significant volatility and nervousness in markets and it seems clear that there will be a period of less attractive economic growth trends in the US and in the UK than we have seen in recent years. Notwithstanding this, we believe that our strategy and our business model are very robust and will continue to deliver sustainable value.

In Asia, the fundamentals underpinning economic growth remain powerful and our businesses are very well placed to benefit. We expect to deliver, one year earlier than previously stated, on our target of at least doubling 2005 new business profit by 2009.

**'Overall the prospects for the Group in 2008 remain positive. Over the longer-term, the demographic, economic and social factors driving our business will continue and we are ideally positioned to capture a greater share of that growth.'**

In the US, our record of outperformance is set to continue and our value driven strategy in the UK is on track. In the UK we have already de-emphasised those products which might have been more sensitive to market conditions.

Our asset management businesses, although more directly influenced by market movements, are well placed to capitalise on their strong market positions and investment performance to deliver net flows and profit growth.

Overall the prospects for the Group in 2008 remain positive. Over the longer term, the demographic, economic and social factors driving our business will continue and we are ideally positioned to capture a greater share of that growth.

## 2008 Priorities

**Our overriding objective for 2008 remains that of continuing to create value for our shareholders by fully exploiting the power of our retirement-led strategy and continuing to expand the excellent businesses that we have in place today.**

### Life insurance

#### 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

#### US

- Continue to innovate around our key variable annuity product
- Enhance further our already world-class operating platform
- Expand retail distribution
- Selectively participate in the institutional market

#### UK

- Build on our strengths in the retirement market and risk products
- Migrate to factory gate cautiously managed asset accumulation products
- Deliver on the cost reduction programme including the outsource programme
- Selectively participate in the wholesale market
- Determine whether it is in the best interest of policyholders and shareholders to pursue a reattribution of the inherited estate

### Asset management

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

# Core capabilities

We believe our assets and capabilities position us extremely well to capture a disproportionately large share of the growing retirement opportunity in our chosen markets. These include:

## Trusted brands

We believe that our brands are a significant advantage in capturing an increasing share of the global retirement market. [See page 21](#)

## Key skills

Our risk and investment management capabilities underpin our business, enabling us to meet customers' changing needs throughout their lifetimes. [See page 22](#)

## Innovative products

We have established a strong track record of delivering innovative solutions that meet customers' needs, with a particular focus on helping them to save for, and secure an income in, retirement. [See page 23](#)

## Powerful distribution networks

Our broad and diverse distribution network is tailored to local market and customer needs, enabling us to deliver our products and services in the most efficient and effective way in each of our chosen markets. [See page 24](#)

## Trusted brands

We believe that our brands are a significant advantage in capturing an increasing share of the global retirement market.

In the UK, where we have had a presence for 160 years, we continued to build our brand during 2007, supported by an aspirational campaign to redefine retirement as a time of opportunity. Using the strapline 'Retirement has more potential with Prudential', advertisements have been running in the UK national press and online since October 2007, focusing on the opportunities that retirement brings.

In Asia, Prudential's operations are unified under the Prudence icon, which enjoys consistently high recognition across the region. The brand has been built around understanding customers' needs and leveraging the Group's international scale and heritage to convey a sense of security, stability and trustworthiness. In 2007, we continued to position ourselves in the retirement space through our highly successful 'What's your number?' campaign, which encourages people to think about the cost of their retirement

lifestyle choices in an entertaining and engaging way. The concept has been carefully tailored and launched in six Asian markets to reflect the different cultures, needs and aspirations of our customers.

In the US, where we operate under the Jackson brand, our strategy centres on the advice-based channels to which customers are increasingly turning for help in choosing from the maze of retirement solutions in this complex and crowded marketplace. Jackson is already recognised as a leading provider of one of the country's most popular retirement vehicles, the variable annuity, and in 2007 it continued to raise its profile through targeted media campaigns focused on independent intermediaries. Jackson also rebranded its website in 2007, highlighting its vision to help Americans achieve their retirement dreams.

M&G conducted a brand review in 2007 to ensure that it was appropriately

positioned as a heavyweight, investment-led business across all the international markets in which it operates. This led to the introduction in September of new branding which provides a fresh look for M&G and highlights the individual investment talent and flair that have always been at the core of its business. The new brand was launched via an extensive international marketing and advertising campaign and revamped website.



## Key skills

Our risk and investment management capabilities underpin our business, enabling us to meet customers' changing needs throughout their lifetimes.

In the UK our wealth of longevity knowledge and experience is a significant advantage in designing and pricing products for the retirement income market, while our multi-asset investment capability and emphasis on cautiously-managed products such as With-Profits, enable us to meet customers' needs, especially in volatile markets.

Our asset allocation and investment management capabilities are evident in the sustained top performance of our UK With-Profits Life Fund. In July 2007, we retained our top-ranking in the WM Life Fund Survey by WM, the independent fund-performance service provider. This ranking consolidates the superior position achieved in previous years, with Prudential retaining its top spot over 10 years.

In the US, our expertise in long-term guarantees has enabled us to design products for customers who increasingly want to combine the potential growth of

equities with safeguards against risks such as inflation and market volatility.

In Asia, we successfully leverage our regional and international expertise and multi-asset investment capabilities to create tailored insurance and mutual fund products for different markets. For example, we launched pan-Asian funds in several Asian markets during the year; we also offer a range of global, US and European funds in Hong Kong, managed by M&G, and a number of US funds in Japan, managed by our US investment management company PPMA.

At M&G, our success is underpinned by an impressive track record of investment performance in recent years. In 2007, some 45 per cent of the company's retail funds delivered top quartile performance. In the wholesale marketplace, 86 per cent of M&G's segregated institutional funds met or exceeded their benchmark performance. M&G has also continued to successfully leverage its internal

fund management skills to create higher margin products for external customers, consolidating its position at the forefront of the leveraged loans, structured credit and infrastructure investment markets.

## Innovative products

We have established a strong track record of delivering innovative solutions that meet customers' needs, with a particular focus on helping them to save for, and secure an income in, retirement.

In the US, we are a leading provider of one of the country's most popular retirement vehicles – the variable annuity. We have one of the most flexible products on the market, with a range of 2,300 benefit combinations. In 2007, we introduced six new guaranteed living benefits and a further 20 investment options.

In the UK, we have developed a full range of retirement income solutions. This includes a new Flexible Lifetime Annuity, and an Income Drawdown product which helps customers manage their pension through the various stages of retirement, as well as offering flexibility and the potential for growth through investment. We have also made a number of enhancements to our lifetime mortgage range, including a new lump sum product as well as an inheritance guarantee. Our PruHealth joint venture also continues to grow well, attracting over 140,000 customers to date with its mould-breaking proposition, which rewards healthy living.

In Asia, we constantly update our product range to ensure it is appealing and relevant to customers' changing needs. For example, in 2007 we extended the funds range for our linked products, including a new property fund in Singapore, and a new Shariah-compliant range in Indonesia. We also launched several new funds aimed at capturing the potential in fast-growing economies such as China and India. In Japan, our India Infrastructure Equity Fund became our third fund in Japan to pass the 100 billion Japanese Yen milestone, while in Singapore, our Dragon Peacock Fund, which invests in China and India, is one of the largest retail equity funds in the market.

In Taiwan we leveraged Jackson's experience to develop an annuity product which helped drive new business volumes up 71 per cent in 2007. We have also been developing a range of health-related products, which we have successfully piloted

in Singapore, India, and Hong Kong.

M&G also extended its product range in 2007. In the retail market, the business cemented its position as a leading innovator with the launches of the M&G Cautious Multi Asset Fund and the M&G Global Convertibles Fund. In the wholesale arena, M&G launched three new funds – the M&G Alpha Opportunities Fund, M&G Secured Property Income Fund and M&G Secured Debt Fund. These three funds leverage the company's expertise and scale in both property and private finance, and provide institutional and pension fund clients with innovative alternatives to traditional fixed income assets.



## Powerful distribution networks

Our broad and diverse distribution network is tailored to local market and customer needs, enabling us to deliver our products and services in the most efficient and effective way in each of our chosen markets.

In Asia, we have a highly successful multi-channel distribution platform, tailored to each market, which includes traditional tied agency, banks, general agents or brokers and an emerging direct channel. For example, in India, the emphasis is on rapidly building agency scale, and in 2007 agent numbers increased by over 120 per cent, whereas in markets where we already have agency scale, the emphasis is on improving agent productivity. During 2007 we also entered several significant new partnerships, including Standard Chartered Bank in Taiwan, and Kookmin Bank and Industrial Bank of Korea in Korea.

In the US, we have built a highly successful distribution model focused on independent financial advisers, and our Perspective II variable annuity was the top selling variable annuity contract in the US independent broker-dealer channel in 2007. The success of our model lies in the support we give to advisers through our network of wholesalers. This support includes

a range of marketing, sales and educational tools to help advisers build their own businesses, combined with award-winning customer service.

In the UK, we have a multi-distribution approach including financial advisers and consultants, banks, direct to consumers and distribution partnerships, to reflect the diversity of our product range across the retirement savings, retirement income and protection sectors. During 2007, we focused on strengthening relationships with key, high potential advisers by offering more localised support and a business-partner approach. We also continued to build our strategic partnerships, including an agreement with Barclays to be the preferred supplier of conventional annuities to its retail customers in the UK.

Our fund management businesses distribute through a wide range of channels and geographies. European cross-border distribution has accelerated, which has continued to open up significant bank and life company distribution opportunities

for M&G. Over the past five years, M&G has expanded its retail business beyond the UK into the major European markets, the Middle East, South America and Asia.

Our Asia fund management business distributes its retail funds predominantly through banks and brokers. Over the last few years, we have built an impressive network of distributors, and now work with most of the major players in each market.