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.

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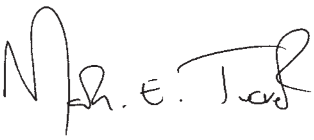
Group Chief Executive's strategic review

'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	2007 Summary Achievements
Group	
— Improve Group holding company cash flow and maintain robust capital position	— 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.
— Deliver growing dividend, targeting two-times cover over time	— The full year dividend is up five per cent with 1.9 times cover.
— Share expertise and innovation across the Group	— We continue to share expertise across borders. For example, we have drawn on Jackson's experience to offer variable annuity products in Asia.
Asia	
— At least double 2005 new business profits by 2009	— Asia expected to deliver doubling of 2005 EEV new business profit a year early.
— Expand distribution and improve productivity	— 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.
— Continue product innovation with focus on retirement and health	— We launched the 'What's your number?' retirement campaign in six Asian markets, and new health products in Singapore, India and Hong Kong.
United States	
— Continue to enhance and expand the existing product offering	— We introduced six guaranteed living benefits and a further 20 investment options to our variable annuity product.
— Continue to take profitable share of variable annuities	— Our variable annuity market share grew to 5.1 per cent, up from 4.6 per cent in 2006.
— Increase share of US retail asset management market	— We launched a range of retail mutual fund products. Curian increased assets under management by 42 per cent in 2007.
United Kingdom	
— Build retirement income business	— We wrote one in four of the UK's individual annuities and grew our lifetime mortgage business to a 14 per cent market share.
— Focus on profitable retirement savings and wholesale opportunities	— 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.
— Deliver targeted cost savings	— 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.
— Consider reattribution of the inherited estate	— We nominated a Policyholder Advocate. A decision whether to proceed will be made in the first half of 2008.
Asset management	
— Maintain strong investment performance	— 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.
— Develop product range	— New funds were launched in five Asian markets, the US and the UK.
— Expand distribution reach	— 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%

* Comparative on a CER basis.

IFRS operating profit from continuing operations before tax £m

+20%

* Comparative on a CER basis.

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%

* Comparative on a CER basis.

External funds under management £bn

+19%

* 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