Measuring our performance

To create sustainable economic value for our shareholders we focus on delivering growth and cash while maintaining appropriate capital.

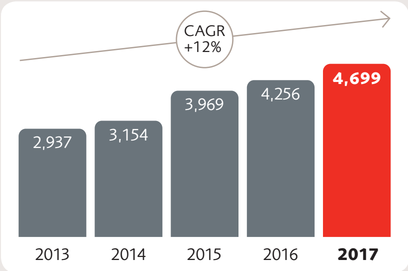
Profit, cash and capital[1]

Prudential takes a balanced approach to performance management across IFRS, EEV and cash. We aim to demonstrate how we generate profit under different accounting bases, reflecting the returns we generate on capital invested and the cash generation of our business.

IFRS operating profit based on longer-term investment returns[2] £m

The Group's business involves entering into long-term contracts with customers, and hence the Group manages its associated assets and liabilities over a longer-term time horizon. This enables the Group to manage a degree of short-term market volatility. Therefore IFRS operating profit based on longer-term investment returns gives a more relevant measure of the performance of the business. Other items are excluded from IFRS operating profit to allow more relevant period-on-period comparisons of the trading operations of the Group, eg the effects of corporate transactions are excluded.

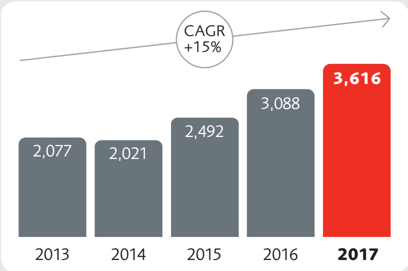
Group IFRS operating profit in 2017 is 6 per cent higher on a constant exchange rate basis (10 per cent on an actual exchange rate basis), compared with 2016, reflecting resilient performance in our life businesses, with Asia up 15 per cent (20 per cent on an actual exchange rate basis), the US up 3 per cent (8 per cent on an actual exchange rate basis) and UK and Europe up 8 per cent. Our asset management businesses have performed well with M&G Prudential asset management up 18 per cent and Eastspring also up 18 per cent (25 per cent on an actual exchange rate basis).



EEV new business profit[3] £m

Life insurance products are, by their nature, long-term and generate profit over a number of years. Embedded value reporting provides investors with a measure of the future profit streams of the Group. EEV new business profit reflects the value of future profit streams which are not fully captured in the year of sale under IFRS reporting.

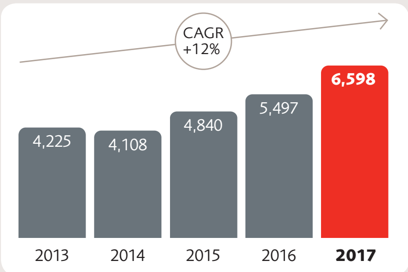
EEV new business profit in 2017 increased by 12 per cent on a constant exchange rate basis (17 per cent on an actual exchange rate basis) compared with 2016, driven by strong performance in each of our businesses with Asia up 12 per cent (17 per cent on an actual exchange rate basis), the US up 9 per cent (15 per cent on an actual exchange rate basis), and the UK up 28 per cent.



EEV operating profit[3] £m

EEV operating profit is provided as an additional measure of profitability. This measure includes EEV new business profit, the change in the value of the Group's long-term in-force business, and profit from our asset management and other businesses. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.

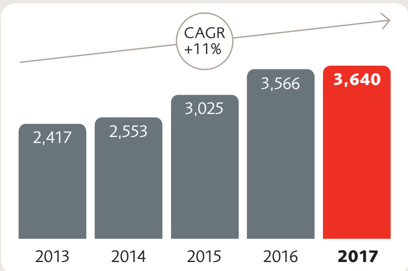
Group EEV operating profit in 2017 increased by 15 per cent on a constant exchange rate basis (20 per cent on an actual exchange rate basis), compared with 2016, driven by higher new business profit and higher contributions from the in-force business.



Group free surplus generation[4,5] £m

Free surplus generation is used to measure the internal cash generation of our business units. For insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit for the year.

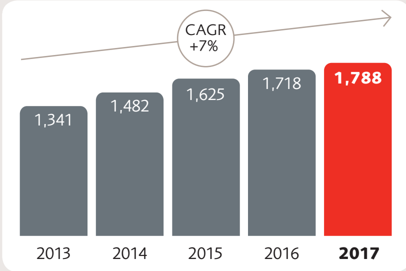
Overall underlying free surplus generation decreased by 1 per cent on a constant exchange rate basis (increased 2 per cent on an actual exchange rate basis), reflecting a one-off benefit in the prior year in our US business and higher restructuring costs within the Group, offsetting higher contributions in Asia and the UK and Europe.



Business unit remittances[6] £m

Remittances measure the cash transferred from business units to the Group. Cash flows across the Group reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities available to the Group.

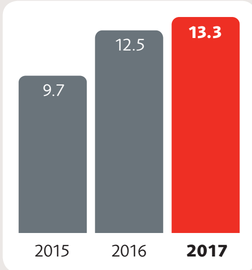
Total remittances to the Group increased by 4 per cent in 2017, compared with 2016, with significant contributions from each of our major businesses. This increase was driven by remittances from Asia, up 25 per cent (on an actual exchange rate basis) compared with 2016.



Group Solvency II capital surplus[7,8] £bn

Prudential is subject to the risk-sensitive solvency framework required under European Solvency II Directives (Solvency II) as implemented by the Prudential Regulation Authority in the UK. The Solvency II surplus represents the aggregated capital (own funds) held by the Group, less solvency capital requirements.

The high quality and recurring nature of our operating capital generation, beneficial effects of debt issued and disciplined approach to managing balance sheet risks is reflected in the solvency capital surplus, which increased to £13.3 billion at 31 December 2017.



2017 objectives

We are pleased to report that the Group has successfully achieved the financial objectives announced in December 2013. This demonstrates the successful execution of our strategy and is testament to the strength, scale and diversity of our Asia platform.

Asia objectives[9]

Asia IFRS operating profit, £m

Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 - 2017.

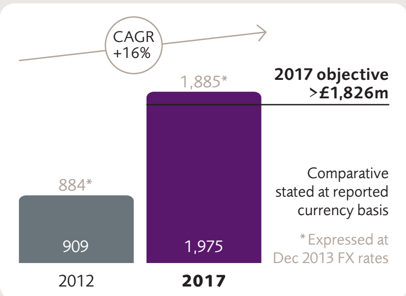
Asia underlying free surplus, £m

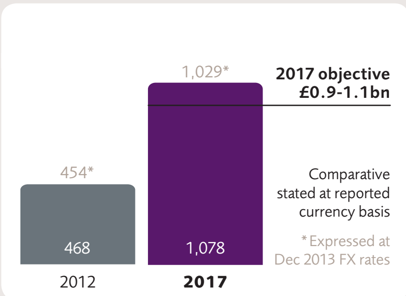
Asia underlying free surplus generation[4] of £0.9 billion to £1.1 billion in 2017.

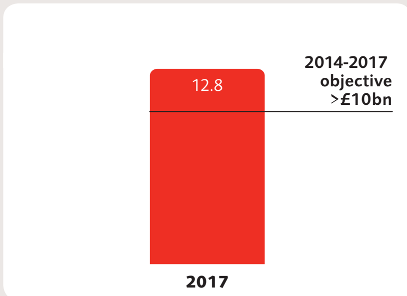
Group objective[10]

Group cumulative underlying free surplus, £bn

Cumulative Group underlying free surplus generation of at least £10 billion over the four-year period from 2014 to end-2017.







Notes

1 The comparative results shown above have been prepared using actual exchange rates (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officers' report on our 2017 financial performance. CAGR is Compound Annual Growth Rate.

2 IFRS operating profit 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 period is set out in note B1 of the IFRS financial statements.

3 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of the EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note C of the Additional EEV financial information.

4 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results. Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movement, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs. Further information is set out in note 11 of the EEV basis results.

5 The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the IFRS financial statements. On re-presentation, Prudential Capital is excluded from underlying free surplus generated.

6 Cash remitted to the Group forms part of the net cash flows of the holding company. A full holding company cash flow is set out in note II (a) of Additional IFRS financial information. This differs from the IFRS Consolidated Statement of Cash Flows which includes all cash flows relating to both policyholders and shareholders' funds. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

7 The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

8 Estimated before allowing for second interim ordinary dividend.

9 The current year and all comparative amounts for the Asia objectives exclude contributions from the Korea life business which was sold in 2017. The 2017 Asia IFRS operating profit objective was adjusted accordingly. 2012 comparative amounts include the one-off gain on sale of the stake in China Life of Taiwan of £51 million.

10 For the purpose of the Group objective, cumulative underlying free surplus generation includes the free surplus relating to Prudential Capital.