

PRUDENTIAL PLC 2004 RESULTS

Results Summary

Achieved Profits Basis Results	2004 £m	2003 £m
Operating profit before amortisation of goodwill		
UK and Europe Insurance Operations	450	359
M&G	136	83
Egg - continuing operations	43	55
- discontinued operations	(37)	(89)
UK and Europe Operations	592	408
US Operations - continuing operations	303	194
- discontinued operations	17	22
Prudential Asia	400	378
Other Income and Expenditure (including Asia development expenses)	(208)	(208)
Operating profit before amortisation of goodwill	1,104	794
Analysed as:		
Operating profit from continuing operations	1,124	861
Operating loss from discontinued operations	(20)	(67)
Amortisation of goodwill	(97)	(98)
Short-term fluctuations in investment returns	679	682
Effect of changes in economic assumptions	(100)	(540)
Profit or loss on the sale or termination of discontinued operations:		
Profit on business disposals	48	-
Egg France closure cost	(113)	-
Profit on ordinary activities before tax	1,521	838
Operating earnings per share*	37.2p	25.4p
Shareholders' funds	£8.6bn	£7.0bn
Statutory Basis Results	2004 £m	2003 £m
Operating profit before amortisation of goodwill	583	357
Profit on ordinary activities before tax	650	350
Operating earnings per share*	19.2p	12.4p
Basic earnings per share*	20.1p	10.0p
Shareholders' funds	£4.3bn	£3.2bn
Dividend Per Share*	15.84p	15.38p
Insurance and Investment Funds under Management	£187bn	£168bn

Operating profit and operating earnings per share include investment returns at the expected long-term rate of return but exclude amortisation of goodwill and exceptional items. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit on ordinary activities and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout the Preliminary Announcement.

* Earnings per share and dividend per share figures for 2003 have been restated to take account of the Rights Issue in 2004. In addition, the achieved profits and statutory basis shareholders' funds for 2003 have been adjusted to reflect the implementation of UITF Abstract 38 on Accounting for ESOP Trusts.

ACHIEVED PROFITS BASIS RESULTS

Summarised Consolidated Profit and Loss Account	2004 £m	2003 £m
Operating profit before amortisation of goodwill		
UK and Europe Insurance Operations	450	359
M&G	136	83
Egg - continuing operations	43	55
- discontinued operations	(37)	(89)
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Effect of changes in economic assumptions	(100)	(540)
Profit or loss on the sale or termination of discontinued operations:		
Profit on business disposals	48	-
Egg France closure cost	(113)	-
Profit on ordinary activities before tax (including actual investment returns)	1,521	838
Tax	(485)	(355)
Profit for the year before minority interests	1,036	483
Minority interests	10	2
Profit for the year after minority interests	1,046	485
Dividends	(362)	(320)
Retained profit for the year	684	165
Earnings Per Share*		
Based on operating profit after tax and related minority interests before amortisation of goodwill of £791m (£527m)	37.2p	25.4p
Adjustment for amortisation of goodwill	(4.6)p	(4.7)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests)	21.5p	22.4p
Adjustment for post-tax effect of changes in economic assumptions	(3.4)p	(19.7)p
Adjustment for post-tax profit on business disposals	1.4p	-
Adjustment for post-tax Egg France closure cost	(3.0)p	-
Based on profit for the year after minority interests of £1,046m (£485m)	49.1p	23.4p
Average number of shares	2,129m	2,076m
Dividend Per Share*	15.84p	15.38p

* Earnings per share and dividend per share figures for 2003 have been restated to take account of the Rights Issue in 2004.

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

Insurance Products and Investment Products	Insurance Products		Investment Products		Total	
	Gross Premiums		Gross Inflows			
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
UK and Europe Operations	6,538	4,128	5,845	3,797	12,383	7,925
US Operations	4,420	4,066	418	159	4,838	4,225
Prudential Asia	1,172	989	18,845	18,157	20,017	19,146
Group Total	12,130	9,183	25,108	22,113	37,238	31,296

Insurance Products - New Business Premiums	Single		Regular		Annual Premium Equivalents	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
UK and Europe Insurance Operations						
Direct to customer						
Individual annuities	630	657	-	-	63	66
Individual pensions and life	19	22	10	12	12	14
Department of Work and Pensions rebate business	265	280	-	-	27	28
Total	914	959	10	12	102	108
Business to Business						
Corporate pensions	153	168	137	127	152	144
Individual annuities	229	223	-	-	23	22
Bulk annuities	474	287	-	-	47	29
Total	856	678	137	127	222	195
Intermediated distribution						
Life	1,001	818	5	22	105	104
Individual annuities	1,180	828	-	-	118	83
Individual and corporate pensions	189	120	25	29	44	41
Department of Work and Pensions rebate business	89	103	-	-	9	10
Total	2,459	1,869	30	51	276	238
Partnerships						
Life	790	293	2	-	81	29
Individual and bulk annuities	1,249	52	-	-	125	5
Total	2,039	345	2	-	206	34
Europe	89	87	2	-	11	9
Total UK and Europe Insurance Operations	6,357	3,938	181	190	817	584
US Operations						
Fixed annuities	1,130	1,375	-	-	113	138
Equity linked indexed annuities	429	255	-	-	43	25
Variable annuities	1,981	1,937	-	-	198	194
Life	16	-	12	13	14	13
Guaranteed Investment Contracts	180	183	-	-	18	18
GIC - Medium Term Notes	672	303	-	-	67	30
Total	4,408	4,053	12	13	453	418
Prudential Asia						
China	9	7	16	11	17	12
Hong Kong	255	189	78	83	103	102
India (Group's 26% interest)	5	4	33	16	33	16
Indonesia	38	27	28	31	32	34
Japan	17	9	7	35	9	36
Korea	36	19	60	30	64	32
Malaysia	7	11	61	59	62	60
Singapore	199	181	47	57	67	75
Taiwan	88	28	143	132	151	135
Other	8	7	37	53	38	53
Total	662	482	510	507	576	555
Group Total	11,427	8,473	703	710	1,846	1,557

Annual Premium Equivalents are calculated as the aggregate of regular new business premiums and one tenth of single new business premiums.

Investment Products - Funds Under Management (FUM)

	FUM		Gross		Market and Other	
	1 Jan 2004		Inflows	Redemptions	Movements	FUM
	£m		£m	£m	£m	£m
UK and Europe Operations	24,192	5,845	(3,841)	2,509	28,705	
US Operations	148	418	(31)	15	550	
Prudential Asia	6,596	18,845	(17,647)	38	7,832	
Group Total	30,936	25,108	(21,519)	2,562	37,087	

ACHIEVED PROFITS BASIS RESULTS

Operating Profit before Amortisation of Goodwill

Results Analysis by Business Area	2004 £m	Restated 2003 £m
UK and Europe Operations		
Insurance Operations:		
New business	220	166
Business in force	230	193
Long-term business	450	359
M&G	136	83
Egg*	43	55
Total*	629	497
US Operations		
New business	156	148
Business in force*	161	49
Long-term business*	317	197
Broker dealer and fund management	(14)	(3)
Total*	303	194
Prudential Asia		
New business	312	291
Business in force	69	74
Long-term business	381	365
Fund management	19	13
Development expenses	(15)	(27)
Total	385	351
Other Income and Expenditure		
Investment return and other income	44	29
Interest payable on core structural borrowings	(154)	(143)
Corporate expenditure:		
Group Head Office	(54)	(43)
Asia Regional Head Office	(29)	(24)
Total	(193)	(181)
Operating profit from continuing operations before amortisation of goodwill	1,124	861
Analysed as profits (losses) from:		
New business	688	605
Business in force	460	316
Long-term business	1,148	921
Asia development expenses	(15)	(27)
Other operating results	(9)	(33)
Total	1,124	861
* The results for Egg and US Operations exclude the results of discontinued operations as set out below:		
Egg France	(37)	(89)
Jackson Federal Bank	17	22
Operating loss from discontinued operations before amortisation of goodwill	(20)	(67)

ACHIEVED PROFITS BASIS RESULTS

Summarised Consolidated Balance Sheet	2004 £m	Restated 2003 £m
Total assets less liabilities, excluding insurance funds	149,050	136,346
Less insurance funds:		
Technical provisions (net of reinsurers' share)	128,083	120,449
Fund for future appropriations	16,686	12,657
Less shareholders' accrued interest in the long-term business	(4,315)	(3,765)
	140,454	129,341
Total net assets	8,596	7,005
Share capital	119	100
Share premium	1,558	553
Statutory basis retained profit	2,604	2,587
Additional achieved profits basis retained profit	4,315	3,765
Shareholders' capital and reserves	8,596	7,005

Movement in Shareholders' Capital and Reserves	2004 £m	Restated 2003 £m
Profit for the year after minority interests	1,046	485
Exchange movements, net of related tax of £12m (£18m)	(229)	(348)
Proceeds from Rights Issue, net of expenses	1,021	-
Other new share capital subscribed	119	30
Dividends	(362)	(320)
Consideration paid for own shares	(4)	(3)
Movement in cost of own shares	-	1
Net increase (decrease) in shareholders' capital and reserves	1,591	(155)
Shareholders' capital and reserves at beginning of year:		
As originally reported	7,043	7,196
Prior year adjustment on implementation of UITF 38	(38)	(36)
As restated	7,005	7,160
Shareholders' capital and reserves at end of year	8,596	7,005

Comprising

UK and Europe Operations:		
Long-term business	4,051	3,424
M&G	312	336
Egg	269	348
	4,632	4,108
US Operations	2,596	2,490
Prudential Asia	1,738	1,419
Other operations (including central goodwill and borrowings)	(370)	(1,012)
	8,596	7,005

ACHIEVED PROFITS BASIS RESULTS

Basis of Preparation of Results

The achieved profits basis results have been prepared in accordance with the guidance issued by the Association of British Insurers in December 2001 "Supplementary Reporting for long-term insurance business (the achieved profits method)".

Under this guidance, the basis for setting long-term expected rates of return on investments and risk discount rates are, for countries with developed long-term fixed income securities markets, set by reference to period end rates of return on fixed income securities. This "active" basis of assumption setting has been applied in preparing the results of the Group's UK, Europe and US operations. For the Group's Asian operations the active basis is appropriate for business written in Japan and Korea and US dollar denominated business written in Hong Kong.

For countries where long-term fixed income securities markets are underdeveloped, investment return assumptions and risk discount rates are based on an assessment of long-term economic conditions. Except for the countries listed above, this basis is appropriate to the Group's Asian operations.

The key economic assumptions are set out below:

	<u>2004</u>	<u>2003</u>
UK and Europe Insurance Operations		
Pre-tax expected long-term nominal rate of investment return:		
UK equities	7.1%	7.3%
Overseas equities	6.8% to 7.8%	6.6% to 7.9%
Property	6.3%	6.6%
Gilts	4.6%	4.8%
Corporate bonds	5.5%	5.8%
PAC with-profits fund assets (applying the rates listed above to the investments held by the fund)	6.5%	6.8%
Expected long-term rate of inflation	2.9%	3.1%
Post-tax expected long-term nominal rate of return:		
Pension business (where no tax applies)	6.5%	6.8%
Life business	5.7%	5.9%
Risk margin included within the risk discount rate	2.6%	2.6%
Risk discount rate	7.2%	7.4%
US Operations (Jackson National Life)		
Expected long-term spread between earned rate and rate credited to policyholders	1.75%	1.75%
US 10 year treasury bond rate at end of year	4.3%	4.3%
Risk margin included within the risk discount rate	3.1%	3.1%
Risk discount rate	7.4%	7.4%
Prudential Asia		
Weighted pre-tax expected long-term nominal rate of investment return*	6.6%	7.4%
Weighted expected long-term rate of inflation	3.0%	3.4%
Weighted risk discount rate	9.6%	10.4%

The Prudential Asia weighted economic assumptions have been determined by weighting each country's assumptions by reference to the Achieved Profits basis operating results for new business written in the relevant year.

*Consistent with prior periods, for the Taiwan operation, the projections include an assumption of phased progression from current rates to the long-term expected rates over a remaining period of 8 years. This takes into account the effect on bond values of rising interest rates.

ACHIEVED PROFITS BASIS RESULTS

Notes on the Achieved Profits Basis Results

- (1) The results for 2004 and 2003 have been derived from the achieved profits basis supplements to the Company's statutory accounts for those years. The supplements included unqualified audit reports from the auditors.
- (2) Under the achieved profits basis, the operating profit from new business represents the profitability of new long-term insurance business written in the year, and the operating profit from business in force represents the profitability of business in force at the start of the year. These results are combined with the statutory basis results of the Group's other operations including banking and fund management business. The effects of short-term fluctuations in investment returns and the impact of changes in economic assumptions on shareholders' funds at the start of the reporting period are excluded from operating profit but included in total profit. In the directors' opinion, the achieved profits basis results provide a more realistic reflection of the performance of the Group's long-term business than results under the statutory basis.
- (3) The proportion of surplus allocated to shareholders from the UK with-profits business has been based on the present level of 10%. Future bonus rates have been set at levels which would fully utilise the assets of the with-profits fund over the lifetime of the business in force.

STATUTORY BASIS RESULTS

Summarised Consolidated Profit and Loss Account	2004 £m	2003 £m
Long-term business gross premiums written (note 3)	16,355	13,781
Profit on ordinary activities before tax	650	350
Tax (note 4)	(232)	(144)
Profit for the year before minority interests	418	206
Minority interests	10	2
Profit for the year after minority interests	428	208
Dividends (note 5)	(362)	(320)
Retained profit (loss) for the year	66	(112)

Reconciliation of operating profit to profit on ordinary activities

Operating profit (loss) before amortisation of goodwill:		
Continuing operations	603	424
Discontinued operations (note 6)	(20)	(67)
	583	357
Amortisation of goodwill	(97)	(98)
Operating profit based on long-term investment returns	486	259
Short-term fluctuations in investment returns	229	91
Profit or loss on the sale or termination of discontinued operations:		
Profit on business disposals (note 6)	48	-
Egg France closure cost (note 6)	(113)	-
Profit on ordinary activities before tax	650	350

Earnings Per Share*

Based on operating profit after tax and related minority interests before amortisation of goodwill of £408m (£257m)	19.2p	12.4p
Adjustment for amortisation of goodwill	(4.6)p	(4.7)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests)	7.1p	2.3p
Adjustment for post-tax profit on business disposals	1.4p	-
Adjustment for post-tax Egg France closure cost	(3.0)p	-
Based on profit for the year after minority interests of £428m (£208m)	20.1p	10.0p
Average number of shares	2,129m	2,076m

Dividend Per Share*	15.84p	15.38p
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* Earnings per share and dividend per share figures for 2003 have been restated to take account of the Rights Issue in 2004.

STATUTORY BASIS RESULTS

Operating Profit before Amortisation of Goodwill

Results Analysis by Business Area	2004 £m	Restated 2003 £m
UK and Europe Operations		
UK and Europe Insurance Operations	305	256
M&G	136	83
Egg*	43	55
Total*	484	394
US Operations		
Jackson National Life*	196	143
Broker dealer and fund management	(14)	(3)
Total*	182	140
Prudential Asia		
Long-term business	126	85
Fund management	19	13
Development expenses	(15)	(27)
Total	130	71
Other Income and Expenditure		
Investment return and other income	44	29
Interest payable on core structural borrowings	(154)	(143)
Corporate expenditure:		
Group Head Office	(54)	(43)
Asia Regional Head Office	(29)	(24)
Total	(193)	(181)
Operating profit from continuing operations before amortisation of goodwill	603	424

* The results for Egg and Jackson National Life exclude the results of discontinued operations as set out below:

Egg France	(37)	(89)
Jackson Federal Bank	17	22
Operating loss from discontinued operations before amortisation of goodwill	(20)	(67)

STATUTORY BASIS RESULTS

Consolidated Statement of Total Recognised Gains and Losses	2004 £m	2003 £m
Profit for the year after minority interests	428	208
Exchange movements, net of related tax of £12m (£18m)	(161)	(253)
Total recognised gains (losses) relating to the financial period	267	(45)

Movement in Shareholders' Capital and Reserves	2004 £m	Restated (note 2) 2003 £m
Total recognised gains (losses) relating to the financial period	267	(45)
Proceeds from Rights Issue, net of expenses	1,021	-
Other new share capital subscribed	119	30
Dividends	(362)	(320)
Consideration paid for own shares	(4)	(3)
Movement in cost of own shares	-	1
Net increase (decrease) in shareholders' capital and reserves	1,041	(337)
Shareholders' capital and reserves at beginning of year:		
As previously reported	3,278	3,613
Prior year adjustment on implementation of UITF 38	(38)	(36)
As restated	3,240	3,577
Shareholders' capital and reserves at end of year	4,281	3,240

STATUTORY BASIS RESULTS

Summarised Consolidated Balance Sheet	2004 £m	Restated 2003 £m
Assets		
Goodwill	1,367	1,504
Investments in respect of non-linked business:		
Land and buildings	12,367	10,965
Equities	38,426	34,877
Fixed income securities	66,750	64,591
Deposits with credit institutions	6,125	4,088
Other investments	5,987	5,719
	129,655	120,240
Assets held to cover linked liabilities	23,830	19,921
Reinsurers' share of technical provisions	1,018	924
Banking business assets	11,995	12,629
Cash at bank and in hand	1,415	1,221
Deferred acquisition costs	2,908	2,952
Other assets*	2,352	2,318
Total assets*	174,540	161,709
Liabilities		
Share capital	119	100
Share premium	1,558	553
Statutory basis retained profit	2,646	2,625
Cost of shares held in trusts for employee incentive plans*	(42)	(38)
Shareholders' capital and reserves*	4,281	3,240
Minority interests	71	107
Subordinated liabilities (note 7)	1,429	1,336
Fund for future appropriations*	16,686	12,657
Technical provisions in respect of non-linked business	104,964	101,178
Technical provisions for linked liabilities	24,137	20,195
Deferred tax	1,522	1,154
Debenture loans (note 7)	1,761	1,781
Other borrowings (note 7)	1,483	1,328
Banking business liabilities	11,217	11,681
Obligations of Jackson National Life under funding and stocklending arrangements	3,308	3,762
Tax	1,017	851
Final dividend	253	214
Other liabilities*	2,411	2,225
Total liabilities*	174,540	161,709

* The 2003 figures for these lines have been restated as a result of the implementation of UITF 38.

STATUTORY BASIS RESULTS

FRS1 Consolidated Cash Flow Statement	2004 £m	2003 £m
Operations		
Net cash inflow from operating activities	93	88
Servicing of finance		
Interest paid	(207)	(172)
Tax		
Tax received	72	128
Acquisitions and disposals		
Net cash inflow from disposal of European business	-	27
Equity dividends		
Equity dividends paid	(323)	(447)
Net cash outflow before financing	(365)	(376)
Financing		
Issue of borrowings	111	829
Reduction in credit facility utilised by investment subsidiaries managed by PPM America	(31)	(151)
Issues of ordinary share capital, net of expenses of £23m (£nil)	1,140	30
Net cash inflow from financing	1,220	708
Net cash inflow for the year	855	332
The net cash inflow was invested as follows:		
Net purchases (sales) of portfolio investments	843	(149)
Increase in cash and short-term deposits, net of overdrafts	12	481
	855	332

In accordance with FRS 1, this statement excludes the cash flows of long-term business funds.

The reconciliation from operating profit to net cash inflow from operating activities is summarised below:

	2004 £m	2003 £m
Operating profit before amortisation of goodwill	583	357
Add back interest charged to operating profit*	213	189
Adjustments for non-cash items:		
Tax on long-term business profits	(195)	(150)
Amounts retained in long-term business operations and Egg, timing differences and other items	(508)	(308)
Net cash inflow from operating activities (as shown above)	93	88

* This adjustment comprises interest payable on core structural borrowings, commercial paper and other borrowings, non-recourse borrowings of investment subsidiaries managed by PPM America and structural borrowings of Egg. Interest payable on long-term business with-profits fund borrowings and other trading activities has been excluded from this adjustment.

STATUTORY BASIS RESULTS

Notes on the Statutory Basis Results

- (1) The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2004 and 2003 but is, with the exception for 2003 of the change in accounting policy explained in Note 2 below, derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies and those for 2004 will be delivered following the Company's Annual General Meeting. The auditors have reported on both those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.
- (2) The Company has implemented UITF Abstract 38 - "Accounting for ESOP Trusts" in preparing its 2004 results which requires the Company to present the cost of acquiring shares held in trusts for employee incentive plans as a deduction in determining shareholders' funds. The effect of the change in policy is to reduce shareholders' funds at 1 January 2004 from the previously published 31 December 2003 level by £38m. Comparative balance sheet amounts have been restated accordingly. The impact on the profit and loss account is immaterial.
- (3) An analysis of long-term business gross premiums written is set out below:

	2004 £m	2003 £m
UK and Europe Insurance Operations	9,186	7,264
US Operations	4,717	4,369
Prudential Asia	2,452	2,148
	16,355	13,781

- (4) The tax charge of £232m (£144m) comprises £26m (£22m) UK tax and £206m (£122m) overseas tax.
- (5) The directors recommend that the shareholders declare a final dividend for 2004 of 10.65p per share payable on 25 May 2005 to shareholders on the register at the close of business on 18 March 2005. A scrip dividend alternative will be offered to shareholders. After adjusting for the bonus element of the Rights Issue in 2004, the interim dividend for 2004 was 5.19p per share (actual amount paid was 5.4p per share). The total dividend for the year, including the recommended final dividend and the adjusted interim dividend, amounts to 15.84p per share and the total cost of the dividend declared in respect of 2004 is £362m.
- (6) In July 2004, Egg announced that it intended to take the necessary steps to withdraw from the French market at an expected cost of £113m. This business, which has been treated as discontinued operations, incurred losses up to the date of announcement of £37m (£89m). In October 2004, Jackson National Life sold Jackson Federal Bank and realised a profit on sale of £41m before tax. This business, which has also been treated as discontinued operations, made an operating profit up to the date of disposal of £17m (£22m). In August 2004, the company sold its 15% interest in Life Assurance Holding Corporation Limited and realised a profit on sale of £7m before tax.
- (7) An analysis of borrowings is set out below:

	2004 £m	2003 £m
Net core structural borrowings of shareholder financed operations	1,236	2,135
Add back holding company cash and short-term investments	1,561	432
Core structural borrowings of shareholder financed operations	2,797	2,567
Commercial paper and other borrowings that support a short-term fixed income securities reinvestment programme	1,079	1,074
Non-recourse borrowings of investment subsidiaries managed by PPM America	183	214
Egg debenture loans	451	451
UK and Europe Operations long-term business with-profits fund borrowings	144	120
Other borrowings of shareholder financed operations	19	19
	4,673	4,445
This total is recorded in the statutory basis summarised consolidated balance sheet as:		
Subordinated liabilities	1,429	1,336
Debenture loans	1,761	1,781
Other borrowings	1,483	1,328
	4,673	4,445

- (8) The Preliminary Announcement was approved by the Board of directors on 1 March 2005.