

PRUDENTIAL PLC 2002 UNAUDITED RESULTS

Results Summary	2002 £m	2001 £m
Achieved Profits Basis Results		
UK Insurance Operations	526	620
M&G	71	75
Egg	(20)	(88)
UK Operations	577	607
US Operations	265	319
Prudential Asia	516	415
Prudential Europe	14	8
Other Income and Expenditure (including development expenses)	(223)	(178)
	1,149	1,171
UK re-engineering costs	(16)	(57)
Operating profit from continuing operations	1,133	1,114
Discontinued UK general business operations	-	72
Operating profit before amortisation of goodwill and exceptional items	1,133	1,186
Amortisation of goodwill	(98)	(95)
Short-term fluctuations in investment returns	(1,406)	(1,402)
Effect of change in economic assumptions	(467)	(482)
Merger break fee (net of related expenses)	-	338
Profit on sale of UK general business operations	355	-
Loss on ordinary activities before tax	(483)	(455)
Operating earnings per share	42.8p	41.9p
Shareholders' funds	£7.2bn	£8.15bn
Statutory Basis Results		
Operating profit before amortisation of goodwill and exceptional items	432	622
Profit on ordinary activities before tax	484	385
Operating earnings per share	15.8p	23.3p
Shareholders' funds	£3.7bn	£3.95bn
Dividend Per Share	26.0p	25.4p
Insurance and Investment Funds under Management	£155bn	£163bn
Banking Deposit Balances under Management	£8.7bn	£6.5bn

Operating profit includes investment returns at the expected long-term rate of return but excludes amortisation of goodwill and the profit on sale of UK general business operations. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit on ordinary activities includes these items together with actual investment returns. This basis of presentation has been adopted consistently throughout the Preliminary Announcement.

ACHIEVED PROFITS BASIS RESULTS

Summarised Consolidated Profit and Loss Account	2002 £m	2001 £m
UK Insurance Operations	526	620
M&G	71	75
Egg	(20)	(88)
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US Operations	265	319
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	1,149	1,171
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Short-term fluctuations in investment returns	(1,406)	(1,402)
Effect of change in economic assumptions	(467)	(482)
Merger break fee (net of related expenses)	-	338
Profit on sale of UK general business operations	355	-
Loss on ordinary activities before tax (including actual investment returns)	(483)	(455)
Tax	329	213
Loss for the year before minority interests	(154)	(242)
Minority interests	9	25
Loss for the year after minority interests	(145)	(217)
Dividends	(519)	(504)
Retained loss for the year	(664)	(721)
Basic Earnings Per Share		
Based on operating profit after tax and related minority interests before amortisation of goodwill and exceptional items of £851m (£828m)	42.8p	41.9p
Adjustment for amortisation of goodwill	(4.9)p	(4.8)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests)	(48.0)p	(48.9)p
Adjustment for post-tax effect of change in economic assumptions	(14.4)p	(16.0)p
Adjustment for post-tax merger break fee (net of related expenses)	-	16.8p
Adjustment for post-tax profit on sale of UK general business operations	17.2p	-
Based on loss for the year after minority interests of £(145)m (£(217)m)	(7.3)p	(11.0)p
Average number of shares	1,988m	1,978m
Dividend Per Share	26.0p	25.4p

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

Insurance Products and Investment Products

	Insurance Products		Investment Products		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
UK Operations	6,051	5,685	1,157	1,040	7,208	6,725
US Operations	5,757	4,634	-	-	5,757	4,634
Prudential Asia	944	1,019	13,661	9,027	14,605	10,046
Prudential Europe	67	78	-	-	67	78
Group Total	12,819	11,416	14,818	10,067	27,637	21,483

Insurance Products - New Business Premiums

	Single		Regular		Annual Premium Equivalents	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
UK Insurance Operations						
Direct distribution						
Individual pensions	15	14	11	15	12	16
Corporate pensions	660	469	114	131	180	178
Life	59	71	4	4	10	11
Individual annuities	895	663	-	-	90	66
Department of Social Security rebate business	215	185	-	-	22	19
Total	1,844	1,402	129	150	314	290
Intermediated distribution						
Individual pensions	85	219	34	68	42	90
Corporate pensions	77	82	14	19	22	27
Life	2,190	2,297	18	27	237	257
Individual annuities	860	597	-	-	86	60
Bulk annuities	710	575	-	-	71	57
Department of Social Security rebate business	90	64	-	-	9	6
Total	4,012	3,834	66	114	467	497
Closed Direct Sales Force distribution	-	167	-	18	-	35
Total UK Insurance Operations	5,856	5,403	195	282	781	822
US Operations						
Fixed annuities	2,708	1,899	-	-	271	190
Equity linked indexed annuities	254	271	-	-	25	27
Variable annuities	1,363	768	-	-	136	77
Guaranteed Investment Contracts	292	170	-	-	29	17
GIC - Medium Term Notes	1,118	1,504	-	-	112	150
Life	-	-	22	22	22	22
Total	5,735	4,612	22	22	595	483
Prudential Asia	479	650	465	369	513	434
Prudential Europe	42	58	25	20	29	26
Group Total	12,112	10,723	707	693	1,918	1,765

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		Acquisitions	Market	FUM
	1 Jan 2002	Inflows	Redemptions		and Other	31 December
	£m	£m	£m		Movements	2002
UK Operations	10,328	1,157	(899)	-	(1,997)	8,589
Prudential Asia	3,296	13,661	(12,558)	1,110	(277)	5,232
Group Total	13,624	14,818	(13,457)	1,110	(2,274)	13,821

ACHIEVED PROFITS BASIS RESULTS

Operating Profit before Amortisation of Goodwill and Exceptional Items

Results Analysis by Business Area	2002 £m	2001 £m
UK Operations		
Insurance Operations:		
New business	222	243
Business in force	304	377
Long-term business	526	620
M&G	71	75
Egg	(20)	(88)
Total	577	607
US Operations		
New business	234	167
Business in force	17	136
Long-term business	251	303
Broker dealer and fund management	14	16
Total	265	319
Prudential Asia		
New business	307	255
Business in force	209	160
Long-term business	516	415
Development expenses	(26)	(19)
Total	490	396
Prudential Europe		
New business	11	8
Business in force	3	0
Long-term business	14	8
Development expenses	(8)	(29)
Total	6	(21)
Other Income and Expenditure		
Investment return and other income	3	51
Interest payable on core structural borrowings of shareholder financed operations	(130)	(118)
Corporate expenditure:		
Group Head Office	(36)	(39)
Asia Regional Head Office	(26)	(24)
Total	(189)	(130)
	1,149	1,171
UK re-engineering costs	(16)	(57)
Operating profit from continuing operations before amortisation of goodwill and exceptional items	1,133	1,114
Analysed as profits (losses) from:		
New business	774	673
Business in force	533	673
Long-term business	1,307	1,346
Prudential Asia and Prudential Europe development expenses	(34)	(48)
Other operating results	(124)	(127)
UK re-engineering costs	(16)	(57)
Total	1,133	1,114

ACHIEVED PROFITS BASIS RESULTS

Summarised Consolidated Balance Sheet	2002 £m	2001 £m
Total assets less liabilities, excluding insurance funds	126,325	133,365
Less insurance funds:		
Technical provisions (net of reinsurers' share)	114,994	116,213
Fund for future appropriations	7,663	13,202
Less shareholders' accrued interest in the long-term business	(3,528)	(4,200)
	119,129	125,215
Achieved profits basis net assets	7,196	8,150
Share capital	100	100
Share premium	550	533
Statutory basis retained profit	3,018	3,317
Additional achieved profits basis retained profit	3,528	4,200
Achieved profits basis capital and reserves	7,196	8,150

Movement in Shareholders' Capital and Reserves	2002 £m	2001 £m
Loss for the year after minority interests	(145)	(217)
Exchange movements	(330)	53
New share capital subscribed	40	42
Dividends	(519)	(504)
Net decrease in shareholders' capital and reserves	(954)	(626)
Shareholders' capital and reserves at beginning of year	8,150	8,776
Shareholders' capital and reserves at end of year	7,196	8,150

Comprising

UK Operations:		
Long-term business	2,918	3,656
M&G	382	329
Egg	369	380
	3,669	4,365
US Operations	2,732	2,817
Prudential Asia	1,407	1,089
Prudential Europe	108	90
Other operations (including central goodwill and borrowings)	(720)	(211)
	7,196	8,150

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 most countries, 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, US, and European long-term business operations. For the Group's Asian operations, the active basis is appropriate for business written in Japan and Korea and for US dollar denominated business written in Hong Kong.

An exception to this general rule is that for countries where long-term fixed income 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 for the Group's Asian operations.

The key economic assumptions are set out below:

	<u>2002</u>	<u>2001</u>
UK Operations		
Pre-tax expected long-term nominal rate of investment return:		
UK equities	7.0%	7.5%
Overseas equities	7.0% to 7.8%	7.5% to 7.8%
Property	6.75%	7.5%
Gilts	4.5%	5.0%
Corporate bonds	5.5%	6.0%
PAC with-profits fund assets (applying the rates listed above to the investments held by the fund)	6.6%	7.1%
Expected long-term rate of inflation	2.5%	2.6%
Post-tax expected long-term nominal rate of return:		
Pension business (where no tax applies)	6.6%	7.1%
Life business	5.7%	6.3%
Risk margin included within the risk discount rate	2.6%	2.6%
Risk discount rate	7.1%	7.7%
Prudential Europe		
Risk discount rate	7.1%	7.7%
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 31 December 2002 (2001)	3.9%	5.1%
Risk margin included within the risk discount rate	3.1%	2.6%
Risk discount rate	7.0%	7.7%
Prudential Asia		
Weighted pre-tax expected long-term nominal rate of investment return	7.1%	7.3%
Weighted expected long-term rate of inflation	3.0%	3.0%
Weighted risk discount rate	9.6%	10.1%

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.

ACHIEVED PROFITS BASIS RESULTS

Notes on the Unaudited Achieved Profits Basis Results

- (1) The achieved profits basis results are unaudited. The results for 2001 have been derived from the achieved profits basis supplement to the Company's statutory accounts for that year. The supplement included an unqualified review report 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 with, for Asia, the statutory basis results of non-insurance operations. These results are combined with the statutory basis results of the Group's other operations including banking, mutual funds and other non-insurance investment management business. In the directors' opinion, the achieved profits basis provides a more realistic reflection of the performance of the Group's long-term business operations 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.
- (4) The Company completed the transfer of its UK general business operations to Winterthur and the Churchill Group, its subsidiary, on 4 January 2002 for a consideration of £353m. After allowing for the costs of sale and other related items, the profit on sale was £355m before tax.
- (5) The final dividend of 17.1p per share will be paid on 28 May 2003 to shareholders on the register at the close of business on 21 March 2003. A scrip dividend alternative will be offered to shareholders. The total dividend for the year, including the interim dividend of 8.9p per share paid in 2002, amounts to 26.0p per share and the total cost of the dividend declared in respect of 2002 is £519m.

STATUTORY BASIS RESULTS

Summarised Consolidated Profit and Loss Account	2002 £m	2001 £m
Gross premiums written:		
Long-term business (note 2)	16,669	15,196
Investment products	14,818	10,067
General business*	329	390
	31,816	25,653
Operating profit before amortisation of goodwill and exceptional items:		
Continuing operations	432	550
Discontinued UK general business operations	-	72
	432	622
Amortisation of goodwill	(98)	(95)
Short-term fluctuations in investment returns	(205)	(480)
Merger break fee (net of related expenses)	-	338
Profit on sale of UK general business operations	355	-
Profit on ordinary activities before tax (including actual investment returns)	484	385
Tax (note 3)	(44)	(21)
Profit for the year before minority interests	440	364
Minority interests	9	25
Profit for the year after minority interests	449	389
Dividends	(519)	(504)
Retained loss for the year	(70)	(115)
Basic Earnings Per Share		
Based on operating profit after tax and related minority interests before amortisation of goodwill and exceptional items of £314m (£460m)	15.8p	23.3p
Adjustment for amortisation of goodwill	(4.9)p	(4.8)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests)	(5.5)p	(15.6)p
Adjustment for post-tax merger break fee (net of related expenses)	-	16.8p
Adjustment for post-tax profit on sale of UK general business operations	17.2p	-
Based on profit for the year after minority interests of £449m (£389m)	22.6p	19.7p
Average number of shares	1,988m	1,978m
Dividend Per Share	26.0p	25.4p

* Following the sale of the UK general business operations to Winterthur, all general business gross premiums written in 2002 were reinsured to Winterthur.

STATUTORY BASIS RESULTS

Operating Profit before Amortisation of Goodwill and Exceptional Items

Results Analysis by Business Area	2002 £m	2001 £m
UK Operations		
UK Insurance Operations	368	435
M&G	71	75
Egg	(20)	(88)
Total	419	422
US Operations		
Jackson National Life	139	282
Broker dealer and fund management	14	16
Total	153	298
Prudential Asia		
Long-term business and investment products	88	44
Development expenses	(26)	(19)
Total	62	25
Prudential Europe		
Long-term business	9	5
Development expenses	(8)	(29)
Total	1	(24)
Other Income and Expenditure		
Investment return and other income	3	51
Interest payable on core structural borrowings of shareholder financed operations	(130)	(118)
Corporate expenditure:		
Group Head Office	(36)	(39)
Asia Regional Head Office	(26)	(24)
Total	(189)	(130)
	446	591
UK re-engineering costs	(14)	(41)
Operating profit from continuing operations before amortisation of goodwill and exceptional items	432	550

STATUTORY BASIS RESULTS

Summarised Consolidated Balance Sheet	2002 £m	2001 £m
Goodwill	1,604	1,687
Investments in respect of non-linked business:		
Equities	30,007	40,948
Fixed income securities	63,200	59,181
Properties	10,766	10,487
Deposits with credit institutions	5,840	4,176
Other investments (principally mortgages and loans)	5,325	5,110
	115,138	119,902
Assets held to cover linked liabilities	15,763	17,453
Banking business assets	11,502	8,972
Deferred acquisition costs	3,219	3,204
Minority interests	(108)	(118)
Fund for future appropriations	(7,663)	(13,202)
Insurance technical provisions (net of reinsurers' share):		
UK Operations	(84,730)	(85,583)
US Operations	(24,074)	(25,055)
Prudential Asia	(5,541)	(4,941)
Prudential Europe	(649)	(634)
	(114,994)	(116,213)
Deferred tax	(696)	(2,005)
Debenture loans (note 4)	(2,293)	(2,244)
Other borrowings (note 4)	(2,080)	(2,595)
Banking business liabilities (note 5)	(10,784)	(8,333)
Obligations of Jackson National Life under funding and stocklending arrangements	(5,098)	(3,703)
Dividend payable	(341)	(332)
Other net assets	499	1,477
Total net assets	3,668	3,950

Shareholders' Capital and Reserves

Share capital	100	100
Share premium	550	533
Statutory basis retained profit	3,018	3,317
Shareholders' capital and reserves	3,668	3,950

Movement in Shareholders' Capital and Reserves

Profit for the year after minority interests	449	389
Exchange movements	(252)	52
New share capital subscribed	40	42
Dividends	(519)	(504)
Net decrease in shareholders' capital and reserves	(282)	(21)
Shareholders' capital and reserves at beginning of year	3,950	3,971
Shareholders' capital and reserves at end of year	3,668	3,950

STATUTORY BASIS RESULTS

FRS1 Consolidated Cash Flow Statement

	2002 £m	2001 £m
Operations		
Net cash inflow from operating activities#	31	95
Servicing of finance		
Interest paid	(180)	(147)
Tax		
Tax received (paid)	299	(44)
Acquisitions, disposals and similar items		
Net cash inflow from:		
Acquisition of subsidiary undertakings	(12)	(182)
Merger break fee received	-	338
Disposal of UK general business operations	353	-
Net cash inflow from acquisitions, disposals and similar items	341	156
Equity dividends		
Equity dividends paid	(509)	(494)
Net cash outflow before financing	(18)	(434)
Financing		
Issue of borrowings	86	640
Movement on credit facility utilised by investment subsidiaries managed by PPM America*	(165)	404
Issues of ordinary share capital	40	42
Net cash (outflow) inflow from financing	(39)	1,086
Net cash (outflow) inflow for the year	(57)	652
The net cash (outflow) inflow was (financed) invested as follows:		
Net (sales) purchases of portfolio investments	(83)	1,777
Increase (decrease) in cash and short-term deposits, net of overdrafts	26	(1,125)
	(57)	652

In accordance with FRS 1, this statement shows only the cash flows of general business and shareholders' funds.

* The holders of the credit facility utilised by these investment subsidiaries do not have recourse beyond the assets of these subsidiaries.

The reconciliation from statutory basis operating profit to net cash inflow from operating activities is set out below:

	2002 £m	2001 £m
Operating profit before amortisation of goodwill	432	622
Add back interest charged to operating profit^	190	162
Adjustments for non-cash items:		
Tax on long-term business profits	(174)	(235)
Amounts retained by and invested in long-term business operations	(553)	(534)
Increase in net banking assets	72	36
Other items	64	44
Net cash inflow from operating activities (as shown above)	31	95

^ 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 borrowings and other trading activities has been excluded from this adjustment.

STATUTORY BASIS RESULTS

Notes on the Unaudited Statutory Basis Results

(1) The statutory basis results for 2002 are unaudited. The results for 2002 have been prepared using the same accounting policies as were used in the 2001 statutory accounts. The results for 2001 have been derived from those accounts. The auditors have reported on the 2001 statutory accounts and the accounts have been delivered to the Registrar of Companies. The auditors report was not qualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

(2) An analysis of long-term business gross premiums written is set out below:

	2002 £m	2001 £m
UK Insurance Operations	8,435	8,198
Jackson National Life	6,098	5,008
Prudential Asia	1,896	1,793
Prudential Europe	240	197
Group Total	16,669	15,196

(3) The statutory tax charge of £44m (£21m) comprises £71m (£63m) UK tax and £27m credit (£42m credit) for overseas tax.

(4) An analysis of borrowings is set out below:

	2002 £m	2001 £m
Net core structural borrowings of shareholder financed operations	2,226	2,133
Add back holding company cash and short-term investments	226	19
Core structural borrowings of shareholder financed operations*	2,452	2,152
Commercial paper and other borrowings to support short-term fixed income securities reinvestment programme	1,241	1,330
Non-recourse borrowings of investment subsidiaries managed by PPM America	365	530
Egg debenture loans	202	124
Scottish Amicable Finance debenture loan#	100	100
Obligations of Jackson National Life under sale and repurchase agreements	0	577
Other borrowings of shareholder financed operations	13	26
	4,373	4,839

This total is recorded in the statutory basis summarised consolidated balance sheet as:

Debenture loans	2,293	2,244
Other borrowings	2,080	2,595
	4,373	4,839

* Represented by:

Debenture loans and other long-term borrowings	2,032	2,065
Short-term commercial paper borrowings	420	87
	2,452	2,152

Scottish Amicable Finance is a subsidiary of the Scottish Amicable Insurance Fund of The Prudential Assurance Company Limited long-term business with-profits fund.

(5) An analysis of banking business liabilities is set out below:

	2002 £m	2001 £m
Egg	9,882	7,465
US Operations	902	868
	10,784	8,333
Comprising:		
Banking deposit balances	8,666	6,520
Debt securities issued and other liabilities	2,118	1,813
	10,784	8,333