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PRUDENTIAL PLC

2002 Unaudited results

Supplementary information

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2002 Unaudited results**Achieved Profits basis results**

	Pre-tax £m	Tax £m	Post-tax £m	Minority interests £m	Post-tax and minority interests £m	Earnings per share (pence)
2002 Basic earnings per share (note 1a)						
Based on operating profit after tax and minority interests before amortisation of goodwill	1,133	(286)	847	4	851	42.8
Amortisation of goodwill	(98)		(98)		(98)	(4.9)
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests) (note 1b)	(1,406)	447	(959)	5	(954)	(48.0)
Adjustment for post-tax effect of change in economic assumptions	(467)	181	(286)		(286)	(14.4)
Adjustment for post-tax profit on sale of UK general business operations	355	(13)	342		342	17.2
Based on loss for the financial year after minority interests	<u>(483)</u>	<u>329</u>	<u>(154)</u>	<u>9</u>	<u>(145)</u>	<u>(7.3)</u>

Notes

1a The average number of shares for 2002 is 1,988 m.

1b The adjustment from post-tax longer-term investment returns to post-tax actual investment returns includes investment return that is attributable to external equity investors in two investment funds managed by PPM America. These two funds are consolidated as quasi subsidiaries but, except to the extent of Prudential Group participation in the funds, they have no net impact on pre-tax or post tax operating profit. Total profit, before and after tax, incorporating the adjustment from longer-term to actual investment returns, includes losses of £5m attributable to the minority interests in these funds.

2002 Unaudited results**Achieved Profits basis results****Economic assumptions and sensitivities****(1) 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, Korea and 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 profit and loss account charge or credit in respect of changes in economic assumptions, which is shown as an item excluded from operating profit, reflects the effect on shareholders' funds at the start of the reporting period. The effect of changes in operating assumptions, which are included within the analysis of operating profit, also reflect the impact at the start of the reporting period.

New business operating profit and the unwind of discount and experience variances included in the analysis of operating profits from business in force are measured using the revised operating and economic assumptions.

The key economic assumptions and sensitivity of the results to changes to those assumptions are described below.

(2) Economic assumptions**UK operations**

	<u>2002</u>	<u>2001</u>
Pre-tax expected long-term nominal rates 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-profit 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%

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 Europe

Risk discount rate	7.1%	7.7%
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2002 Unaudited results**Achieved Profits basis results****Economic assumptions and sensitivities (continued)****(2) Economic assumptions (continued)**

	<u>2002</u>	<u>2001</u>
<u>Prudential Asia</u>		
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 economic assumptions shown above for Prudential Asia have been determined by weighting each country's economic assumptions by reference to the Achieved Profits basis operating results for new business written in 2002 and 2001.

(3) Effect of altered economic assumptions

	<u>2002 £m</u>	<u>2001 £m</u>
Pre-tax (losses) profits on changes of economic assumptions included within the loss on ordinary activities before tax arise as follows :		
UK long-term business operations	(234)	(426)
Jackson National Life	(76)	1
Prudential Asia	(158)	(57)
Prudential Europe	1	0
Total	<u>(467)</u>	<u>(482)</u>

(4) 2002 Results sensitivities

The estimated increase (decrease) in the 2002 Group results that would arise from the following changes in economic assumptions are:

2002 Pre-tax operating profit from new business

Pre-tax expected long-term nominal rates of investment return		Group Total <u>£m</u>
Increase in rates of 1%	103	
Decrease in rates of 1%	(100)	
Risk discount rates		
Increase in rates of 1%	(85)	
Decrease in rates of 1%	102	

31 December 2002 shareholders' funds

Pre-tax expected long-term nominal rates of investment return		
Increase in rates of 1%	750	
Decrease in rates of 1%	(774)	
Risk discount rates		
Increase in rates of 1%	(417)	
Decrease in rates of 1%	474	

Schedule 3

2002 Unaudited results

Achieved Profits basis results

	2002			2001			Memorandum only 2001 Estimated results applying same economic assumptions as for 2002 results		
	Pre-tax £m	tax £m	Post-tax £m	Pre-tax £m	tax £m	Post-tax £m	Pre-tax £m	tax £m	Post-tax £m
Operating profits from new long-term insurance business									
UK operations	222	(66)	156	243	(73)	170	227	(68)	159
US operations (Jackson National Life) (note 3a)	234	(116)	118	167	(94)	73	195	(110)	85
Prudential Asia	307	(84)	223	255	(74)	181	219	(64)	155
Prudential Europe	11	(3)	8	8	(2)	6	8	(2)	6
	<u>774</u>	<u>(269)</u>	<u>505</u>	<u>673</u>	<u>(243)</u>	<u>430</u>	<u>649</u>	<u>(244)</u>	<u>405</u>

Note

3a Jackson National Life net of tax profits

Pre capital charge	142	108	126
Capital charge	<u>(24)</u>	<u>(35)</u>	<u>(41)</u>
Post capital charge	<u>118</u>	<u>73</u>	<u>85</u>

2002 Unaudited results

Achieved Profits basis results

Operating profits from business in force	2002 £m	2001 £m
UK operations		
Unwind of discount (notes 4a and 4c)	358	384
Cost of strengthened persistency assumption	(47)	
Change of renewal expense assumption resulting from closure of direct sales force		15
Cost of strengthened assumption for required capital for shareholder backed business		(16)
Experience variances and other items	(7)	(6)
	<u>304</u>	<u>377</u>
Jackson National Life		
Unwind of discount (note 4c)	156	200
Return on surplus assets (over target surplus)	41	44
Averaged realised losses (see schedule 5)	(133)	(74)
Experience variances against current assumptions:		
Spread (note 4b)	2	(12)
Persistency	8	(7)
Mortality and morbidity	0	(2)
Expenses	1	(16)
Loss from strengthening operating assumptions	(54)	(13)
Other	(4)	16
	<u>17</u>	<u>136</u>
Prudential Asia		
Unwind of discount (note 4c)	95	78
Profit arising from reorganisation of long-term funds	59	
Change in operating assumptions (2002 - principally Singapore mortality)	42	66
Experience variances and other items	13	16
	<u>209</u>	<u>160</u>
Prudential Europe		
Unwind of discount (note 4c)	9	9
Experience variances and other items	(6)	(9)
	<u>3</u>	<u>0</u>
Total	<u><u>533</u></u>	<u><u>673</u></u>

Notes

4a UK Operations - smoothing of asset values

The unwind of discount for UK long-term business operations represents the unwind of discount on the value of in-force business at the beginning of the year (adjusted for the effect of current year assumption changes), the expected return on smoothed surplus assets retained within the PAC with-profits fund (see schedule 7), and the expected return on shareholders' assets held in other UK long-term business operations.

Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility.

4b Jackson National Life - spread variance

The spread variance shown above has been determined after including longer-term returns on equity based investments. This treatment is consistent with the inclusion of longer-term investment returns within operating profits. Short-term fluctuations in investment returns, including those for equity based investments, are excluded from operating profit but included within the total profit or loss for the reporting period. An analysis of the short-term fluctuations in investment returns is shown in schedule 5.

4c Memorandum only for 2001 - estimated unwind of discount applying the same economic assumptions as for the 2002 results:

	£m
UK operations	344
Jackson National Life	156
Prudential Asia	65
Prudential Europe	8
Total	<u><u>573</u></u>

2002 Unaudited results

Achieved Profits basis results

<u>Short-term fluctuations in investment returns</u>	<u>2002 £m</u>	<u>2001 £m</u>
Long-term business		
UK Operations (note 5a)	(1,019)	(764)
Jackson National Life (note 5b)	(440)	(521)
Prudential Asia	66	(9)
Prudential Europe	(2)	
Share of investment return of funds managed by PPM America, that are consolidated into Group results, but attributable to external investors	(5)	(13)
General insurance and shareholders (see schedule 12)	(6)	(95)
	<u>(1,406)</u>	<u>(1,402)</u>

Notes

5a UK Operations

Short-term fluctuations in investment returns represent the difference between actual investment returns attributable to shareholders on the achieved profits basis and the unwind of discount included within operating profit as described on schedule 4.

5b Jackson National Life - summary

Short-term fluctuations comprise:	<u>2002 £m</u>	<u>2001 £m</u>
Actual investment return on investments less longer-term returns included within operating profit (note 5c)	(295)	(413)
Investment return related loss due primarily to changed expectation of profitability on variable annuity business arising from adverse current year equity returns *	(145)	(85)
Transition writedown on implementation of EITF 99-20 for interests in securitised financial assets	-	(23)
	<u>(440)</u>	<u>(521)</u>

* This arises due to market returns for 2002 being lower than the assumed long-term rate of return. This gives rise to lower than expected year end values of variable annuity assets under management with a resulting effect on the projected level of future account values, and hence future profitability.

5c Jackson National Life - Actual investment return on investments less longer-term returns

This comprises:	<u>2002 £m</u>	<u>2001 £m</u>
Actual less averaged realised gains and losses (including impairments) for fixed maturity securities (note 5d)	(156)	(295)
Actual less longer-term return on equity based investments	(128)	(124)
Investment (depreciation) appreciation on preference shares	(11)	6
	<u>(295)</u>	<u>(413)</u>

5d Jackson National Life - actual less averaged realised gains and losses (including impairments for fixed maturity securities) for the year ended 31 December 2002

	US\$m	£m equivalent
1998	54	
1999	3	
2000	(90)	
2001	(532)	
2002	(435)	(289)
5 year total	(1,000)	
5 year average included in operating result (see schedule 4)	(200)	(133)
Actual less averaged	(235)	(156)
Exchange rate		1.50

2002 Unaudited results**Achieved Profits basis results**

Tax charge	2002 £m	2001 £m
<u>Tax charge on operating profit (note 6a)</u>		
Long-term business		
UK Operations	159	173
Jackson National Life (note 6b)	49	127
Prudential Asia (note 6c)	123	133
Prudential Europe (note 6c)	7	(2)
	338	431
General insurance and shareholders	(52)	(61)
Total tax charge on operating profit	286	370
<u>Tax on items not included in operating profit</u>		
Tax credit on short-term fluctuations in investment returns	(447)	(422)
Tax credit on loss from change in economic assumptions	(181)	(167)
Tax charge on profit on disposal of UK general business operations (after utilisation of available capital losses)	13	-
Tax charge on merger break fee, net of expenses (after utilisation of available capital losses)	-	6
Total tax credit on items not included in operating profit	(615)	(583)
Tax credit on loss on ordinary activities (including tax on actual investment returns)	(329)	(213)

Notes

- 6a Tax on operating profit based on longer-term investment returns.
- 6b Excluding tax charge on broker dealer and fund management result.
- 6c Including tax relief on development expenses where applicable.

2002 Unaudited results**Achieved Profits basis results**

Shareholders' funds summary	2002 £m	2001 £m
UK Operations		
Long-term business operations		
Smoothed shareholders' funds (note 7a)	3,329	3,775
Actual shareholders' funds less smoothed shareholders' funds	(411)	(119)
	2,918	3,656
M&G	382	329
Egg	369	380
	<u>3,669</u>	<u>4,365</u>
US Operations		
Jackson National Life (net of surplus note borrowings of £155m (2001 - £172m) see note 7e)		
Before capital charge		
Excluding assets in excess of target surplus	1,965	2,442
Assets in excess of target surplus	830	463
	2,795	2,905
Capital charge (note 7b)	(138)	(222)
After capital charge	2,657	2,683
Other US operations (note 7c)	75	134
	<u>2,732</u>	<u>2,817</u>
Prudential Asia	1,407	1,089
Prudential Europe	108	90
Other operations		
Goodwill (note 7d)	1,546	1,624
Holding company net borrowings (note 7e)	(2,071)	(1,961)
Other assets	(195)	126
	<u>(720)</u>	<u>(211)</u>
Total	<u>7,196</u>	<u>8,150</u>

Notes

7a UK long-term business smoothed shareholders' funds reflect an adjustment to PAC life fund assets, for the purposes of determining the unwind of discount included in operating profits, to remove the effects of short-term volatility in market values of assets.

7b In determining the cost of capital of Jackson National Life it has been assumed that an amount equal to 200 per cent of the risk based capital required by the NAIC at the Company Action level must be retained. The impact of the related capital charge is to reduce Jackson National Life's shareholders' funds by £138m (2001 £222m).

7c Relates to broker dealer and fund management operations.

7d Total goodwill comprises

	<u>2002 £m</u>	<u>2001 £m</u>
Held within US operations re purchase of broker dealer and banking businesses	58	63
Other operations re M&G and acquired Asian businesses	1,546	1,624
	<u>1,604</u>	<u>1,687</u>

7e Net core structural borrowings of shareholder financed operations comprise:

	<u>2002 £m</u>	<u>2001 £m</u>
Holding company cash and short-term deposits	226	19
Core structural borrowings of shareholder financed operations		
Central funds	(2,297)	(1,980)
Jackson National Life	(155)	(172)
	<u>(2,226)</u>	<u>(2,133)</u>

7f If the economic assumptions applied for 2002 had been in place at 31 December 2001, the achieved profits basis shareholders' funds at that date would have been lower by £286m. This represents a pre-tax loss of £467m less related tax credit of £181m. These figures are analysed by business operation on schedule 8.

2002 Unaudited results

Achieved Profits basis results

	Long-term business operations				Total Long-term business operations £m	Other operations £m	Group total £m
	UK £m	Jackson National Life £m	Prudential Asia £m	Prudential Europe £m			
Reconciliation of movement in shareholders' funds							
Operating profit (including investment return based on long-term rates of returns)							
Long-term business							
New business (schedule 3)	222	234	307	11	774		774
Business in force (schedule 4)	304	17	209	3	533		533
	526	251	516	14	1,307		1,307
Re-engineering costs	(16)				(16)		(16)
Asia and Europe development expenses			(26)	(8)	(34)		(34)
M&G						71	71
Egg						(20)	(20)
US broker dealer and fund management						14	14
Other income and expenditure						(189)	(189)
	510	251	490	6	1,257	(124)	1,133
Operating profit (loss) before amortisation of goodwill							
Amortisation of goodwill		(4)			(4)	(94)	(98)
Short-term fluctuations in investment returns (schedule 5)	(1,019)	(440)	66	(2)	(1,395)	(11)	(1,406)
Effect of changes of economic assumptions (schedule 2)	(234)	(76)	(158)	1	(467)		(467)
Profit on disposal of UK general business operations						355	355
	(743)	(269)	398	5	(609)	126	(483)
(Loss) profit on ordinary activities before tax (including actual investment gains and losses)							
Tax (schedule 6)							
tax on operating profit	(159)	(49)	(123)	(7)	(338)	52	(286)
tax on short-term fluctuations in investment returns	304	155	(14)		445	2	447
tax on loss arising from change of economic assumptions	70	77	34		181		181
tax on profit on disposal of UK general business operations					0	(13)	(13)
total tax credit (charge)	215	183	(103)	(7)	288	41	329
Minority interests						9	9
	(528)	(86)	295	(2)	(321)	176	(145)
(Loss) profit for the financial year							
Exchange movements		(246)	(90)	2	(334)	4	(330)
Development costs included above (net of tax) borne centrally			6	1	7	(7)	
Intragroup dividends (including statutory transfer)	(361)	(94)	(21)	7	(469)	469	
External dividends						(519)	(519)
Investment in operations / changes in Prudential stake	157	400	128	4	689	(689)	
Proceeds from issues of share capital by parent company						40	40
Adjustment for European new business sold by UK operations	(6)			6	0		
	(738)	(26)	318	18	(428)	(526)	(954)
Net (decrease) increase in shareholders' capital and reserves							
Shareholders' capital and reserves at 1 January 2002	3,656	2,683	1,089	90	7,518	632	8,150
	2,918	2,657	1,407	108	7,090	106	7,196
Shareholders' capital and reserves at 31 December 2002							
Analysed as:							
Statutory Basis shareholders' funds	541	2,374	579	68	3,562	106	3,668
Additional shareholders' interest on Achieved Profits basis	2,377	283	828	40	3,528		3,528
	2,918	2,657	1,407	108	7,090	106	7,196

2002 Unaudited results**Statutory basis results**

2002 Basic earnings per share (note 9a)	Pre-tax £m	Tax £m	Post-tax £m	Minority interests £m	Post-tax and minority interests £m	Earnings per share (pence)
Based on operating profit after tax and minority interests before amortisation of goodwill	432	(122)	310	4	314	15.8
Amortisation of goodwill	(98)		(98)		(98)	(4.9)
Adjustment from post-tax longer term investment returns to post-tax actual investment returns (after related minority interests) (note 9b)	(205)	91	(114)	5	(109)	(5.5)
Adjustment for post-tax profit on sale of UK general business operations	355	(13)	342		342	17.2
Based on profit for the financial year after minority interests	<u>484</u>	<u>(44)</u>	<u>440</u>	<u>9</u>	<u>449</u>	<u>22.6</u>

Notes

9a The average number of shares for 2002 is 1,988m

9b The adjustment from post-tax longer-term investment returns to post-tax actual investment returns includes investment return that is attributable to external equity investors in two investment funds managed by PPM America. These two funds are consolidated as quasi subsidiaries but, except to the extent of Prudential Group participation in the funds, they have no net impact on pre-tax or post tax operating profit. Total profit, before and after tax, incorporating the adjustment from longer-term to actual investment returns, includes losses of £5m attributable to the minority interests in these funds.

2002 Unaudited results

Statutory basis results

US operations	2002 US\$m	2001 US\$m	2002 £m	2001 £m
UK basis operating result				
Jackson National Life (see note 10a and schedule 11)	209	406	139	282
Broker dealer and fund management result	21	23	14	16
Operating result for UK reporting purposes	230	429	153	298
Average exchange rates			1.50	1.44

Notes10a Longer-term investment returns included in UK basis operating profit

UK basis operating profit for the year ended 31 December 2002 includes the following longer-term investment returns (net of related change to amortisation of acquisition costs)

Year ended 31 December 2002
US\$m £m

Averaged realised losses on fixed maturities (note 10b)	(182)	(121)
Longer-term returns on equity based investments (note 10c)	56	37

10b Averaged realised gains and losses on fixed maturities

Realised gains and losses arising in period (net of related change to amortisation of acquisition expenses)

Year ended 31 December 2002
US\$m £m

1998	34	
1999	(1)	
2000	(69)	
2001	(477)	
2002	(396)	(264)
Five year total	(909)	
Five year average included in UK statutory basis operating profit	(182)	(121)
Excess of current period realised gains and losses over five year average excluded from statutory basis operating profit (but included in profit before tax)	(214)	(143)

10c Longer-term returns on equity based investments

Longer-term returns for these investments have been determined by applying a longer-term rate of return of 7.75%.

2002 Unaudited results

Statutory basis results

Year ended 31 December 2002

Jackson National Life result - reconciliation of 2002 US GAAP basis result to UK GAAP result	UK GAAP adjustments						Segmental result for UK Modified Statutory Basis GAAP purposes (note 11e)	
	US GAAP US \$m	Reverse FAS 133 and FAS115 effects (note 11a) US \$m	Minority interests (note 11b) US \$m	US GAAP adjusted for minority interests and reversal of FAS 133 and FAS115 effects US \$m	Longer-term investment returns (note 11c) US \$m	Other adjustments (note 11d) US \$m	US \$m	£m
Profit and loss account								
Operating profit	275	8		283	(77)	3	209	139
Realised investment gains (losses), net of related change to amortisation of acquisition costs (note 11a) (US GAAP as published also includes the change in the fair value of hedging instruments)	(722)	285	21	(416)	416			
Short-term fluctuations in investment returns (per schedule 12)					(386)		(386)	(258)
Amortisation of goodwill						(6)	(6)	(4)
Profit before tax before minority interest	(447)	293	21	(133)	(47)	(3)	(183)	(123)
Minority interests (note 11b)	21		(21)	0			0	0
Profit before tax after minority interest	(426)	293	0	(133)	(47)	(3)	(183)	(123)
Tax (charge) credit								
on operating profit	(96)	(3)		(99)	27		(72)	(48)
on realised investment gains and losses and minority interest on short-term fluctuations in investment returns	245	(100)		145	(145)	135	135	90
total tax charge	149	(103)	0	46	17	0	63	42
Net income	(277)	190	0	(87)	(30)	(3)	(120)	(81)
Movements in shareholders' funds								
Net income (as shown above)	(277)	190	0	(87)	(30)	(3)	(120)	
Capital contributions	614			614	30	30	644	
Net movement in other comprehensive income	462	(492)		(30)	30		0	
Dividends paid to intermediate holding company	(142)			(142)			(142)	
Total movement in year	657	(302)	0	355	0	27	382	
Shareholders' funds at beginning of year	3,093	349		3,442			3,442	
Shareholders' funds at end of year	3,750	47	0	3,797	0	27	3,824	2,374

Notes

11a Reversal of FAS133 and FAS115 effects

UK GAAP results exclude the impact of profits and losses that are recognised under US GAAP as a result of the implementation of FAS133 on accounting for derivative instruments. Such gains and losses are not generally recognised for UK GAAP purposes.

After excluding FAS133 effects and adjusting for minority interests, realised investment losses, net of related change to amortisation of acquisition costs, are \$(416)m. These comprise losses of \$396m on fixed maturity investments which are included within UK operating results on five year averaged basis (as shown in schedule 10) and realised losses on equities and preferred shares of \$20m.

Under US GAAP, following FAS115, the fixed income securities of JNL are carried in the balance sheet at fair value. Movements in unrealised gains and losses are accounted for within Other Comprehensive Income. Under UK GAAP, subject to provisions for permanent diminution in value, these securities are carried in the balance sheet at amortised cost. The value movement under US GAAP is therefore not reported for UK GAAP purposes and is a reconciling item within the analysis above.

11b Minority interests

The UK GAAP results are determined after adjustment for minority interests. For UK reporting purposes the segmental result of Jackson National Life reflects its proportionate interests in the results of two investment funds that are consolidated as quasi subsidiaries.

11c Longer-term investment returns

Consistent with the ABI SORP investment returns included in the UK operating result are determined on a longer-term basis. These amounts are explained in schedule 10. The difference between actual investment returns and longer-term returns is included within the profit and loss account as short-term fluctuations in investment returns. These are explained in schedule 12.

11d Other adjustments

These comprise:

- adjustment for the amortisation of goodwill under UK GAAP. Amortisation is normally no longer required under US GAAP following the implementation of FAS142.
- Inclusion of capital injected into a fellow US subsidiary of JNL.

11e Exchange rates

Average for 2002 applied to profit and loss account	1.50
Year end 2002 applied to shareholders' funds	1.61

2002 Unaudited results**Statutory basis results**

Short-term fluctuations in investment returns - summary	2002 £m	2001 £m
Long-term business		
Jackson National Life (note 12a)	(258)	(368)
Prudential Asia	62	0
UK operations	2	(4)
Share of investment return of funds managed by PPM America, that are consolidated into Group results, but attributable to external investors	(5)	(13)
General business and shareholders (note 12c)	(6)	(95)
Total	(205)	(480)

Notes

12a Jackson National Life	<u>2002 £m</u>	<u>2001 £m</u>
Short-term fluctuations, net of related changes to amortisation of acquisition costs, comprise:		
Actual investment return on investments less longer-term returns included within operating profit (note 12b)	(258)	(348)
Transition write-down on implementation of EITF 99-20 for interests in securitised financial assets	-	(20)
	<u>(258)</u>	<u>(368)</u>
12b Actual investment return on investments less longer-term returns (net of related changes to amortisation of acquisition costs) for Jackson National Life comprise:	<u>2002 £m</u>	<u>2001 £m</u>
Actual less averaged realised gains and losses for fixed maturities (see schedule 10)	(143)	(264)
Actual less longer-term return on equity based investments	(105)	(96)
Realised and unrealised gains on preference shares	(10)	6
Previously unrecognised unrealised appreciation	-	6
	<u>(258)</u>	<u>(348)</u>
12c Actual investment return on investments less longer-term returns for other general insurance and shareholders' funds comprise:	<u>2002 £m</u>	<u>2001 £m</u>
Current year realised and unrealised gains	2	(71)
Longer-term gains credited to operating result	8	24
Shortfall of current year gains over longer-term gains excluded from operating result but included in profit before tax	(6)	(95)

2002 Unaudited results**Statutory basis results**

Taxation charge	2002 £m	2001 £m
<u>Tax charge on operating profit (note 13a)</u>		
Long-term business		
UK Operations	106	120
Jackson National Life (note 13b)	48	99
Prudential Asia (note 13c)	19	17
Prudential Europe (note 13c)	1	(1)
	<u>174</u>	<u>235</u>
General insurance and shareholders	(52)	(61)
Total tax charge on operating profit	<u>122</u>	<u>174</u>
<u>Tax on items not included in operating profit</u>		
Tax credit on short-term fluctuations in investment returns	(91)	(159)
Tax charge on profit on sale of UK general business operations (after utilisation of available capital losses)	13	-
Tax charge on merger break fee, net of expenses (after utilisation of available capital losses)	-	6
Total tax credit on items not included in operating profit	<u>(78)</u>	<u>(153)</u>
Tax charge on profit on ordinary activities (including tax on actual investment returns)	<u>44</u>	<u>21</u>

Notes

- 13a Tax on operating profit based on longer-term investment returns
- 13b Excluding tax charge on broker dealer and fund management result.
- 13c Including tax relief on development expenses where applicable

2002 Unaudited Results

Funds under management - summary	2002 £bn	2001 £bn
Business Area		
UK Operations	93.8	101.1
US Operations	30.3	30.3
Prudential Asia	5.7	5.0
Prudential Europe	0.7	0.6
Retained centrally	0.2	0.2
Internal insurance and investment under management (note 14a)	130.7	137.2
External funds	24.3	25.6
Total insurance and investment funds under management	155.0	162.8

Note

14a As included in the consolidated balance sheet.

2002 Unaudited Results

Funds under management - analysis by business area

	Equities		Fixed Income Securities		Land and Buildings		Other Investments		Investments held to cover linked liabilities		Total	
	2002 £bn	2001 £bn	2002 £bn	2001 £bn	2002 £bn	2001 £bn	2002 £bn	2001 £bn	2002 £bn	2001 £bn	2002 £bn	2001 £bn
UK Operations	28.9	39.9	38.9	34.9	10.6	10.3	3.9	3.7	11.5	12.3	93.8	101.1
US Operations (note 15a)	0.2	0.2	21.0	21.9	0.1	0.1	6.3	4.6	2.7	3.5	30.3	30.3
Prudential Asia	0.9	0.8	3.2	2.4	0.1	0.1	0.6	0.8	0.9	0.9	5.7	5.0
Prudential Europe	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.5	0.6	0.7	0.6
Retained centrally	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.2	0.2
Group Total	30.0	40.9	63.2	59.2	10.8	10.5	11.1	9.3	15.6	17.3	130.7	137.2

Note

15a Subject to provisions for permanent diminution in value, the fixed income securities of US Operations are valued at amortised cost.

Accounting for retirement benefits**Explanatory note**

As in prior years, the Group's statutory basis results for 2002 have been determined after application of SSAP 24 for accounting for pension costs of defined benefit schemes. This is consistent with FRS17. For 2002, this standard requires that the financial position of the Group on an FRS17 basis be explained by way of note to the Group's financial statements rather than that the FRS17 basis be applied in preparing its profit and loss account and balance sheet position.

The Group's principal defined benefit scheme, the Prudential Staff Pension Scheme (PSPS), was subject to full actuarial valuation basis as at 5 April 2002. The market value of the PSPS scheme assets as at that date of £4,034m exceeded the actuarially determined liabilities of £3,658m by £376m. Consequently, the scheme assets were sufficient to cover 110% of the benefits that had accrued to members, allowing for expected future increases in earnings. As a result of the valuation the employers' contribution rate has continued at the minimum prescribed under the Scheme rules which is 12.5% of salaries. This position is not believed to be significantly different at 31 December 2002.

The FRS 17 basis of measurement determines liabilities by applying discount rates that reflect the current rate of return on high quality corporate bonds. For schemes with significant equity holdings the reported excess of assets over liabilities will be volatile from period to period, for movements in the values of equities.

If the FRS17 basis was to be applied in determining the Group's statutory basis results, the reported impact would be allocated between the elements attributable to the PAC life fund and shareholders' funds. Movements on the element attributable to the PAC life fund would be reflected in movements in the Fund for Future Appropriations. The impact on shareholders' results would be as shown in the table below.

On the Achieved Profits basis of reporting, the impact of FRS 17 for 2002 would also be limited to that attributable to shareholders' funds as shown in the table below. Pension costs attributable to the PAC life fund are an element of expenses which are incorporated in the valuation of business in force by discounting the value of future contributions to the schemes by the with-profit fund and other UK long-term business operations. Since, as a result of the April 2002 valuation, the expected level of employers' contribution rates remains unaltered there would be no impact for long-term business operations.

Summary of financial position for defined benefit schemes on an FRS17 basis

The financial reporting impact if the FRS 17 basis had been applied in preparing the Group's results, rather than the SSAP 24 basis, is as follows:

	Surplus in schemes at 1 Jan 2002 £m	Profit and loss account charge (Note 1) £m	Statement of recognised gains and losses (Note 2) £m	Contributions paid £m	Deficit in schemes at 31 Dec 2002 £m
Movement in year					
Prudential Staff Pension Scheme	509				(518)
Other defined benefit schemes	76				(29)
Total group position	585	23	(1,189)	34	(547)
less: amount attributable to PAC life fund	(441)	(24)	914	(23)	426
Shareholders' share that would be reflected in MSB and AP basis results if FRS17 had been applied to the 2002 financial statements					
Pre-tax	144	(1)	(275)	11	(121)
Related tax	(43)	0	82	(3)	36
Net of shareholders' tax	101	(1)	(193)	8	(85)

Notes**1. Profit and loss account charge**

	£m
Service cost	(65)
Finance (expense) income	
Interest on pension scheme liabilities	(212)
Expected return on assets	300
Total credit (charge)	23

2. Actuarial gains and losses recorded in the statement of recognised gains and losses

	£m
Actual less expected return on assets	(932)
Experience losses on liabilities	(38)
Loss on changes of assumptions (principally expected mortality)	(219)
Total	(1,189)

Foreign currency translation

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at year-end exchange rates. Foreign currency borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries are translated at year-end exchange rates. The impact of these currency translations is recorded as a component of shareholders' funds within the Statement of Total Recognised Gains and Losses.

The following translation rates have been applied:

£ : local currency	Year-end 2002	Average 2002	Year-end 2001	Average 2001
Hong Kong	12.6	11.7	11.3	11.2
Japan	191.0	187.8	190.7	174.9
Malaysia	6.12	5.71	5.53	5.47
Singapore	2.79	2.69	2.69	2.58
Taiwan	56.0	51.9	50.9	48.7
USA	1.61	1.50	1.46	1.44