PRUDENTIAL

Front Cover:
Scottish Amicable's headquarters in Stirling.
LaSalle National Bank, distributor of Jackson National Life products in the US.
Prudential agents in the Philippines.
United Engineering Forgings, a venture capital investment by PPM.

PRUDENTIAL

150 YEARS *of* FINANCIAL SERVICE — 1998 —

Established in 1848 Prudential this year celebrates its 150th Anniversary. First opening for business in a small set of rooms in London's Ludgate Hill, Prudential is now an international company meeting the savings and retirement needs of ten million customers in the United Kingdom, United States, Asia and Australasia and managing £119 billion on their behalf.

The largest life insurer in the United Kingdom for over one hundred years, Prudential's success has been built on the strength of its brand, its distribution capabilities, marketing and product development expertise, investment experience and financial strength.

1997 Highlights

- Operating profit from continuing operations up from £691 million to £895 million
- Underlying operating profit up 15 per cent to £789 million
- Total dividend increased by 10.4 per cent to 19.1 pence per share
- Funds under management reach £119 billion
- Achieved profits basis shareholders' funds total £6.9 billion
- Scottish Amicable purchased in UK
- Bank deposits top £900 million

Financial highlights	**1997**	1996
Operating profit from continuing operations	**£895m**	£691m
Profit on ordinary activities before tax	**£1,169m**	£1,614m
Operating earnings per share	**33.3p**	34.1p
Dividend per share	**19.1p**	17.3p

'1998 marks the 150th Anniversary of the founding of what was then the Prudential Mutual Assurance, Investment and Loan Association. Born into the huge demographic and social change of the industrial revolution, Prudential is today an organisation with a broader scope, a wider geographic spread and greater investment power than could ever have been imagined in 1848.'

The original Prudence logo.

1930's advertising posters.

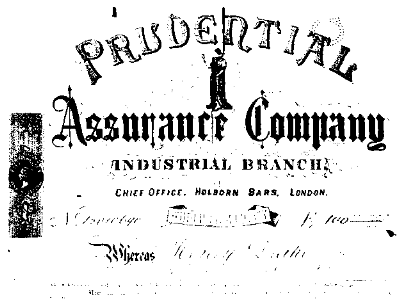
Twenty five per cent of people who went down with the Titanic had their lives insured with Prudential.

Underlying operating profit from our continuing operations around the world rose by 15 per cent in 1997 to £789 million, driven by particularly good performances from Jackson National Life in the US and our UK life business. With the addition of Scottish Amicable to our portfolio of businesses, total funds managed on behalf of our ten million customers reached £119 billion.

Given our confidence in the continuing profitable growth of our businesses around the world, the Board has decided to recommend a final dividend of 12.7 pence which increases the total dividend for the year by 10.4 per cent to 19.1 pence per share.

As at the interim stage, the Board has decided to pay the final dividend as a foreign income dividend (FID). This decision reduces the possibility that the Company will have to write off irrecoverable advance corporation tax. Although paying a FID is clearly in the best interests of the Company as a whole, regrettably it does mean that a small number of shareholders cannot claim tax credits on the dividend payment, and, moreover we are precluded from offering a scrip dividend alternative.

1998 marks the 150th Anniversary of the founding of what was then the Prudential Mutual Assurance, Investment and Loan Association. Born into the huge demographic and social change of the industrial revolution, Prudential was founded to sell life insurance to the traditional professional classes. This strategy of concentrating on what today we would call a niche market met with limited success. It was only a change of government policy in 1853 to encourage life insurance companies to provide policies for the ordinary working man that set Prudential on its road to success. Henry Harben, the architect of that success, formulated a strategy that focused on three



Holborn Bars, the Company's historic home.

19th century policy document.

elements: simple product design, effective distribution and efficient service. As a result of this strategy, Prudential was by 1879 the biggest life insurance company in the UK. Prudential remains the UK's leading life insurer and those three elements are still at the heart of our business. Today Prudential is a very different company from the one that dominated the domestic market at the end of the 19th Century. With half of both our sales and profit now coming from overseas, Prudential is a truly international business operating in ten countries around the world, offering a broad based range of products, not just via the traditional Man from the Pru but also through independent financial advisers, directly over the telephone and, in some of our markets, through the Internet. Today Prudential is an organisation with a broader scope, a wider geographic spread and greater investment power than could ever have been imagined in 1848.

Despite this great change in the shape of our business, the principles which guided the founding fathers of Prudential still guide our strategy, and the desire to help secure the financial futures of our customers, wherever we operate, remains constant. This will continue to be a guiding principle, notwithstanding the need to recognise the changing nature of our customers' requirements and preferences.

Recent increases in taxation levied on UK pension funds in turn increase the amounts that need to be saved to provide a given level of income in retirement. As a result, the prudent management of investments within those pension funds is even more important than ever; and this remains a central part of the service we provide for our customers.

The much publicised pension mis-selling issue in the UK, with related compliance shortcomings,

Staff from the Calcutta office in 1930.

'The Man from the Pru' – popular Company symbol from the 1940's to the 1970's.

has been a setback for us. Customers of Prudential will not suffer any loss as the result of any mis-selling by us; but nevertheless the effect on our reputation is a matter of great regret. The problems turned out to be more far reaching and deep seated than had been apparent up until as recently as a year ago. Now, however the issues have been identified and are being dealt with. Considerable resources are being devoted to this, so as to ensure the interests of Prudential's customers are safeguarded and our reputation for good service is restored and hereafter maintained.

To ensure that this will continue to be the case, and to adapt to the needs of customers and their preferences as to the manner in which they purchase savings and insurance products, we have embarked on a reorganisation of the structure of our UK business.

Jim Sutcliffe, the chief executive of Prudential UK and a director of the Corporation, decided to leave the Company in September 1997. We thank him for his work at Prudential and wish him well.

Sandy Stewart, previously chairman of Scottish Amicable, has joined our Board as a non-executive director. He has had a long career in both business and the legal profession and I am sure his wide experience will prove to be particularly valuable to me and to my colleagues on the Board.

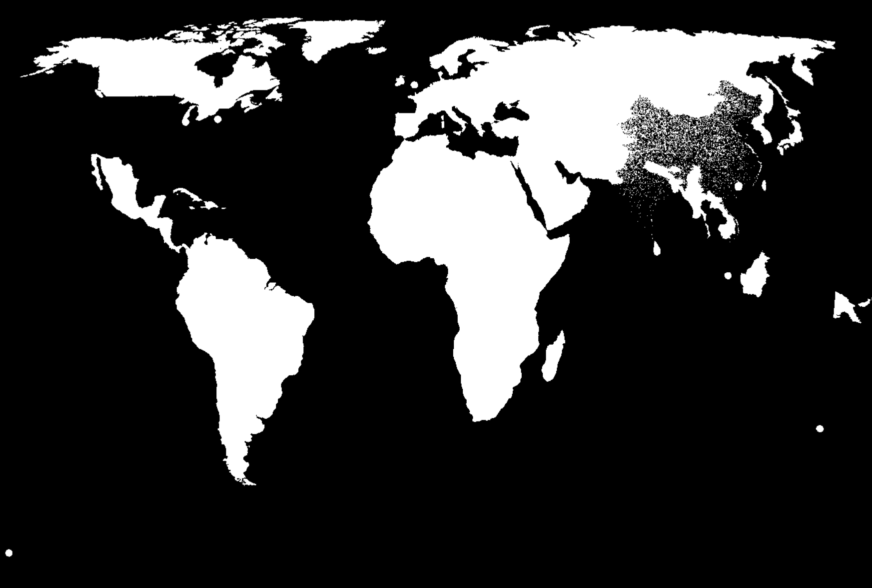
Andrew Teare is not standing for re-election as a non-executive director at the Annual General Meeting following two terms on the Board. I and my colleagues would like to thank him for the great contribution he has made to Prudential in the last six years.

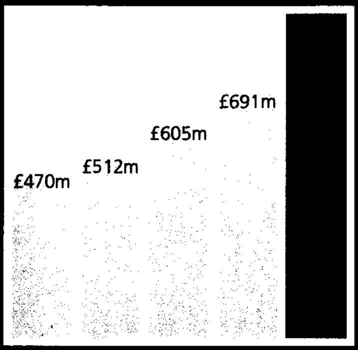
We have an excellent executive team led by Sir Peter Davis and backed by a first rate group of managers running our businesses around the world. Under their leadership our staff are continuing to build businesses based on long-term relationships with our customers. Despite the difficulties I have referred to above, Prudential's staff at all levels remain determined to ensure that we achieve growth while adhering firmly to our principles.

Martin W. Jacomb

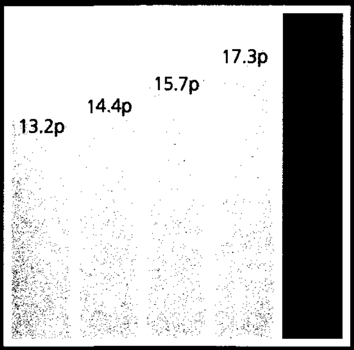
Sir Martin Jacomb
Chairman

With operations in ten countries, Prudential is now a truly international business. In 1997 nearly half of the Company's profit and half of its sales came from operations outside the UK.

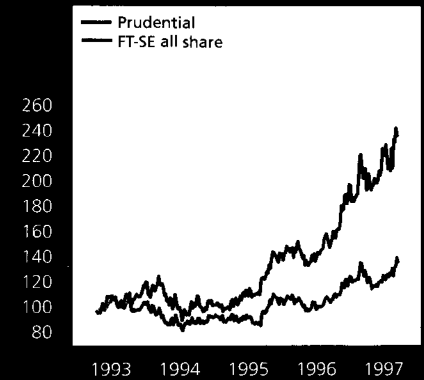




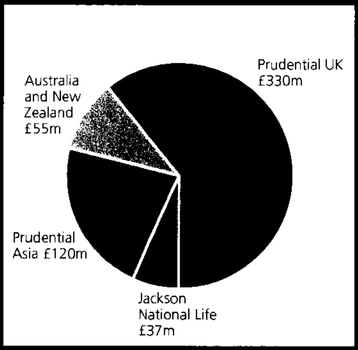
OPERATING PROFIT – CONTINUING OPERATIONS (£M)



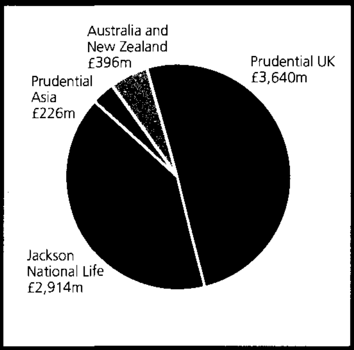
DIVIDEND PER SHARE (PENCE)



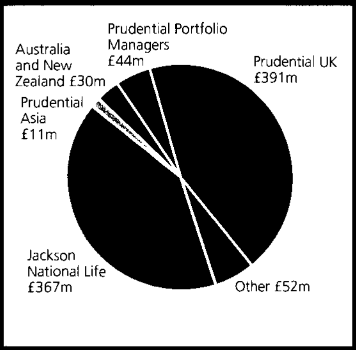
PRUDENTIAL SHARE PRICE
FT-SE ALL SHARE
Source: Datastream



1997 GLOBAL REGULAR PREMIUM SALES (£M)



1997 GLOBAL SINGLE PREMIUM SALES (£M)



1997 GLOBAL OPERATING PROFIT (£M)

'Profit and sales continued to grow healthily in 1997. We have made a number of effective acquisitions in pursuit of our strategy and we are in robust financial health. As we enter our 151st year, we remain committed to the profitable growth of Prudential for the long-term benefit of our shareholders, our customers and our staff around the world.'

Operating profit (including averaged investment gains)	1997 £m	1996 £m
Prudential UK	391	344
Jackson National Life	367	328
Prudential Asia	11	12
Australia and New Zealand	30	14
Prudential Portfolio Managers	44	35
Other (including interest payable)	(54)	(49)
Underlying operating profit	789	684
Income on sale proceeds	106	7
Operating profit from continuing operations	895	691

Scottish Amicable

The acquisition of Scottish Amicable was completed on 30 September 1997.

1997 saw Prudential take a number of significant steps towards fulfilling the Company's strategy of concentrating our energies and resources on the development of our retail financial services and fund management activities in the United Kingdom, United States, Asia and Australasia.

The most significant of these steps was the purchase of Scottish Amicable. Our objectives in the UK have remained consistent since our strategy review in 1995: they are to expand our product range and distribution capabilities and grow our customer base. The purchase of Scottish Amicable meets all of these criteria, adding 1.4 million to our customer base, providing us with a series of regular premium products which complement our own single premium product range and significantly increase our distribution capability amongst independent financial advisers (IFAs).

The purchase of Scottish Amicable was finalised on 30 September. We have now completed the process of integrating Scottish Amicable with our existing IFA business in the UK and combining Scottish Amicable's investment function within Prudential Portfolio Managers in London.

The benefits of the purchase of Scottish Amicable began to be demonstrated in our sales figures for the last three months of 1997 and will become increasingly apparent during 1998.

Other corporate activity in support of our strategy included the acquisition of a stake in St James's Place Capital in the UK, the owner of high net worth life insurer, J Rothschild Assurance. We also purchased NZI Life in New Zealand, the addition of which confirms our position as the leading writer of new regular business in New Zealand. In addition we have set up an asset management company in India in partnership with The Industrial Credit and Investment Corporation of India Ltd (ICICI) and, since the end of the year, we have arranged to buy a controlling interest in Berjaya Prudential Assurance Berhad, our joint venture in Malaysia. Finally, we profitably sold our small Italian business, Prudential Vita, in the second half of 1997.

All of these steps reflect our ambition to concentrate our activities in those markets we have identified as attractive for you our shareholders and in which we can achieve critical mass. These moves also confirm our belief that Prudential's future lies as a global provider of a wide range of financial services not solely as a domestic life insurer. Indeed, in 1997, almost half of our profit and sales came from our businesses outside the UK.

Prudential Banking performed particularly well in 1997, with deposits of £919 million and mortgage applications of

£451 million. Building on this success, the Bank has now launched a range of personal loans and plans to open a second telephone service centre later this year.

In 1997 operating profit from continuing operations totalled £895 million, up from £691 million in 1996. Underlying operating profit grew by 15 per cent to £789 million in 1997, boosted by a strong result from Jackson National Life in the US and a healthy increase in profit from our life business in the UK.

This year for the first time we are also reporting as supplementary information our figures on the achieved profits basis. This basis, which replaces the accruals basis of accounting, provides a clearer measure of business performance than the statutory basis and is the standard supplementary accounting basis for the UK life industry. On the achieved profits basis our operating profit from continuing operations grew by nine per cent to £1,198 million. Further details of our results on the achieved profits basis are given on pages 77 to 84.

After the acquisitions made in 1997, we finished the year in a sound financial position with achieved profits basis shareholders' funds of £6.9 billion and an Aaa credit rating for the Group's main UK long-term fund.

Although both profit and sales grew last year and we carried out a number of significant actions in pursuit of our strategy, 1997 will not in all respects be remembered as a good year for Prudential in the UK.

As the Chairman mentioned in his statement, both the effectiveness of our compliance functions and our ability to meet the deadlines for completing the personal pensions review fell a long way short of what was acceptable both to ourselves and to the regulator.

We very much regret the circumstances that led to the regulator issuing two public reprimands against the Company. We accept their findings and for the last 12 months have been working strenuously to ensure that these problems are rectified. We have completely overhauled our compliance function with guidance from external consultancy KPMG; we have appointed a new compliance director and strengthened the training procedures for our direct salesforce.

We met the final pensions review deadline set by the regulators some months in advance and have also this month dealt with the last outstanding priority cases.

I and my colleagues on the Board are determined that no such compliance lapses will occur again. The fair treatment of our customers remains our highest priority.

A number of our shareholders have written to the Chairman and myself regarding the discussions we initiated with the Department of Trade and Industry about the 'unattributed assets' that lie within our UK with-profits fund. I realise that you are keen to see these talks resolved. However, the discussions we are having are complex and as a result lengthy. They continue and we will report back on their progress as soon as we are able.

The financial services industry in the UK has been undergoing considerable change in the last five years driven by the active process of consolidation that has taken place in the market, the entrance of significant new players and the increasing sophistication of our customer base. These changes, coupled with the Government's current examination of pensions and long-term savings, have resulted in an extremely competitive market, where only those who are fleet of foot and quick to respond to change will survive and progress.

Given the current market conditions, we have decided to reorganise our UK businesses into a series of smaller, more accountable, business units focused on distinct segments of the market place.

This reorganisation is designed to push responsibility for performance and profit further down into the business and enable us to adapt more quickly to changes in each of our markets, anticipating the needs of tomorrow's customers as well as meeting their requirements today. The reorganisation, which was announced in September, is progressing well and is expected to be completed by the middle of 1998.

We have also taken the opportunity to review the role that group head office plays in managing our businesses around the world and in the UK, eliminating any overlap and ensuring that those functions that need to be close to the customer sit within relevant business divisions and not in head office.

One outcome of this review has been an increased awareness that the headquarters we occupy at Holborn Bars is now too large for our requirements. As a result, we are currently looking for a smaller head office building in London. I am sure that Holborn Bars will for many of us remain our historic home and although we will no longer occupy the whole of the building, we will continue to own and indeed nurture it as an investment on behalf of our policyholders.

To conclude, profit and sales continued to grow healthily in 1997. We have made a number of effective acquisitions in pursuit of our strategy and we are in robust financial health. As we enter our 151st year, we remain committed to the profitable growth of Prudential for the long-term benefit of you, our shareholders, our customers and our staff around the world.

Peter Davis

Sir Peter Davis
Group Chief Executive

Prudential Bank plans to open a second service centre in 1998.

Prudential UK

Operating Profit	£391m
Regular Premium Sales	£330m
Single Premium Sales	£3.6bn
Gross Premiums	£6bn
Assets	£78bn
Number of Customers	7m
Number of Employees	17,250

Main Products: Personal pensions, group pensions, with-profits savings, investment bonds, PEPs, life insurance, home and motor insurance, mortgage and deposit accounts, and personal loans.

Profit

Operating profit from Prudential's businesses in the United Kingdom rose by a healthy 14 per cent to £391 million, following an increase in profit from the savings and insurance business to £413 million and expected losses of £22 million in the growing banking operation.

The life, pension and investment business saw a 12 per cent increase in profit to £362 million, reflecting a strong growth in assets.

Profit from the home and motor insurance business remained strong at £51 million despite severe weather towards the end of last year.

Sales

1997 was another good year for sales, with single premiums at £3.6 billion up 19 per cent (excluding a one-off group annuity sold in 1996) and regular premiums up nine per cent to £330 million. The fourth quarter's sales included the first contribution from Scottish Amicable.

Distribution

Prudential UK's products are distributed by the Company's direct salesforce, through IFAs and directly over the telephone. In 1997 the direct salesforce accounted for just over half of weighted sales, with the vast majority of the balance coming from IFAs.

Within the IFA market, the addition of Scottish Amicable to Prudential's portfolio of businesses in the UK has broadened the Company's product range and increased its market share. Looking forward, Scottish Amicable will be the Company's lead brand in the important IFA market.

Sales through the direct salesforce were, however, held back in the second half of 1997 by the need to carry out a re-testing programme and the decision to cease salesforce recruitment while a number of recommendations from the regulators were implemented.

Products

Key products within the UK market

Jean Tomlin
Head of Prudential Direct. 30 per cent of general insurance products are now sold directly over the telephone.

continue to be individual and corporate pension products, single premium bonds and annuities. Retail pension products have in the past been sold mostly through the direct salesforce, although the acquisition of Scottish Amicable and the launch of a new pension product in January 1998 has considerably boosted the Company's scope within the IFA market. Single premium bonds are sold via both the direct salesforce and IFAs. Sales of the Prudence Savings Account totalled £615 million in 1997, while Prudence Bond sales reached £1.1 billion, up 41 per cent on 1996. The Prudence Bond remained Prudential's best selling product and has now attracted £5.6 billion since its launch in 1991. Prudential's annuities continue to lead the market, with sales of £835 million in 1997. Plans are being developed to launch a new range of annuity products in 1998 to capitalise on this market leading position.

The service provided for Prudential's home and motor insurance customers continued to attract plaudits, with Prudential singled out as among the top three companies in terms of customer satisfaction by the British Insurance Quality Survey.

Technology

An efficient and effective information technology (IT) function is an integral part of the service Prudential provides to its customers and a key tool in the management and development of the business. In order to place a sharper focus on IT within the business and to provide the best platform for developing future IT systems, a separate company 'PruTech' was set up in 1997 with leading IT advisers, Andersen Consulting. 'PruTech' will be staffed by Prudential's existing IT employees and managed in partnership with Andersen.

Banking

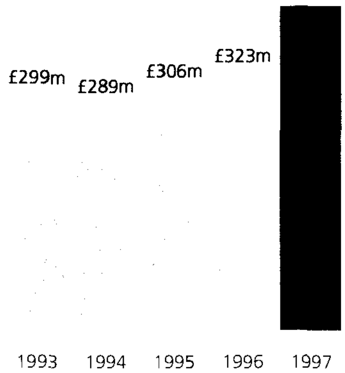
Prudential Banking was set up in late 1996 to broaden Prudential's product range within the UK to include retail banking products. These products are distributed both by the Company's direct salesforce and sold directly.

Since launch, Prudential Banking has attracted £919 million of deposits and £451 million of mortgage applications.

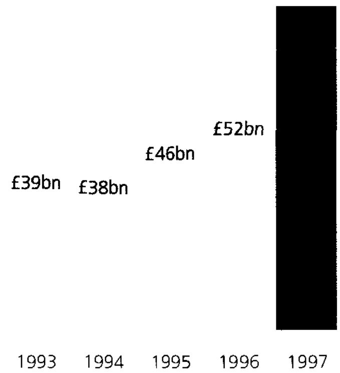
The Bank has been particularly successful in selling off the page with 70 per cent of deposits being made directly. Sales via the direct salesforce got off to a slower start but have gained momentum, with over 30 per cent of existing customers now reinvesting their policy maturities in deposit accounts.

The Bank supplemented its deposit and mortgage products with the launch of a range of competitive personal loans in October 1997.

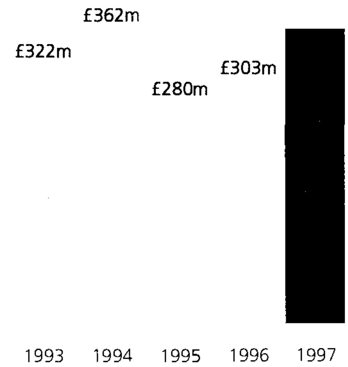
With the growing sales of mortgages and deposits and the successful launch of personal loans, Prudential plans to open a second telephone service centre in Derby in late 1998.



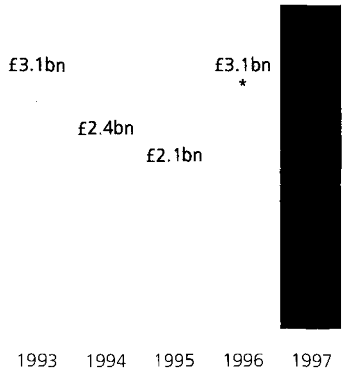
OPERATING PROFIT –
LONG-TERM BUSINESS (£M)



ASSETS UNDER MANAGEMENT (£BN)



REGULAR PREMIUM SALES (£M)



SINGLE PREMIUM SALES (£BN)
*excluding one-off bulk annuity

- Long-term business operating profit up 12 per cent to £362 million
- Single premium sales up 19 per cent to £3.6 billion
- Prudential Banking attracts deposits of £919 million and mortgage applications of £451 million
- Range of personal loans launched
- Scottish Amicable to be lead brand in IFA market

Jackson National Life

Jackson National Life Insurance Company

Insuring your financial future.

Jackson National Life is one of the top 20 life insurance companies in the US.

Jackson National Life

Operating Profit	US$602m
Single Premium Sales	US$4.8bn
Regular Premium Sales	US$61m
Gross Premiums	US$5.5bn
Assets	US$31bn
Number of Customers	1.8m
Number of Employees	1,300

Main Products: Fixed, variable and equity linked indexed annuities, guaranteed investment contracts and life insurance.

With 40 per cent of the Group's operating profit and single premium sales now emanating from the United States, Jackson National Life has firmly established itself as Prudential's most significant business outside the UK and is one of the top 20 life companies in the United States.

Profit

Operating profit increased by 18 per cent from US$512 million to US$602 million in 1997, boosted by increased margins and the continuing strong growth in assets, which now total US$31 billion.

During 1997 Jackson's insurance financial strength rating was upgraded from A1 to Aa3 by Moody's, reflecting its strong financial position.

Sales

In 1997 single premium sales totalled US$4.8 billion, an increase of 24 per cent over 1996. Jackson's well established strategy of diversifying its product range and distribution channels continues to fuel growth, with guaranteed investment contracts (GICs), variable annuities and equity linked indexed annuities (ELIs) now comprising over half of single premium sales. In 1997 Jackson registered a 197 per cent increase in variable annuity assets, the second highest growth rate amongst the top 60 providers in the industry, and became the second largest provider of ELIs, a position it has developed in under two years.

Jackson has used the latest marketing technology to back up recent product launches, with variable annuities and ELIs being marketed via both interactive CD ROMs and the Internet.

Jackson is determined to build on the successful sales growth of both its traditional and new retail products, while some additional capacity is expected to be available for increased GIC sales.


LaSalle National Bank

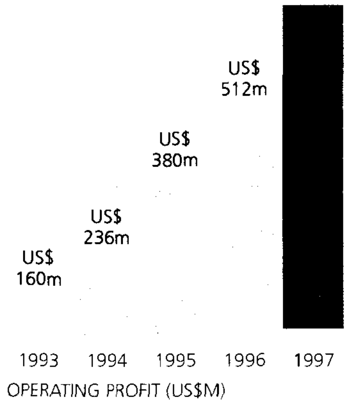
Jackson National Life

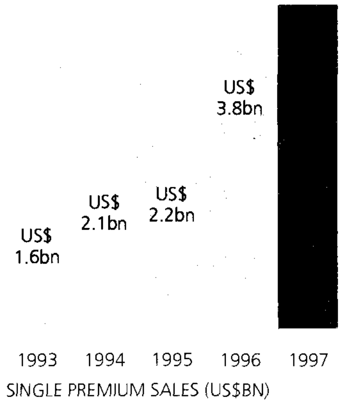
Distribution

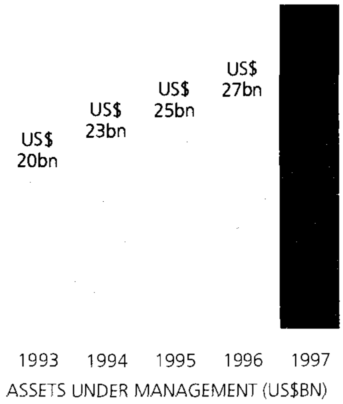
Over 46 per cent of Jackson's annuity sales in 1997 were sold via banks and broker dealers, compared with only 14 per cent two years ago. So far in 1998 Jackson has reinforced its multi-channel distribution strategy by establishing its own broker dealer, National Planning Corporation and acquiring the small broker dealer SII Investments Inc. In addition Jackson is in the advanced stages of negotiation to purchase a small savings and loan company which would provide additional product and distribution capability. Jackson has also restructured its deal direct distribution network, merging the sales and marketing functions with the broker dealer business, allowing the deal direct business to take advantage of some of the initiatives that have led to the successful growth of the broker dealer operation in the last two years. Jackson has also relaunched its range of life insurance products. Jackson is now actively selling in 49 US states and will begin selling in New York State, the largest insurance market in the US, later this year.

Administration

One of Jackson's unique selling points has been its ability to launch new products and substantially increase sales while maintaining its very competitive, low cost base. In order to strengthen this position further, Jackson continues to enhance its information technology capabilities, allowing the swift and effective provision of adaptable computer systems to support further new product launches. With earnings that have more than tripled over the last five years, Jackson has produced outstanding results for shareholders. The Company continues to examine savings trends and opportunities in the US with a view to expanding and building on the success Jackson has enjoyed.







- Operating profit up 18 per cent to US$602 million
- Single premium sales up 24 per cent to US$4.8 billion
- 46 per cent of sales now via banks and broker dealers
- Small broker dealer purchased

Prudential now has five representative offices in China.

Prudential Asia

Operating Profit	£11m
Regular Premium Sales	£120m
Single Premium Sales	£226m
Assets	£1.5bn
Number of Customers	1m
Number of Agents	13,000
Number of Employees	1,200

Main Products: Unit linked and with-profits savings plans, life insurance, accident and health insurance, property and casualty insurance.

With operations in six countries in the region, over 14,000 agents and staff and £1.5 billion funds under management, Prudential is the largest UK insurer in Asia. 1997 has been a very challenging year in Asia. However, despite economic turmoil and currency devaluation, Prudential Asia continued to produce impressive results.

Sales

Sales grew strongly in 1997, with single premium sales more than doubling to £226 million and regular premium sales up 17 per cent to £120 million. A further liberalisation of the Central Provident Fund in Singapore provided an additional sales boost, with local currency regular premium sales up 39 per cent to S$131 million and single premiums trebling to over S$530 million. Prudential leads the single premium market in Singapore, with a market share of 40 per cent.

In Hong Kong, despite a difficult sales environment, regular premium sales grew by six per cent, while in Malaysia regular premium sales grew by 30 per cent consolidating Prudential's position as the third largest provider in the market with a share of 13 per cent.

Developments

With well established businesses in Singapore, Malaysia and Hong Kong and over 50 years' experience in Asia, Prudential has a very sound base from which to enter new and developing markets around the region.

Leveraging its expertise and resources in the region, Prudential Asia has launched new operations in Indonesia, Thailand and the Philippines within the last three years. Each of these operations is expanding rapidly, adding new products to their ranges and growing their salesforces.

PRU LIFE UK in the Philippines has in the last eight months

Prudential Asia

established a very productive salesforce and moved its market ranking from 36 to 12, a great achievement in its first full year of business.

Prudential Asia has also continued to work to obtain operating licences in China, Vietnam and India. In China the Company has opened its fourth and fifth representative offices in Shenyang and Tianjin, while in Vietnam a second representative office is now established in Ho Chi Minh City. In India, Prudential Asia has signed a joint venture agreement with ICICI, one of the country's best known financial institutions, to explore opportunities in the life insurance, unit trust, pensions and health sectors. In addition, a second agreement has been signed with ICICI to set up an asset management operation which is expected to open for business in the middle of 1998.

Profit

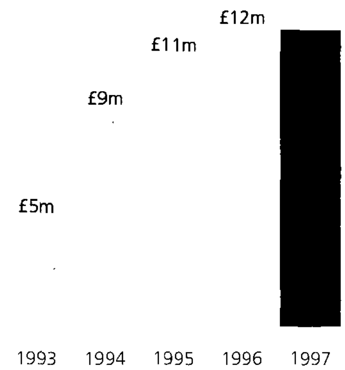
After an increased investment of £9 million in the strategic development of new businesses in the area, operating profit from Prudential Asia was down slightly at £11 million.

Outlook

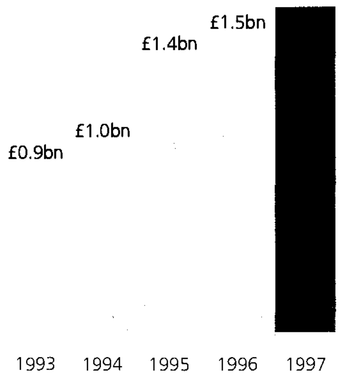
Although the current economic problems in Asia are expected to hit consumer confidence, the strong savings habits established in the region and the predominantly regular premium nature of Prudential's businesses should help ensure continued profitable growth.

Although the present turmoil will be painful in the short-term for the affected economies, in the longer-term as countries return to health and address current inefficiencies within their financial and business systems, a stronger foundation for future growth will develop.

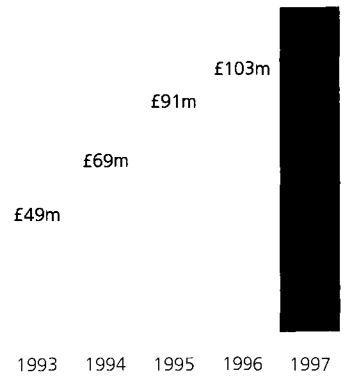
Prudential's businesses in Asia provide an important opportunity for significant future sales and profit growth and are a key strand of the Group's long-term strategy.



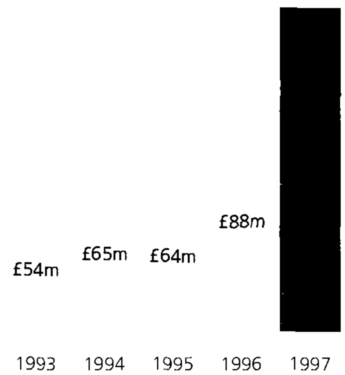
OPERATING PROFIT (£M)



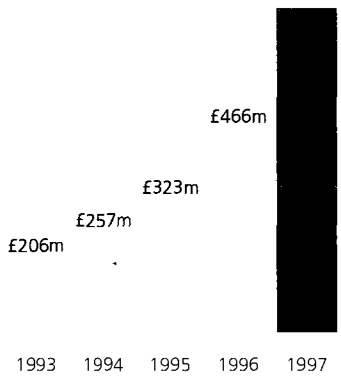
ASSETS UNDER MANAGEMENT (£BN)



REGULAR PREMIUM SALES (£M)



SINGLE PREMIUM SALES (£M)



GROSS PREMIUMS (£M)

- Single premium sales more than doubled to £226 million
- Regular premium sales up 17 per cent to £120 million
- Asset management company set up in India

Australia and New Zealand

Keith Bedell-Pearce
International
Development Director.

Terry Jay
recently appointed
Chief Executive of
Prudential's businesses
in Australia and
New Zealand.

Operating Profit	£30m
Regular Premium Sales	£55m
Single Premium Sales	£396m
Assets	£4bn
Number of Customers	0.6m
Number of Employees	1,300

Main Products: Pensions, annuities, unit trusts, term life, income protection, disability insurance, pooled investments and portfolio management services.

Operating profit from Prudential's businesses in Australia and New Zealand more than doubled to £30 million in 1997, boosted by the interest earned on £151 million of capital within the Australian life fund, which was attributed to shareholders in 1997.

Australia

In an increasingly competitive market place, single premium sales were marginally ahead of 1996 at A$820 million, while regular sales were slightly down at A$83 million.

In 1997 a number of actions were taken to improve the competitive position of Prudential in Australia, including merging PPM's fund management operation with the retail financial services business, launching direct sales of mortgages over the telephone and selling a number of products via the Internet.

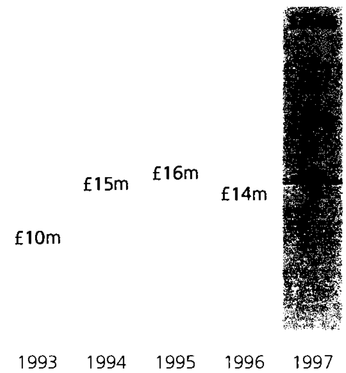
A new chief executive has been appointed to manage both Prudential's businesses in Australia and New Zealand. Terry Jay joined the Company in March 1998 from the Bank of South Australia.

New Zealand

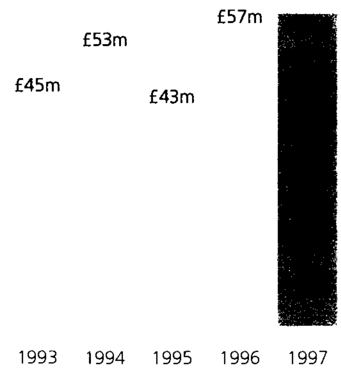
The purchase of NZI Life in March 1997 consolidates Prudential's position as the leading writer of new regular business in New Zealand, with a market share of 15 per cent. The purchase also doubles the Company's funds under management.

In addition, the merger of NZI Life with Prudential's existing business has reduced costs, whilst improving both sales and efficiency.

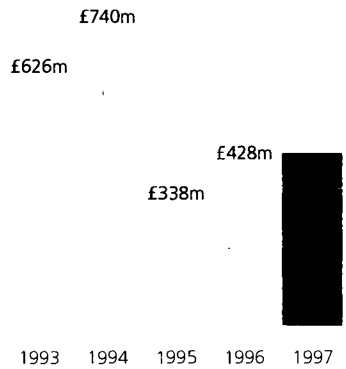
In 1997 sales of single premiums rose by 34 per cent, while sales of regular premiums rose by 37 per cent.



OPERATING PROFIT (£M)



REGULAR PREMIUM SALES (£M)



SINGLE PREMIUM SALES (£M)

- Operating profit more than doubled to £30 million
- NZI Life purchased in New Zealand

Prudential Portfolio Managers

PPMWORLDWIDE

PPM launched its new corporate identity in 1997.

Prudential Portfolio Managers

Operating Profit	£44m
Total Funds Under Management	£119bn
Number of Employees	1,100
External Pension Fund Clients	450

Investment offices around the world: London, Cape Town, Chicago, Hong Kong, New York, Singapore, Sydney.

Funds managed by PPM, Prudential's fund management business, ended 1997 at £119 billion, boosted by rising stock markets and the addition of £15 billion from the purchase of Scottish Amicable.
Profit from PPM in 1997 rose by 26 per cent to £44 million.

Investment Performance

PPM aims to provide consistent, above average, long-term investment performance for its customers.
Over the last ten years Prudential's with profits life fund, which now amounts to £47 billion and contains the savings of the majority of Prudential's customers, has outperformed its benchmark on eight occasions. 1997 was, however, a difficult year for active fund managers and PPM did well to deliver performance in line with competitor funds. Last year the UK Growth, North American, European and Pacific Market unit trusts beat the median competition.
PPM had a good year in the UK segregated fund market, where its UK equity portfolio outperformed the average by almost two per cent and it attracted ten new clients with total funds of £788 million.

Property

PPM is one of the largest institutional property owners in the UK, with over 1,000 buildings. The property portfolio performed well in 1997, outperforming its competitors in this sector by around two per cent. PPM added to its portfolio in 1997 with a number of key acquisitions, including a portfolio of central London offices at Millbank and the Grafton Shopping Centre in Cambridge. In addition, at the end of the year, Prudential agreed to buy P&O's interest in the Manchester Arndale shopping centre.

On the development front, PPM Property completed the rebuilding of 30 Berkeley Square in London's Mayfair, now let to BT, and commenced development of GreenPark, Reading, a scheme of around 200 acres with planning permission to accommodate a working community of more than 15,000 people.

The Mall at Cribbs Causeway, a large shopping complex six miles north of Bristol city centre which Prudential is jointly developing, opens for business on 31 March 1998.

PPM Ventures

PPM Ventures experienced its busiest year to date, investing £170 million in six deals, including the acquisition of the forgings operation of British Steel plc, and the Gala bingo division of Bass plc. Returns for mature client portfolios, including the life fund, continued to show strong performance.

Scottish Amicable

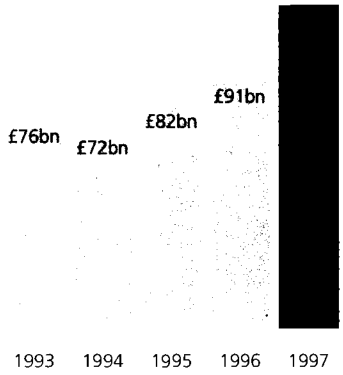
The merger of Scottish Amicable's funds into PPM was completed in only two months and with minimal additional cost.

These £15 billion of funds are currently being reconfigured to increase their weighting in equities and improve the funds' long-term performance for Scottish Amicable's policyholders.

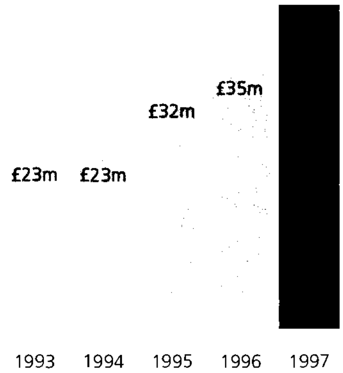
International

PPM has now opened an office in New York to complement the established investment office in Chicago in managing the US$31 billion funds of Jackson National Life. Investment management in Australia and New Zealand has been focused on Sydney with the closure of PPM's office in Wellington.

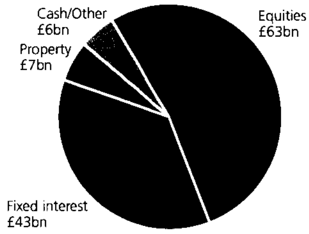
To reflect its position as one of the world's leading fund management groups, in 1997 PPM launched its new corporate identity, PPMWorldwide, for use by all its investment offices around the world.



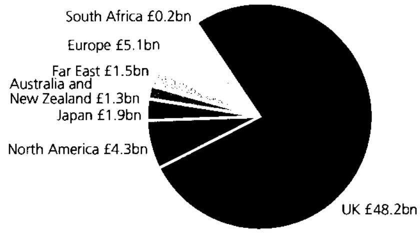
FUNDS UNDER MANAGEMENT (£BN)



OPERATING PROFIT (£M)



TYPES OF ASSET (£BN)

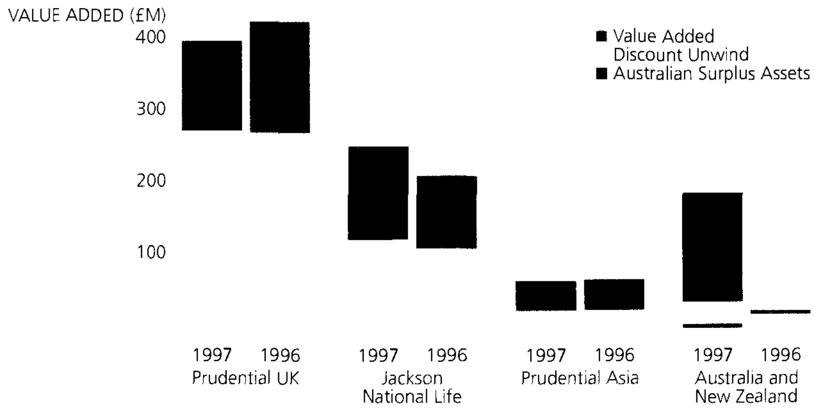


GLOBAL EQUITY HOLDINGS (£BN)

- Operating profit up 26 per cent to £44 million
- Ten new clients with funds of £788 million won in UK
- Merger of Scottish Amicable funds completed in two months

'Profit growth in 1997 was driven by good results from Jackson National Life and from our UK life business. The acquisition of Scottish Amicable and the strong performance from Prudential Banking represent important developments for the Company. Our balance sheet continues to be strong and we remain well placed to finance our strategic objectives.'

Financial Summary	1997 £m	1996 £m
Statutory basis operating profit		
Before tax (continuing operations)	895	691
After tax	644	654
Earnings per share	33.3p	34.1p
Achieved profits basis operating profit		
Before tax (continuing operations)	1,198	1,099
After tax	837	880
Earnings per share	43.3p	45.9p
Dividend per share	19.1p	17.3p
Shareholders' funds		
Statutory basis	2,783	2,757
Achieved profits basis	6,912	6,573



Accounting Policies

There have been no changes in 1997 in accounting policies on the statutory reporting basis. During the year the insurance industry and the Accounting Standards Board discussed the appropriate basis for recognising investment return. Consistent with current proposals from the Association of British Insurers (ABI), in 1998 it is our intention to change our policy of recognising investment returns within operating results to reflect the longer-term rate of return rather than the existing basis of income plus five year averaged gains. The effect of this change is shown in note 25 on the financial statements on page 72. The profit on ordinary activities will continue to include total realised and unrealised gains.

Achieved Profits Basis Reporting

In addition to results prepared in accordance with the regulations implementing the EC Insurance Accounts Directive, Prudential used to publish supplementary information on the accruals basis in accordance with proposals issued by the ABI. More recently the ABI has issued draft guidance which integrates elements of the accruals and embedded value techniques into one reporting methodology, namely the achieved profits basis. Supplementary 1997 results have been prepared on this new basis and are shown on pages 77 to 84. 1996 comparative figures have been restated accordingly. The relatively widespread industry usage of achieved profits will improve comparability with our competitors and assist investment analysis.
The following table shows the return on average shareholders' funds for our long-term businesses based on local currency operating profit after tax.

	1997 %	1996 %
Prudential UK	12	14
Jackson National Life	15	14
Prudential Asia*	25	28
Australia and New Zealand	7	11

*established operations net of development costs

The achieved profits basis permits analysis of the value added in the year between the discount unwind (the expected return) and the excess (real value added). These are shown in the bar chart above. The contribution of £151 million of surplus assets in Australia in 1997 is shown separately.

Profit and Earnings Per Share

Statutory basis operating profit before tax from continuing operations increased from £691 million to £895 million. The effective rate of tax on total operating profit for 1997 was 28 per cent compared with an exceptionally low rate for 1996 of 25 per cent and, as a result, operating profit earnings per share decreased to 33.3 pence. On the achieved profits basis, operating profit from continuing operations increased from £1,099 million to £1,198 million. Total operating profit after tax was £837 million and earnings per share were 43.3p.

Group Financial Review

Dividend

The total dividend for the year has increased by 10.4 per cent to 19.1 pence per share. Dividend cover is 1.7 times operating profit after tax.

Shareholders' Funds

The consolidated balance sheet on page 57 shows statutory basis shareholders' capital and reserves at the end of 1997 of £2,783 million, slightly up on 1996. Retained operating profit of £467 million after dividend payments was offset by a £442 million write-off of goodwill, mainly from the acquisition of Scottish Amicable. On the achieved profits basis, which recognises the shareholders' interest in our long-term business operations, shareholders' funds were £6.9 billion compared with £6.6 billion at the end of 1996. The increase reflects the operating profits retained in the long-term businesses, the attribution of Australian reserves to shareholders and strong UK investment returns, partly offset by the impact of a lower assumption for future UK investment returns, adverse exchange rate movements and the goodwill charge. The achieved profits basis provides a better indication of the Group's financial strength. It does not however anticipate the results of our discussions with the Treasury on the unattributed assets held in the main with-profits fund. For the purposes of the achieved profits basis results, it is assumed that only ten per cent of these assets are allocated to shareholders. The achieved profits basis shareholders' funds are shown in the following table.

	1997 £bn	1996 £bn
Prudential UK	3.7	3.2
Jackson National Life	1.8	1.5
Prudential Asia	0.3	0.3
Australia and New Zealand	0.3	0.1
Other operations (including net shareholders cash)	0.8	1.5
Achieved profits basis shareholders' funds	6.9	6.6

Funds Flow and Borrowings

The table below provides details of the holding company's funds flow.

	1997 £m	1996 £m
Group operating profit after tax	644	654
Dividends	(370)	(332)
Reinvested in businesses	(224)	(309)
Funds available to holding company	50	13
New investment in businesses	(654)	(46)
Disposal of businesses	47	1,784
Timing differences and other items	(24)	32
Holding company net cash movement	(581)	1,783

We believe that for an insurance group this presentation provides a clearer demonstration of the utilisation of resources than the format prescribed under FRS1 shown on page 60. In 1997 the Group's operations generated funds after tax of £644 million. Retained profit after dividends was £274 million, of which £224 million was reinvested in Jackson National Life. New investment in businesses totalled £654 million, principally due to the acquisitions of Scottish Amicable, NZI Life and the additional holding in St James's Place Capital. The disposal of our small Italian operation resulted in sales proceeds of £47 million. Overall there was a net cash outflow from the holding company of £581 million.

As a result of the above outflow, and a £152 million (US$250 million) surplus note issued directly by Jackson National Life, holding company cash less shareholders' borrowings at the end of 1997 was £405 million, compared with £1,149 million at the end of 1996.

The Group continues to hold over £1.5 billion in money market securities, providing maximum liquidity and minimal capital risk. Shareholder borrowings include debenture loans which, at the end of 1997, totalled £720 million, as set out in note 19 on page 70. Some 80 per cent of these long-term borrowings are effectively in US dollars, in order to reduce the currency exposure arising from our investment in Jackson National Life. There were also £474 million short-term commercial paper and bank borrowings, mainly as a result of the Group's acquisition of Scottish Amicable.

During the year DM300 million of bonds were repaid on maturity from the Group's cash resources. In January 1998 SF200 million of bonds matured and in the same month the Group successfully launched a £300 million 25 year Eurobond issue at an interest rate of 6.875 per cent. The proceeds of this bond issue were used to redeem the SF bonds and to repay part of the short-term borrowings. Prudential Corporation enjoys strong debt ratings from both Moody's Investors Service and Standard and Poors. Its rated long-term debt is Aa3 and AA+, whilst the short-term ratings of its guaranteed finance subsidiaries are P-1 and A-1+. The Group also retains access to both committed and uncommitted bank facilities.

Treasury Policy

The Group operates a central treasury function which has overall responsibility for managing its capital funding programme as well as its central cash and liquidity positions.

The treasury function is also responsible for the co-ordination of financial risk management and investment policy across the Group. To reduce investment, interest rate and currency exposures, and to facilitate efficient investment management, derivative instruments are used. Group policy is that amounts at risk through derivative transactions are either covered by cash or by corresponding assets, or are hedged against liabilities. The accounting treatment of derivative contracts is consistent with that of the underlying assets or liabilities.

The Group transacts business primarily in sterling and US dollars. After adjusting for borrowings, approximately 70 per cent of the Group's achieved profits basis net assets are held in sterling with a further 20 per cent held in US dollars.

The currency exposure relating to the translation of reported earnings is not separately managed. However, its impact is reduced by interest payments on the foreign currency borrowings and by the adoption of average exchange rates for the translation of foreign currency revenues.

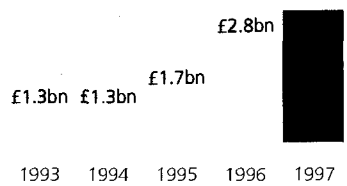
Financial Strength of Insurance Operations

The solvency ratio of free assets to liabilities of the Group's main UK long-term fund at the year end is estimated to be 25 per cent, three per cent down on prior year. The absorption of the transferred Scottish Amicable business reduced the ratio by five per cent and the removal of ACT credits for pensions business caused a further reduction of three per cent. However, these factors were partly offset by the strong investment markets in 1997. The fund's financial strength continues to be rated Aaa by Moody's, who recently upgraded the subordinated debt rating of Scottish Amicable Finance plc (now a subsidiary of the fund) from A3 to Aa2.

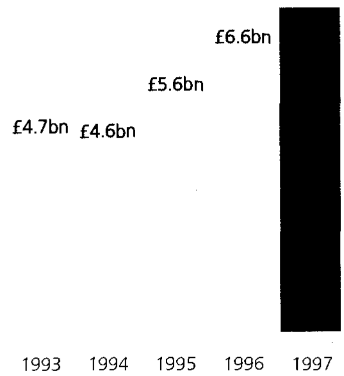
The solvency position of Jackson National Life strengthened further in 1997 with its risk based capital ratio increasing from 252 to 274 per cent of the regulatory minimum. This rise is caused by the combination of a strong statutory profit in 1997 and the raising of the US$250 million subordinated loan referred to in last year's Review. In December 1997 Moody's upgraded Jackson's insurance financial strength rating from A1 to Aa3.

The financial strength of the Group was also demonstrated by its ability to retain adequate solvency levels in Asia despite the economic turmoil in the region.

Jonathan Bloomer
Group Finance Director



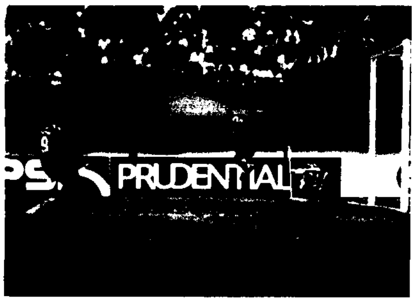
SHAREHOLDERS' FUNDS –
STATUTORY BASIS (£BN)



SHAREHOLDERS' FUNDS –
ACHIEVED PROFITS BASIS (£BN)

- Dividend covered 1.7 times by operating profit after tax
- Achieved profits basis shareholders' funds of £6.9 billion

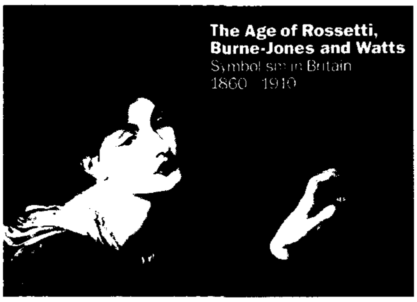
Investment in the Community



Photography exhibition and football match sponsored by Prudential Asia.

The Prudential Carers Initiative has helped improve the lives of some of the seven million carers in the UK.

In the last 10 years the Prudential Awards for the Arts have benefited over 70 arts organisations.



In 1997 £1.7 million was invested in community affairs and sponsorship world-wide, reflecting Prudential's international business. In the UK the Company completed the fifth year of its programme to support carers and create safer communities.

The Prudential Carers Initiative, a partnership with The Princess Royal Trust for Carers and Crossroads, continued to increase local services for some of the seven million carers in the country and raise awareness of their needs.

A 14th Prudential funded Princess Royal Trust Carers Centre opened in Belfast.

Provision of respite care in the home through Crossroads was estimated to have increased by an average of 30 per cent (in some places up to 65 per cent) as a result of Prudential's support.

The number of Youth Action Groups established within the Prudential Youth Action Initiative, a partnership with Crime Concern rose to 1,200 with 22,000 young people now working to make their communities safer.

Since they began in 1989, The Prudential Awards for the Arts have generated over £2 million in prize money, benefiting more than 70 arts organisations. This year Prudential agreed that ABSA, the UK's leading authority on business sponsorship of the arts, will review and develop these prestigious awards.

Prudential also sponsored 'The Age of Rossetti, Burne-Jones and Watts: Symbolism in Britain 1860-1910', an exhibition of pre-Raphaelite art at the Tate Gallery. Through Prudential's partnership with the Rambert Dance Company, children across the UK enjoyed dance, education and community activities.

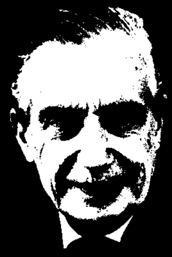
Prudential is also a leading sponsor of UK Business Incubation which, in association with the UK Government, offers advice and help to small businesses.

In the US, Jackson National Life supports a variety of organisations in Michigan including The Michigan Festival, an annual golf tournament for young people, and United Way which helps a range of charitable groups.

Prudential Asia continued an extensive programme of community support, arts and sports sponsorship. Community activity focused on education and training, including schemes to improve home and road safety and projects for young people.

The Hong Kong People exhibition of photographs by Tim Hall, a classical music concert and a Christmas concert by the Ho Chi Minh City Symphony Orchestra were the main arts events, whilst tennis, cricket and football all benefited from Prudential sponsorship.

In Australia Prudential supported the Garvan Institute of Medical Research, dedicated to research into the causes and treatment of major diseases.



A director since 1994 and Chairman since 1995. Chairman of the British Council and Delta plc. Director of Rio Tinto plc and Marks & Spencer plc.

A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions, Cavaghan and Gray, Minorplanet Systems, and the London Clinic. Director of John Waddington and Drummonds. Deputy Chairman of the Council of the Prince of Wales' Institute of Architecture.

Group Chief Executive since 1995 and a director since 1994. Director of Boots. Previously Chief Executive and Chairman of Reed International. Chairman of New Deal Task Force.

A director since 1992 and International Development Director since November 1996. Joined Prudential in 1972.

Group Finance Director since 1995. Member of the Urgent Issues Task Force Committee of the Accounting Standards Board. Previously a senior partner of Arthur Andersen.

A director since November 1996. Director of Safeway, Dawson International and Next. Committee member of the Automobile Association and the Council of the Institute of Directors.

A director since 1993. Chairman of Unilever and the Confederation of British Industry Europe Committee. Director of the Bank of Ireland.

A director since 1995. Vice Chairman of Vickers and Governor of Birkbeck College, University of London. Previously Permanent Under-Secretary of State and Head of the Diplomatic Service.

A director since February 1996. Chairman of Prudential Portfolio Managers. Previously Chairman of S.G.Warburg & Co Ltd.

A director since October 1997. Director of Murray Split Capital Trust plc. Previously Chairman of Scottish Amicable Life Assurance Society.

A director since 1992. Group Chief Executive of The Rank Group. Previously Group Chief Executive of English China Clays.

Corporate Governance

The directors support the principles of corporate governance set out in the Code of Best Practice published by the Cadbury Committee and confirm that the Company has complied throughout the year with the requirements of the Code. The Company has also complied with the best practice provisions regarding remuneration committees, annexed to the Listing Rules of the London Stock Exchange.

Organisational Structure

The organisational structure of the Group is clearly defined with lines of responsibility and delegation of authority. The Board decides the objectives and strategy and has set out the specific matters which are reserved to it for decision.
Authority is delegated to the group chief executive for implementing the strategy and for managing the Group. In discharging his responsibility, the group chief executive works with a group executive committee, comprising all the executive directors and other divisional heads, and is also assisted by a group head office team of functional specialists.
The head of each division has authority for management of that division and has established a management board comprising the most senior executives in the division.

Board Committees

The Board has established the following committees of non-executive directors to which it has delegated certain of its responsibilities:

Audit Committee
Michael Abrahams (Chairman)
Ann Burdus
Lord Gillmore
Andrew Teare

The audit committee normally meets three times a year and assists the Board in meeting its responsibilities in respect of the system of internal financial control and external financial reporting.

Remuneration Committee
Andrew Teare (Chairman)
Michael Abrahams
Niall FitzGerald
Lord Gillmore

The remuneration committee normally meets three times a year to review remuneration policy and determines the remuneration packages of the executive directors. The remuneration committee's report is set out on pages 44 to 50.

Nomination Committee
Sir Martin Jacomb (Chairman)
Michael Abrahams
Ann Burdus
Sandy Stewart

The nomination committee meets as required to consider candidates for appointment to the Board.

Internal Financial Control

The management of exposure to risk is fundamental to the Group's operations which mainly involve the acceptance of investment and underwriting risks. The Group's system of internal financial control, for which the Board has overall responsibility, is an essential and integral part of the risk management process and the main features are as follows:

Investment
The respective responsibilities of the Board and divisional management for investment strategy, compliance and performance are clearly defined. There are also detailed rules governing investment dealing and settlement, including the use of derivatives, incorporating details of procedures and authority levels.

Underwriting
The Group has controls over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually as part of the planning process.

Financial Control Procedures
Detailed controls, applicable across the Group, are laid down in financial and actuarial procedures manuals.

Performance Planning and Monitoring
There is a comprehensive planning and performance monitoring system based on key performance indicators for each business area. Five year business plans, incorporating detailed one year operating plans, are prepared annually for each business area and the Group as a whole. The Board receives monthly management reports comparing actual performance with plan, and highlighting key business

indicators and the progress of major projects.

Financial Position

The Board receives regular reports from the group finance director on financial matters and receives annual reports from the group chief actuary on the financial condition of the Group's principal long-term insurance businesses.

Audit

The head of the group internal audit function has direct access to the chairman of the audit committee and any significant matters arising from internal audit work are reported to the committee. The audit committee receives twice-yearly reports from the external auditors on internal financial control and reviews action taken in response to any weaknesses which are identified.

Effectiveness of Internal Financial Control

The Board has reviewed the effectiveness of the system of internal financial control in operation during the year through the monitoring processes set out above.

In addition, during the year each business area, including group head office, prepared an assessment of its risk exposures and internal financial control framework. This work was reviewed by the external auditors and a summary of the findings was considered by the audit committee. Such processes can provide only reasonable and not absolute assurance against material errors, mis-statements or loss and, in that context, the review did not reveal any significant matters which, in the opinion of the Board, indicated that the system of internal financial control was inappropriate or unsatisfactory.

Compliance

The Group has internal compliance managers who monitor adherence to local regulatory requirements and report regularly to the divisional management boards. The Board receives annual reports on both UK and overseas compliance matters.

Millennium and Euro Issue

During the year all the Group's business areas, including group head office, established programmes to identify the impact of the Millennium issue and prepared detailed plans, including defining roles and responsibilities, to ensure that all systems will be compliant. Each programme contains major critical path milestones and timings. Progress is monitored both by business area heads and by group internal audit and is formally reported to the group executive committee and the Board.

In addition the Group established a working party to investigate the implications and the opportunities presented by the Euro. The working party is preparing detailed plans to ensure that the Group is fully prepared for its potential introduction. This working party also reports to the group executive committee.

Directors' Responsibilities for the Financial Statements

The directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 53 to 72 and the supplementary information on pages 77 to 84. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the result of the Group for the period and which comply with the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained for the preparation of those statements and that reasonable steps are taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to use the going concern basis in preparing the financial statements.

Report of the Auditors on Corporate Governance Matters

to the directors of Prudential Corporation plc

In addition to our audit of the financial statements, we have reviewed your statements on pages 40 and 41 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial control on pages 40 and 41 (other than your opinion on effectiveness which is outside the scope of our report) and on going concern on page 41 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statement on page 40 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse
Chartered Accountants
London
11 March 1998

The Environment

Prudential recognises that both its business activities and the investments it makes on behalf of its customers have an impact on the environment. The directors regard concern for the environment and management of environmental risks as an integral part of good business practice.

Environmental Policy

Prudential is committed to developing progressively its policy on environmental issues.

- We are committed to energy efficiency in all Prudential managed, owned and occupied properties.
- We strive to ensure that environmental criteria are a fundamental part of contractor selection and we consider all elements of contractor procedures and controls involved in the design, maintenance, support and control of Prudential properties.
- While we have a business need to provide a number of our employees with cars, we recognise the impact this has on the environment and take action to keep this impact to a minimum.
- We enter into waste management contracts where appropriate to minimise impact on the environment and to utilise or specify recyclable supplies and materials.
- We ensure that all staff are aware of our environmental policy and encouraged to observe best practice guidelines in all aspects of their work.

Investments

As a major institutional investor, PPM believes that the boards of companies in which it invests should pay due regard to environmental matters and thereby further the long-term interest of their shareholders, customers and employees. Prudential's own environmental policy and performance forms the basis on which PPM examines environmental issues in respect of its investments.

External Commitment

Prudential is also actively involved in a growing programme of initiatives with external organisations. We see value in sharing experiences, ensuring awareness in the Group of best practice and supporting environmental responsibility throughout the business community. Our external commitments include:

- Support for the Advisory Committee on Business in the Environment (ACBE) which was set up in 1991 by the Secretaries of State for the Environment and for Trade and Industry. ACBE provides a constructive dialogue between Government and business on environmental issues and helps mobilise the business community in demonstrating good environmental practice and management.
  A Financial Sector Group within ACBE, led by Derek Higgs, Chairman of PPM, completed its work on Environmental Reporting during 1997. The Group examined the growing importance of environmental management to the financial community from the point of view of risk management. The published report proposes an approach to good practices for business to follow in reporting environmental performance.
- In 1997, Prudential participated for the first time in The Index of Corporate Environment Engagement annual survey carried out by Business In The Environment. The index, which measures the quality and extent of corporate environmental engagement, provides a useful tool by which future environmental performance can be judged.
- Prudential participates in HRH Prince of Wales' Business and the Environment Programme, which brings together key figures in the debate on business and sustainable development. Such programmes provide a valuable network for senior executives in this developing area of management expertise.
- Prudential actively supports independent studies on business and the environment. PPM recently sponsored an academic study on the relationship between the management of environmental issues and investment performance.

Derek Higgs, a director of the Group, has Board level responsibility for Prudential's environmental policy and its implementation.

Remuneration Committee Report

The members of the Remuneration Committee are listed on page 40. The Listing Rules of the London Stock Exchange contain a number of requirements in respect of directors' remuneration, including a report by the Remuneration Committee of the Board. The Company has complied throughout the year with Section A of the provisions annexed to the Listing Rules and, in framing its remuneration policy, the Committee has given full consideration to Section B of the provisions.

Executive Directors' Remuneration

Remuneration policy

The policy of the Company is to provide competitive remuneration packages in order to recruit and retain high calibre executives. In addition to salary and pensions, this is achieved by means of an annual bonus and a long-term incentive plan directly related to the Company's longer-term performance. The Executive Share Option Scheme terminated in 1995.

Salary

Executive directors' salaries are reviewed by the Committee, normally annually, having regard to business results, individual accountabilities and performance, and market conditions.

Independent surveys are obtained of salary levels in major companies of comparable size in both the financial and non-financial sectors.

Annual bonus

Executive directors other than Derek Higgs qualify for awards under the Group's short-term deferred bonus plan, known as the Share Participation Plan. Awards are determined by the Committee based on the performance of the Group against quantitative financial and business targets as well as specific personal objectives.

Under the Plan executive directors may receive an initial cash award. Either the net amount of this award must be used to buy shares or an equivalent number of shares must be lodged with the Plan Trustees. The Company then lodges additional shares with the Trustees equivalent to the gross value of the cash award. Both sets of shares are held in trust for five years. If a director leaves prior to this, the additional shares may be released in certain circumstances.

The total award can range from nil to 45 per cent of salary at the time of the award.

Derek Higgs can be awarded a bonus, which can range from nil to 100 per cent of salary. Half of the net amount of the bonus is used to buy Prudential shares. The bonus is based on the overall performance of Prudential Portfolio Managers, his performance as an executive director of the Company and performance against personal objectives.

Benefits

Executive directors receive certain taxable benefits, principally the provision of company cars.

Service contracts

In 1995 the Committee changed its policy so that the normal notice of termination which the Company is required to give executive directors is 12 months, although for newly appointed directors there may be an initial contractual period of up to two years before the 12 month notice period applies. In the case of Keith Bedell-Pearce, who was in office prior to 1995, and of Jonathan Bloomer, who joined the Company in 1995, the period has been reduced to 18 months which the Committee considers reasonable compared with a previous notice period of three years. When considering termination of service contracts, the Committee will have regard to the specific circumstances of each case, including mitigation. Jim Sutcliffe resigned as a director on 30 September 1997. In determining the terms which would apply to Jim Sutcliffe's departure, the Company followed the Greenbury recommendations by agreeing a settlement which combined the Company's requirement for mitigation with the fact that his service contract contained an 18 month notice period. In view of his relatively young age (41) and his likelihood of securing a new job speedily, a settlement was adopted which balanced continuing to pay him until he gained further employment with a reducing termination payment. The total value of both elements was designed not to exceed the value of 12 months pay and benefits (rather than the 18 month notice period contained in his service contract) should he speedily obtain alternative employment, which is what occurred. The Company recognised Jim Sutcliffe's contribution over 21 years, and the terms of his contract in determining the treatment of his outstanding shares under the rules of the Company's share plans. Details are contained in the relevant tables.

Policy on external appointments
Executive directors are able, subject to the Board's approval, to accept external appointments as non-executive directors of other organisations. Fees payable in connection with such appointments are waived in favour of the Group, unless otherwise agreed.

Non-executive Directors' Remuneration

The fees for non-executive directors are reviewed annually by the Board after considering recommendations by the executive directors. With effect from 1 June 1996, non-executive directors' fees were increased to £25,000 per annum and to £45,000 per annum for the deputy chairman. The chairman's fee was increased to £175,000 per annum from 1 June 1997. Sandy Stewart was appointed chairman of the Supervisory Board of the Scottish Amicable Insurance Fund and Michael Abrahams a non-executive director of Scottish Amicable Life plc following the acquisition of Scottish Amicable by Prudential for which they receive fees of £25,000 and £20,000 per annum, respectively. Non-executive directors do not have service contracts and are not eligible for the annual bonus, the long-term incentive scheme or pensions, except that the one director appointed prior to 1988, Michael Abrahams, remains a member of the Prudential Staff Pension Scheme.

Remuneration Committee Report

Directors' Remuneration

	Salary/ Fees £000	Annual Bonus £000	Benefits £000	Total 1997 £000	Total 1996 £000
Executive directors					
Keith Bedell-Pearce	218	88	30	336	310
Jonathan Bloomer	315	110	32	457	422
Sir Peter Davis	467	155	33	655	621
Derek Higgs (appointed 19/2/96)	315	151	20	486	495
Jim Sutcliffe (resigned 30/9/97, note 2)	236	95	28	359	437
John Maxwell (resigned 30/11/96, note 3)					270
Total executive directors	1,551	599	143	2,293	2,555
Non-executive directors					
Michael Abrahams	50			50	43
Ann Burdus (appointed 21/11/96)	25			25	3
Niall FitzGerald (note 4)	25			25	23
Lord Gillmore	25			25	23
Sir Martin Jacomb	171		15	186	175
Sandy Stewart (appointed 9/10/97)	12			12	–
Andrew Teare	25			25	23
Sir Trevor Holdsworth (retired 29/5/96)					8
Total non-executive directors	333		15	348	298
Overall total	1,884	599	158	2,641	
Overall total 1996	1,951	765	137		2,853

Notes:

1. The highest paid director was Jim Sutcliffe. This is because of the inclusion of gains on the exercise of share options coupled with the value of shares received by him under the long-term incentive scheme. His salary and benefits plus bonus were shown as above, to which have to be added gains on the exercise of share options of £539,000 and the value of the share award of £98,000, to make an aggregate of £996,000. At the date he ceased to be a director, his accrued pension entitlement payable at normal retirement age was £101,000. In 1996 the highest paid director was Sir Peter Davis whose emoluments were £621,000. Additionally, the Company made pension contributions of £139,000 on his behalf.
2. Jim Sutcliffe received compensation for loss of office, including the value of benefits, totalling £343,000 plus pension service credit up to the date he commences alternative employment (16 March 1998), an increase in accrued pension of £2,000.
3. In 1996 John Maxwell received £302,000 compensation for loss of office comprising £225,000 in respect of 12 months' salary and benefits and £77,000 in respect of 12 months' pension arrangements.
4. Fees in respect of Niall FitzGerald are paid to his employer.
5. The annual bonus reflects the total award under the bonus arrangements, including the cost of the shares.

Directors' Long-term Incentive Plan

The Group's long-term incentive plan is known as the Restricted Share Plan and is designed to provide reward contingent upon the achievement of pre-determined returns to shareholders. Under this Plan executive directors are granted annually a conditional award of shares in the Company which are held in trust for three years. The conditional award is an amount up to the equivalent of 80 per cent (or 100 per cent in the case of the group chief executive) of salary at the time of the award, valuing the shares at their average share price during the preceding calendar year.

The number of shares which the directors are allocated out of the conditional award after three years depends on the Company's total return to shareholders relative to other companies in the FTSE 100 share index over the three years. In addition, the Committee must be satisfied with the Company's overall financial performance during this period. No shares will be allocated if the Company's total return ranks 60th or below and the maximum allocation will be awarded only if the total shareholder return is in the top 20. Between these points, allocations of shares will be on a straight line basis. The right to receive allocations may then be exercised by the director concerned at any time during the following seven years.

Details of conditional awards of shares under the Plan are shown below. These shares are held in trust and represent the conditional awards out of which allocations may be made, as stated above, in the allocation year.

	Conditional awards outstanding at 1 Jan 1997	Conditionally awarded in 1997	Awards allocated in 1997	Awards lapsed in 1997	Conditional awards outstanding at 31 Dec 1997 or at date of ceasing to be a director	Release year
Keith Bedell-Pearce	48,037				48,037	1999
		39,350			39,350	2000
Jonathan Bloomer	63,511				63,511	1999
		56,859			56,859	2000
Sir Peter Davis	90,226				90,226	2000
	115,474				115,474	1999
		101,534			101,534	2000
Derek Higgs	69,285				69,285	1999
		56,859			56,859	2000
Jim Sutcliffe	69,285				69,285	1999
		56,859	14,215	42,644	Nil	1997

The money value of Jim Sutcliffe's award allocated in 1997 was £98,000. No awards were allocated to directors in 1996.

Directors' Shareholdings

The interests of directors in shares of the Company, including awards under the Share Participation Plan but excluding conditional awards under the Restricted Share Plan, are shown below. All interests are beneficial except in respect of 7,200 shares held in trust by Sandy Stewart.

	1 Jan 1997 or later date of appointment	31 Dec 1997
Michael Abrahams	12,629	12,894
Keith Bedell-Pearce	71,408	81,784
Jonathan Bloomer	17,824	36,125
Ann Burdus	2,500	2,552
Sir Peter Davis	32,396	58,746
Niall FitzGerald	3,444	3,709

	1 Jan 1997 or later date of appointment	31 Dec 1997
Lord Gillmore	2,631	2,686
Derek Higgs	24,095	36,439
Sir Martin Jacomb	16,598	17,498
Sandy Stewart	9,700	9,700
Andrew Teare	2,500	2,552

Apart from the disposal of 2,600 shares by Keith Bedell-Pearce, there were no changes in interests between 31 December 1997 and 27 February 1998.

Directors' Share Options

The Restricted Share Plan replaced the Executive Share Option Scheme in 1995 as the Group's long-term incentive plan. Outstanding options under that Scheme remain in force and are set out below together with options under the Savings-Related Share Option Scheme. This Scheme is open to all employees and options up to Inland Revenue limits are granted at a 20 per cent discount and cannot normally be exercised until a minimum of three years has elapsed.

	Options outstanding at 1 Jan 1997	Granted in year	Exercised in year or prior to date of ceasing to be a director	Lapsed in year or prior to date of ceasing to be a director	Options outstanding at 31 Dec 1997 or at date of ceasing to be a director	Exercise price (pence)	Market price at date of exercise	Earliest exercise date	Latest exercise date
Keith Bedell-Pearce	189,000				189,000	201		1995	2002
	105,000				105,000	328		1996	2003
	5,769				5,769*	156		1997	1998
	60,500				60,500	309		1997	2004
	6,716				6,716*	201		1998	1999
	2,267				2,267*	344		2003	2003
	3,259				3,259*	359		2003	2004
	372,511				372,511				
Jonathan Bloomer	226,750				226,750	315		1998	2005
	226,750				226,750	315		2000	2005
	7,677				7,677*	254		2002	2002
	461,177				461,177				
Sir Peter Davis	5,014				5,014*	344		2001	2001
Derek Higgs	5,014				5,014*	344		2001	2001
Jim Sutcliffe	25,000		25,000			199	652		
	137,000		94,500		42,500	201	652	1995	2002†
	22,500				22,500	327		1996	2003†
	61,000				61,000	328		1996	2003†
	77,000				77,000	309		1997	2004†
	26,500				26,500	315		1998	2005†
	2,771				2,771*	249		1999#	1999#
	1,133			1,133	*	344		2003	2003
	2,172			2,172	*	359		2003	2004
	355,076		119,500	3,305	232,271				

In accordance with the arrangements for Jim Sutcliffe's departure, the exercise dates of certain of his options have been brought forward to 2000 (†) or 1998 (#).

*Savings-Related Share Option Scheme

The market price of shares at 31 December 1997 was 734 pence and the range during 1997 was from 483 pence to 785 pence.

In 1997, prior to his resignation as a director, Jim Sutcliffe made a gain of £539,000 on the exercise of his share options (1996 £10,000). No other director exercised any share options in either 1997 or 1996.

Directors' Pensions

Prudential Staff Pension Scheme

Executive directors are eligible to participate in the Prudential Staff Pension Scheme on the same basis as other members. The Scheme is non-contributory and provides members with a maximum pension of up to 38/60 of Final Pensionable Earnings at the normal retirement age of 60. Final Pensionable Earnings are the sum of the pensionable salary for the 12 months immediately preceding termination and the yearly average of the cash element of the Share Participation Plan in the three years immediately preceding termination of service. On the Committee's advice, the Company has adopted a policy for executive directors that the cash element of the Share Participation Plan would not in future be included. Final Pensionable Earnings for entrants since 31 May 1989 are restricted to salary up to the Inland Revenue earnings cap. For Keith Bedell-Pearce the previous definition remained unchanged in 1997 but the cash element of the Share Participation Plan will not be included for calculating Final Pensionable Earnings from 1 January 1998 subject to a short period of transition. In the case of Jim Sutcliffe the pensionability of the cash element of the Share Participation Plan was replaced on 1 January 1997 by enhanced early retirement terms, under which a pension at 55 would not be subject to discount for early payment.

The Scheme also provides on death, whether in service or following retirement, pensions for spouse and children. The spouse's pension on death in service is 54 per cent of the member's prospective pension at age 60 and, on death after retirement, is 50 per cent of the member's pension in payment. A lump sum death in service benefit of four times Final Pensionable Earnings is also provided. Pension increases after retirement are wholly discretionary but in recent years annual increases have been awarded in line with inflation. Discretionary increases are taken into account in calculating transfer values payable in lieu of deferred pension benefits. The contract of Keith Bedell-Pearce provides that in the event of his retirement at age 55, his pension will be based on the pension he would have received at normal retirement age 60 subject to a discount rate of three per cent per annum for early retirement.

Other pension arrangements

For directors subject to the earnings cap, the Company has established Funded Unapproved Retirement Benefit Schemes (FURBS) and a separate life assurance scheme to provide additional retirement and life assurance benefits based on salary in excess of the earnings cap. Both Sir Peter Davis and Derek Higgs participate in these arrangements. Jonathan Bloomer does not participate in the FURBS and instead the Company pays a salary supplement to fund personal pension arrangements. He does however participate in the separate life assurance scheme and additionally the Prudential Staff Pension Scheme provides a lump sum death in service benefit.

Pension entitlements

Details of directors' pension entitlements under the Prudential Staff Pension Scheme and pre-tax contributions to FURBS or salary supplements are set out below:

	Age at 31 Dec 1997	Years of pensionable service at 31 Dec 1997	Additional pension earned (excluding inflation) in year £000	Accrued entitlement based on normal retirement age: 31 Dec 1997 or date of ceasing to be a director £000	Accrued entitlement based on normal retirement age: 31 Dec 1996 £000	Pre-tax contribution to FURBS or salary supplement: 1997 £000	Pre-tax contribution to FURBS or salary supplement: 1996 £000
Keith Bedell-Pearce	51	27	6	122	113		
Jonathan Bloomer	43					82	72
Sir Peter Davis	56	2	1	4	2	171	132
Derek Higgs	53	1	1	3	1	98	78
Jim Sutcliffe (resigned 30/9/97)	41	19	(6)	101	105		
Michael Abrahams (note 1)	60	13	1	8	7		
Total						351	282

Notes:

1. For the one non-executive director appointed before 1988, Michael Abrahams, the normal retirement age in the Scheme is 72 but a pension not discounted for early retirement is available from age 65. The spouse's pension on death in service is 50 per cent of the member's prospective pension at age 72 and, on death after retirement, 50 per cent of the member's pension in payment. No lump sum benefit is payable on death in service.
2. Total contributions to directors' pension schemes were £441,000 (1996 £442,000).

Service Contracts of Directors Proposed for Re-election

The unexpired term of the service contract of Sir Peter Davis who is proposed for re-election at the forthcoming annual general meeting is 12 months. Lord Gillmore, who is also proposed for re-election and Sandy Stewart, who is proposed for election, do not have service contracts.

On behalf of the Board of directors

Andrew Teare
Chairman
Remuneration Committee
11 March 1998

Directors' Report

Principal Activity and Business Review

Prudential Corporation plc is the Group holding company and the principal activity of its subsidiary undertakings is the provision of insurance and other financial services in the United Kingdom and overseas. Particulars of principal subsidiary undertakings are given on page 71. The Group's business is reviewed in the Chairman's Statement on pages 2 to 5 and the Group Chief Executive's Review on pages 8 to 11.

Financial Statements and Supplementary Information

The consolidated balance sheet on pages 56 and 57 shows the state of affairs of the Group at 31 December 1997. The Company's balance sheet appears on page 59 and the consolidated profit and loss account on pages 53 to 55. There is a five year review of the Group on pages 74 to 76. Supplementary information prepared on the achieved profits basis of financial reporting is provided on pages 77 to 84.

Dividends

The directors have declared a final dividend for 1997 of 12.7 pence per share payable on 27 May 1998 to shareholders on the register at the close of business on 27 March 1998. The dividend for the year, including the interim dividend of 6.4 pence per share paid in 1997, amounts to 19.1 pence per share compared with 17.3 pence per share for 1996. The total cost of dividends for 1997 was £370 million.

Payment Policy

It is the policy of the Group to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms. Trade creditor days, based on the ratio of trade creditors at the year end to the amounts invoiced by trade creditors during the year, were 36 days.

Directors

The present directors are shown on pages 38 and 39. Jim Sutcliffe resigned as a director with effect from 30 September 1997. Sandy Stewart was appointed a director on 9 October 1997 and in accordance with the Articles of Association retires and offers himself for election at the Annual General Meeting. Sir Peter Davis and Lord Gillmore retire by rotation at the Annual General Meeting and offer themselves for re-election. Andrew Teare also retires by rotation but does not offer himself for re-election. Details of directors' interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 47 and 48.

Employees

The following information is given in respect of employees of the Group in the United Kingdom. The policy towards employees overseas is the same but the practical application of the policy varies according to local requirements.

Equal Opportunity

Our equal opportunities policy is to be fair, responsible and caring in all aspects of our business.
We recognise, respect and value difference and diversity. We will treat everyone fairly and with dignity. We are working towards equality as a part of our normal way of doing things because we believe it is the right thing to do for our people, our customers and our success.
Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees.

Employee Involvement

The Group has effective communication channels through which employees' views can be sought on issues which concern them. 1997 saw the launch of a Business Television initiative with two programmes shown each month in 200 Prudential offices in the UK. This facilitated two way participation of employees, with questions handled live on the programme or in written form afterwards. In 1997 employees were invited, on two occasions, to participate in the Prudential Savings-Related Share Option Scheme. On the second occasion staff at Scottish Amicable were also able to participate. The Scheme has now been operating for over 13 years and some 60 per cent of UK staff currently participate.
The board of the corporate trustee of the Prudential Staff Pension Scheme includes directors elected by members of the Scheme, who have approved the continuation of this arrangement under the Pensions Act 1995.

Donations

Charitable donations made by the Group in 1997 totalled £1.4 million. There were no political donations.

Directors' Report

Auditors

A resolution proposing the re-appointment of Price Waterhouse as auditors of the Company will be put to the Annual General Meeting.

Annual General Meeting: Special Business

Disapplication of pre-emption rights

At the Annual General Meeting last year, shareholders passed a resolution giving the directors authorisation for the limited disapplication of Section 89 of the Companies Act 1985, empowering them to allot shares for cash otherwise than in accordance with statutory pre-emption rights in certain limited circumstances. That power will expire in August 1998.

Accordingly, the notice of this year's Annual General Meeting on page 86 includes a resolution to renew this authority for a further period of 15 months. The renewal of this power is limited, apart from rights issues and scrip dividends, to the issue of shares up to a maximum of 96 million shares representing approximately five per cent of the total issued share capital of the Company at 27 February 1998. As regards rights issues and scrip dividends, the directors believe that the procedure under Section 89 is unduly restrictive and are therefore also seeking continuation of its disapplication in these circumstances. The directors have no present intention of using this power. This renewed power will expire no later than 15 months after the resolution is passed.

Purchase of own shares

The directors consider that there may be circumstances in which it would be desirable for the Company to purchase its own shares in the market.

Although the directors have no immediate plans to make such purchases they would like to be able to act if circumstances arose in which they considered such purchases to be desirable. Purchases would only be made if their effect would be to increase earnings per share and would be for the benefit of shareholders generally.

Accordingly, as last year, shareholders are being asked in the resolution set out in the notice of the Annual General Meeting on page 86 to authorise the Company to make market purchases of its shares up to a maximum of 193 million shares (representing approximately ten per cent of the Company's issued share capital at 27 February 1998) at prices not exceeding 105 per cent of the average middle market quotations as derived from the Daily Official List of the London Stock Exchange for the shares for the five business days before the purchase is made. The authority conferred by this resolution will expire at the conclusion of next year's Annual General Meeting.

Amendment to the Articles of Association

In the resolution set out in the notice of the Annual General Meeting on page 87, shareholders are asked to approve an amendment to the Articles of the Company to exclude borrowings by Prudential's banking activities from the Company's borrowing limitation. Article 32 of the Company's Articles restricts the amount the Company may borrow (without the approval of shareholders) to the Company's issued share capital and reserves and one-tenth of the Group's insurance funds.

Whilst there is no present likelihood of the Company exceeding this limitation, in view of the continuing growth in Prudential Banking's business, the directors consider it prudent to amend this Article by excluding borrowings by Prudential's banking activities (these would be, principally, deposit accounts opened by the public). Normally a bank itself would have no limitation in its articles on its ability to borrow.

Recommendation

The directors consider that these proposals are in the best interests of the shareholders as a whole and unanimously recommend shareholders to vote in favour of these resolutions to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial holdings amounting in aggregate to 257,485 shares.

Shareholders

The number of accounts on the share register at 31 December 1997 was 78,727 (77,840). Further information about shareholdings in the Company is given on page 88. At 27 February 1998 no notification of a shareholding of three per cent or more of the share capital of the Company had been received by the Company.

Close Company Provisions

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

On behalf of the Board of directors

David Green
Company Secretary
11 March 1998

Consolidated Profit and Loss Account

Year ended 31 December 1997

Note	General Business Technical Account	1997 £m	1996 £m
	Gross premiums written:		
	Continuing operations	306	303
	Discontinued operations	–	304
1	Total	306	607
	Outward reinsurance premiums	(15)	(56)
	Premiums written, net of reinsurance	291	551
	Change in the gross provision for unearned premiums	(3)	(6)
	Change in the provision for unearned premiums, reinsurers' share	–	2
	Earned premiums, net of reinsurance	288	547
	Allocated investment return transferred from the non-technical account	79	138
	Claims paid:		
	Gross amount	(250)	(471)
	Reinsurers' share	14	56
	Net of reinsurance	(236)	(415)
	Change in the provision for claims:		
	Gross amount	33	62
	Reinsurers' share	(6)	(15)
	Net of reinsurance	27	47
	Claims incurred, net of reinsurance	(209)	(368)
5	Net operating expenses	(83)	(153)
	Change in the equalisation provision	(7)	(7)
1	**Balance on the general business technical account**	68	157
	Analysed between:		
	Continuing operations	68	68
	Discontinued operations	–	89
		68	157

Consolidated Profit and Loss Account

Year ended 31 December 1997

Note	Long-term Business Technical Account	1997 £m	1996 £m
	Gross premiums written:		
	Continuing operations	9,821	9,278
8	Acquisitions	423	–
8	Discontinued operations	62	1,305
1	Total	10,306	10,583
	Outward reinsurance premiums	(54)	(263)
	Earned premiums, net of reinsurance	10,252	10,320
3	Investment income	6,211	5,933
	Unrealised gains on investments	5,668	1,647
	Claims paid:		
	Gross amount	(8,526)	(7,103)
	Reinsurers' share	66	282
	Net of reinsurance	(8,460)	(6,821)
	Change in the provision for claims:		
	Gross amount	(42)	(29)
	Reinsurers' share	1	11
	Net of reinsurance	(41)	(18)
	Claims incurred, net of reinsurance	(8,501)	(6,839)
	Change in long-term business provision:		
	Gross amount	(8,063)	(6,168)
	Reinsurers' share	22	26
	Net of reinsurance	(8,041)	(6,142)
	Change in provisions for linked liabilities, net of reinsurance	228	(1,025)
	Change in other technical provisions, net of reinsurance	(7,813)	(7,167)
5	Net operating expenses	(1,010)	(1,175)
6	Investment expenses and charges	(259)	(269)
7	Tax attributable to the long-term business	(580)	(349)
	Transfers to the fund for future appropriations	(3,423)	(1,585)
1	**Balance on the long-term business technical account**	545	516
	Analysed between:		
	Continuing operations	543	459
8	Acquisitions	2	–
8	Discontinued operations	–	57
		545	516

Consolidated Profit and Loss Account

Year ended 31 December 1997

Note	Non-technical Account	1997 £m	1996 £m
	Balance on the general business technical account	68	157
	Balance on the long-term business technical account	545	516
7	Tax credit attributable to balance on the long-term business technical account	246	214
1	Balance on the long-term business technical account before tax	791	730
	Profit on insurance activities	859	887
	Other activities		
3	Investment income	222	192
	Unrealised gains on investments	33	–
6	Investment expenses and charges	(78)	(67)
	Unrealised losses on investments	–	(14)
	Allocated investment return transferred to the general business technical account	(79)	(138)
	Other income:		
	Investment management result	44	35
	Profit on business disposals	18	797
	Reclassification of shareholder reserves of Australian operation	204	–
	Other charges:		
	Corporate expenditure	(32)	(24)
	Banking	(22)	(54)
1	**Profit on other activities**	310	727
	Profit on ordinary activities before tax	1,169	1,614
7	Tax on profit on ordinary activities	(332)	(207)
	Profit for the financial year	837	1,407
	Dividends	(370)	(332)
17	**Retained profit for the financial year**	467	1,075

Reconciliation of Operating Profit to Profit on Ordinary Activities

Note		1997 £m	1996 £m
1	Operating profit before tax (including averaged investment gains)	895	873
	Adjustment from averaged to actual investment gains	52	(56)
	Profit on business disposals	18	797
	Reclassification of shareholder reserves of Australian operation	204	–
	Profit on ordinary activities before tax	1,169	1,614

Earnings per share

Note		1997	1996
1	Based on operating profit after tax of £644m (£654m) and 1,932m (1,917m) shares	33.3p	34.1p
	Adjustment from post-tax averaged to post-tax actual investment gains	1.3p	(2.3p)
	Adjustment in respect of profit on business disposals	0.9p	41.6p
	Adjustment from reclassification of shareholder reserves of Australian operation	7.8p	–
	Based on profit for the financial year of £837m (£1,407m) and 1,932m (1,917m) shares	43.3p	73.4p
	Dividend per share	19.1p	17.3p

Consolidated Balance Sheet

31 December 1997

Note	Assets	1997 £m	1996 £m
	Investments		
12	Land and buildings	6,313	4,817
13	Investments in participating interests	71	3
14	Other financial investments	85,335	62,200
		91,719	67,020
15	**Assets held to cover linked liabilities**	9,911	6,948
	Reinsurers' share of technical provisions		
	Provision for unearned premiums	2	1
	Long-term business provision	152	216
	Claims outstanding	63	75
	Technical provisions for linked liabilities	256	250
		473	542
	Debtors		
	Debtors arising out of direct insurance operations:		
	Policyholders	160	211
	Intermediaries	4	8
	Debtors arising out of reinsurance operations	143	21
	Other debtors:		
	Tax recoverable	262	223
	Other	583	382
		1,152	845
	Other assets		
	Banking business assets	1,053	98
	Tangible assets	115	96
	Cash at bank and in hand	490	345
		1,658	539
	Prepayments and accrued income		
	Accrued interest and rent	780	566
	Deferred acquisition costs:		
	Long-term business	2,479	1,936
	General business	20	20
	Other prepayments and accrued income	31	23
		3,310	2,545
	Total assets	108,223	78,439

Consolidated Balance Sheet

31 December 1997

Note	Liabilities	1997 £m	1996 £m
	Capital and reserves		
16	Share capital	97	96
16	Share premium	157	131
17	Profit and loss account	2,529	2,530
	Shareholders' funds – equity interests	2,783	2,757
1	**Fund for future appropriations**	19,301	13,485
	Technical provisions		
	Provision for unearned premiums	155	153
18	Long-term business provision	69,512	51,668
	Claims outstanding	694	666
	Equalisation provision	14	7
		70,375	52,494
	Technical provisions for linked liabilities	10,167	7,198
	Provisions for other risks and charges		
	Pensions and similar obligations	30	28
7	Deferred tax	449	120
	Other	75	46
		554	194
	Creditors		
	Creditors arising out of direct insurance operations	198	195
	Creditors arising out of reinsurance operations	22	84
19	Debenture loans	820	672
19	Amounts owed to credit institutions	1,263	90
	Other creditors including taxation and social security:		
	Banking business liabilities	996	56
	Tax	333	140
	Final dividend	246	221
	Other creditors	1,112	803
		4,990	2,261
	Accruals and deferred income	53	50
	Total liabilities	108,223	78,439

Statement of Total Recognised Gains and Losses

Year ended 31 December 1997

	1997 £m	1996 £m
Profit for the financial year	837	1,407
Exchange movements	(43)	(138)
Total recognised gains	794	1,269

Reconciliation of Movement in Shareholders' Capital and Reserves

Year ended 31 December 1997

	1997 £m	1996 £m
Total recognised gains	794	1,269
Goodwill on acquisitions and disposals of subsidiary undertakings	(421)	38
Goodwill on acquisition of additional holding in associated undertaking	(21)	–
New share capital subscribed	44	35
Dividends	(370)	(332)
Net movement in shareholders' capital and reserves	26	1,010
Shareholders' capital and reserves at beginning of year	2,757	1,747
Shareholders' capital and reserves at end of year	2,783	2,757

Balance Sheet of the Company

31 December 1997

Note		1997 £m	1996 £m
	Fixed assets		
	Investments:		
20	Shares in subsidiary undertakings	2,642	360
20	Loans to subsidiary undertakings	1,148	1,148
		3,790	1,508
	Current assets		
	Debtors:		
	Amounts owed by subsidiary undertakings	291	280
	Tax recoverable	79	–
	Other debtors	53	9
	Other investments	–	1,758
	Cash at bank and in hand	–	58
		423	2,105
	Less liabilities: amounts falling due within one year		
	Bank loans and overdrafts	(266)	–
	Amounts owed to subsidiary undertakings	(324)	(281)
	Tax payable	(27)	
	Final dividend	(246)	(221)
	Other creditors	(8)	(12)
		(871)	(514)
	Net current (liabilities) assets	(448)	1,591
	Total assets less current liabilities	3,342	3,099
	Less liabilities: amounts falling due after more than one year		
19	Debenture loans	(152)	(146)
	Amounts owed to subsidiary undertakings	(1,359)	(1,050)
		(1,511)	(1,196)
		1,831	1,903
	Capital and reserves		
16	Share capital	97	96
16	Share premium	157	131
21	Retained profit	1,577	1,676
	Shareholders' funds	1,831	1,903

The financial statements on pages 53 to 72 and the supplementary information on pages 77 to 84 were approved by the Board of directors on 11 March 1998.

Sir Martin Jacomb, Chairman

Sir Peter Davis, Group Chief Executive

Jonathan Bloomer, Group Finance Director

Consolidated Cash Flow Statement

Year ended 31 December 1997

Note		1997 £m	1996 £m
	Operations		
24	Net cash inflow from operating activities	235	259
	Servicing of finance		
	Interest paid	(75)	(61)
	Tax		
	Tax paid	(32)	(3)
	Financial investment		
	Investment in long-term business operation of Scottish Amicable Life plc	(100)	-
	Acquisitions and disposals		
24	Net cash (outflow) inflow from acquisitions and disposals of subsidiary undertakings	(522)	1,737
	Additional purchase of investment in associated undertaking	(35)	–
		(557)	1,737
	Equity dividends		
	Equity dividends paid	(345)	(310)
	Financing		
	Bank loans raised	389	–
	Repayment of debenture loan	(114)	–
16	Issues of ordinary share capital	44	35
	Net cash inflow from financing	319	35
	Net cash (outflow) inflow	(555)	1,657
	The net cash (outflow) inflow was invested as follows:		
	Portfolio investments		
	Purchases:		
	Ordinary shares	37	27
	Fixed income securities	1,758	2,213
	Land and buildings	–	3
		1,795	2,243
	Sales:		
	Ordinary shares	(107)	(172)
	Fixed income securities	(126)	(1,366)
	Land and buildings	(20)	(12)
		(253)	(1,550)
24	Net purchases of portfolio investments	1,542	693
24	(Decrease) increase in cash and short-term deposits	(2,097)	964
		(555)	1,657

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

Accounting Policies

Disclosure Requirements

The consolidated financial statements are prepared in accordance with the provisions of Section 255A of and Schedule 9A to the Companies Act 1985 which cover the disclosures applicable to insurance companies and groups. The financial statements comply with applicable accounting standards and with guidance issued by the Association of British Insurers. The balance sheet of the Company is prepared under the provisions of Schedule 4 to the Companies Act 1985, which apply to companies generally. The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

Basis of Consolidation

The financial statements of the Group incorporate the assets, liabilities and results of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of are included in the financial statements from the date of acquisition or up to the effective date of disposal.

Investments

(i) Investment return comprises investment income, including the amortisation of differences between cost and maturity value of those fixed income securities carried at amortised cost, together with realised and unrealised investment gains. Investment return in respect of long-term business is included in the long-term business technical account. Other investment return is included in the non-technical account and an allocation is made to the general business technical account as set out in General Insurance (v) below. Realised gains on investments are calculated as the difference between sale proceeds and cost or amortised value.

(ii) With the exception of fixed income securities of Jackson National Life and shares in subsidiary undertakings of the Company and associate undertakings of the Group, investments are shown at market value. Properties are valued annually by the Group's qualified surveyors or by professional external valuers, at market value. No depreciation is provided on the properties as the directors consider that as these properties are held for investment, to depreciate them would not give a true and fair view. Depreciation is only one of the factors reflected in the valuations and the amount which might otherwise have been shown cannot reasonably be separately identified or quantified. Consistent with the valuation of liabilities, fixed income securities are carried at amortised cost, subject to provisions for permanent diminution in value. Shares in subsidiary undertakings in the balance sheet of the Company are shown at the lower of cost or estimated realisable value. The Group's interests in associate undertakings are carried at the Group's share of net assets.

Long-term Business

The results are prepared in accordance with the modified statutory basis of accounting as set out in guidance issued by the Association of British Insurers. The main features of this method are as follows:

(i) Premiums and annuity considerations are accounted for when due. For unit-linked business, premiums are accounted for when the liabilities arising from the premiums are created.

(ii) Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.

(iii) Those costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, which are not matched by policy charges are amortised against margins in future revenues on the related insurance contracts, to the extent that the amounts are recoverable out of the margins.

(iv) Investment return, including that on assets matching solvency capital, is credited to the long-term business technical account. Business area operating results shown within the segmental analysis in note 1 on the financial statements incorporate investment gains averaged over five years, other than for gains on assets backing the long-term business provision, the technical provisions for linked liabilities and the fund for future appropriations. Details of the change to this accounting policy to be applied in the 1998 financial statements are contained in note 25.

(v) Profits in respect of UK companies comprise actuarial surpluses allocated to shareholders adjusted, other than for with-profits business, for the deferral of

acquisition costs and movements in the shareholders' interest in reserves held within long-term funds. Profits in respect of with-profits and unit-linked business are calculated initially at the post-tax level and have been grossed up at the effective rate of tax.
For with-profits business, unappropriated surplus is carried forward in the fund for future appropriations and no allocation is made to shareholders.
(vi) Results of overseas subsidiaries are determined initially using local GAAP bases of accounting with subsequent adjustments where necessary to comply with the Group's accounting policies. In the case of Jackson National Life, US GAAP results are adjusted to comply with UK SSAP 15 (deferred tax) and to show fixed income securities at amortised cost in the balance sheet.

General Insurance

General insurance business is accounted for on an annual accounting basis.
(i) Premiums are accounted for when risks are assumed. In determining the result, the proportion of premiums written relating to periods of risk beyond the year end is carried forward to subsequent accounting periods as unearned premiums, calculated on a daily basis, so that earned premiums relate to risks carried during the accounting period. A similar treatment is applied to acquisition expenses.
(ii) Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions. Outstanding claims comprise claims incurred up to but not paid at the end of the accounting period whether reported or not.
(iii) An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and investment return. The assessment of expected claims has regard to claims experience up to the end of the accounting period. No specific provision is made for major events occurring after this date.
(iv) An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 in order to reduce the impact of claims volatility.
(v) Investment return is allocated to the general business technical account from the non-technical account based on the level of assets matching general business provisions and solvency capital. Business area operating results shown within the segmental analysis in note 1 on the financial statements incorporate investment gains averaged over five years. Details of the change to this accounting policy to be applied in the 1998 financial statements are contained in note 25.

Tax

Tax is charged on all taxable profits arising in the accounting period. Provision under the liability method is made for deferred tax arising from timing differences other than those considered likely to continue into the foreseeable future. Under this policy, deferred tax is not provided on earnings retained overseas.

Foreign Currencies

Foreign currency revenue transactions are translated at average exchange rates for the year. Foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences on long-term business and on net investments in foreign enterprises less matching borrowings are taken to reserves. Other exchange differences are included in the profit and loss account.

Goodwill

Goodwill is written off against reserves in the year of acquisition.

Tangible Assets

Tangible assets, principally computer equipment, fixtures and furniture, are capitalised and depreciated by equal annual instalments over their estimated useful lives.

Leased Assets

Assets held under finance leases are capitalised at their fair market value. Commitments under these leases are included within amounts owed to credit institutions.

Pension Costs

Charges in respect of employers' contributions to defined benefit schemes are calculated on a basis which spreads the costs over the service lives of scheme members. Contributions in respect of defined contribution schemes are recognised when incurred.

Notes on the Financial Statements

1 Segmental Analysis

Long-term Business including Investment Products	New Business Single 1997 £m	New Business Single 1996 £m	New Business Regular 1997 £m	New Business Regular 1996 £m	Gross premiums written 1997 £m	Gross premiums written 1996 £m	Operating profit (including averaged investment gains) 1997 £m	Operating profit (including averaged investment gains) 1996 £m
Continuing operations								
Prudential UK								
Pensions	715	611	197	185	2,057	1,623	160	137
Life and annuity	2,710	2,829	63	61	3,591	3,655	226	193
Investment products	215	129	70	57	348	254	(24)	(7)
Total Prudential UK	3,640	3,569	330	303	5,996	5,532	362	323
Jackson National Life	2,914	2,462	37	42	3,340	2,928	367	328
Prudential Asia								
Long-term business	226	88	120	103	653	466	20	20
Development expenses	–	–	–	–	–	–	(9)	(8)
Total Prudential Asia	226	88	120	103	653	466	11	12
Australia and New Zealand	396	428	55	57	657	663	30	14
Total continuing operations	7,176	6,547	542	505	10,646	9,589	770	677
Discontinued operations	101	781	6	91	131	1,383	–	101
Group total	7,277	7,328	548	596	10,777	10,972	770	778
Analysed between:								
Insurance	6,941	7,065	478	537	10,306	10,583	794	785
Investment products	336	263	70	59	471	389	(24)	(7)
	7,277	7,328	548	596	10,777	10,972	770	778

Analysis of Long-term Business Result per Technical Account	Profit (including actual investment gains) 1997 £m	Profit (including actual investment gains) 1996 £m
Prudential UK	363	323
Jackson National Life	377	300
Prudential Asia	11	12
Australia and New Zealand	40	14
Discontinued operations	–	81
Result before tax	791	730
Tax	(246)	(214)
Result per technical account	545	516

General Business	Gross premiums written 1997 £m	Gross premiums written 1996 £m	Underwriting result 1997 £m	Underwriting result 1996 £m	Investment return 1997 £m	Investment return 1996 £m	Operating profit (including averaged investment gains) 1997 £m	Operating profit (including averaged investment gains) 1996 £m
Continuing operations								
Prudential UK								
Home	268	259	14	39	32	29	46	68
Motor	38	44	(5)	(3)	10	10	5	7
Total continuing operations	306	303	9	36	42	39	51	75
Discontinued operations	–	304	(20)	(17)	20	98	–	81
Group total	306	607	(11)	19	62	137	51	156

Analysis of General Business Result per Technical Account	Profit (including actual investment gains) 1997 £m	Profit (including actual investment gains) 1996 £m
Prudential UK	68	68
Discontinued operations	–	89
Result per technical account	68	157

The geographical analyses of long-term business and general business premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different.

Other Activities	Operating profit (including averaged investment gains) 1997 £m	1996 £m
Investment return including averaged investment gains	159	43
Investment management result	44	35
Corporate expenditure	(32)	(24)
Interest payable	(75)	(61)
Banking	(22)	(54)
Group total	74	(61)

Reconciliation to Non-technical Account	1997 £m	1996 £m
Operating result including averaged investment gains (as above)	74	(61)
Profit on business disposals	18	797
Adjustment from averaged to actual investment gains	14	(9)
Reclassification of shareholder reserves of Australian operation	204	–
Profit included in non-technical account	310	727

Summary of Operating Profit by Activity	1997 £m	1996 £m
Continuing operations:		
Long-term business	770	677
General business	51	75
Other activities	74	(61)
Operating profit	895	691
Discontinued operations	–	182
Group total before tax	895	873
Tax	(251)	(219)
Group total after tax	644	654

Net Assets

A segmental analysis of the fund for future appropriations and the technical provisions net of reinsurance is set out below which, although liabilities, provide a more useful indication than net assets of the assets supporting the business.

Analysis of Fund for Future Appropriations and Net Technical Provisions	1997 £m	1996 £m
Fund for future appropriations:		
Scottish Amicable Insurance Fund of Prudential Assurance Company (closed to new business and wholly attributable, but not allocated, to policyholders)	2,248	
Other Group companies (principally the with-profits fund of Prudential Assurance Company)	17,053	13,485
	19,301	13,485
Technical provisions (net of reinsurance)	80,069	59,150
	99,370	72,635
Comprising:		
Prudential UK	76,963	52,275
Jackson National Life	18,032	15,367
Prudential Asia	1,314	1,342
Australia and New Zealand	3,061	3,460
Discontinued operations	–	191
Group total	99,370	72,635

Analysis of Shareholders' Capital and Reserves	1997 £m	1996 £m
Prudential UK	377	210
Jackson National Life	1,300	1,017
Prudential Asia	46	38
Australia and New Zealand	223	70
Prudential Portfolio Managers	50	49
Retained centrally	1,823	2,027
Discontinued operations	–	14
	3,819	3,425
Central borrowings	(1,036)	(668)
Group total	2,783	2,757

In the analysis of shareholders' capital and reserves, no interest is recognised in respect of the unattributed assets held within the main UK with-profits fund of Prudential Assurance Company.

2 Jackson National Life

The results of Jackson National Life are consolidated into the Group accounts based on US Generally Accepted Accounting Practices (US GAAP). However, certain adjustments are made to the US GAAP results to comply with the Group's accounting policies, principally:
(i) For Group reporting purposes, all fixed income securities are carried at amortised cost subject to provisions for permanent diminutions in value. Under US GAAP, fixed income securities classified as 'available for sale' are carried at market value with movements in unrealised gains and losses, including related changes in deferred acquisition costs and applicable tax, recognised as movements in shareholders' reserves.
(ii) For the purposes of determining Group operating profit, realised investment gains and losses are recognised on a five year averaged basis. Under US GAAP, these items are not included in operating income but are included in profit before tax.
(iii) Under US GAAP, deferred tax provisions are generally established in respect of all timing differences whereas, under UK SSAP 15, provision is made only for timing differences which are expected to reverse in the foreseeable future.
Reconciliations between the US GAAP and Group reporting bases are shown below.

Profit Before Tax	1997 US $m	1996 US $m	1997 £m	1996 £m
US GAAP operating income	538	450	328	288
Averaged investment gains	64	62	39	40
Operating profit per Group accounts	602	512	367	328
Adjustment from averaged to actual investment gains	16	(44)	10	(28)
Profit before tax per Group accounts and per US GAAP	618	468	377	300
Shareholders' Funds				
US GAAP shareholders' funds	2,615	2,014	1,589	1,177
Investment value and related adjustments	(379)	(151)	(230)	(88)
Deferred tax asset eliminated	(161)	(212)	(98)	(124)
Other adjustments	64	89	39	52
Shareholders' funds per Group accounts	2,139	1,740	1,300	1,017
Exchange rates used for translation were:				
Average rate for the year for profit before tax			1.64	1.56
Year end rate for shareholders' funds			1.65	1.71

3 Investment Income

	Long-term business 1997 £m	Long-term business 1996 £m	Non-technical account 1997 £m	Non-technical account 1996 £m
Income from:				
Land and buildings	509	496	–	2
Listed investments	3,704	3,357	89	92
Other investments	493	628	78	35
	4,706	4,481	167	129
Gains on the realisation of investments	1,505	1,452	55	63
Total	6,211	5,933	222	192

4 Policyholder Bonuses

Bonuses added during the year are included in the change in long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £2,606m (£1,959m).

5 Net Operating Expenses

	Long-term business 1997 £m	Long-term business 1996 £m	General business 1997 £m	General business 1996 £m
Acquisition costs	706	723	39	52
Change in deferred acquisition costs	(145)	(144)	1	(3)
Administrative expenses	446	468	43	52
Reinsurance commissions and profit participation	3	128	–	52
Total	1,010	1,175	83	153

6 Investment Expenses and Charges

	Long-term business 1997 £m	Long-term business 1996 £m	Non-technical account 1997 £m	Non-technical account 1996 £m
Interest on loans	18	15	75	61
Investment management expenses	241	254	3	6
Total	259	269	78	67

7 Tax

Tax Charged to the Long-term Business Technical Account and the Non-technical Account	Attributable to long-term funds 1997 £m	1996 £m	Attributable to shareholders' profits 1997 £m	1996 £m
UK corporation tax	**139**	158	**16**	12
Double tax relief	**(11)**	(22)	**(10)**	(12)
Tax on franked investment income	**155**	112	**2**	4
Overseas tax	**213**	162	**76**	(27)
Prior year adjustments	**53**	(22)	**(23)**	(4)
	549	388	**61**	(27)
Deferred tax	**31**	(39)	**25**	20
	580	349	**86**	(7)
Tax credit attributable to balance on the long-term business technical account	**–**	–	**246**	214
Total	**580**	349	**332**	207
Analysed between:				
Tax on operating profit	**–**	–	**251**	219
Tax on adjustment from averaged to actual investment gains	**–**	–	**28**	(12)
Tax on reclassification of shareholders reserves of Australian operation	**–**	–	**53**	–
Total	**–**	–	**332**	207

Deferred Tax	Liability provided (asset recognised) 1997 £m	1996 £m	Liability not provided (asset not recognised) 1997 £m	1996 £m
Deferred acquisition costs	**343**	295	**–**	–
Short-term timing differences	**(196)**	(162)	**(94)**	(144)
Long-term business reserves	**–**	–	**88**	82
General insurance technical provisions	**–**	–	**(10)**	(12)
Capital allowances	**(1)**	(8)	**(2)**	(1)
Closure cost provisions	**(4)**	(5)	**–**	–
Unrelieved losses	**–**	–	**–**	(21)
Unrealised gains on investments	**307**	–	**2,203**	1,775
Total	**449**	120	**2,185**	1,679

8 Acquisitions and Disposals

On 26 March 1997 the Group acquired the New Zealand Insurance Life Limited (NZI Life) from General Accident for £72m (inclusive of acquisition costs).

On 30 September 1997, under a scheme pursuant to Section 49 of, and Part I of Schedule 2c to, the Insurance Companies Act 1982, the business of Scottish Amicable Life Assurance Society (SALAS) was transferred to a subsidiary company, The Prudential Assurance Company Limited (PAC).

Existing policies and policy assets of SALAS were transferred to PAC's long-term fund. In effecting the transfer a separate sub-fund, the Scottish Amicable Insurance Fund (SAIF), was established within PAC's long-term fund. This sub-fund contains all the with-profits business and all other pension business that was transferred from SALAS. This sub-fund is closed to new business. With the exception of amounts in respect of unitised with-profits life business, all future surpluses arising in the with-profits fund of SAIF are retained for existing SAIF with-profits policyholders.

In addition to the transactions described above, the PAC with-profits fund has, as part of the transfer arrangements under the scheme, purchased the non-participating and linked life business of SALAS at 30 September 1997, plus the expected future profits (on a 'charges less expenses' basis) emerging from unitised with-profits life business in SAIF for £276m. In aggregate the assets, liabilities and reserves of the Group (and PAC's) long-term funds are unaffected by the transfer. However, as a result of the transfer, the SAIF fund for future appropriations increased by £276m with a corresponding decrease in the fund for future appropriations of the PAC with-profits fund.

Net assets of £12,478m covering the net long-term business provision of £9,693m and the fund for future appropriations of £2,785m were transferred from SALAS to PAC.

Except as described in the first table on page 67, no adjustment to previous book values for accounting policy changes or fair value adjustments were required.

Excluding policyholder assets and liabilities retained within SAIF, and the additional purchase by the PAC with-profits fund as described earlier, the effect of the transactions, which have been accounted for as acquisitions, was:

	Book value before acquisition £m	Fair value adjustments £m	Fair value at acquisition £m
Investments in associated undertakings	43	–	43
Net assets held in long-term business operations (note i)	13	66	79
Other assets	11	–	11
Net assets acquired	67	66	133
Fair value of consideration including costs of acquisitions (note ii):			
Cash paid to SALAS policyholders			600
Cash paid to SAIF			70
Other (principally consideration relating to acquisition of NZI Life)			80
			750
Purchased goodwill:			
Shareholders (charged to retained profit)			432
Long-term fund (charged to fund for future appropriations)			185
			617

Notes:

(i) The fair value adjustment of £66m shown above is for the estimated shareholders' accrued interest in surpluses expected to emerge on business in force of acquired subsidiaries.

(ii) The PAC with-profits fund provided £185m of the total consideration.

The long-term business technical account includes the following amounts in respect of these operations:

Long-term Business	NZI Life £m	Scottish Amicable £m	Total £m
Gross premiums written	45	378	423
Earned premiums, net of reinsurance	44	377	421
Investment income	38	227	265
Unrealised gains on investments	8	(123)	(115)
Claims incurred, net of reinsurance	(45)	(567)	(612)
Change in other technical provisions, net of reinsurance	(18)	(426)	(444)
Net operating expenses	(13)	(47)	(60)
Investment expenses and charges	(1)	(5)	(6)
Tax attributable to the long-term business	(10)	(17)	(27)
Transfers from the fund for future appropriations	–	580	580
Technical result after tax	3	(1)	2

Prior to acquisition, SALAS was a mutual society and accordingly its technical result after tax was nil.

On 5 November 1997 the Group sold its Italian operation, Prudential Vita, to Royal Sun Alliance for £43m, net of expenses. The profit on disposal of £18m takes account of £14m in respect of net assets at the date of disposal, and in accordance with FRS3, a further £11m for goodwill written off to reserves on acquisition.

9 Information on Staff

The average numbers of staff employed by the Group during the year were:

	1997	1996
Prudential UK	17,265	16,487
Jackson National Life	1,293	1,159
Prudential Asia	1,155	979
Australia and New Zealand	1,303	938
Prudential Portfolio Managers	1,104	1,095
Discontinued operations	–	1,529
Group total	22,120	22,187

The costs of employment were:

	1997 £m	1996 £m
Wages and salaries	488	524
Social security costs	39	40
Other pension costs (see page 68)	33	34
Group total	560	598

Notes on the Financial Statements

The Group operates a number of pension schemes around the world. The largest scheme is the Group's main United Kingdom scheme which covers approximately 70% of members of all Group pension schemes. This scheme is of the defined benefit type with scheme assets held in separate trustee administered funds and was last valued as at 5 April 1996 by a qualified actuary who is an employee of the Group. The projected accrued benefits method was used and the principal actuarial assumptions adopted were investment return 8.5% per annum, pensionable earnings growth 7% per annum, increases to pensions in payment 4.5% per annum and dividend growth 4.5% per annum. The market value of scheme assets at that date was £3,275m and the actuarial value of the assets was sufficient to cover 116% of the benefits that had accrued to members, allowing for expected future increases in earnings. As a result of the actuarial valuation, the employer's contribution rate was increased to 8.8% of pensionable earnings. £5m (£6m) of the pension costs related to overseas schemes.

10 Directors' Remuneration

Information on directors' remuneration is given in the Remuneration Committee Report on pages 44 to 50.
No director had an interest in shares, transactions or arrangements which requires disclosure, other than those given in the above Report.

11 Fees Payable to Audit Firms

Fees payable to the auditors in respect of the statutory audit were £2.0m (£2.0m) including £0.1m (£0.1m) for the statutory audit of the Company.
Further fees payable to Price Waterhouse were:

	1997 £m	1996 £m
Audit related services:		
Regulatory returns and achieved profits basis audits	0.5	0.3
Tax and accounting advice	0.5	0.7
Acquisitions and disposals	0.7	2.5
Consultancy services	0.8	0.5
Total	2.5	4.0

Included in the above total are fees of £1.9m (£3.3m) for work performed in the United Kingdom.

12 Land and Buildings

	1997 £m	1996 £m
Current value:		
Freehold	4,084	3,077
Leasehold with a term of over 50 years	2,089	1,617
Leasehold with a term of less than 50 years	140	123
Total	6,313	4,817

The cost of land and buildings was £4,338m (£3,263m). The value of land and buildings occupied by the Group was £144m (£57m).

13 Investments in Participating Interests

	Cost		Carrying value	
	1997 £m	1996 £m	1997 £m	1996 £m
Interests in associated undertakings	156	5	61	3
Other participating interests	10	–	10	
Total	166	5	71	3

Movement in Interests in Associated Undertakings	Share of capital 1997 £m	Share of reserves 1997 £m	Share of investment 1997 £m
Profit for the year after taxation	–	2	2
Exchange movements	–	(1)	(1)
Dividends received	–	(1)	(1)
Additions	29	32	61
Other reserve movements	–	(3)	(3)
Movement in interests in associated undertakings	29	29	58
Balance at beginning of year	1	2	3
Balance at end of year	30	31	61

The associated companies included above were:	Class of shares	Proportion held	Country of incorporation
Berjaya Prudential Assurance Berhad	Ordinary	30.0%	Malaysia
St James's Place Capital plc	Ordinary	26.3%	England and Wales

All investments in associated undertakings are held by a subsidiary company. St James's Place Capital plc is listed on a recognised investment exchange. The other associate and other participating interests are not listed. The principal activity of these companies is the transacting of insurance business.

14 Other Financial Investments

	Cost 1997 £m	Cost 1996 £m	Current value 1997 £m	Current value 1996 £m
Shares and other variable yield securities and units in unit trusts	21,798	15,201	45,999	32,866
Debt securities and other fixed income securities – carried at market value	16,265	10,364	17,847	10,959
Debt securities and other fixed income securities – carried at amortised cost	15,538	14,157	15,572	14,208
Loans secured by mortgages	1,582	1,052	1,655	1,042
Loans to policyholders secured by insurance policies	591	532	591	532
Other loans	98	43	98	43
Deposits with credit institutions	3,420	2,412	3,420	2,412
Other	154	139	153	138
Total	59,446	43,900	85,335	62,200

Amounts included in the above ascribable to listed investments were:	1997 £m	1996 £m
Shares and other variable yield securities and units in unit trusts	45,734	32,675
Debt securities and other fixed income securities – carried at market value	16,347	9,256
Debt securities and other fixed income securities – carried at amortised cost	13,032	12,388
Total	75,113	54,319

The market value of debt securities and other fixed income securities valued at amortised cost was £15,888m (£14,470m). For those debt securities and other fixed income securities valued at amortised cost where the maturity value exceeded purchase price, the unamortised difference at the year end was £170m (£145m); where the purchase price exceeded the maturity value, the difference was £nil (£2m).

15 Assets Held to Cover Linked Liabilities

	Cost 1997 £m	Cost 1996 £m	Current value 1997 £m	Current value 1996 £m
Assets held to cover linked liabilities	6,239	5,782	9,911	6,948

Current value includes £2,733m (£2,186m) in respect of managed funds.

16 Share Capital and Share Premium

The authorised share capital of the Company is £120m comprising 2,400,000,000 shares of 5p each.

Issued shares of 5p each fully paid	Number of shares	Share capital 1997 £m	Share premium 1997 £m
At beginning of year	1,923,800,706	96.2	131.4
Shares issued under share option schemes	12,077,633	0.6	26.0
Shares issued in lieu of cash dividends	3,110,811	0.2	17.0
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	–	(17.0)
At end of year	1,938,989,150	97.0	157.4

At 31 December 1997 there were options subsisting under share option schemes to subscribe for 35,110,240 (43,141,344) shares at prices ranging from 150 pence to 505 pence (150 pence to 359 pence) and exercisable by the year 2005 (2005).
The Company has established a trust to facilitate the delivery of shares under employee incentive plans. At 31 December 1997, 6.6m Prudential Corporation shares with a market value of £48.4m were held in the trust. The arrangements for distribution of shares held in the trust to employees and for entitlement to dividends depend upon the particular terms of each incentive plan. The costs of share awards under the plans are charged to the profit and loss account over the period of service to which awards are made. Shares held in the trust are conditionally gifted to employees.

17 Group Profit and Loss Account Reserve

	1997 £m	1996 £m
At beginning of year	2,530	1,537
Retained profit for the financial year	467	1,075
Exchange movements	(43)	(138)
Goodwill (charged on acquisitions) reversed on disposals	(442)	38
Transfer from share premium in respect of shares issued in lieu of cash dividends	17	18
At end of year	2,529	2,530

18 Long-term Business Provision

The principal valuation methods and assumptions are as follows:

(i) Prudential UK and Prudential Asia
The main relevant products are with-profits deposit administration, other unitised and non-unitised with-profits contracts and non-profit pension annuities in course of payment. The calculation of the provision is based on fund value in the case of deposit administration and unitised contracts and the net premium method for non-unitised contracts. No explicit provision is made for future bonuses but the provision includes the cost of bonuses added following the valuation at the end of 1997. The assumed interest rates for UK with-profits contracts valued by the net premium method range from 3%-5% whilst the rates of interest for pension annuities in course of payment range from 6%-6.75%. Mortality rates are based on published tables suitably adjusted to reflect actual experience.

Notes on the Financial Statements

(ii) Jackson National Life
The main relevant products are interest sensitive deferred annuities and whole life contracts, guaranteed investment contracts, equity linked indexed deferred annuities and term assurances. The interest sensitive and guaranteed investment products are valued at policyholder account value. Equity linked indexed deferred annuities are valued at a basic liability equal to the policyholder guaranteed account value. Options are purchased which match very closely the liabilities arising from any excess of indexed values over guaranteed values, and the valuation of these options matches the valuation of the additional liabilities relating to any such excess. The term assurances are valued on a net premium method, with allowance made for discontinuances and claim expenses. Mortality rates are based on published tables suitably adjusted to reflect actual experience. Rates of interest vary between 6.0% and 9.5%.

(iii) Australia
The main relevant products are with-profits whole life assurances, interest sensitive and risk premium contracts. There is also a portfolio of fixed-term annuities. The calculation of the provision is based on the Margin on Services method. The provision is calculated using a gross premium valuation method incorporating planned margins to ensure that no profit is credited at issue.

19 Borrowings

	1997 £m	1996 £m
Debenture loans (unsecured)		
DM300m 6% Guaranteed Notes 1997	–	114
SF200m 4.75% Guaranteed Bonds 1998	84	87
US$300m 8.25% Guaranteed Bonds 2001	182	175
US$250m 7.125% Bonds 2005	152	146
£150m 9.375% Guaranteed Bonds 2007	150	150
US$250m 8.15% Surplus Notes 2027	152	–
£100m 8.5% undated subordinated Guaranteed Bonds	100	–
Total debenture loans	820	672
Currency translation liability (asset) on swap transaction	2	(4)
Bank loans and overdrafts repayable on demand	308	39
Commercial paper 1998	166	–
Secured senior and subordinated debt issued by investment subsidiaries managed by Prudential Portfolio Managers	58	–
Total borrowings	1,354	707
Comprising:		
Holding company and finance subsidiaries	1,002	668
Other central companies	34	–
Total central borrowings	1,036	668
Long-term business operations	260	39
Investment subsidiaries managed by Prudential Portfolio Managers	58	–
	1,354	707
Borrowings are repayable as follows:		
Within one year or on demand	560	153
Between one and two years	–	83
Between two and five years	182	175
After five years	612	296
	1,354	707

Notes:

(i) The DM300m loan was repaid on maturity in May 1997 from the Group's cash resources.
(ii) At 31 December 1997 the SF200m loan had been swapped into US$141m.
(iii) The Company's debenture loans comprised the US$250m 7.125% Bonds 2005.
(iv) In January 1998 the Company issued £300m 6.875% Bonds 2023 the proceeds of which were used to repay the SF200m loan and related swap transaction which matured that month and certain short-term borrowings.
(v) Under the terms of the Group's arrangements with its main United Kingdom banker, the bank has a right of set off between credit balances (other than those of long-term funds) and all overdrawn balances of those Group undertakings with similar arrangements.
(vi) Borrowings of long-term business operations comprised:

	1997 £m	1996 £m
US$250m 8.15% surplus notes 2027 issued by Jackson National Life	152	–
£100m 8.5% undated subordinated Guaranteed Bonds issued by Scottish Amicable Finance plc (a subsidiary of the Scottish Amicable Insurance Fund of Prudential Assurance Company)	100	
Bank overdrafts	8	39
	260	39

(vii) The senior debt issued by investment subsidiaries managed by Prudential Portfolio Managers is secured on the investments held by the relevant subsidiaries.
(viii) Amounts owed to credit institutions included £867m of obligations of Jackson National Life under sale and repurchase agreements.

20 Investments of the Company

	Shares in subsidiary undertakings 1997 £m	Loans to subsidiary undertakings 1997 £m
At beginning of year	360	1,148
Investment in subsidiary undertakings	2,282	–
Exchange rate movements	–	7
Advances of new loans	–	12
Repayments of loans	–	(19)
At end of year	2,642	1,148

21 Profit of the Company

The profit of the Company for the year was £254m (£1,715m). After dividends of £370m (£332m) and a transfer from the share premium of £17m (£18m) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 1997 amounted to £1,577m (£1,676m).

22 Subsidiary Undertakings

The principal subsidiary undertakings of the Company at 31 December 1997 were:

	Main activity	Country of incorporation
Holborn Finance Limited Liability Company*	Investment	USA
Jackson National Life Insurance Company*	Insurance	USA
Prudential Annuities Limited*	Insurance	England and Wales
The Prudential Assurance Company Limited	Insurance	England and Wales
The Prudential Assurance Company New Zealand Limited*	Insurance	New Zealand
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
Prudential Banking plc	Banking	England and Wales
Prudential Corporation Australia Limited*	Insurance	Australia
Prudential Finance BV*	Finance	The Netherlands
Prudential Portfolio Managers Limited	Investment management	England and Wales
Scottish Amicable Life plc*	Insurance	Scotland

*owned by a subsidiary undertaking of the Company

Each undertaking has only one class of ordinary shares, all of which are held by the Group, and operates mainly in its country of incorporation.

The cumulative goodwill charged against the Group's reserves arising on acquisitions of subsidiary and associated undertakings that remain part of the Group amounted to £707m (£265m).

23 Contingent Liabilities

The Group has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom. These liabilities include the costs of redress arising from cases outside the current pensions review in the UK (including non-priority cases and cases under the Investors Compensation Scheme) which are expected to be borne by the free estate of the UK long-term fund. Until further information becomes available, it is not practicable to estimate the financial effect of these contingent liabilities.

24 Cash Flow

Reconciliation of Operating Profit to Net Cash Inflow from Operations	1997 £m	1996 £m
Operating profit before tax	895	873
Add back interest charged to operating profit	75	61
Adjustments for non-cash items:		
Tax on long-term business profits and franked investment income	(242)	(230)
General business and shareholder averaged investment gains	(55)	(58)
Decrease in general business technical provisions	(69)	(75)
Decrease in reinsurance recoverable	11	17
Depreciation	16	18
Other (principally amounts reinvested in long-term business operations)	(396)	(347)
Net cash inflow from operations	235	259

Changes in Investments Net of Financing	1997 £m	1996 £m
(Decrease) increase in cash and short-term deposits	(2,097)	964
Net purchases of portfolio investments	1,542	693
Increase in loans	(275)	–
Share capital issued	(44)	(35)
Movements arising from cash flow	(874)	1,622
Investment appreciation	81	50
Investments transferred to owner of former subsidiary	(160)	–
Investments of subsidiaries sold in year	–	(962)
Exchange translation and other	(39)	(66)
Transfer to retained profit in respect of shares issued in lieu of cash dividends	17	18
Portfolio investments net of financing at beginning of year	1,979	1,317
Portfolio investments net of financing at end of year	1,004	1,979
Represented by:		
Investments (including short-term deposits)	2,245	2,717
Cash at bank and in hand	107	157
Borrowings	(1,094)	(668)
Share capital and share premium	(254)	(227)
	1,004	1,979

Reconciliation of Portfolio Investments to Balance Sheet	1997 £m	1996 £m
General business and shareholders (as above)	2,245	2,717
Long-term business	89,403	64,300
Total portfolio investments per balance sheet	91,648	67,017

Reconciliation of Cash to Balance Sheet	1997 £m	1996 £m
General business and shareholders (as above)	107	157
Long-term business	383	188
Total cash at bank and in hand per balance sheet	490	345

Reconciliation of Borrowings	1997 £m	1996 £m
General business and shareholders (as above)	1,094	668
Long-term business	260	39
Total borrowings per note 19	1,354	707

Acquisitions and Disposals of Subsidiary Undertakings	Acquisitions 1997 £m	Disposals 1997 £m	Total 1997 £m
Net assets acquired (disposed of):			
Investment in associated undertakings	43	–	43
Other assets	11	–	11
Net assets held in long-term business operations	79	(14)	65
	133	(14)	119
Goodwill written off (credited) to reserves	432	(11)	421
Profit on disposal	–	(18)	(18)
Cash consideration (proceeds) including acquisition and disposal costs	565	(43)	522

25 Investment Return – Change of Accounting Policy to be applied to the Financial Statements for the year ending 31 December 1998

Consistent with the recommendations included within the Exposure Draft of the proposed Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in January 1998, it is intended that the accounting policy for recognition of investment return be altered in the financial statements for the year ending 31 December 1998.

Under the new policy, investment returns credited to operating results, for investments attributable to shareholders, will be determined using the longer-term rate of return. For UK equities, which represent the most significant element of the equity content of the relevant investments, the longer-term return (net of Advance Corporation Tax credits) has been taken to be 9.2%.

The intended change of accounting policy has the following effects on the results for the year ended 31 December 1997:

	Before change £m	After change £m
Total operating profit:		
Before tax	895	864
After tax	644	618
Operating earnings per share	33.3p	32.0p

The change of policy has no effect on total profit before or after tax.

Report of the Auditors on the Financial Statements

to the members of Prudential Corporation plc

We have audited the financial statements on pages 53 to 72 (including the additional disclosures on pages 46 to 50 relating to the remuneration of directors specified for our review by the London Stock Exchange) which have been prepared in accordance with the accounting policies set out on pages 61 and 62.

Respective Responsibilities of Directors and Auditors

As described on page 41, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Chartered Accountants
and Registered Auditors
London
11 March 1998

Five Year Review

Group Summary	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Results for the year					
Long-term business (including investment products)					
New business of continuing operations:					
Single	**7,176**	6,547	3,911	4,559	4,862
Regular	**542**	505	448	530	479
Premium income:					
Continuing operations	**10,646**	9,589	6,750	7,276	7,356
Discontinued operations	**131**	1,383	1,162	1,423	1,306
General business premiums written:					
Continuing operations	**306**	303	315	333	333
Discontinued operations	**–**	304	292	257	318
Operating profit					
Continuing operations:					
Long-term business	**770**	677	574	467	421
General business	**51**	75	64	92	89
Banking	**(22)**	(54)	(20)	–	–
Other activities	**65**	47	55	12	19
Interest payable	**(75)**	(61)	(68)	(59)	(59)
Income on disposal proceeds	**106**	7	–	–	–
Total continuing operations	**895**	691	605	512	470
Discontinued operations	**–**	182	199	181	154
Total operating profit	**895**	873	804	693	624
Adjustment from averaged to actual investment gains	**52**	(56)	209	(335)	311
Profit on business disposals	**18**	797	31	–	–
Reclassification of shareholder reserves of Australian operation	**204**	–	–	–	–
Total profit on ordinary activities before tax	**1,169**	1,614	1,044	358	935
Profit after tax:					
Operating profit (including post-tax averaged investment gains)	**644**	654	546	498	414
Profit for the year (including post-tax actual investment gains)	**837**	1,407	758	222	667
Shareholders' Funds and Borrowings					
Statutory basis capital and reserves:					
Employed in business operations	**1,996**	1,398	2,125	1,722	1,768
Retained centrally	**1,823**	2,027	352	318	215
	3,819	3,425	2,477	2,040	1,983
Central borrowings	**(1,036)**	(668)	(730)	(777)	(687)
Total statutory basis capital and reserves	**2,783**	2,757	1,747	1,263	1,296
Additional achieved profits basis retained profit	**4,129**	3,816	3,856	3,375	3,419
Achieved profits basis capital and reserves	**6,912**	6,573	5,603	4,638	4,715
Funds under Management (£bn)	**119**	91	82	72	76
Share statistics					
Earnings per share:					
Based on operating profit after tax	**33.3p**	34.1p	28.7p	26.3p	22.0p
Based on profit for the year after tax	**43.3p**	73.4p	39.8p	11.7p	35.4p
Dividend per share	**19.1p**	17.3p	15.7p	14.4p	13.2p
Market price at 31 December	**734p**	492p	415p	316p	361p
Average number of shares	**1,932m**	1,917m	1,905m	1,896m	1,884m

Analysis by Business Area	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Prudential UK					
Long-term business					
New business including investment products:					
Single	3,640	3,569	2,088	2,381	3,117
Regular	330	303	280	362	322
Premium income	5,996	5,532	3,986	4,197	4,845
General business premiums written	306	303	315	333	333
Operating profit:					
Long-term business	362	323	306	289	299
General business	51	75	64	92	89
Banking	(22)	(54)	(20)	–	–
Total operating profit	391	344	350	381	388
Statutory basis capital and reserves	377	210	176	172	156
Additional achieved profits basis retained profit	3,323	3,007	2,718	2,286	2,369
Achieved profits basis capital and reserves	3,700	3,217	2,894	2,458	2,525
Assets under management (£bn)	78	52	46	38	39
Jackson National Life					
Long-term business					
New business:					
Single	2,914	2,462	1,421	1,373	1,065
Regular	37	42	34	46	63
Premium income	3,340	2,928	1,895	1,880	1,578
Operating profit (including averaged realised gains)	367	328	241	154	107
US GAAP profit (including actual realised gains)	377	300	252	128	198
Statutory basis capital and reserves	1,300	1,017	866	704	632
Additional achieved profits basis retained profit	546	519	611	590	596
Achieved profits basis capital and reserves	1,846	1,536	1,477	1,294	1,228
Assets under management (£bn)	19	16	15	14	13
Prudential Asia					
Long-term business					
New business:					
Single	226	88	64	65	54
Regular	120	103	91	69	49
Premium income	653	466	323	257	206
Operating profit before development expenses	20	20	16	11	5
Development expenses	(9)	(8)	(5)	(2)	–
Net operating profit	11	12	11	9	5
Statutory basis capital and reserves	46	38	36	18	18
Additional achieved profits basis retained profit	214	209	177	142	114
Achieved profits basis capital and reserves	260	247	213	160	132
Assets under management (£bn)	1.5	1.5	1.4	1.0	0.9

Five Year Review

Analysis by Business Area	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Australia and New Zealand					
Long-term business					
New business including investment products:					
Single	**396**	428	338	740	626
Regular	**55**	57	43	53	45
Premium income	**657**	663	546	942	727
Operating profit	**30**	14	16	15	10
Statutory basis capital and reserves	**223**	70	73	66	48
Additional achieved profits basis retained profit	**46**	67	60	50	49
Achieved profits basis capital and reserves	**269**	137	133	116	97
Assets under management (£bn)	**4**	4	4	3	3
Prudential Portfolio Managers					
Funds under management:					
Internal non-linked funds (£bn)	**94**	67	60	52	52
Unit trusts and internal linked funds (£bn)	**10**	8	7	6	6
Segregated pension funds (£bn)	**13**	12	11	10	12
Discontinued operations (£bn)	**2**	4	4	4	6
Total funds under management (£bn)	**119**	91	82	72	76
Operating profit	**44**	35	32	23	23
Other operating profit					
Shareholders' investment return	**53**	36	45	12	17
Corporate expenditure	**(32)**	(24)	(22)	(23)	(21)
Interest payable	**(75)**	(61)	(68)	(59)	(59)
Income on disposal proceeds	**106**	7	–	–	–
Operating result	**52**	(42)	(45)	(70)	(63)

Achieved Profits Basis Supplementary Information Operating Profit from Continuing Operations

Results Analysis by Business Area	1997 £m	1996 £m
Prudential UK		
Long-term business:		
New business	208	202
Business in force	362	425
Total long-term business	570	627
General business	51	75
Banking	(22)	(54)
Total Prudential UK	599	648
Jackson National Life		
New business	140	120
Business in force	250	230
Total Jackson National Life	390	350
Prudential Asia		
New business	62	54
Business in force	29	41
	91	95
Development expenses	(9)	(8)
Total Prudential Asia	82	87
Australia and New Zealand		
New business	8	11
Business in force	23	10
Total Australia and New Zealand	31	21
Prudential Portfolio Managers	44	35
Other		
Shareholders' investment return	53	36
Corporate expenditure	(32)	(24)
Interest payable	(75)	(61)
Total other	(54)	(49)
Income on disposal proceeds	106	7
Total continuing operations	1,198	1,099

Review of Results

On the achieved profits basis of reporting, Group operating profit before tax was £1,198 million in 1997. Of this amount, the contribution from continuing long-term business operations was marginally down on 1996 levels at £1,073 million. Whilst profit from new business grew by eight per cent to £418 million, the result for business in force was held back by lower contributions in Prudential's UK and Asian operations.

Prudential UK

Prudential UK's long-term business result fell nine per cent to £570 million, mostly reflecting the reduction from ten per cent to nine per cent in the rate of expected long-term investment return credited to operating results and a charge of £27 million in respect of the increase in provision for pension mis-selling to £450 million announced at the 1997 interim results.

New business profit of £208 million were three per cent ahead of 1996. These were impacted by the lower sales volumes from the direct sales force in the second six months of 1997 but offset by a strong contribution from our retail IFA business and a first time contribution of £8 million from Scottish Amicable.

Jackson National Life

At Jackson National Life strong growth in contributions from both new business and business in force led to 11 per cent profit growth to £390 million. Year on year growth in local currency was 17 per cent. New business profit totalled £140 million for the year, up 17 per cent in line with the growth in sales. Profit from business in force increased by nine per cent to £250 million. Excluding the non-recurrent release in 1996 of AIDS provisions of £20 million the underlying increase was 19 per cent. The strong growth mostly reflected continued outperformance by Jackson on interest rate margins.

Prudential Asia

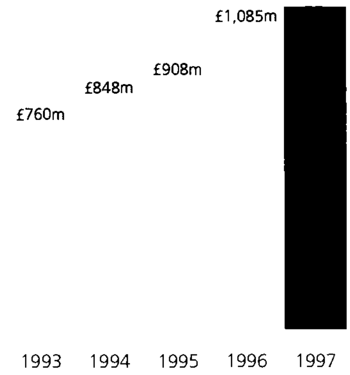
Profit from Prudential Asia was marginally down on prior year at £82 million. 1996's result however included exceptional profit of £12 million due to the reclassification of reserves within the Malaysian business. Despite increased development costs and losses from Prudential Asia's recently established operations, the underlying growth was over nine per cent with strong sales growth in Singapore driving a new business profit increase of 15 per cent.

Australia and New Zealand

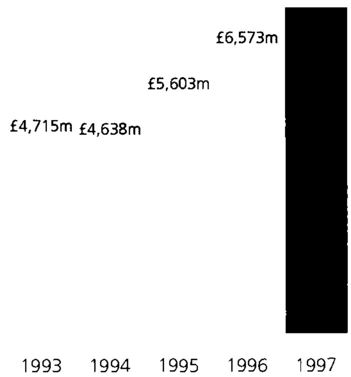
Profit from the Group's Australasian operations increased by nearly 50 per cent to £31 million. Profit from business in force more than doubled due to the investment return on the additional Australian reserves attributed to shareholders at the start of 1997. However, the contribution from new business was held back by subdued sales levels and continued expense over-runs in Australia.

Shareholders' Funds

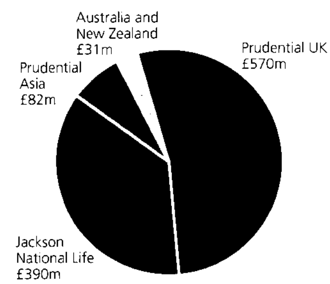
After deducting a cost of capital charge of £272 million (1996 £246 million) for Jackson National Life, total achieved profits basis shareholders' funds were £6.9 billion at the end of 1997 (1996 £6.6 billion). The increase of five per cent reflected retention of operating profit within the Group's long-term business, the attribution of Australian reserves to shareholders and the strong investment markets in the UK, offset by the impact of a lower assumption for future UK investment returns, adverse exchange rate movements and a £460 million write off of goodwill mainly from the acquisition of Scottish Amicable.



LONG-TERM BUSINESS OPERATING PROFIT – CONTINUING OPERATIONS (£M)



TOTAL ACHIEVED PROFITS BASIS – SHAREHOLDERS' FUNDS (£M)



1997 LONG-TERM BUSINESS OPERATING PROFIT – CONTINUING OPERATIONS BY BUSINESS AREA (£M)

Summarised Consolidated Profit and Loss Account – Achieved Profits Basis

Year ended 31 December 1997

	1997 £m	1996 £m
Operating profit (including investment returns based on long-term rates of investment return for long-term business)		
Continuing operations:		
Long-term business		
New business	418	387
Business in force	655	698
Total long-term business	1,073	1,085
General business	51	75
Other activities (including banking and interest payable)	74	(61)
Total continuing operations	1,198	1,099
Discontinued operations	–	182
Total operating profit	1,198	1,281
Adjustment from long-term to actual investment gains	507	65
Loss from changes to UK projected long-term rate of investment return and risk discount rate (notes 2(ii) and 3)	(184)	–
Reclassification of shareholder reserves of Australian operation (note 6)	187	–
Profit on business disposals	–	571
Profit on ordinary activities before tax (including actual investment gains)	1,708	1,917
Tax	(519)	(428)
Profit for the financial year	1,189	1,489
Dividends	(370)	(332)
Retained profit for the financial year	819	1,157

Earnings per Share – Achieved Profits Basis

Year ended 31 December 1997

	1997	1996
Operating profit after tax	£837m	£880m
Operating earnings per share	43.3p	45.9p
Total profit after tax	£1,189m	£1,489m
Total earnings per share	61.5p	77.7p
Average number of shares	1,932m	1,917m

Statement of Total Recognised Gains and Losses – Achieved Profits Basis

Year ended 31 December 1997

	1997 £m	1996 £m
Profit for the financial year	1,189	1,489
Exchange movements	(64)	(222)
Total recognised gains	1,125	1,267

Summarised Consolidated Balance Sheet – Achieved Profits Basis

31 December 1997

	1997 £m	1996 £m
Investments	91,719	67,020
Other assets	16,504	11,419
Total assets	108,223	78,439
Less liabilities	(5,597)	(2,505)
Total assets less liabilities	102,626	75,934
Less long-term business funds		
Technical provisions	80,542	59,692
Fund for future appropriations	19,301	13,485
Less shareholders' accrued interest in the long-term business	(4,129)	(3,816)
	95,714	69,361
Achieved profits basis net assets	6,912	6,573
Shareholders' capital and reserves		
Share capital and share premium	254	227
Statutory basis retained profit	2,529	2,530
Additional reserves on achieved profits basis	4,129	3,816
Achieved profits basis capital and reserves	6,912	6,573

Reconciliation of Movement in Shareholders' Capital and Reserves – Achieved Profits Basis

31 December 1997

	1997 £m	1996 £m
Total recognised gains	1,125	1,267
Goodwill charged on acquisitions of subsidiary and associated undertakings:		
Statutory basis	(442)	–
Additional charge in respect of life fund consideration for Scottish Amicable	(18)	
New share capital subscribed	44	35
Dividends	(370)	(332)
Net increase in shareholders' capital and reserves	339	970
Shareholders' capital and reserves at beginning of year	6,573	5,603
Shareholders' capital and reserves at end of year	6,912	6,573
Comprising:		
Prudential UK	3,700	3,217
Jackson National Life	1,846	1,536
Prudential Asia	260	247
Australia and New Zealand	269	137
Other operations (including net shareholders' cash)	837	1,436
Shareholders' capital and reserves at end of year	6,912	6,573

Notes on the Achieved Profits Basis of Financial Reporting

1 Basis of Preparation

The achieved profits basis results have been prepared in accordance with the draft 'Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business' issued by the Association of British Insurers in July 1995. The information is supplementary to the financial statements on pages 53 to 72.

In preparing the results for both 1997 and 1996, the Group has been advised by Tillinghast, consulting actuaries.

2 Assumptions

(i) Methodology

The achieved profits basis results incorporate best estimate forecasts of future rates of investment return, proprietor's spread (in the case of Jackson National Life), policy discontinuancies, mortality, expenses, expense inflation, taxation, bonus rates, surrender and paid up bases, and statutory valuation bases. In preparing these forecasts, account has been taken of recent experience and general economic conditions together with inherent uncertainty. It has been assumed that the bases and rates of taxation, both direct and indirect, will not change materially in the countries in which the Group operates.

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. In the UK, Department of Social Security rebate business has been treated as single premium business.

With the exception of altered UK investment returns and discount rates (as described below), the results for each period have been prepared using consistent assumptions.

(ii) Expected rates of future investment return and spread assumptions

Expected future rates of investment return reflect prevailing interest rates, the outlook for inflation and the mix of the investment portfolio. In determining the Prudential UK results for 1996, the gross of tax expected future rate of investment return was taken as 10%. For 1997, following the withdrawal of the recovery of UK dividend tax credits on pensions business and a revision to inflationary expectations, the expected future rate of investment return for the UK with-profits fund has been reduced to 9%.

For Jackson National Life, the absolute level of rates of future return is less important than the spread achieved between the earned rate and the rates credited to policyholders. In determining the results for both 1997 and 1996, a spread of 1.90% for the main single premium deferred annuity product has been assumed.

Management charges on unit linked business have been projected from smoothed unit prices.

3 Discount Rates

The shareholders' interest in the future net of tax cash flows of the long-term businesses has been discounted to present values using the following discount rates:

	1997	1996
Prudential UK	9.50%	10.25%
Jackson National Life	10.00%	10.00%

These discount rates represent the best estimate of the shareholders' long-term risk free rate of return on appropriate government securities plus a margin to allow for adverse fluctuations and the risks borne.

The unwind of the discount rate on the present value of future statutory profits is included in profit from business in force.

4 Presentation of Long-term Business Results for Investment Return

(i) Profit before tax

With the exception of fixed interest investments held by Jackson National Life, investment gains during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included in the profit for the year and shareholders' funds as they arise.

In the case of Jackson National Life, it is assumed that fixed income investments will normally be held until maturity. Therefore unrealised gains are not reflected in either the achieved profits or statutory basis results and, except on realisation of investments, only income received and the amortisation of the difference between cost and maturity values are recognised to the extent attributable to shareholders.

(ii) Operating profits

Except for Jackson National Life and discontinued operations, investment returns, including investment gains, in respect of long-term insurance business are recognised in operating results at the expected long-term rate of return. For the purposes of calculating investment return to be recognised in operating results, values of assets at the beginning of the reporting period, to which the expected long-term rates of return are applied, are adjusted to be consistent with long-term expected income yields. This adjustment is most significant for Prudential UK's business.

Notes on the Achieved Profits Basis of Financial Reporting

For Jackson National Life some investments are realised before maturity, mainly through early redemption by issuers or mortgage holders. Gains made on realisation are spread forward over five years for the purposes of calculating operating results.

For discontinued operations realised and unrealised investment gains are also spread forward over five years for the purposes of calculating operating results.

5 Solvency Capital

In determining the cost of capital, it has been assumed that Jackson National Life must retain an amount equal to 200% of the risk based capital required by the US supervisory authorities.

6 Reclassification of Shareholder Reserves of Australian Operation

Following the introduction of the new Margin on Services basis of financial reporting for Australian life insurers, the allocation between shareholders and policyholders of the life funds of Prudential Corporation Australia has been clarified by the local regulatory authority. On the new basis, after allowing for the difference between the nominal value of the solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital, shareholders' funds as at 1 January 1997 have increased by £142m. The income on these additional funds has been included in operating profit for the year and the funds now recognised (grossed up for tax to £187m) have been included in profit before tax as an exceptional item.

7 Tax

The profit for the year is in most cases calculated initially at the post-tax level. The post-tax profit is then grossed up for presentation purposes at the effective rates of tax applicable to the countries and periods concerned. For Prudential UK the effective rate has been taken as the full rate of Corporation Tax for the year concerned. For Jackson National Life the profit is calculated at the pre-tax level and the effective tax rate is that expected to be applicable on average over the remaining lifetime of the policies.

8 Foreign Currency Translation

Foreign currency revenue has been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange.

9 Discontinued Operations

Results for discontinued operations, principally Mercantile & General Reinsurance, have not been restated from those previously published on the accruals basis of reporting on the grounds that the results are not materially different.

The Achieved Profits Basis of Financial Reporting

Change from Accruals to Achieved Profits Basis

In addition to results prepared in accordance with the regulations implementing the EC Insurance Accounts Directive, Prudential previously published supplementary information on the accruals basis in accordance with the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Business' issued by the Association of British Insurers (ABI) in July 1992. More recently the ABI has issued draft guidance which integrates elements of the accruals and embedded value techniques into one reporting method, namely the achieved profits basis.

The achieved profits and accruals bases are similar in that both place a current value on the shareholders' interest in the statutory long-term business profits expected to emerge in future years from business in force. The main difference is how the two bases allow for the risk of delivering these future statutory profits (although in implementing the new method other changes have been made as described below)

Under accruals, estimates of future cash flows are reduced by the application of 'planned margins' which are incorporated into each of the significant assumptions used in the projection of future cash flows which are then discounted at the projected rate of future investent return.

Under the achieved profits basis the risk of adverse future experience is allowed for by the application of risk discount rates to projected best estimates of future statutory profits, or by using the accruals basis methodology, or by a combination of these two methods.

In applying the achieved profits basis Prudential has adopted the risk discount approach.

Comparison with Statutory Basis of Reporting

The achieved profits basis of financial reporting is based on conventional accounting principles and recognises profit as it accrues over the life of an insurance contract. Although total profit from each contract calculated under this method is the same as under the modified statutory basis of reporting used for the main accounts, the timing of recognition of profit is advanced.

The achieved profits basis can be illustrated by considering an individual contract. Using prudent best estimate assumptions of the main elements of future income and expenditure – investment return, claims, lapses, surrenders and administration expenses – the total profit expected to be earned from the contract can be estimated at the time of its sale. The total profit expected to be earned is then allocated to individual financial years by application of a discount rate which allows for both the time value of money and the risks associated with the future shareholder cash flows.

Provided that the actual outcome is in line with the original assumptions, profits will be earned in each accounting period as the discount rate unwinds. The balance of profit not allocated to future years is recognised in the year of sale and is known as the profit from new business. The unwind of the discount rate and variances between actual and assumed experience during the remainder of the contract period produce the profit on business in force.

The additional profits recognised at an earlier stage under the achieved profits method are retained within the long-term funds and are known as the shareholders' accrued interest in the long-term business.

The achieved profits basis is designed to report profits which reflect business performance during the year under review, particularly new business sales and fluctuations between actual and assumed experience.

The use of the achieved profits basis does not affect either the cash surpluses which are released to shareholders' funds from the long-term funds, which continue to be determined by the directors following statutory actuarial valuations of the funds, or amounts available for dividend payments to shareholders.

The additional profit recognised using the achieved profits basis is represented by the shareholders' accrued interest in the long-term business and, when combined with shareholders' funds reported on the statutory basis, provides an improved measure of total shareholders' funds of the Group.

The Achieved Profits Basis of Financial Reporting

Key Features of the Change from the Accruals Basis to the Achieved Profits Basis of Financial Reporting

Cost of capital

On the achieved profits basis, a charge is deducted from the annual result and the balance sheet value for the cost of capital supporting solvency requirements of the Group's long-term business.

This cost is the difference between the nominal value of solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital. No such charge arises under the accruals basis.

The annual result is impacted by the movement in this cost from year to year which comprises a charge against new business profit with a partial offset for the release of capital requirements for business in force.

Where solvency capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of solvency capital. However, where business is funded directly by shareholders, principally at Jackson National Life, the solvency capital requires adjustment to reflect the cost of that capital. The impact on Jackson National Life's shareholders' funds is as follows:

	1997 £m	1996 £m
Before capital charge	2,118	1,782
Capital charge	(272)	(246)
After capital charge	1,846	1,536

Presentation of results – investment returns

Under the accruals basis of reporting, in order to better reflect the Group's underlying performance, Prudential reported operating profit (which included averaged investment gains) as a component of total profit before tax (which included actual investment gains arising in the year). However, despite the averaging process, significant volatility could still arise in the operating profit and this could obscure the trend in underlying performance.

Accordingly, Prudential has refined its basis of allocating investment returns to operating results on the achieved profits basis. Investment returns allocated to operating results in most cases now reflect the long-term projected rates of return. These rates are set with regard to prevailing rates of interest, the outlook for inflation and the mix of the investment portfolio. In general as they reflect long-term expectations they are not expected to change materially from year to year. However, in 1997, following the withdrawal of the recovery of UK dividend tax credits on pensions business and a revision to inflationary expectations, the projected long-term rate of return on the UK with-profits business has been reduced from ten per cent to nine per cent. The pre-tax capitalised impact of the changes in the projected long-term rate of return and related discount rate of £184 million is included as a charge within profit before tax but excluded from operating profit.

For Jackson National Life the treatment of realised investment gains on the achieved profits basis has been brought into line with the policy applied for statutory reporting, and gains are recognised on a five year averaged basis.

These changes have the effect that investment returns are credited to achieved profits basis operating results on a smoother basis than under accruals.

Comparison with Previously Published Accruals Basis Results

On the achieved profits basis Group shareholders' funds at 31 December 1996 of £6.6 billion were some £750 million higher than the shareholders' funds previously reported on the accruals basis. The majority of the increase arises from the use of the risk discount rate approach rather than planned margins for UK pension business and Prudential Asia's business.

For these contracts the degree of prudence inherent in the accruals basis projections was particularly cautious.

In the case of Jackson National Life, the uplift from applying a risk discount rate approach rather than planned margins has been offset by the effect of the cost of capital charge.

Report of the Auditors on the Achieved Profits Basis Supplementary Information

to the members of Prudential Corporation plc

We have audited the supplementary information on pages 79 to 82, which has been prepared on the basis set out in note 1 on page 81 and is limited to a restatement of the Group profit and the shareholders' interest in the Group's long-term business to an achieved profits basis.

Respective Responsibilities of Directors and Auditors

As described on page 41, the Company's directors are responsible for the preparation of the supplementary information.
It is our responsibility to form an independent opinion, based on our audit, on that supplementary information and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary information and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the supplementary information.

Opinion

In our opinion, the achieved profits basis Group profit for the year ended 31 December 1997 and shareholders' interest in the long-term business at that date have been properly prepared in conformity with the methodology and disclosure requirements contained in the draft 'Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business' issued by the Association of British Insurers in July 1995.

Price Waterhouse
Chartered Accountants
London
11 March 1998

Notice of Annual General Meeting

Prudential Corporation Public Limited Company. Incorporated and registered in England and Wales.
Registered number 1397169.

Notice is hereby given that the Annual General Meeting of the Company will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Thursday 7 May 1998 at 11.00 am for the transaction of the following business:

Ordinary Business

Resolution 1	To receive and consider the Directors' Report and the Financial Statements for the year ended 31 December 1997 with the Auditors' Report thereon.
Resolution 2	To re-elect as a director Sir Peter Davis.
Resolution 3	To re-elect as a director Lord Gillmore.
Resolution 4	To elect as a director Mr A D Stewart.
Resolution 5	To re-appoint Price Waterhouse as auditors and to authorise the directors to fix the amount of their remuneration.

Special Business (An explanation of this business is given on page 52 in the Directors' Report.)
As special business, to consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

Resolution 6 THAT the Directors are hereby empowered pursuant to section 95 of the Companies Act 1985 during the period from the date of the passing of this resolution until 6 August 1999 to allot shares of 5p in the capital of the Company pursuant to the authority conferred by resolution of the shareholders on 8 May 1997 as if section 89(1) of the Companies Act 1985 did not apply to such allotment provided that this power shall be limited to the allotment of up to a maximum number of 96 million shares except:-

(a) in connection with a scrip dividend offer; and

(b) in connection with a rights issue to all shareholders where the shares attributable to the interests of those shareholders are proportionate (to the extent practicable) to the respective number of shares of 5p each held by them, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with legal or practical problems in respect of shareholders resident outside the United Kingdom, fractional entitlements or otherwise.

Resolution 7 THAT the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of shares of 5p in the capital of the Company provided that:

(a) the maximum number of shares hereby authorised to be purchased is 193 million;

(b) the maximum price which may be paid for each share is an amount equal to 105 per cent of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and the minimum price which may be paid for each share is 5p exclusive of expenses; and

(c) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the Annual General Meeting to be held in 1999.

Resolution 8 THAT the Articles of Association of the Company are hereby amended as follows:-
Article 32: the words "and exclusive of moneys borrowed by subsidiaries of the Company which are authorised institutions as defined in the Banking Act 1987" to be added after "exclusive of intra-group borrowings".

Other Matters

To deal with any other matter proper to be dealt with at the meeting not being special business.

On behalf of the Board of directors

David Green
Company Secretary
142 Holborn Bars
London EC1N 2NH
26 March 1998

Members' attention is drawn to the form of proxy accompanying this notice. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, and, on a poll, vote instead of the member; a proxy need not be a member of the Company.
The register of directors' interests kept under the Companies Act 1985, copies of the service contracts in force between the Company and executive directors, and of the Articles of Association will be available for inspection at The Queen Elizabeth II Conference Centre for at least 15 minutes prior to, and during the meeting.
These documents are also available for inspection at the registered office of the Company, at 142 Holborn Bars, London EC1N 2NH during normal business hours on any weekday (excluding Saturday and Bank Holidays).

Shareholder Information

Annual General Meeting	7 May 1998
Payment of 1997 final dividend	27 May 1998
Announcement of 1998 interim results	30 July 1998
Ex-dividend date for 1998 interim dividend	21 September 1998
Payment of 1998 interim dividend	26 November 1998

Analysis of Registered Shareholder Accounts at 31 December 1997

Size of shareholding	Number of shareholders	%	Number of shares	%
Over 10,000,000	25		520,983,004	27
1,000,001 – 10,000,000	277	1	813,433,948	42
500,001 – 1,000,000	181		128,450,185	7
100,001 – 500,000	848	1	193,875,403	10
50,001 – 100,000	570	1	41,051,077	2
10,001 – 50,000	4,447	6	87,730,578	4
5,001 – 10,000	6,899	9	48,688,335	3
1,001 – 5,000	38,379	48	88,806,809	4
1 – 1,000	27,101	34	15,969,811	1
Total	78,727	100	1,938,989,150	100

Sharedealing Facilities

Stockbrokers Cazenove & Co offer a postal sharedealing service to Prudential shareholders at competitive commission rates. For details telephone 0171 588 2828 or write to 12 Tokenhouse Yard, London, EC2R 7AN.

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Prudential Corporation Public Limited Company.
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