PRUDENTIAL

Prudential plc
Annual Report 1999

- New business achieved profits up 46 per cent at £603 million
- Record in-flow of new funds of over £18 billion
- Underlying operating profit before amortisation of goodwill up 6 per cent to £996 million
- Total dividend up 9.5 per cent to 23 pence per share
- Plans for an initial public offering of a minority stake in egg:| to be pursued*

*Legal disclaimer.

The information in this report related to the proposed egg:| flotation is not an offer of securities for sale into the United States, Canada or Japan.

The egg:| securities may not be offered or sold in the United States unless they are registered under applicable law or exempt from registration. egg:| does not intend to register any portion of the proposed flotation in the United States or to conduct a public offering of securities in the United States.

Group Financial Highlights

	1999 £m	1998 £m
Statutory operating profit (based on longer-term investment returns) before amortisation of goodwill		
Retail Insurance Operations	**479**	421
Group Pensions	**36**	22
Prudential M&G Asset Management	**87**	28
egg:| and Prudential Banking	**(150)**	(77)
UK operations	**452**	394
US operations	**451**	411
Asia	**15**	13
Europe	**6**	4
Other income and expenditure	**(78)**	38
Re-engineering costs	**(70)**	–
Total	**776**	860
Discontinued operations	**–**	8
Operating profit before amortisation of goodwill	**776**	868
Amortisation of goodwill	**(54)**	–
Short-term fluctuations in investment returns	**28**	24
Profit on business disposals	**–**	249
Profit before tax (including actual investment returns)	**750**	1,141
Earnings per share		
Based on operating profit after tax before amortisation of goodwill	**29.1p**	33.7p
Based on profit after tax – basic	**27.8p**	45.3p
Based on profit after tax – diluted	**27.7p**	45.0p
Dividend per share	**23.0p**	21.0p
Achieved profits basis shareholders' funds	**£8.3bn**	£7.5bn
Insurance and investment funds under management	**£170bn**	£128bn
Banking funds under management	**£8.1bn**	£2.2bn

Profit before tax includes actual investment returns. The company believes that operating profit, which is based on longer-term investment returns, before amortisation of goodwill better reflects the group's underlying performance.

PRUDENTIAL

egg:| Individual Money Matters

egg:| was launched in October 1998 and has become established as a household name. It is the UK's leading financial services e-commerce brand. egg|: provides competitive, customer friendly savings, loan and other products.

Scottish Amicable

Scottish Amicable was acquired by Prudential in 1997. With two million customers, it is Prudential's leading Independent Financial Adviser (IFA) brand. It is committed to supporting advisers through a combination of high levels of service and a strong product range.

PRUDENTIAL

Prudential's operations in the UK comprise Prudential Retail, Life and Pensions, General Insurance and Prudential Annuities. Prudential Retail provides high quality advice to six million customers requiring a broad range of financial products including life insurance, pensions and savings plans.

PRUDENTIAL

Prudential Group Pensions provides employer sponsored pension schemes to over 500,000 people in the UK. Working with many of the country's leading companies, its new e-commerce platforms put it at the forefront of developments in the industry.

PPM

Prudential Portfolio Managers (PPM) manages £145 billion worldwide, mostly on behalf of Prudential's internal clients. Its primary fund is Prudential's UK Life Fund – the largest such fund in the UK.

M&G

M&G was founded in 1931 and was acquired by Prudential in 1999. It has £21 billion funds under management and is the largest retail unit trust manager in the UK. Its products include unit trusts, ISAs and investment trusts.

Prudential plc, through its businesses in Europe, the US and Asia, provides retail financial products and services and fund management to many millions of customers worldwide.

Our commitment to the shareholders who own Prudential is to maximise the value over time of their investment. We do this by investing for the long term to develop and bring out the best in our people and our businesses to produce superior products and services, and hence superior financial returns. Our aim is to deliver top quartile performance within the FTSE 100 in terms of total shareholder returns.

At Prudential our aim is lasting relationships with our customers and policyholders, through products and services that offer value for money and security. We also seek to enhance our company's reputation, built over 150 years, for integrity and for acting responsibly within society.

PRUDENTIAL

Prudential Europe has formed strategic alliances with CNP Assurances, France's largest life company, and Signal Iduna, one of Germany's leading life and health insurers. The agreements cover the provision of co-branded products and the potential to access distribution networks for each company, in France, Germany and the UK.

Jackson National Life Insurance Company

Jackson National Life (JNL) was acquired by Prudential in 1986 and is one of the leading writers of individual life insurance and annuities in the US, providing products and services in all 50 states. It employs 1,700 people and distributes its products through independent agents, broker dealers and financial institutions.

PRUDENTIAL 英国保诚保险

Prudential Corporation Asia (PCA) has operations in 11 countries in Asia. Its 20,000 managers, staff and agents develop and sell a range of insurance and investment products tailored to the needs of each local market.

Chairman's Statement

I am pleased to announce very good results with new business achieved profits (our key indicator of value added for our long-term insurance business) up 46 per cent and a record in-flow of new funds of over £18 billion. Growth in our UK businesses has been strong, Jackson National Life in the US has put in another impressive performance and our Asian business has continued its rapid growth. Given our confidence in the business, the Board has decided to increase the total dividend by 9.5 per cent to 23.0 pence per share.

We have risen to the challenges which the increasingly competitive environment presents: we have increased our product range, expanded our distribution capabilities hugely, grown our business in the UK and the US and taken it further into Asia.

This year we acquired M&G Group P.L.C. (M&G) – perhaps the most highly regarded name in the retail unit trust field. We have successfully integrated M&G with the rest of the UK business and are capitalising on the synergies that exist between it and our other operations.

Our move into mainland Europe, with the announcement of our new partnership agreements with CNP Assurances in France and Signal Iduna in Germany, is also significant. This provides us with a foothold in markets that will be of increasing importance over the coming years.

In just over a year, egg:|, our internet bank, has become established as the UK's leading e-commerce provider of financial services and the brand has become a household name. This is a fine achievement.

The arrival of Stakeholder Pensions in the UK next year is a further change which will benefit people who traditionally have had difficulty accessing a suitable pension. The internet will also grow in its reach and effect. It is already bringing transparency to all markets. Our task is to respond to customer needs more readily than ever before.

There have been, of course, the issues associated with the mis-selling of personal pensions in the UK, which affected the whole industry and are not yet fully behind us. Rectifying cases has absorbed considerable resource in 1999; there has been an increase in provision for future costs of £0.6 billion and an increase in cumulative costs paid to date of £0.1 billion. We now estimate the total cost of pension mis-selling to be £2 billion. We are determined to do whatever is required to ensure that none of our customers lose out and that such a situation will not happen again.

The scale and pace of change and the success of the company would not have been possible without the professionalism, dedication and sheer energy of our staff around the world. My sincere thanks are due to all of them and my best wishes for the future go with them.

At this year's Annual General Meeting we shall be bidding farewell to Michael Abrahams, a director since 1984 and Deputy Chairman since 1991. He leaves with our sincere thanks and best wishes.

I would also like to pay tribute to David Gillmore who died early in the year. Lord Gillmore served on the Board for four years and in that time he made an invaluable contribution to the company especially through his extensive knowledge of Asia.

I have been pleased to welcome to the Board several new members: Bridget Macaskill, Chief Executive Officer of OppenheimerFunds Inc., Rob Rowley, Finance Director of Reuters Group plc, and Mark Tucker, Chief Executive of Prudential Corporation Asia. More recently I welcomed Sir Roger Hurn as a director. I am sure that they will all make a valuable contribution to our activities.

Finally, I want to pay tribute to Sir Peter Davis who has been Group Chief Executive of Prudential for the past five years and who has led a remarkable transformation within the company. I welcome Jonathan Bloomer as his successor. Jonathan, as Finance Director and more recently as Deputy Group Chief Executive, has worked closely with Peter since 1995 on the development of our strategy. I will retire at this year's Annual General Meeting in May and am delighted that Sir Roger Hurn has agreed to succeed me as Chairman. I have every confidence that the company is in safe hands and that it is well equipped to meet the challenges of the future.

Sir Martin Jacomb
Chairman

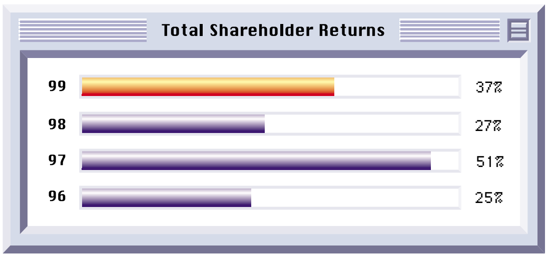
‘We have increased our product range, expanded our distribution capabilities hugely, grown our business in the UK and the US and taken it further into Asia.’

Sir Martin Jacomb, Chairman

‘All parts of the group are making rapid progress in making e-commerce integral to the way we do business.’

Jonathan Bloomer, Group Chief Executive

Group Chief Executive's Review



Over the past 12 months we have made considerable progress towards delivering our strategic objectives in the UK, the US, Asia and Europe. We have taken forward our programme of restructuring and re-engineering our existing operations while investing and developing new businesses. This strategy has helped us to maintain our leadership position in a rapidly changing financial services sector. By harnessing new technology we have been able to maximise development and efficiencies across all areas of our business. This focus on technology gives our customers better access to our business, higher levels of customer service and drives down unit costs.

These developments, coupled with our diversified product range and increased distribution capability, have resulted in a record in-flow of more than £18 billion of new funds in 1999.

In the UK we have made important progress in developing new business models for our retail insurance business and in growing our Independent Financial Adviser operations. We bought M&G Group P.L.C. (M&G) and are integrating it successfully with Prudential Portfolio Managers (PPM) in the UK. We believe that the global trend towards increased sales of investment products will continue and this move allows us to focus on those areas of fund management where we have unique strengths and competitive advantage: unit trusts, fixed income and pooled life and pension funds. This acquisition has increased the group's retail fund management presence greatly and since acquisition M&G has produced a 20 per cent increase in sales over the equivalent prior year period.

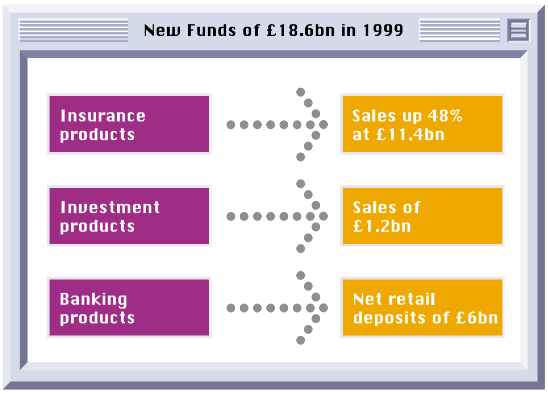
We have been delighted with the progress of egg:|. Since its launch in 1998, egg:| has become established as a household name and one of the UK's most recognised e-commerce brands.

We continue to invest in egg:|. To enhance the future development of this business and to maximise long-term value for our shareholders, we have decided to pursue a plan for an initial public offering (IPO) of a minority stake in egg:| subject to continuing progress in the business and favourable market conditions. It is currently intended that an IPO would take place later this year.

We are determined to do all that we can to accelerate the growth of egg:| and consolidate its UK market position as the leading internet financial services provider. In order to do this we need to be able to attract outstanding talent, create a currency for purchasing other internet properties and services, increase the transparency of the business and increase accountability. An IPO represents the most effective way of achieving those objectives.

Internationally we have extended our reach. 1999 has been a significant year for our Asian operations. We are the first UK company to be granted life licences in China and Vietnam; we have also made a major acquisition in Taiwan and signed a significant joint venture agreement in Hong Kong. In the US, Jackson National Life continues its strong performance with record sales and profits. At the end of 1999, we formed Prudential Europe and secured strategic alliances in France and Germany, giving us footholds in markets with considerable growth potential.

We continue to make good progress in implementing our managing for value programme across the group. Each business has clear value creation goals with management reward based upon their delivery.



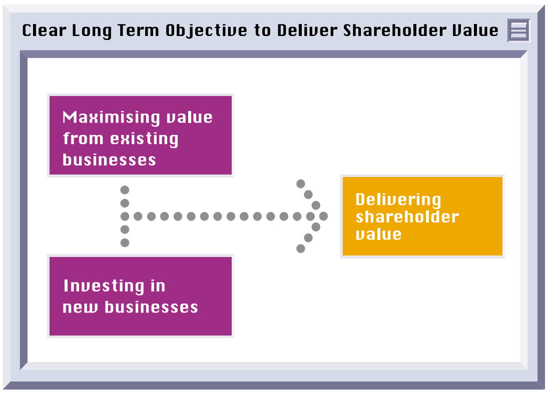
Our industry is going through dramatic change. In the areas of the world in which we are operating we are witnessing rapid consolidation. We have been changing too and are now a very different company from the one I joined five years ago. I believe that we will need to change, to at least the same extent, over the next five years.

One of the most powerful and potent forces of change is our customers. They are taking charge of their own futures in a very visible way. They know that they have to make provision for their own financial security and are tackling the task with energy and intelligence. They need and want value-for-money products which work for them. This puts the onus on us to deliver products which perform, which meet consumers' needs and which are very easy to understand. We know that our customers can shop around and that they will do so unless we offer the best products and services at the right price.

Not at all surprisingly, governments are very supportive of consumers taking responsibility for their finances. In the UK this has, this year, led to the proposed creation of Stakeholder Pensions. Stakeholder Pensions will be available from 2001 to people on lower incomes, to those who hitherto have been unable to access corporate pension schemes and to spouses who are not active in the workplace. The UK Government also want them to be very affordable. To achieve this, costs have to be reduced both by the producers and by developing industry-based employer groups. At Prudential we are comfortable with this framework and have already invested time and resource to design models which will deliver this proposition to customers. The strides we have made in the development and use of new technology and the economies of scale offered by an operation of our size, lead to a tremendous opportunity for Prudential and its customers to benefit greatly from this new environment.

We are also very aware that our industry has not always been the most dynamic in recent years. The number of new entrants who have come into our market has been a wake-up call to the traditional players. It has opened up the market to greater competition and to new ideas that benefit the consumer. So that we can stay ahead of this competition, we have been very active over the past three years in re-shaping and re-engineering our businesses in the UK and US. We have also sought new platforms in Asia and Europe. We want to be the company people turn to for the right products in whatever way they prefer to be served. One of our big successes has been egg:|: through which we have created and built our own new entrant on a vision of designing products and a service which treats our customers as they want to be treated.

To stay ahead of the curve we have invested considerably in new technology. We were faster off the mark than others in the UK with our investment in egg:| and all parts of the group are making rapid progress in making e-commerce integral to the way we do business. Scottish Amicable and Jackson National Life both have extranets offering intermediaries 'self-service'. Prudential Group Pensions is developing a distribution system that exploits e-commerce technology. Prudential Retail Financial Services has rolled out laptops to the direct sales force and general insurance customers can obtain quotes and take out policies on-line. In Singapore, our sales force can now use laptops to approve applications and can verify signatures



digitally – one of the first companies in the world to be able to do so. In the US, Jackson National Life has a comprehensive IT programme which has not only increased levels of customer service, but has reduced costs dramatically.

In the past few years we have consistently delivered superior investment returns to our shareholders. We will continue to maximise the value from our existing businesses and invest for the future. With a strong management team we are ideally placed to continue to deliver long-term out-performance.

On a personal note, I am delighted to become Group Chief Executive of this remarkable company at such an exciting time in its development. In Sir Peter Davis I have a hard act to follow and I would like to pay tribute to Sir Martin Jacomb who retires at the Annual General Meeting. He has given great guidance and support in a period of dramatic change.

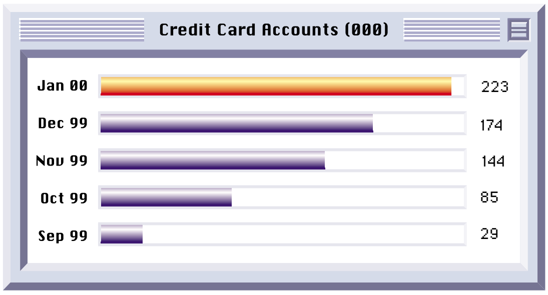
The challenges will be great, but the dedication and professionalism of our staff and the commitment of our Board mean that these are challenges to which I look forward and to which I know we will all rise.

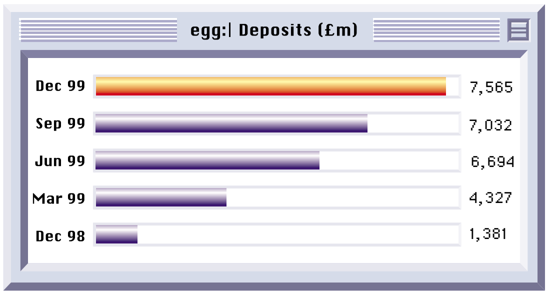
Jonathan Bloomer

Jonathan Bloomer
Group Chief Executive

egg:| Individual Money Matters

Delivering quality and value





egg:| and Prudential Banking

In little more than a year, egg:| has become established as a household name and one of the UK's most recognised e-commerce brands. Our strategy of offering some of the most competitive and customer friendly products in the market, delivered using the latest in internet design and technology, has resulted in an egg:| customer base of 940,000 and deposit funds of £7.6 billion at the year end. This remarkable growth has exceeded our initial business targets and egg:| is regarded as the UK's leading e-commerce financial services website.

By late February the combined Prudential Banking and egg:| mortgage book stood at £1.7 billion, of which £452 million is egg:| mortgages, while egg:| personal loans have reached £227 million.

Through egg:| we have been able to reach a new type of customer, one who is computer literate and financially discerning and who wants to benefit from the combination of the best financial products the market has to offer, and who uses internet services which fit in with their lifestyle. The growth in the number of customers using our website is spectacular. In July 1999 we had 184,000 visitors to the egg:| website and in January 2000 that figure rose to 1.1 million. In January, 62 per cent of all egg:|'s deposit transactions took place over the internet and 86 per cent of mortgage applications were via the internet.

Our hi-tech communication centres in Dudley and Derby continue to take some 60,000 calls and 11,000 e-mail enquiries from customers each week. Our innovative working practices and specially designed employee training programmes all lead to a unique egg:| culture and customer experience.

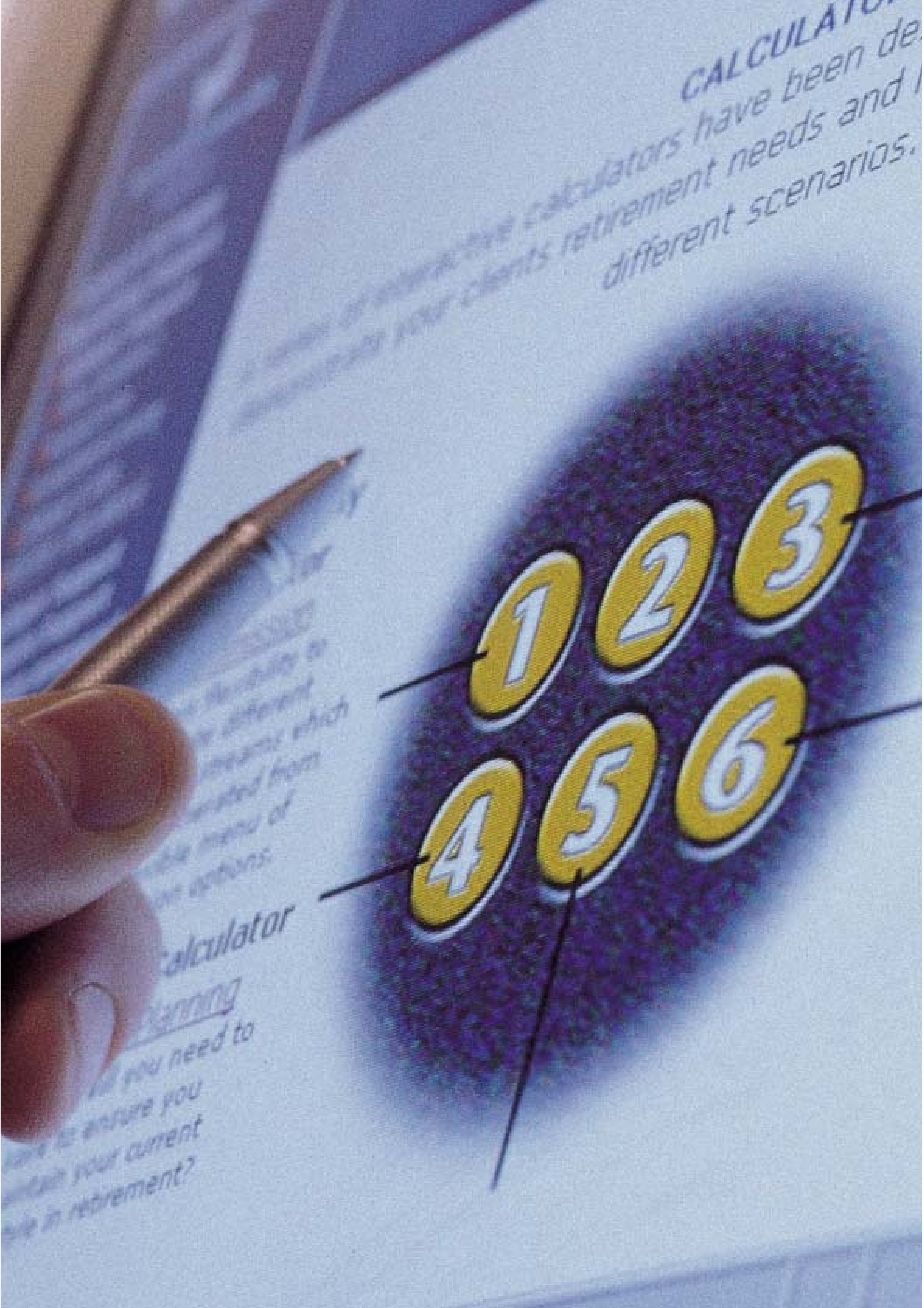
Building on the success of its core savings and loan products, egg:| launched an internet credit card in September 1999 which now has over 250,000 account holders. Credit card customers benefit from market-leading rates and a guarantee against internet fraud. We also offer an on-line shopping zone which offers some of the best value retail consumer products available.

We have previously announced our intention to launch a new on-line unit trust supermarket which will give egg:| customers access to investment funds offered by leading investment houses, as well as an on-line share-dealing service.

We are capitalising on the strengths of on-line services to ensure that egg:| remains at the forefront of technological development and will continue to do so as our range of innovative products and services continues to expand.

During 1999 our investment in egg:| totalled £150 million and we expect a similar level of investment during 2000. We anticipate that with its current plans and activities, egg:| will be breaking even in the latter part of 2001 as the benefits of the customer base and cross-buying materialise.

The intent to pursue plans for an IPO, subject to continuing progress in the business and favourable market conditions, represents the best option for the accelerated development of egg:| and for the maximisation of long-term shareholder value of Prudential. It will create greater financial flexibility for egg:|, will facilitate growth by giving it the ability to undertake acquisitions through the use of internet paper, and it will help to recruit, incentivise and retain high calibre staff.



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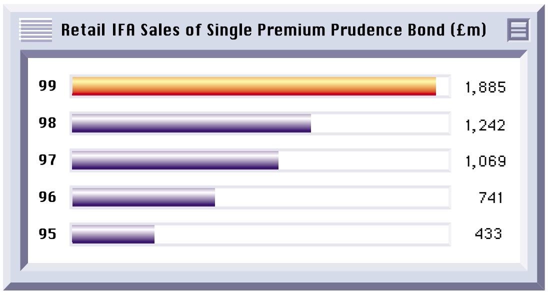
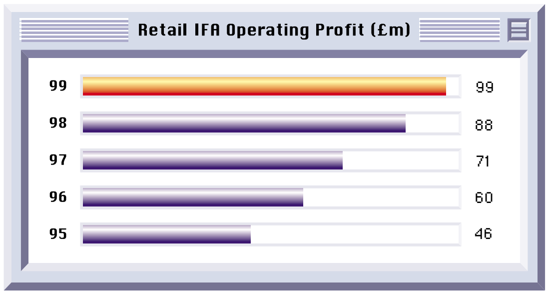
Scottish Amicable

Flexibility and control





Prudential's UK retail insurance operations comprise three businesses: Retail IFA, Prudential Retail Financial Services and Prudential Annuities.

Retail IFA

Our Retail IFA business produces and sells Scottish Amicable and Prudential branded products, including the market-leading Prudence Bond through Independent Financial Advisers (IFAs).

Underlying statutory profit (before re-engineering costs) from our Retail IFA business increased by 13 per cent to £99 million in 1999 while new business achieved profit increased by 53 per cent to £174 million. This strong growth in new business achieved profit has been driven by increased sales of investment bonds, predominantly Prudence Bond, with sales of £1.9 billion in 1999.

Central to this growth has been the further improvements that we have initiated in customer service. During the year we have given customers a choice of fund manager and re-engineered the distribution process to give a stronger match between the specialisations of each IFA and Scottish Amicable's sales force. The choice of fund managers was launched under the 'Power to Choose' banner and has been widely welcomed by IFAs. It is a concept which competitors are now following. In addition we have also developed a new sales contact centre which will lead to even higher levels of customer service.

We are continuing to expand operations at our Craigforth site near Stirling, where the total number of staff employed is now close to 2,300. During 2000, this will be increased further as we transfer the administration of M&G's life and pensions business from Chelmsford.

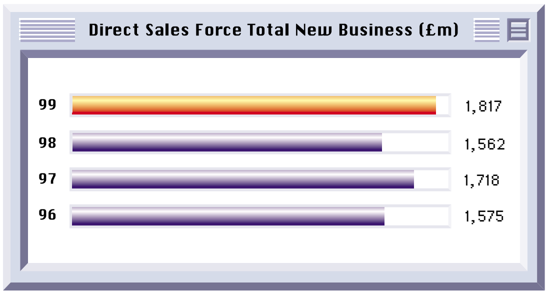
Scottish Amicable's high standards of customer care were recognised in the 1999 Financial Adviser Awards where it received 'five star' awards for customer service in both the Life and Pensions and Investments categories. We were also voted 'most admired IFA company' by readers of Financial Adviser. Prudential Intermediary Division and the IFA Service Centre were again voted best providers by the Bradford and Bingley Building Society, their largest supporting IFA. In addition, several products were recognised with industry awards, including Prudence Bond, Home Purchaser (our mortgage endowment product) and our Long-Term Care Bond.

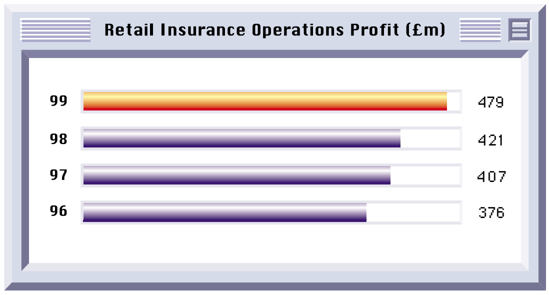
During 1999, we refocused our marketing efforts and developed a campaign which targeted both consumers and financial advisers, raising brand awareness and stressing the importance of professional financial advice. Our activity included television sponsorship, national press advertising, radio commercials and London Underground advertising.

Our investment in technology will enable continued improvements to customer care, under both the Scottish Amicable and Prudential brands, and will increase the cost-effectiveness of the business adding to shareholder value. These developments include an extranet giving IFAs the latest information on products and services. In addition, new business processing developments will allow IFAs to administer pensions on-line.

We continue to expand the range of products designed to meet the changing needs of IFAs and introduced a 'Stakeholder-friendly' group personal pension product on 1 March 2000.

At one with our customers





Prudential Retail Financial Services

Prudential Retail Financial Services (PRFS) comprises three business units: Prudential Retail (with its 1,900 strong direct sales force), Life and Pensions and General Insurance.

PRFS has six million UK customers to which it sells a comprehensive range of personal investment and insurance products. Currently PRFS has 7.1 million life policies in force and is one of Britain's biggest pension providers with 1.6 million personal pension contracts. It also sells banking products for Prudential Banking: mortgage sales exceeded £600 million in 1999.

Sales of insurance and investment products rose by 16 per cent to £1.8 billion despite a 40 per cent reduction in the number of sales force consultants. This result reflects the success of our initiatives to increase efficiency and improve consultant productivity. Single premium sales were up 22 per cent at £1.7 billion, reflecting higher sales of with-profit savings products, fuelled by the low interest rate environment. Regular premium sales were down 24 per cent to £146 million, mainly due to lower sales of pension products. Underlying long-term business statutory profit rose nine per cent to £319 million and underlying general insurance profit increased 56 per cent to £61 million. Achieved new business profit on long-term business was up 20 per cent to £83 million.

During 1999, we re-engineered the structure of PRFS to broaden its appeal to customers and to reduce its cost base in anticipation of an even more competitive financial services environment. Significant progress towards this goal has been made through a programme to remove some 5,000 jobs over three years, 3,000 of which have been accounted for over the last year.

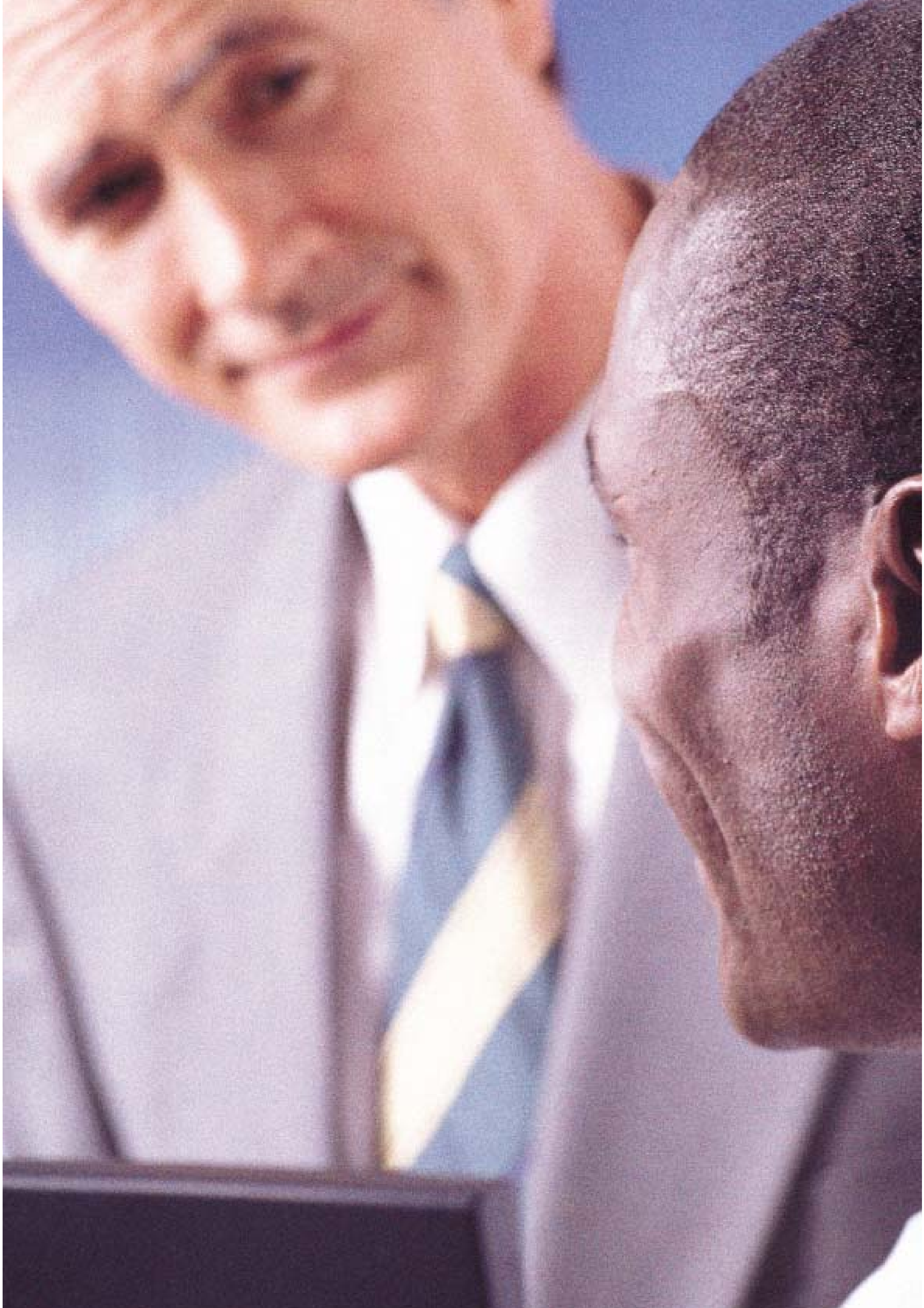
Our investment in new technology will support these efforts and will make the sales process more efficient by reducing the administrative burden. In addition the move towards remote working, with no branch infrastructure, has been made possible by introducing laptop computers as a tool for the sales force. This will lead to a greater focus on advising customers and increasing productivity.

We are also harnessing technology to develop higher levels of interactivity with our customers. We have launched our new-look website to inform customers about our products and to enable customers to arrange visits by financial consultants. We are currently testing a system which will provide on-line advice in real-time with a consultant and general insurance customers can now obtain quotes and take out policies on the internet.

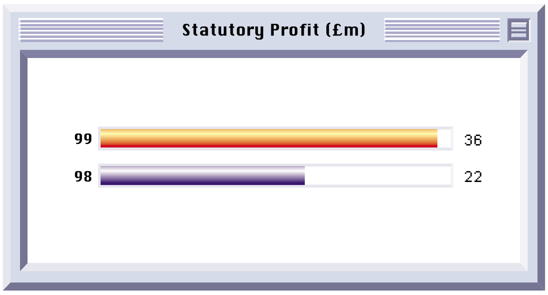
Prudential Annuities

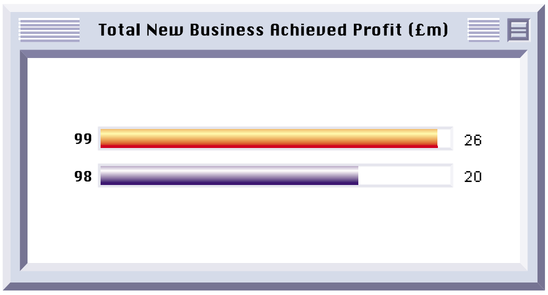
Prudential Annuities is the market leader in the UK pensions annuity industry which is projected to grow strongly over the next few years. We now have over 700,000 customers and more than a 20 per cent share of new business in 1999. Total sales were £2.2 billion and funds under management now exceed £10 billion.

In the individual pension annuity market, with-profit sales have shown strong growth and now represent more than 15 per cent of individual sales. Bulk annuity sales in 1999 represented more than half our total sales and were boosted by two big sales totalling £1.1 billion in July.



Value through technology





Prudential Group Pensions

Group Pensions forms an increasingly significant part of Prudential's business. We are a leading provider of employer sponsored pension schemes, meeting the pension needs of many large companies. We administer 3,200 defined contribution schemes with a total of some 400,000 members, and 275 defined benefit schemes comprising some 130,000 members.

During 1999, Group Pensions' statutory profit rose 64 per cent from £22 million to £36 million while new business achieved profit was up 30 per cent to £26 million.

The Government's proposal to introduce Stakeholder Pensions in 2001, and in particular the limiting of fees to a one per cent annual management charge, offers both a major challenge and a significant opportunity. The challenge for providers is to develop more economic methods of servicing and distribution. At the same time, the growth of this new Stakeholder market, together with the continuing shift towards flexible defined contribution arrangements, offers Group Pensions an opportunity to deliver significant shareholder value through simple, value-for-money products and services.

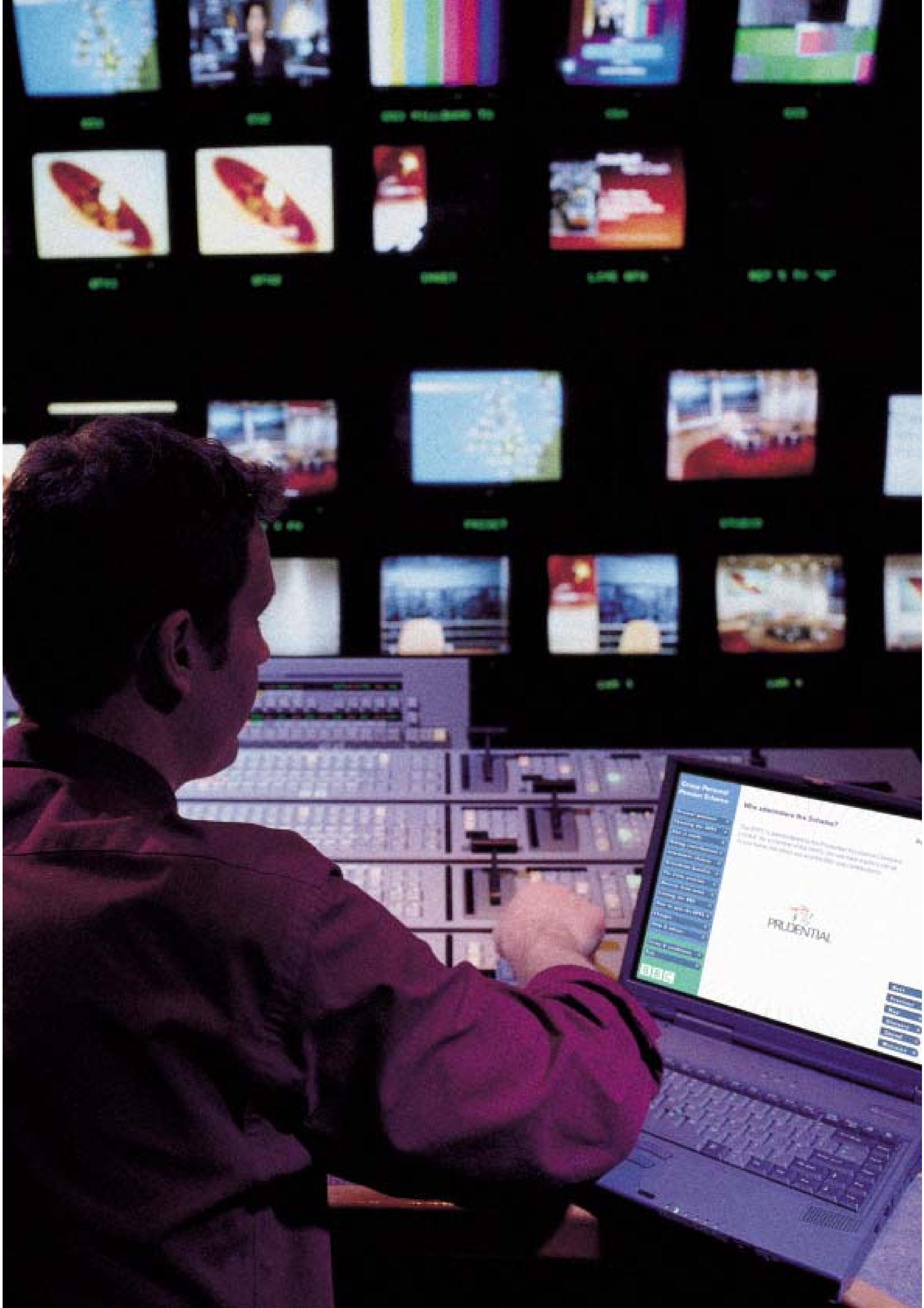
Prudential's response to the Government proposals has been positive: we aim to combine first class customer service with operating efficiencies to make Prudential a low-cost and profitable participant in the emerging Stakeholder environment.

Two specific initiatives have been taken to exploit these market changes:

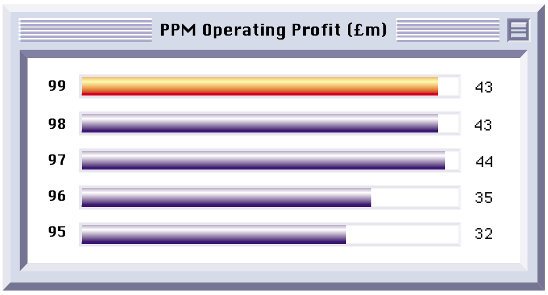
– a marketing and distribution platform has been developed, that employs current e-commerce and future broadband technology to its fullest advantage. Designed to maximise participation by giving employees access to pension information through their company's intranet and at home, it has the added benefit of providing a strong education capability to enable users to understand and manage their pensions better;

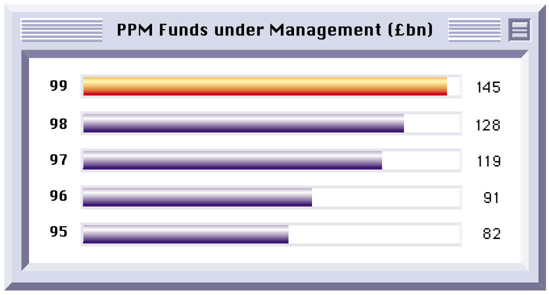
– secondly, we have improved the distribution efficiency of our Additional Voluntary Contribution (AVC) product by moving away from one to one sales to a new approach based on communication teams visiting the workplace and informing members of the pension choices available to them. This strategy reinforces our move away from the traditional 'sell' approach to a 'buy' service that complements our e-commerce proposition.

Going forward, these and other initiatives build on Prudential's already highly respected brand and will enable us to capitalise on market changes, to deliver both customer value and strong shareholder returns.


PRUDENTIAL

Strength and security





Prudential M&G Asset Management

Prudential's fund management business in the UK is conducted under the umbrella of Prudential M&G Asset Management. The acquisition of M&G Group P.L.C. (M&G) in April 1999 has given us enhanced access to the retail investment market and we are currently carrying out a fundamental reorganisation of our fund management operations.

In the UK we will specialise in those areas of fund management where we have unique strengths and competitive advantage – unit trusts, fixed income and pooled life and pension funds. We have therefore entered into discussions, which are now at an advanced stage, to sell our UK institutional segregated balanced and specialist equity business which constitutes around £10 billion of mandates (out of a total group funds under management of £170 billion).

At the same time we are bringing Prudential Portfolio Managers (PPM) and M&G together into a unified business. We will combine the investment processes and resources of both in a single new management structure under Michael McLintock as Chief Executive.

We have already successfully completed the merger of the fixed income teams (creating the largest fixed interest team in the UK, with funds under management of £33 billion), as well as the two retail administration centres. In addition we are in the process of moving M&G's life and pensions business to Craigforth under the management of Scottish Amicable.

Overseas, PPM's principal operations in the US and Asia have been re-aligned to report alongside the local operations to maximise the synergies between the investment process and retail product manufacturing and distribution.

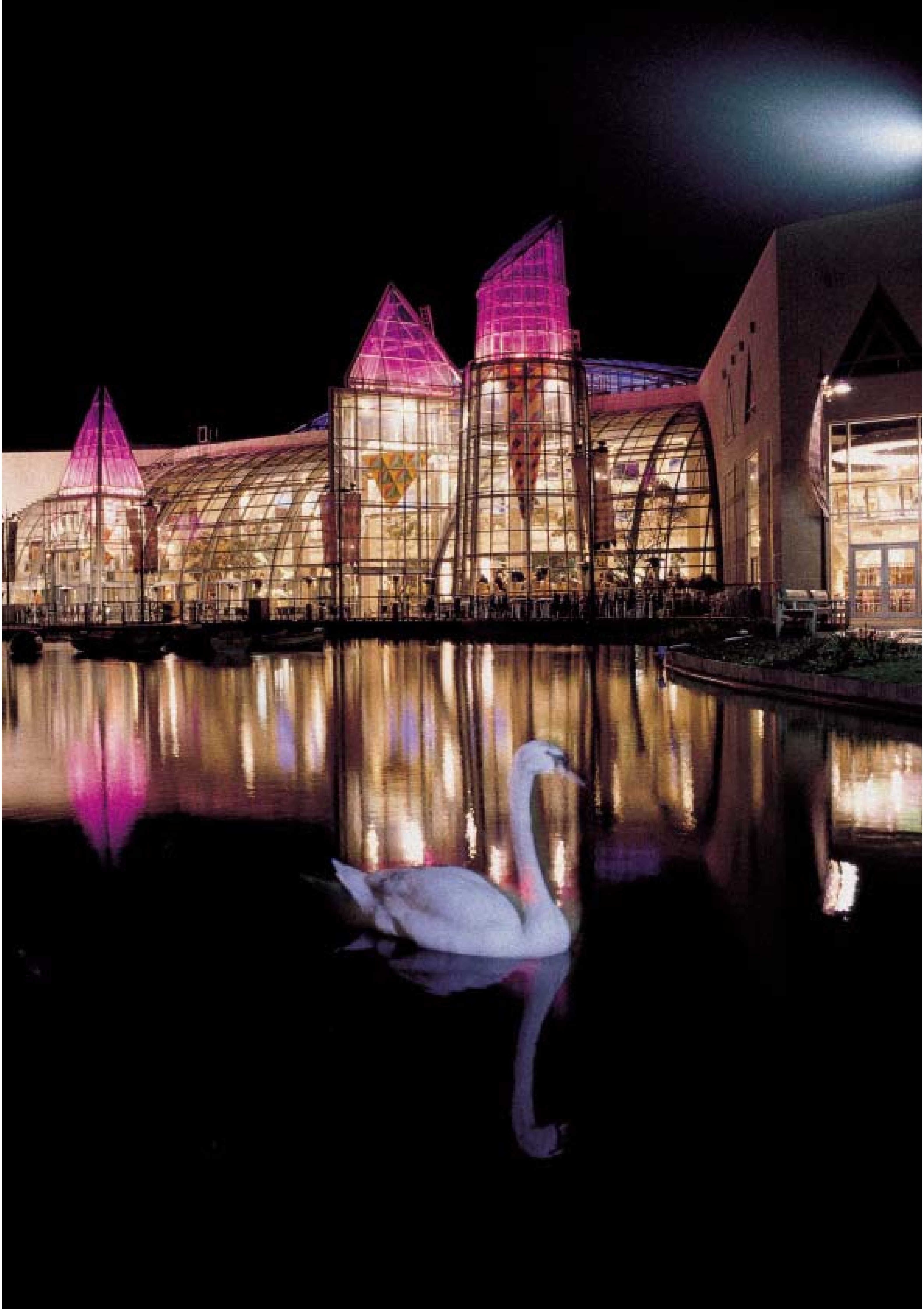
Prudential Portfolio Managers

PPM manages £145 billion worldwide, mostly on behalf of Prudential's internal clients. Underlying profit for PPM totalled £43 million in 1999, in line with the previous year. PPM's strong equity weighting helped the Life Fund outperform its competition by an estimated three per cent to four per cent.

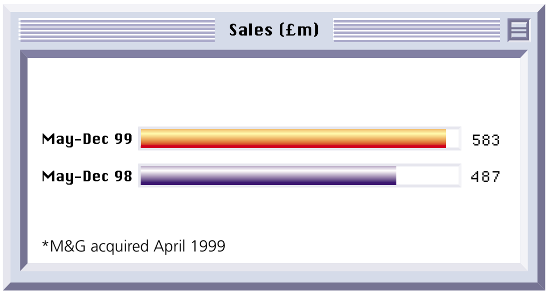
PPM Property, the UK's largest property investor with a portfolio valued at over £9 billion, has had a particularly successful year. We made significant investments at Bluewater and Milton Keynes shopping centres and agreed the sale of our entire rural estate to the Duchy of Cornwall. We opened the first building on GreenPark in Reading, our major business park under development, and plan to upgrade and extend the Arndale Centre in Manchester, where our development represents a large part of the city centre redevelopment.

PPM Ventures (PPMV) also had an excellent year, delivering strong returns to clients and a record operating profit of £11 million. At the year end, PPMV had invested capital of £600 million, with investments made on behalf of the Life Fund and external pension fund clients.

During the year PPMV delivered continued growth in Europe and the Asia-Pacific region with a total of £160 million invested in 13 new private equity transactions in Europe, Asia and Australia. Our London and Paris teams led five European transactions with a combined deal size of £220 million. The Sydney and Hong Kong teams completed eight transactions, including an investment in the management buy-out of Mando Climate Control Corporation, one of the largest private equity deals in Asia in 1999.



Funding for the future



M&G

We purchased M&G Group P.L.C. (M&G) to enhance the group's retail fund management presence. M&G is the oldest and largest retail unit trust manager in the UK and has a very strong brand. Performance in its first eight months since acquisition has been strong, with sales of £583 million and underlying profit of £56 million – both ahead of acquisition assumptions. At the end of 1999, M&G had £21 billion of funds under management.

At the time of purchase we stated that we believed that the unit trust market would grow by 21 per cent compound over five years. Those estimates have been already superseded with the market growing by 39 per cent in the first year. This confirms completely our view of retail fund management as a strong growth market.

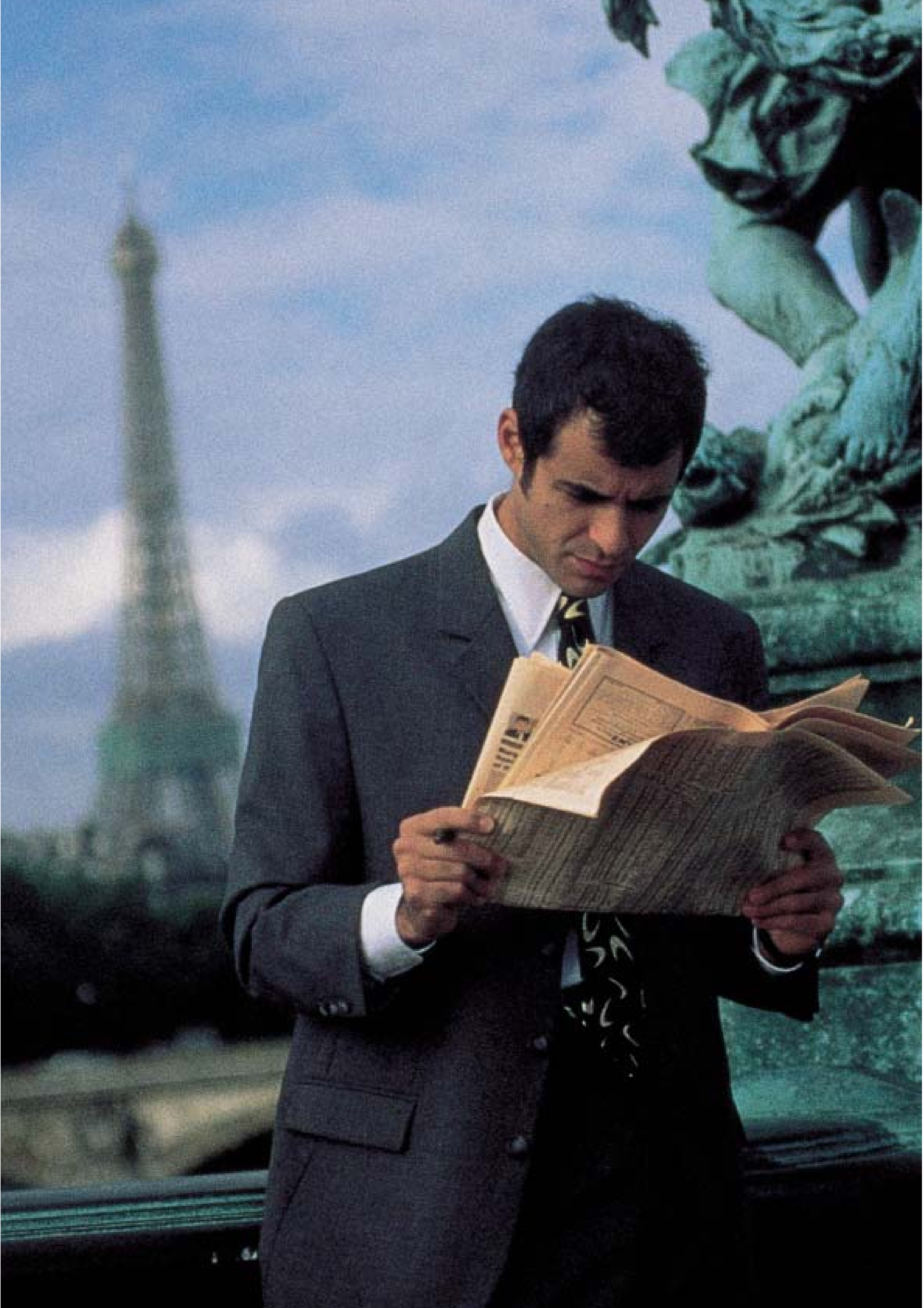
M&G embraced Individual Savings Accounts (ISAs) from the outset. Taking full advantage of the changes in regulations which allow customers to invest by telephone or internet, we are one of only a handful of companies that give investors the chance to buy an ISA on-line.

In the last quarter of 1999, sales through the internet increased dramatically and, as we enter 2000, six per cent of our direct business is sold via the internet. We will be making a substantial investment in our systems over the next three years. The project will create an efficient and uniform system for collective investment vehicle administration and a platform for operating in an electronic environment.

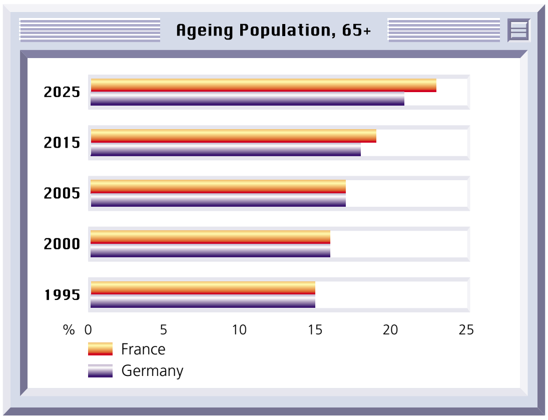
Sales of ISAs, through both the intermediary and direct channels, have been good since launch, securing a five per cent share of the unit trust ISA market.

In 1997 we redesigned our investment process in order to create a more diversified fund range and greater investment flexibility within the fund management team. These efforts have resulted in a broader range of offerings, including growth, fixed interest and themed funds, and are now delivering better performance from the traditional M&G equity income funds.

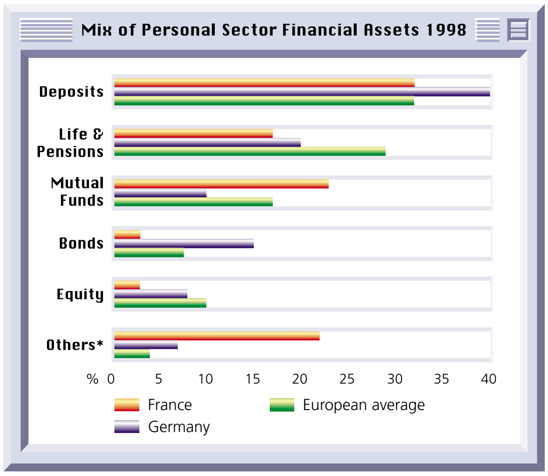
During 1999, we introduced innovative products, including the M&G Global Managed Bond Fund and the M&G Global Technology Fund, to strengthen M&G's reputation in the retail market. In November we reduced the annual management charge on our UK Index Tracker from 0.75 per cent to 0.3 per cent resulting in a six-fold increase in the daily rate of sales.



New markets, new opportunities



Source: Datamonitor: Taking Advantage of Opportunities in the Retirements Savings Market in Europe, 1999



***Note:** For France this asset class consists of insurance investment certificates (Livre A contracts), a form of tax free savings account
Source: Donaldson, Lufkin & Jenrette: Pan-European Insurance Industry Compendium, 16 November 1999

Prudential Europe

The single market and the impact of technology and major demographic shifts are bringing about unprecedented change in the savings and investment markets of continental Europe. These, coupled with the lowering of barriers to cross-border trade within the EU, mean that we have been able to create a new business model to develop the opportunities that are emerging for retail financial services in continental Europe.

In a low inflation, low interest rate environment, continental European savers are already buying increasing quantities of equity-based savings products. Products of this kind are recognised areas of strength for Prudential and European legislation now enables products originating in one EU country to be marketed and sold on a cross-border basis.

Our strategy for continental European retail markets involves harnessing existing product resources and tailoring them to individual market needs. Whilst meeting local presentational, fiscal and regulatory requirements, the basic core products will be the same in each market and be produced in a single location.

We will be distributing through a series of non-exclusive strategic partnerships with leading local financial services providers. Our products will be branded or co-branded 'Prudential'.

In November 1999, we announced partnerships with CNP Assurances in France and Signal Iduna in Germany. In forging links with France's leading life assurer and one of Germany's major insurance providers, we have gained access to local markets and marketing expertise and large scale distribution networks. Our strategic partnerships include the sharing of technical expertise and the consideration of joint ventures both in the respective home markets and elsewhere.

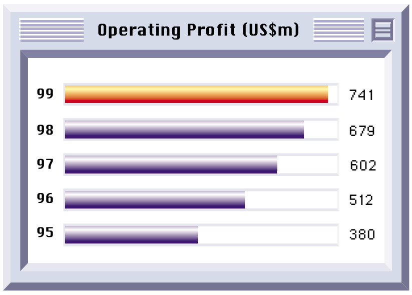
We will launch the first new products for distribution in France and Germany later this year. In the meantime, we continue to develop our German broker business based in Frankfurt where we have already established a leading position in the new but rapidly-growing unit linked market.

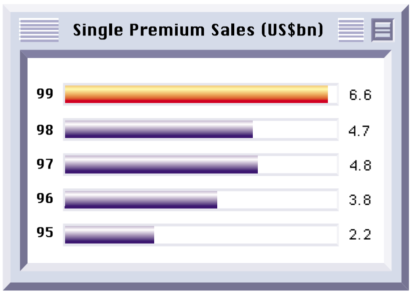
Whilst, in the short term, retail savings and investment products are our main focus, in the longer term, the provision of funded pensions both on an individual and a group basis will be a major market opportunity. In addition, we will distribute products through the local equivalents of independent financial advisers and insurance brokers.

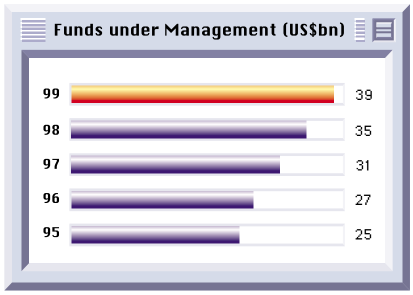
The next major markets for implementing our strategic partnership approach are Italy and Spain. We will develop plans for these markets during the course of this year.

Jackson National Life Insurance Company

It’s all about creating access







US Operations

Jackson National Life (JNL) is one of the top 20 life companies in the US. Its product range encompasses traditional fixed annuities, variable annuities, equity-linked indexed annuities, stable value Guaranteed Investment Contract (GIC) business and life assurance products.

JNL continues to go from strength to strength with record profit and sales in 1999. Statutory profit has risen ten per cent to £451 million (after including a £6 million investment in building JNL’s broker-dealer operations and PPM America) with single premium sales 43 per cent ahead of 1998 at £4.1 billion. Annuity sales of £2.4 billion were 65 per cent ahead of the prior year while GIC sales totalled £1.6 billion.

Sales of variable annuity products were nearly £1.2 billion, more than double 1998’s figures. This compares with industry growth over the same period of 21 per cent.

Equity-linked indexed annuity sales surpassed expectations and reached £431 million, 52 per cent above 1998 levels. By the end of 1999, JNL ranked as the largest provider of equity-linked indexed annuities in the US. Our fixed annuity sales also rose by 23 per cent, keeping us at second in that market.

We have enhanced our distribution capability dramatically by the introduction of new technology in a programme entitled JNL-2-YOU. The programme provides 24 hour access to account balances, premium receipts, net policy values and other information either by telephone or by internet. In the next stage of development, the full range of JNL’s products will have such access – including the full complement of indexed and variable annuity products as well as life insurance and traditional fixed annuities. We plan to launch new services, including on-line transactions, customised illustrations and presentations – services previously available only on interactive CD-ROMs.

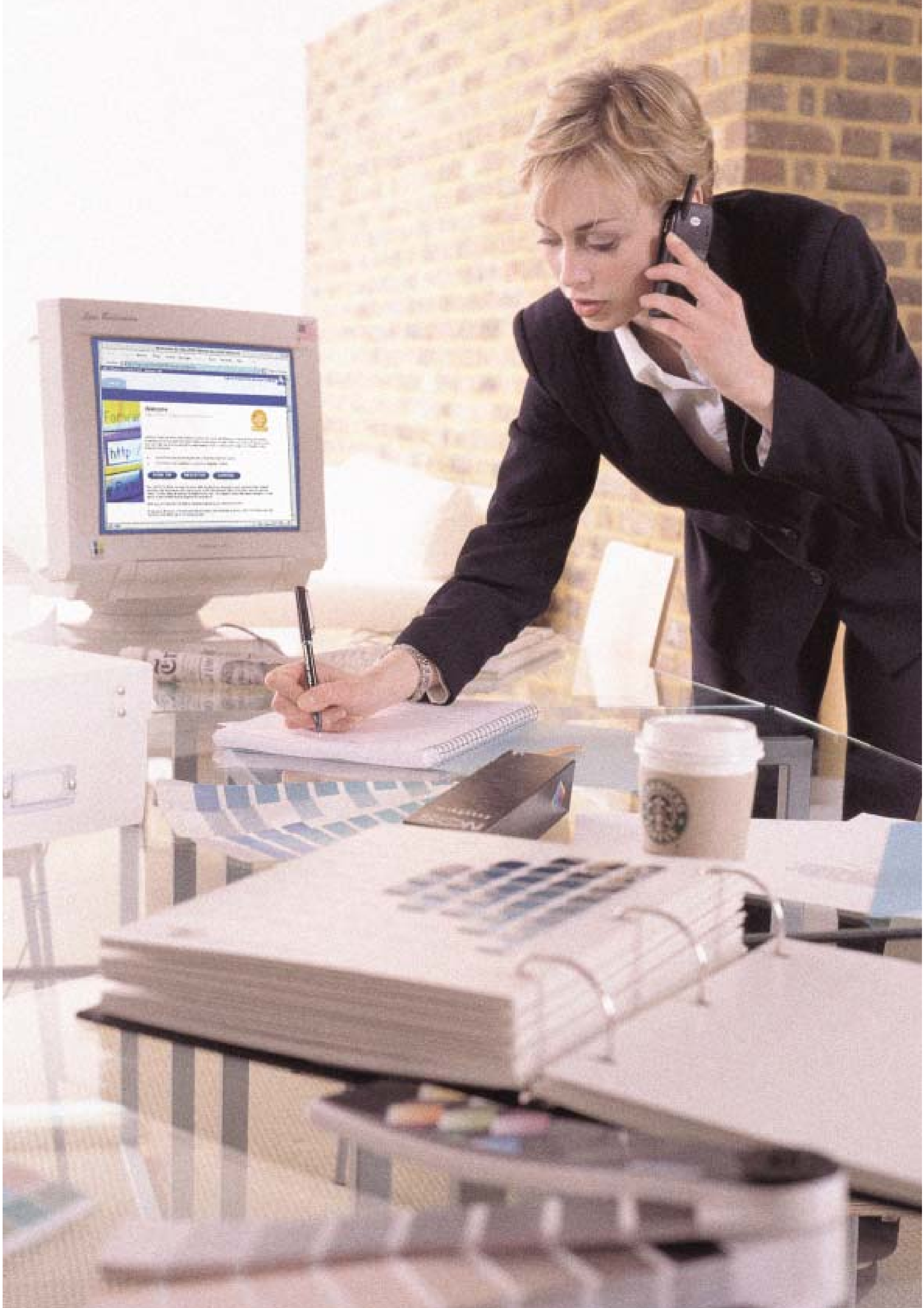
By investing in new technology we have not only improved the service experienced by customers, but have brought about a dramatic financial impact: the cost of a typical call from a customer has been reduced from US$5 to between 25-50 cents for an automated phone call, and five cents for an internet ‘hit’.

During 2000, JNL’s conversion to one system-wide computer platform will give us the processing capability to connect even more effectively with the internet, opening new doors for customer service.

Our Lansing and Denver Service Centres have processed 60 per cent more applications and service requests than in 1998. Additionally, our Institutional Marketing Group service centre won several awards and was judged best in the industry for fixed annuity service and marketing support, including two prestigious Crystal Pyramid awards. Construction of our new US$50 million headquarters building continues and we expect to occupy it this autumn.

Jackson Federal Bank, the savings and loan institution purchased by JNL in 1998, was able, thanks primarily to our ownership, to upgrade its industry ratings. With the higher ratings, we will be in a very favourable position to expand and build the Thrift in 2000.

PPM America, the fund management company, now reports alongside JNL to Bob Saltzman in order to maximise the synergies between the investment process and product creation and delivery.

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PRUDENTIAL
英国保诚保险
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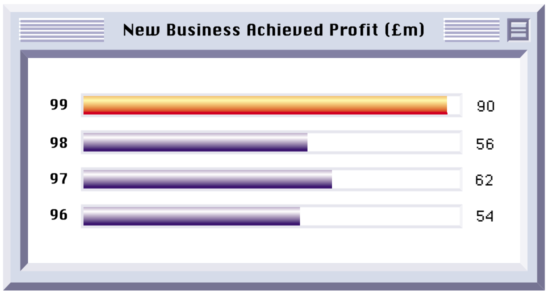
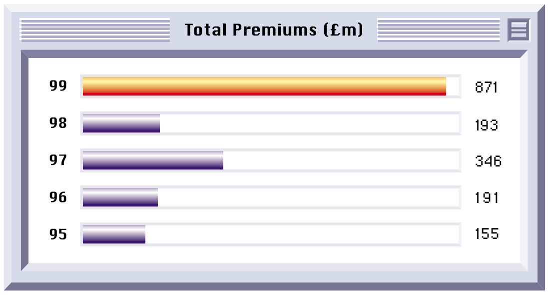
Success is all about people





Prudential Corporation Asia

1999 was a year of significant progress for our Asian business, Prudential Corporation Asia (PCA). We added operations in three countries, and now operate in eleven.

Our existing Asian operations had a very good year with total insurance and investment product sales of £871 million being four times higher than last year. New business achieved profit, which reflects the value added to the group from new insurance business, increased 61 per cent on 1998 to £90 million. Statutory operating profit before development costs for 1999 was up 17 per cent to £27 million; operating profit after development costs totalled £15 million.

In 1999 we were granted a life licence in China and in December, signed a memorandum of understanding to undertake a life insurance partnership with China International Trust and Investment Corporation (CITIC) in Guangzhou. This will be the first Sino-British life insurance operation. With a population of seven million people in Guangzhou alone, this clearly represents a significant opportunity for us.

During November we acquired a majority stake in a top ten life insurance company in Taiwan, giving us access to one of the region's major retail financial services markets. The company has been launched already as Prudential Taiwan and significant expansion plans are being put into place.

Within Hong Kong we have entered into a joint venture agreement with Bank of China to provide pension products to Hong Kong residents through the Mandatory Provident Fund – a compulsory pension scheme to be introduced later this year.

In India, our joint venture unit trust company Prudential ICICI grew by 550 per cent, reaching £453 million funds under management as at 31 December 1999. It has rapidly become a market leader with a reputation for sound investment management, innovative products and excellent customer service.

Prudential Vietnam was launched in November 1999. We are the first EU company to be operating in the new Vietnamese life market. Agency teams are already in place in Hanoi and Ho Chi Minh and the early signs are very encouraging.

We continue to pioneer the introduction of unit linked products around the region and this year became the first company to launch regular premium unit linked products in Malaysia.

We have also been at the forefront of new developments in distribution through our bancassurance partnership with Standard Chartered Bank in Hong Kong and Singapore.

On the technology side, Prudential ICICI has been pioneering internet applications for its customers, including non resident Indians, who are now able to transact over the web. Prudential Singapore's website has been ranked best in the market as policyholders are able to check unit prices and access their policy details. We have also begun rolling out laptop software which enables customers to complete and sign proposal forms electronically. This is one of the world's first applications of digital signature technology.

The management of our fund management operations, PPM Singapore and PPM Hong Kong, together with our new operation in Japan, are now more closely aligned to our Asian operations, reporting directly to Mark Tucker, Chief Executive of Prudential Corporation Asia.

Group Financial Review

Financial Summary

	1999 £m	1998 £m
Statutory basis operating profit*		
Before tax	**776**†	860†
After tax	**567**	654
Earnings per share	**29.1p**	33.7p
Achieved profits basis operating profit*		
Before tax	**1,098**†	1,011†
After tax	**762**	752
Earnings per share	**39.1p**	38.7p
Dividend per share	**23.0p**	21.0p
Shareholders' funds		
Statutory basis	**3,424**	3,249
Achieved profits basis	**8,342**	7,510

* Before amortisation of goodwill
† Continuing operations including acquired businesses

Modified Statutory Basis Results

Operating profit before amortisation of goodwill totalled £776 million in 1999, a decrease of ten per cent over prior year. The 1999 result includes an investment of £150 million in egg:| and a £70 million charge for UK re-engineering costs. Underlying operating profit before these items is up six per cent to £996 million.

This underlying increase reflects good growth from our US operations and our UK Retail Insurance business. These increases were offset by the funding costs of egg:| and of M&G, which was acquired in the first half of the year.

Our US operations generated a profit in 1999 of £451 million, ten per cent ahead of prior year reflecting increased spread income due to a growth in the liability book, and a slight strengthening of the dollar against sterling (local currency results were up eight per cent on prior year). The after tax return on capital for the year of 17 per cent is again ahead of our long-term target of 15 per cent. However, we would expect 2000's returns to be closer to our target return.

In the UK, underlying profit before re-engineering costs from our Retail Insurance Operations increased by 14 per cent to £479 million. Within this total, underlying profit from our Retail IFA business of £99 million was 13 per cent above prior year as increased funds under management more than offset the impact of lower annual bonuses. The 14 per cent increase in profit from Retail Financial Services and Annuities to £380 million reflects a 56 per cent increase in profit from general insurance to £61 million, and a nine per cent increase in long-term profit to £319 million. The increase in the long-term result reflects higher funds under management and an exceptional level of maturities which offset the impact of the rundown in annual bonuses. Despite recent rises in interest rates, expectations are for continued low inflation and investment returns and we would therefore expect to see a continued downward trend in annual bonus levels. The significant improvement in the general insurance result reflects better claims and expense experience.

Prudential M&G Asset Management's underlying result of £87 million compares with £28 million in 1998 and includes a strong first time eight month contribution from M&G of £56 million. M&G's result is ahead of our original acquisition assumptions. The contribution from PPM of £43 million is in line with last year.

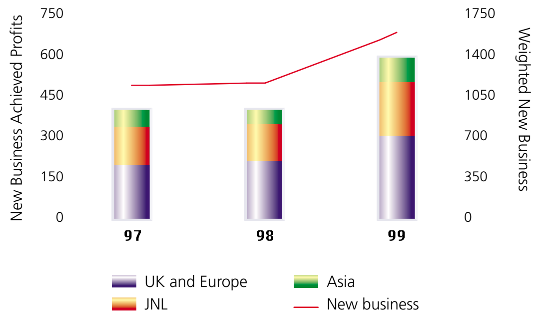
The investment in egg:| and Prudential Banking is £150 million compared with £77 million in 1998. This increase reflects both the success of the venture with the resultant demand for additional capacity, and increased investment in the e-card launch, development of future products and the continued investment in systems. Given the continued development expenditure and proposed new initiatives, we expect a similar level of investment for 2000 to that incurred in 1999. We anticipate that with its current plans and activities, egg:| will be breaking even in the latter part of 2001 as the benefits of the customer base and cross-buying materialise.

Value Added by New Business up 46% on Prior Year

Achieved Basis New Business Profits

	1999 £m	1998 £m	%
Retail IFA	174	114	+53
RFS and Annuities	104	77	+35
Group Pensions	26	20	+30
Total UK Operations	304	211	+44
Jackson National Life	198	137	+45
Prudential Corporation Asia	90	56	+61
Prudential Europe	11	9	+22
Total	603	413	+46

Value Added by Business



The movement in other income and expenditure from income of £38 million in 1998 to a charge of £78 million in 1999 predominantly reflects the cost of funding the acquisition of M&G and the investment in egg:|.

Operating earnings per share were down 14 per cent on prior year at 29.1 pence. This fall is higher than the ten per cent fall in operating profit due to the unusually low effective tax rate in 1998 of 25 per cent, compared with 27 per cent in 1999.

Supplementary Achieved Profits Basis Results

On the achieved profits basis of reporting, operating profit was £1,098 million in 1999, nine per cent ahead of 1998. This is despite the inclusion of the UK re-engineering charge of £70 million and increased investment in egg:| and is due mainly to strong sales performance across the group. Underlying growth excluding these items was 21 per cent.

The achieved profits result for our long-term operations was an increase of 27 per cent on 1998 at £1,230 million reflecting a 46 per cent rise in new business profits to £603 million and a 13 per cent increase in in-force profits to £627 million.

Within new business profits, the contribution from our UK businesses was up 44 per cent to £304 million. This increase reflected a 53 per cent increase in Retail IFA new business profit to £174 million due to increased sales and a revised assessment of persistency of our Prudence Bond product. Within Retail Financial Services and Annuities, strong sales growth and a shift to more profitable product lines drove the result up 35 per cent to £104 million, while Group Pensions' contribution was £26 million, up 30 per cent on 1998.

Overseas, Jackson National Life generated new business profit of £198 million, up 45 per cent on prior year, reflecting record sales volumes and a shift in product mix to relatively more profitable variable annuity and equity-linked indexed annuity (ELI) products. Prudential Corporation Asia's contribution of £90 million represents another very strong result, up 61 per cent on prior year, and is primarily attributable to the increase in sales in our established markets, a more profitable sales mix and our increased stake in Malaysia. Prudential Europe's contribution was £11 million, up 22 per cent on 1998.

Profit from long-term in force business of £627 million compares with £557 million in 1998. The 1999 result was held back by the shareholders' charge of £92 million for the increase in the cost of pensions mis-selling in the UK.

We have increased the provision for pensions mis-selling from £1.1 billion to £1.7 billion and, including amounts already paid, we now expect the total cost to be £2 billion. The increase in the provision reflects the impact of the revised, shorter, timescale for dealing with Phase 2 cases, revised settlement and interest rate assumptions and additional Phase 2 cases.

The returns on average shareholders' funds for our long-term businesses based on local currency achieved basis operating profit after tax, are shown in the following table:

	1999 %	1998 %
UK operations	11	10
Jackson National Life	14	16
Prudential Corporation Asia*	18	18

* Established operations net of development costs

Total operating profit after tax on the achieved profits basis was £762 million and earnings per share were 39.1p.

A full description of the achieved profits methodology and the result for the year is included on pages 76 to 82.

Accounting Policies
There have been no changes in accounting policies during the year that impact materially on the results.

Dividend
Given the progress made by the company in 1999 and the confidence in the future success of the business, the Board has increased the total dividend for the year by 9.5 per cent to 23.0p per share. Dividend cover is 1.3 times based on statutory operating profit after tax before amortisation of goodwill.

Shareholders' Funds
The consolidated balance sheet on page 53 shows statutory basis shareholders' funds of £3,424 million at the end of 1999, an increase of £175 million from 1998. The increase primarily reflects the profit retained after dividend payments.

On the achieved profits basis, which recognises the shareholders' interest in our long-term businesses, shareholders' funds were £8,342 million, an increase of £832 million compared with 1998. The increase reflects the profit retained in the long-term businesses and strong investment returns. After adjusting for borrowings, approximately 65 per cent of these funds are held in sterling with a further 25 per cent held in US dollars.

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 FSA 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. Our discussions with the FSA on the unattributed assets continue.

The achieved profits basis shareholders' funds are analysed in the following table:

	1999 £m	1998 £m
UK operations	5,029	3,911
US operations	2,533	2,166
Asia	593	378
Europe	68	46
Other operations	119	1,009
Achieved profits basis shareholders' funds	8,342	7,510

Financial Strength of Insurance Operations
The solvency ratio of free assets to liabilities within the group's main UK long-term fund at the year end after charging for the pension mis-selling provision is estimated to be 29 per cent, an increase of eight per cent over prior year. The fund's financial strength has been rated Aaa by Moody's Investors Service. The solvency position of Jackson National Life remains strong with a risk-based capital ratio of over 240 per cent of the regulatory minimum. Adequate solvency levels have been maintained by our insurance operations in Asia.

Funds Flow
The table below provides details of the holding company's funds flow:

	1999 £m	1998 £m
Group operating profit before amortisation of goodwill after tax	567	654
Dividends	(449)	(407)
Reinvested in businesses	(278)	(260)
Funds available to holding company	(160)	(13)
New investment in businesses	(2,320)	(265)
Capital repatriated from businesses	310	–
Disposal of businesses	–	481
Timing differences and other items	(98)	(160)
Holding company net cash movement	(2,268)	43

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 55. In 1999 the group's operations generated funds after tax of £567 million, compared to £654 million in 1998, and retained funds after dividends were £118 million. In 1999, the group invested £2,598 million in its businesses including £278 million reinvested in Jackson National Life and £1,943 million relating to the acquisition of M&G. We have also invested £262 million regulatory capital in Prudential Banking and egg:| and £97 million in Asia, principally in Taiwan. In addition, £310 million was repatriated from businesses in 1999: £190 million of surplus capital from M&G, and £120 million from Prudential Assurance Company, following a review of capital requirements. Overall there was a net cash outflow in 1999 from the holding company of £2,268 million.

As a result of the above outflow and exchange translation losses of £22 million, the holding company net borrowings at the end of 1999 totalled £1,837 million, compared with £453 million of net cash at the end of 1998.

Shareholders' Borrowings

Core structural borrowings of shareholder financed operations at the end of 1999 totalled £1,915 million including £1,446 million at fixed rates of interest with maturity dates ranging from 2001 to 2029, as set out in note 21 on page 68. Of this long-term borrowings balance, £496 million was denominated in US dollars, in order to hedge partially the currency exposure arising from our investment in Jackson National Life. There were also £301 million short-term commercial paper borrowings and £168 million floating rate loan notes, all sterling denominated.

The group successfully launched two bonds during the year: a £250 million 5.5 per cent Bond maturing in 2009 and a £250 million 5.875 per cent Bond maturing in 2029.

The group also successfully placed £168 million of loan notes due to mature in 2004. The proceeds of these debt issues along with the net cash held by the holding company at the end of 1998 were used to finance the acquisition of M&G.

Prudential plc enjoys strong debt ratings from both Moody's Investors Service and Standard and Poor's. 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 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 covered by cash or by corresponding assets. 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. The currency exposure relating to the translation of reported earnings is not separately managed although 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.

Investing in our communities

We recognise that our business activities, and the investments we make on behalf of our customers, have an effect on the environment and the wider community. We believe that corporate social responsibility is an integral part of good business practice, encompassing our relationships with employees, customers, shareholders, suppliers, business partners and the communities in which we operate.
In January 2000 we created a new unit to manage our approach to social responsibility.

Environment

The Environmental Policy Group sets the group-wide environmental strategy and makes recommendations to business units on the implementation of environmental action plans. We are striving to:

- reduce consumption of materials in our operations
- help employees to achieve environmental improvement
- encourage our suppliers to minimise the impact of their operations on the environment
- make environmental considerations part of our investment decision making
- apply best practice in the planning, development and decommissioning of our buildings.

Derek Higgs holds Board responsibility for environmental policy. He was recently appointed Chairman of Business in the Environment which aims to inspire business to achieve corporate social responsibility by making continuous progress towards environmentally sustainable development an essential part of business excellence.

Ethical Investment

With investments exceeding four per cent of the overall UK stock market, we have a significant role in putting ethical investment on to the mainstream business agenda. We expect those companies in which we invest to be able to demonstrate and report on appropriate environmental and social policies. We also offer ethical investment products, such as the Light Green Fund, which seeks to balance ethical concerns and investment efficiency for pension scheme members.

Community Investment

Investing in community partnerships is a fundamental part of our programme. In 1999 we contributed £1.8 million towards community and sponsorship programmes. For example:

- employees from M&G planned, designed and constructed a new technology classroom for a local school in Chelmsford
- Prudential Corporation Asia contributed to a rehabilitation centre for children recovering from the Taiwan earthquake
- Scottish Amicable is working with The Princess Royal Trust for Carers in Scotland and with general practitioners
- Jackson National Life supports educational and youth projects in Michigan and Chicago through United Way
- Prudential Portfolio Managers Property Division initiated two programmes to benefit retailers and the wider community:
  - The New Deal Retail Routeway to prepare unemployed people for jobs in retailing
  - Pru Youth Action, a partnership with Crime Concern, to tackle shop theft in shopping centres.

We also launched two corporate programmes:

- '£200 for 2000' to recognise the time our employees give to local communities
- over 100 senior managers mentor head teachers through Business in the Community's Partners in Leadership programme.

Diversity

We respect and value diversity. To remain competitive we seek to recruit, develop and retain people from the widest range of backgrounds. In the UK we have committed to the Commission for Racial Equality Leadership Challenge and we are members of Opportunity Now and Race for Opportunity. We have established a Diversity Group to stimulate discussions, develop good practice and monitor progress, chaired by Rodney Baker-Bates, Managing Director, Group Pensions.

Arts

Prudential sponsors Creative Britons, the UK's biggest arts prize with £200,000 going to arts organisations to recognise the outstanding work of arts practitioners. The 1999 winner was Mary Ward, Artistic Director of the Chicken Shed. We also sponsored 'The Art of Bloomsbury' at the Tate Gallery, Verdi's 'Falstaff', the opening production at the new Royal Opera House, and 'Gilded Dragons' at the British Museum.

Board of Directors

Sir Martin Jacomb

Chairman (Age 70)
A director since 1994 and Chairman since 1995. Chairman of Delta plc. Director of Rio Tinto plc, Marks and Spencer plc, Canary Wharf Group plc and Minorplanet Systems plc.
*non-executive director

Michael Abrahams CBE DL

Deputy Chairman (Age 62)
A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions, Kingston Communications (Hull) plc, Minorplanet Systems plc and the London Clinic.
*non-executive director

Jonathan Bloomer FCA

(Age 45)
Group Chief Executive since March 2000. Previously Deputy Group Chief Executive since May 1999 and Group Finance Director since 1995. Director of Railtrack Group plc. Member of the Urgent Issues Task Force Committee of the Accounting Standards Board. Previously a senior partner of Arthur Andersen.

Sir David Barnes CBE

(Age 64)
A director since January 1999. Deputy Chairman of AstraZeneca plc from April 1999 and previously Chief Executive of Zeneca PLC. Deputy Chairman of Business in the Community and non-executive Chairman of Imperial Cancer Research Technology Limited. Member of the Board of Trustees, British Red Cross Society.
*non-executive director

Keith Bedell-Pearce

(Age 53)
A director since 1992 and International Development Director since 1996. Chairman of Prudential Europe since September 1999. Joined Prudential in 1972.

Ann Burdus

(Age 66)
A director since 1996. Director of Next plc. Council member of the Institute of Directors. Previously a director of Safeway Group plc and a committee member of the Automobile Association.
*non-executive director

Derek Higgs

(Age 55)
A director since 1996. Chairman of Prudential Portfolio Managers. Previously Chairman of S.G. Warburg & Co Ltd. Chairman Designate of Partnerships UK and Chairman of Business in the Environment.

Sir Roger Hurn

(Age 61)
A director since February 2000. Chairman of Marconi PLC (formerly The General Electric Company PLC) and deputy chairman of Glaxo Wellcome plc. Director of Imperial Chemical Industries PLC. Previously Chairman of Smiths Industries plc and a director of SG Warburg Group and of Pilkington. Chairman of the Court of Governors at the Henley Management College.
*non-executive director

Bridget Macaskill

(Age 51)
A director since May 1999. President and Chief Executive Officer of OppenheimerFunds Inc, a New York based investment management company.
*non-executive director

Rob Rowley

(Age 50)
A director since July 1999. Finance director of Reuters Group PLC.
*non-executive director

Sandy Stewart

(Age 66)
A director since 1997. Chairman of Murray Extra Return Investment Trust plc and of the Scottish Amicable (supervisory) Board. Previously a practising solicitor and Chairman of Scottish Amicable Life Assurance Society.
*non-executive director

Mark Tucker

(Age 42)
A director since September 1999. Chief Executive of Prudential Corporation Asia since 1994. Joined Prudential in 1986.

Corporate Governance

Corporate Governance

The directors support the Combined Code. The company has complied throughout the accounting period ended 31 December 1999 with all the Code provisions. We have applied the principles in the manner described below and in the Remuneration Report.

Organisational Structure

The organisational structure of the group is clearly defined by reference to business units for which individual business chief executives are responsible. The Board, the members of which are set out on pages 34 and 35, meets regularly, usually monthly, 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 business unit heads, and is also assisted by a group head office team of functional specialists.

The head of each business unit has authority for management of that business unit and has established a management board comprising the most senior executives in that business unit.

All directors have direct access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Full Board papers are provided to all directors approximately one week before each Board or committee meeting.

Board Committees

The Board has established the following committees of non-executive directors:

Audit Committee

Michael Abrahams (Chairman)
Ann Burdus
Rob Rowley
Sandy Stewart

The Audit Committee normally meets six times a year and assists the Board in meeting its responsibilities in ensuring an effective system of internal control and accurate external financial reporting. It also provides a direct channel of communication between the external auditors and the Board and assists the Board in ensuring that the external audit is conducted in a thorough, objective and cost-effective manner.

The Group Chief Executive, the Group Finance Director, the Group Legal Services Director, the Head of Group Compliance, the Head of Group Internal Audit and the external auditors attend meetings of the Committee except when the Committee wishes to meet alone.

Remuneration Committee

Sir David Barnes (Chairman)
Michael Abrahams
Ann Burdus
Sir Roger Hurn
Bridget Macaskill
Rob Rowley
Sandy Stewart

Upon appointment to the Board, all non-executive directors (except the Chairman) automatically become members of the Remuneration Committee.

The Remuneration Committee normally meets three times a year to review remuneration policy and determines the remuneration packages of the executive directors. In framing its remuneration policy, the Committee has given full consideration to the provisions of Section 1B of and Schedule A to the Code. The Remuneration Report prepared by the Board is set out on pages 39 to 44. In preparing the Report, the Board has followed the provisions of Schedule B to the Code.

Except in relation to its proposals concerning the remuneration of the Group Chief Executive when only the Chairman is consulted, the Remuneration Committee consults the Chairman and the Group Chief Executive about the Committee's proposals relating to the remuneration of all executive directors. The Committee has access to professional advice inside and outside the company.

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.

Independent Professional Advice

The Board has approved a procedure whereby directors have the right in furtherance of their duties to seek professional advice at the company's expense.

Copies of any instructions and advice given by an independent professional adviser to a director is supplied by the director to the Company Secretary who will, unless otherwise instructed by the director concerned, circulate to other directors any necessary information to ensure that other members of the Board are kept informed on issues arising affecting the company or any of its subsidiaries.

No director obtained independent professional advice during 1999.

Directors' Independence, Training and Re-election

All non-executive directors are considered to be independent. After the Chairman, the Deputy Chairman, Michael Abrahams, is recognised as the senior independent director. As the UK's largest institutional investor, conflicts of interest are always possible, but the Board does not consider that this affects the independence of those non-executive directors in whose companies the company has a shareholding.

Non-executive directors are appointed initially for a three year term. The appointment is then reviewed towards the end of this period. Upon appointment, all non-executive directors embark upon a programme of induction that will usually take the form of visits to different business areas in the group where the opportunity is taken for the newly appointed director to meet members of staff. Training is available for executive directors where appropriate.

All directors are required to submit themselves for re-election at regular intervals and at least every three years.

Relations with Shareholders

As a major institutional investor, the company is acutely aware of the importance of maintaining good relations with its shareholders. The company regularly holds discussions with major shareholders and a programme of meetings took place during 1999.

The company believes the Annual General Meeting is an important forum for both institutional and private shareholders and encourages attendance by shareholders. At its Annual General Meeting in 1999 the company indicated the balance of proxies lodged in respect of each resolution after it had been dealt with on a show of hands. This practice provides shareholders present with sufficient information regarding the level of opposition to each resolution. The company discloses full details of the proxy votes received to any shareholder upon request after the Annual General Meeting. The Chairman of the Remuneration Committee was not in attendance at the Annual General Meeting in 1999, due to unforeseen circumstances. The notice of the Annual General Meeting and related papers are sent to shareholders at the same time as the Annual Report. As with last year's Annual General Meeting, a business presentation will be provided and questions sought from shareholders.

Financial Reporting

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 48 to 72 and the supplementary information on pages 77 to 81. It is the responsibility of the auditors to form an independent opinion, based on their audit, on those financial statements and to report their opinions to the company's shareholders. These opinions are given on pages 73 and 83.

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 results 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 which disclose with reasonable accuracy at any time the financial position of the company and enable them to prepare the financial 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.

Internal Control

Guidance for directors 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance) was published in September 1999. The directors have taken advantage of the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls in accordance with the Institute of Chartered Accountants in England and Wales' 1994 guidance 'Internal control and financial reporting'.

Nevertheless, in the light of the Turnbull Committee's guidance on internal control, the Board has taken the opportunity to review and improve its process for identifying and managing the group's risks and the control procedures in place to manage those risks. The Board confirms that it has established procedures necessary to implement the Turnbull guidance such that it will fully comply with it for the accounting period ending 31 December 2000.

The management of exposure to risk is fundamental to the group's operations. The group's system of internal control, for which the Board has overall responsibility, is an essential and integral part of the risk management process. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The group has established an ongoing process for identifying, managing and reporting the group's risks that is regularly reviewed by the Board. The main features of this process are as follows:

Investment

The respective responsibilities of the Board and business unit 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.

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. The group is continuing the implementation of value-based management in its operations.

Financial Position

The Board receives regular reports from the Group Finance Director on financial matters and receives annual reports from the relevant senior actuaries on the financial condition of the group's principal long-term insurance businesses.

Compliance

The Head of Group Compliance monitors adherence to regulatory requirements and reports directly to the Audit Committee on the group's compliance matters.

Audit

The Head of Group Internal Audit 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 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 control framework. A summary of the findings was considered by the Audit Committee and the findings and conclusions reported to the Board.

Remuneration Report

The Remuneration Committee of the Board is made up wholly of independent non-executive directors and is responsible for setting remuneration policy and individual remuneration packages for executive directors. The Board has adopted the principles of good corporate governance relating to directors' remuneration as set out in the Combined Code and complies with the provisions of Section 1B of and Schedules A and B to the Code.

The members of the Remuneration Committee during 1999 were:

Sir David Barnes (who was appointed on 18 February and became Chairman of the Committee upon the retirement of Niall FitzGerald on 6 May)

Michael Abrahams

Ann Burdus

Niall FitzGerald (who was Chairman until his retirement on 6 May)

Lord Gillmore (until his death on 20 March)

Bridget Macaskill (who became a member on 7 May)

Rob Rowley (who became a member on 8 July)

Sandy Stewart

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 long-term incentive plans directly related to the company's longer-term performance.

Salary

Executive directors' salaries are reviewed by the Remuneration Committee, normally annually, having regard to business results, individual accountabilities and performance, and market conditions. Independent surveys are obtained on salary levels in major companies of comparable size in both the financial and non-financial sectors in relevant locations.

Annual Bonus

This element of the directors' remuneration package is designed to encourage directors to achieve the highest levels of annual corporate performance.

The annual bonus award for all executive directors is calculated under a cash-based incentive plan. The awards are based on performance against quantitative financial and business targets as well as personal performance.

For 1999, executive directors were eligible to be awarded a bonus of up to 45 per cent of basic salary at the time of making the award, excluding Derek Higgs who was eligible to be awarded a bonus of up to 100 per cent of basic salary. In 2000, the maximum bonus opportunity for Derek Higgs will be aligned to that available to the other executive directors. Awards under this plan are not pensionable.

Benefits

Executive directors receive certain benefits, the principal ones being the provision of company cars and participation in a medical insurance scheme. These benefits are not pensionable.

Service Contracts

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. The contracts of employment for both Les Cullen and Mark Tucker, both appointed to the Board in 1999, contained a 12 month notice period. During 1999, the notice periods for Keith Bedell-Pearce and Jonathan Bloomer were reduced to 12 months from 18 months. When considering termination of service contracts, the Committee will have regard to the specific circumstances of each case, including mitigation.

Policy on External Appointments

Executive directors are able, subject to the Board's approval, to accept a limited number of external appointments as non-executive directors of other organisations.

Non-executive Directors' Remuneration

The fees for non-executive directors are reviewed annually by the Board after considering recommendations by the executive directors. Since 1 June 1996, non-executive directors' fees have been £25,000 per annum and £45,000 per annum for the Deputy Chairman. In 1999, the Chairman received a fee of £175,000 per annum. In addition, Sandy Stewart, as Chairman of the supervisory board of the Scottish Amicable Insurance Fund, and Michael Abrahams, as a non-executive director of Scottish Amicable Life plc, received 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 Michael Abrahams who has been a member of the Prudential Staff Pension Scheme since his appointment which was before 1988 when such arrangements were ended.

Remuneration Report continued

Directors' Remuneration	Salary/ Fees £000	Annual Bonus £000	Benefits £000	Total 1999 £000	Total 1998 £000
Executive directors					
Keith Bedell-Pearce	300	143	29	472	377
Jonathan Bloomer	427	199	42	668	476
Les Cullen (appointed 6/9/99, resigned 29/2/00)	116	47	2	165	
Sir Peter Davis (resigned 29/2/00)	580	267	29	876	689
Derek Higgs	380	232	21	633	538
Mark Tucker (appointed 1/9/99) (notes 2 and 3)	120	85	51	256	
Total executive directors	1,923	973	174	3,070	2,080
Non-executive directors					
Michael Abrahams	65			65	65
Sir David Barnes (appointed 4/1/99)	25			25	
Ann Burdus	25			25	25
Niall FitzGerald (retired 6/5/99, note 4)	9			9	25
Lord Gillmore (pro-rated to 20/3/99)	6			6	25
Sir Martin Jacomb	175		13	188	187
Bridget Macaskill (appointed 7/5/99)	16			16	
Rob Rowley (appointed 8/7/99)	12			12	
Sandy Stewart	50			50	50
Andrew Teare (retired 7/5/98)					9
Total non-executive directors	383		13	396	386
Overall total 1999	2,306	973	187	3,466	
Overall total 1998	1,856	494	116		2,466

Notes:

1. The highest paid director for both 1999 and 1998 was Sir Peter Davis whose emoluments in 1999, including the value of rights granted to him under the long-term incentive plan, were £1,922,000 (£1,501,000 in 1998 which includes the shares in respect of the 1995 Restricted Share Plan allocated in 1998 which had a market value of £812,000). Additionally, in 1999 the company made pension contributions of £229,000 on his behalf (£204,000 in 1998). The pension contributions made in 1999 comprised contributions of £207,000 to a Funded Unapproved Retirement Benefit Scheme and £22,000 to the Prudential Staff Pension Scheme and a separate life assurance scheme that provides cover over the Inland Revenue earnings cap.
2. Included in the benefits figure for Mark Tucker is an allowance for housing and additional similar benefits of £45,000, reflecting his expatriate circumstances.
3. Included in the annual bonus figure for Mark Tucker is a special bonus payment of £33,000 reflecting significant strategic advances and outstanding business performance in 1999 in the group's Asian operations.
4. Fees in respect of Niall FitzGerald were paid to his employer.

Directors' Long-term Incentive Plans

The group's primary 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, thereby aligning directors' interests with those of shareholders and encouraging them to perform at the highest level. Under this Plan executive directors are granted annually a conditional award of shares in the company which is held in trust for three years. The conditional award is equivalent to 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 award price used for the 1999 award was 837.3 pence (1998 – 610.7 pence).

At the end of the three year performance period, a right to receive shares at no cost to the individual may be granted dependent on the company's Total Shareholder Return (TSR) relative to the other companies in the FTSE 100 share index over the performance period. In addition, the Remuneration Committee must be satisfied with the company's overall financial performance during this period. No rights will be granted if the company's TSR percentile ranking is 60th or below and the maximum grant will be made only if the TSR percentile ranking is 20th or above. Between these points, the size of the grant will be calculated on a straight line basis. In normal circumstances, directors may take up their right to receive shares 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 rights may be granted, as stated above, at the end of the relevant performance period.

In respect of the 1997 Restricted Share Plan, the company's TSR was ranked eighth out of the 89 relevant comparator companies (i.e. ninth percentile) for the three year performance period ended on 31 December 1999. As a result, rights will be granted over 100 per cent of the shares conditionally awarded to executive directors. The 1998 and 1999 Restricted Share Plans run to 31 December 2000 and 31 December 2001 respectively and any grants under these plans will be based on the final TSR ranking at the end of each performance period; performance under these Plans was ranked 15th and 28th on the basis of TSR performance as it stood at 31 December 1999.

	Conditional share awards outstanding at 1 Jan 1999*	Conditionally awarded in 1999	Rights granted in 1999	Market value of rights granted in 1999 £000**	Conditional share awards outstanding at 31 Dec 1999	Release year
Keith Bedell-Pearce	48,037		48,037	435		
	39,350				39,350	2000
	36,024				36,024	2001
		28,664			28,664	2002
	123,411	28,664	48,037	435	104,038	
Jonathan Bloomer	63,511		63,511	575		
	56,859				56,859	2000
	45,390				45,390	2001
		36,308			36,308	2002
	165,760	36,308	63,511	575	138,557	
Les Cullen		16,720			16,720	2002[2]
Sir Peter Davis	115,474		115,474	1,046		
	101,534				101,534	2000
	79,417				79,417	2001[3]
		64,494			64,494	2002[3]
	296,425	64,494	115,474	1,046	245,445	
Derek Higgs	69,285		69,285	628		
	56,859				56,859	2000
	45,390				45,390	2001
		36,308			36,308	2002
	171,534	36,308	69,285	628	138,557	
Mark Tucker	46,931				46,931	2000
	36,024				36,024	2001
	28,664				28,664	2002
	111,619				111,619	

* Or date of appointment if later.

** The market value of rights granted in 1999 is based on the market value of the shares over which rights are granted on the day of the grant (906 pence).

Notes:

1. Apart from those shares allocated to Sir Peter Davis in respect of the 1995 Restricted Share Plan, no shares were allocated in 1998 to directors.
2. In accordance with the arrangements for Les Cullen's departure, the release date applying to his 1999 RSP award will be following his termination of employment in 2000 with shares released subject to pro-rating for service as a director in the performance period and TSR performance at 29 February 2000.
3. In accordance with the arrangements for Sir Peter Davis' departure, the release dates applying to his RSP awards have been brought forward to February 2000 with shares released subject only to pro-rating for TSR performance at 31 January 2000.

To reflect his role as Chief Executive, Prudential Corporation Asia, Mark Tucker also participates in a long-term incentive plan that measures performance of the group's Asian operations. This plan is designed to provide reward based on the growth of the appraisal value of Prudential Corporation Asia during each three-year period.

The resulting payment (if any) is made each year in April following the end of the preceding three-year period. The theoretical maximum payout from 2000 is 150 per cent of the basic salary being paid at the beginning of the three-year period (previously 172.5 per cent). However the growth required for such a period is such that 100 per cent is unlikely to be exceeded. No payment has become due since Mark Tucker became a director, nor will one become due in 2000.

Directors' Shareholdings

As a condition of serving, all executive and non-executive directors are required to hold 2,500 shares in the company within two months of appointment to the Board.

A cash-based incentive plan replaced the Share Participation Plan in 1999 as the group's annual bonus plan. Those shares awarded under the Share Participation Plan in previous years, as well as those allocated under the 1995 Restricted Share Plan, are included in the interests of directors in shares of the company shown below. In addition, all rights granted under the 1996 Restricted Share Plan are included in the interests shown below where these remain outstanding. Awards that remain conditional under the Restricted Share Plan are excluded. All interests are beneficial except in respect of 7,200 shares held in trust by Sandy Stewart.

	1 Jan 1999*	31 Dec 1999
Michael Abrahams	12,894	13,199
Sir David Barnes	3,750	3,750
Keith Bedell-Pearce	80,808	142,463
Jonathan Bloomer	45,628	119,399
Ann Burdus	2,552	2,612
Les Cullen	2,500	2,500
Sir Peter Davis**	160,852	178,242
Derek Higgs	41,344	117,352
Sir Martin Jacomb	17,955	18,019
Bridget Macaskill	0	2,792
Rob Rowley	0	2,519
Sandy Stewart	9,786	9,786
Mark Tucker	84,747	85,398

* Or date of appointment if later.

** Shareholding includes those shares allocated in respect of the 1995 Restricted Share Plan, with a three year performance period ended 31 December 1997. These shares were released in 2000.

Sir Roger Hurn held 10,000 shares at the date of his appointment as a non-executive director on 17 February 2000. There were no changes in interests between 31 December 1999 and 28 February 2000.

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. The Savings-Related Share Option 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 1999**	Granted in year	Exercised in year	Options outstanding at 31 Dec 1999	Exercise price (pence)	Market price at date of exercise (pence)	Gain on exercise £000	Earliest exercise date	Latest exercise date
Keith Bedell-Pearce	189,000			189,000	201			1995	2002
	105,000			105,000	328			1996	2003
	60,500			60,500	309			1997	2004
	6,716*		6,716*		201	802	40		
	2,267*			2,267*	344			2003	2003
	3,259*			3,259*	359			2003	2004
	366,742		6,716	360,026			40		
Jonathan Bloomer	196,750			196,750	315			1998	2005
	226,750			226,750	315			2000	2005
	7,677*			7,677*	254			2002	2002
	431,177			431,177					
Les Cullen		1,327*		1,327*	730			2002[3]	2003[3]
Sir Peter Davis	5,014*			5,014*	344			2001[4]	2001[4]
Derek Higgs	5,014*			5,014*	344			2001	2001
Mark Tucker	4,074*			4,074*	254			2000	2000
	2,172*			2,172*	359			2003	2004
	6,246			6,246					
Total							40		

* Savings-Related Share Option Scheme.
** Or date of appointment if later.

Notes:

1. The market price of shares at 31 December 1999 was 1220 pence which was also the highest share price during 1999. The lowest share price during 1999 was 765.5 pence.
2. During 1998, Keith Bedell-Pearce and Jonathan Bloomer exercised options with associated gains on exercise of £45,000 and £151,000 respectively.
3. The share options granted to Les Cullen in 1999 will lapse on his departure.
4. In accordance with the arrangements for Sir Peter Davis' departure, the exercise of his share options, up to the value of his savings at the time of exercise, has been brought forward to 2000.

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 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 retirement or termination of employment and, for entrants since 31 May 1989, are restricted to salary up to the Inland Revenue earnings cap, which at the time of writing is £90,600.

The Scheme also provides on death, whether in service, in deferment or following retirement, pensions for spouse and children. The spouse's pension on death in service is the higher of 54 per cent of the member's prospective pension at age 60 or 25 per cent of salary in the 12 months preceding death subject to the earnings cap. The spouse's pension on death in deferment is 50 per cent of the member's deferred pension at the date of death. On death after retirement, the spouse's pension is 50 per cent of the member's pension in payment ignoring any pension commuted for a lump sum at retirement. 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. As set out in previous reports, 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 will, on request, establish a Funded Unapproved Retirement Benefit Scheme (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 and Les Cullen have not participated in a FURBS and instead the company pays a salary supplement to fund arrangements for the provision of income in retirement. The Prudential Staff Pension Scheme provides a lump sum death in service benefit and Jonathan Bloomer also participates in a separate life assurance scheme that provides cover over the earnings cap.

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.

				Accrued entitlement based on normal retirement age		Pre-tax contribution to FURBS or salary supplement	
	Age at 31 Dec 1999	Years of pensionable service at 31 Dec 1999	Additional pension earned (excluding inflation) in year £000	31 Dec 1999 £000	31 Dec 1998* £000	1999 £000	1998 £000
Keith Bedell-Pearce	53	29	16	157	139		
Jonathan Bloomer	45					124	90
Les Cullen	47					34	
Sir Peter Davis	58	4	2	7	5	207	182
Derek Higgs	55	3	2	6	4	127	105
Mark Tucker	42	14	8	89	81		
Michael Abrahams (note 1)	62	15	1	10	9		
Total						492	377

* Or date of appointment if later.

Notes:

1. For 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 £594,000 (1998 £462,000).

Service Contracts of Directors Proposed for Re-election

Mark Tucker, who is proposed for election, and Keith Bedell-Pearce, who is proposed for re-election, have service contracts of 12 months. Sir Roger Hurn, Bridget Macaskill and Rob Rowley, who are proposed for election, and Ann Burdus, who is proposed for re-election, do not have service contracts.

On behalf of the Board of directors

Sir David Barnes
Chairman of the Remuneration Committee
9 March 2000

Sir Martin Jacomb
Chairman
9 March 2000

Directors' Report

Change of Name
The company changed its name from Prudential Corporation public limited company to Prudential public limited company on 1 October 1999.

Principal Activity and Business Review
Prudential plc is the group holding company and the principal activity of its subsidiary undertakings is the provision of financial services in the United Kingdom and overseas. Particulars of principal subsidiary undertakings are given in note 24 on page 70. The group's business is reviewed in the Chairman's Statement on page 4, the Group Chief Executive's Review on pages 7 to 9 and the Group Financial Review on pages 28 to 31.

Financial Statements and Supplementary Information
The consolidated balance sheet on pages 52 and 53 shows the state of affairs of the group at 31 December 1999. The company's balance sheet appears on page 54 and the consolidated profit and loss account on pages 48 to 50. A summary of the statutory basis results is shown on page 47. There is a five year review of the group on pages 74 and 75. Supplementary information prepared on the achieved profits basis of financial reporting is provided on pages 76 to 82.

Dividends
The directors have declared a final dividend for 1999 of 15.3p per share payable on 31 May 2000 to shareholders on the register at the close of business on 31 March 2000. The dividend for the year, including the interim dividend of 7.7p per share paid in 1999, amounts to 23.0p per share compared with 21.0p per share for 1998. The total cost of dividends for 1999 was £449 million.

Millennium
Since the beginning of the year no material problems attributable to the Year 2000 date change have arisen in any of the group's business units. However, we are continuing to monitor both our own internal systems and processes as well as those which impact our customers and suppliers in order to identify any Year 2000 related problems should they occur.

The directors do not expect there to be any significant residual risks from this issue but, in the unlikely event of residual risk crystallising, they believe that there are sufficient contingency plans in place.

Payment Policy
The group does not follow any code or standard on payment practice with its suppliers but 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 24 days.

Directors
The present directors are shown on pages 34 and 35. Sir David Barnes was appointed a director on 4 January 1999 and elected at the Annual General Meeting on 6 May 1999. Niall FitzGerald retired as a director on 6 May 1999. Lord Gillmore died on 20 March 1999. Bridget Macaskill, Rob Rowley, Mark Tucker and Sir Roger Hurn were appointed directors on 7 May 1999, 8 July 1999, 1 September 1999 and 17 February 2000 respectively and in accordance with the Articles of Association retire and offer themselves for election at the Annual General Meeting. Les Cullen was appointed a director on 6 September 1999 and resigned on 29 February 2000. Sir Peter Davis resigned on 29 February 2000. Ann Burdus and Keith Bedell-Pearce retire by rotation at the Annual General Meeting and offer themselves for re-election. Michael Abrahams and Sir Martin Jacomb also retire by rotation but do not offer themselves for re-election. Details of directors' interests in the share capital of the company are set out in the Remuneration Report on page 42.

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 provide 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.

Late in 1999, these were extended when employees were invited to elect representatives to the Prudential European Employee Forum, who subsequently agreed its constitution. The new Forum is a high-level employee consultative body, which ensures that Prudential plc meets its European legal obligations. The first meeting will be held on 22 March 2000.

In 1999 employees were again invited to participate in the Prudential Savings-Related Share Option Scheme.

The Scheme has now been operating for over 16 years and some 65 per cent of UK staff currently participate.

The board of the corporate trustee of the Prudential Staff Pension Scheme includes directors elected by the members of the Scheme in accordance with the Pensions Act 1995.

Donations

Charitable donations made by the group in 1999 were £1.8 million. It is group policy not to make political donations and no such donations were made in 1999.

Auditors

During 1999 PricewaterhouseCoopers resigned as auditors of the company and the directors appointed KPMG Audit Plc to fill the casual vacancy thus arising. A resolution for the re-appointment of KPMG Audit Plc will be put to the Annual General Meeting. Special notice of this resolution has been given to the company in accordance with Section 388(3) of the Companies Act 1985.

Shareholders

The number of accounts on the share register at 31 December 1999 was 89,051 (80,205). Further information about shareholdings in the company is given on page 84.
At 28 February 2000 the company had received notification from Janus Capital Corporation of a holding of 3.9 per cent of the company's share capital.

On behalf of the Board of directors

Peter Maynard
Company Secretary
9 March 2000

Summary of Statutory Basis Results

The following table summarises the statutory basis results reported in the profit and loss account on pages 48 to 50. This summary does not form part of the statutory financial statements.

	1999 £m	1998 £m
Operating profit before tax (based on longer-term investment returns) before amortisation of goodwill		
General business:		
Retail Financial Services	61	39
Re-engineering costs*	(12)	–
Balance on the general business technical account (analysed on page 48)	49	39
Long-term business:		
Retail Financial Services and Annuities	319	294
Retail IFA	99	88
Group Pensions	36	22
Prudential M&G Asset Management	17	–
US operations	451	411
Asia	15	13
Europe	6	4
Discontinued Australia and New Zealand operations	–	8
Long-term business re-engineering costs attributable to shareholders*	(48)	–
Balance on the long-term business technical account before tax (analysed on pages 49 and 50)	895	840
Investment management and products:		
Prudential M&G Asset Management	70	28
Re-engineering costs*	(10)	–
	60	28
egg:| and Prudential Banking	(150)	(77)
Other income and expenditure (analysed in note 1(v))	(78)	38
Group operating profit before amortisation of goodwill:		
Continuing operations	776	860
Discontinued operations	–	8
Total operating profit before amortisation of goodwill	776	868
Items excluded from operating profit before amortisation of goodwill:		
Amortisation of goodwill	(54)	–
Short-term fluctuations in investment returns (note 1 (v) and (vi))	28	24
Profit on business disposals	–	249
	(26)	273
Statutory basis profit on ordinary activities before tax	750	1,141
Tax on profit on ordinary activities:		
Tax on operating profit before amortisation of goodwill	(209)	(214)
Tax on items excluded from operating profit before amortisation of goodwill	1	(47)
Total tax on profit on ordinary activities	(208)	(261)
Statutory basis profit for the financial year:		
Operating profit after tax before amortisation of goodwill	567	654
Items excluded from operating profit after tax before amortisation of goodwill	(25)	226
Total statutory basis profit for the financial year	542	880
Earnings per share		
Based on operating profit after tax before amortisation of goodwill	29.1p	33.7p
Based on profit for the financial year – basic	27.8p	45.3p
Dividend per share	23.0p	21.0p

* Part of re-engineering costs of £70m borne by shareholders' funds.

Consolidated Profit and Loss Account

Year ended 31 December 1999

General Business Technical Account	Note	1999 £m	1998 £m
Gross premiums written	1(iv)	**318**	310
Outward reinsurance premiums		**(12)**	(15)
Premiums written, net of reinsurance		**306**	295
Change in the gross provision for unearned premiums		**(5)**	(3)
Change in the provision for unearned premiums, reinsurers' share		**1**	1
Earned premiums, net of reinsurance		**302**	293
Allocated investment return transferred from the non-technical account	1(iv)	**40**	41
Claims paid:			
Gross amount		**(227)**	(234)
Reinsurers' share		**9**	10
Net of reinsurance		**(218)**	(224)
Change in the provision for claims:			
Gross amount		**35**	19
Reinsurers' share		**(10)**	4
Net of reinsurance		**25**	23
Claims incurred, net of reinsurance		**(193)**	(201)
Net operating expenses (including re-engineering costs of £12m (£nil))	6	**(93)**	(86)
Change in the equalisation provision		**(7)**	(8)
Balance on the general business technical account	1(vii)	**49**	39

Gross premiums written and the balance on the general business technical account relate to continuing operations.

Long-term Business Technical Account	Note	1999 £m	1998 £m
Gross premiums written:			
Continuing operations		14,580	10,640
Acquisitions	27	246	–
	1(iii)	14,826	10,640
Discontinued operations		–	423
Total		14,826	11,063
Outward reinsurance premiums		(75)	(70)
Earned premiums, net of reinsurance		14,751	10,993
Investment income	4	10,817	8,516
Unrealised gains on investments		6,239	3,842
Claims paid:			
Gross amount		(10,518)	(9,079)
Reinsurers' share		89	59
Net of reinsurance		(10,429)	(9,020)
Change in the provision for claims:			
Gross amount		(153)	(12)
Reinsurers' share		6	(2)
Net of reinsurance		(147)	(14)
Claims incurred, net of reinsurance		(10,576)	(9,034)
Change in long-term business provision:			
Gross amount		(6,778)	(8,405)
Reinsurers' share		33	27
Net of reinsurance		(6,745)	(8,378)
Change in provisions for linked liabilities, net of reinsurance		(4,830)	(1,439)
Change in other technical provisions, net of reinsurance		(11,575)	(9,817)
Net operating expenses (including re-engineering costs attributable to shareholders of £48m (£nil))	6	(1,609)	(1,290)
Investment expenses and charges	7	(299)	(297)
Tax attributable to the long-term business	8	(801)	(691)
Allocated investment return transferred from (to) the non-technical account		14	(5)
Transfers to the fund for future appropriations		(6,325)	(1,609)
Balance on the long-term business technical account		636	608
Analysed between:			
Continuing operations		628	601
Acquisitions	27	8	–
		636	601
Discontinued operations		–	7
		636	608

Consolidated Profit and Loss Account continued

Year ended 31 December 1999

Non-technical Account	Note	1999 £m	1998 £m
Balance on the general business technical account	1(vii)	**49**	39
Balance on the long-term business technical account		**636**	608
Tax credit attributable to balance on the long-term business technical account	8	**259**	232
Balance on the long-term business technical account before tax	1(vii)	**895**	840
Profit on insurance activities		**944**	879
Other activities			
Investment income	4	**162**	224
Unrealised gains on investments		**14**	30
Allocated investment return transferred (to) from the long-term business technical account		**(14)**	5
Investment expenses and charges	7	**(132)**	(110)
Allocated investment return transferred to the general business technical account		**(40)**	(41)
Other income:			
Investment management and products result (including re-engineering costs of £10m (£nil))		**60**	28
Profit on business disposals		**–**	249
Other charges:			
Corporate expenditure		**(40)**	(46)
Banking		**(150)**	(77)
Amortisation of goodwill	9	**(54)**	–
Profit on other activities	1(vii)	**(194)**	262
Profit on ordinary activities before tax			
Continuing operations		**709**	884
Acquisitions	27	**41**	–
		750	884
Discontinued operations		**–**	257
		750	1,141
Tax on profit on ordinary activities	8	**(208)**	(261)
Profit for the financial year	1(i)	**542**	880
Dividends:			
Interim (at 7.7p (7.0p) per share)		**(150)**	(136)
Final (at 15.3p (14.0p) per share)		**(299)**	(271)
Total dividends		**(449)**	(407)
Retained profit for the financial year	19	**93**	473
Reconciliation of operating profit before amortisation of goodwill to profit on ordinary activities			
Operating profit before amortisation of goodwill based on longer-term investment returns	1(ii)	**776**	868
Amortisation of goodwill		**(54)**	–
Short-term fluctuations in investment returns		**28**	24
Profit on business disposals		**–**	249
Profit on ordinary activities before tax		**750**	1,141
Basic earnings per share			
Based on operating profit after tax before amortisation of goodwill of £567m (£654m) and 1,947m (1,942m) shares	1(i)	**29.1p**	33.7p
Adjustment for amortisation of goodwill		**(2.8)p**	–
Adjustment from post-tax longer-term to post-tax actual investment gains		**2.3p**	0.8p
Adjustment in respect of profit on business disposals (1999 tax paid on prior year disposals)		**(0.8)p**	10.8p
Based on profit for the financial year of £542m (£880m) and 1,947m (1,942m) shares	1(i)	**27.8p**	45.3p
Diluted earnings per share			
Based on profit for the financial year of £542m (£880m) and 1,959m (1,955m) shares	18	**27.7p**	45.0p
Dividend per share		**23.0p**	21.0p

Consolidated Statement of Total Recognised Gains and Losses

Year ended 31 December 1999

	1999 £m	1998 £m
Profit for the financial year	**542**	880
Exchange movements	**48**	(50)
Total recognised gains relating to the financial year	**590**	830

Reconciliation of Consolidated Movement in Shareholders' Capital and Reserves

Year ended 31 December 1999

	1999 £m	1998 £m
Total recognised gains relating to the financial year	**590**	830
Goodwill on disposal of subsidiaries	**–**	28
New share capital subscribed	**34**	15
Dividends	**(449)**	(407)
Net movement in shareholders' capital and reserves	**175**	466
Shareholders' capital and reserves at beginning of year	**3,249**	2,783
Shareholders' capital and reserves at end of year	**3,424**	3,249

Consolidated Balance Sheet

31 December 1999

Assets	Note	1999 £m	1998 £m
Intangible assets			
Goodwill	9	1,582	59
Investments			
Land and buildings	13	8,763	7,298
Investments in participating interests	14	105	82
Other financial investments	15	105,867	93,014
		114,735	100,394
Assets held to cover linked liabilities	16	18,643	9,737
Reinsurers' share of technical provisions			
Provision for unearned premiums		4	3
Long-term business provision		215	172
Claims outstanding		57	60
Technical provisions for linked liabilities		400	259
		676	494
Debtors			
Debtors arising out of direct insurance operations:			
Policyholders		261	254
Intermediaries		3	3
Debtors arising out of reinsurance operations		30	160
Other debtors:			
Tax recoverable		330	269
Other		469	598
		1,093	1,284
Other assets			
Banking business assets		8,850	2,397
Tangible assets	17	239	141
Cash at bank and in hand		790	684
Own shares	18	29	10
Present value of acquired in force long-term business		170	138
Present value of future margins relating to advances from reinsurers		55	36
		10,133	3,406
Prepayments and accrued income			
Accrued interest and rent		988	779
Deferred acquisition costs:			
Long-term business		2,726	2,580
General business		15	15
Other prepayments and accrued income		52	38
		3,781	3,412
Total assets		150,643	118,786

Liabilities	Note	1999 £m	1998 £m
Capital and reserves			
Share capital	18	**98**	98
Share premium	18	**249**	221
Profit and loss account	19	**3,077**	2,930
Shareholders' funds – equity interests		**3,424**	3,249
Fund for future appropriations	1(viii)	**27,262**	20,879
Technical provisions			
Provision for unearned premiums		**164**	158
Long-term business provision	20	**84,476**	76,760
Claims outstanding		**827**	704
Equalisation provision		**30**	22
		85,497	77,644
Technical provisions for linked liabilities		**19,043**	9,996
Provisions for other risks and charges			
Deferred tax	8	**575**	465
Deposits received from reinsurers		**101**	65
Creditors			
Creditors arising out of direct insurance operations		**217**	202
Creditors arising out of reinsurance operations		**18**	13
Debenture loans	21	**1,546**	1,031
Amounts owed to credit institutions	21	**1,111**	678
Other creditors including taxation and social security:			
Banking business liabilities		**8,438**	2,271
Tax		**533**	329
Final dividend		**299**	271
Other creditors		**2,199**	1,554
		14,361	6,349
Accruals and deferred income		**380**	139
Total liabilities		**150,643**	118,786

Balance Sheet of the Company

31 December 1999

	Note	1999 £m	1998 £m
Fixed assets			
Investments:			
Shares in subsidiary undertakings	22	**5,023**	2,794
Loans to subsidiary undertakings	22	**1,531**	1,464
		6,554	4,258
Current assets			
Debtors:			
Amounts owed by subsidiary undertakings		**295**	291
Tax recoverable		**95**	95
Other debtors		**14**	103
Other investments		**81**	9
Cash at bank and in hand		**29**	155
		514	653
Less liabilities: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(527)**	(434)
Final dividend		**(299)**	(271)
Accruals and deferred income		**(46)**	(29)
		(872)	(734)
Net current liabilities		**(358)**	(81)
Total assets less current liabilities		**6,196**	4,177
Less liabilities: amounts falling due after more than one year			
Debenture loans	21	**(955)**	(450)
Amounts owed to subsidiary undertakings		**(3,252)**	(1,862)
		(4,207)	(2,312)
Total net assets		**1,989**	1,865
Capital and reserves			
Share capital	18	**98**	98
Share premium	18	**249**	221
Profit and loss account	23	**1,642**	1,546
Shareholders' funds		**1,989**	1,865

The financial statements on pages 48 to 72 and the supplementary information on pages 77 to 81 were approved by the Board of directors on 9 March 2000.

Sir Martin Jacomb, Chairman

Jonathan Bloomer, Group Chief Executive

Consolidated Cash Flow Statement

Year ended 31 December 1999

	Note	1999 £m	1998 £m
Operations			
Net cash inflow from operations	26	**42**	245
Servicing of finance			
Interest paid		**(82)**	(85)
Tax			
Tax recovered (paid)		**62**	(138)
Acquisitions and disposals			
Net cash (outflow) inflow from acquisitions and disposals of subsidiary undertakings	26	**(1,984)**	345
Equity dividends			
Equity dividends paid		**(421)**	(382)
Net cash outflow before financing		**(2,383)**	(15)
Financing			
Issue of debenture loans	21	**500**	300
Issue of loan notes	21	**168**	–
Credit facility utilised by investment subsidiaries managed by US fund management operation	21	**103**	–
Bank loans raised		**–**	98
Repayment of debenture loan		**–**	(84)
Issues of ordinary share capital (net of related transfer to share ownership trust)		**34**	15
Net cash inflow from financing		**805**	329
Net cash (outflow) inflow in the year		**(1,578)**	314

	Note	1999 £m	1998 £m
The net cash (outflow) inflow was (financed) invested as follows:			
Portfolio investments			
Purchases:			
Ordinary shares		**46**	40
Fixed income securities		**62**	1,733
		108	1,773
Sales:			
Ordinary shares		**(82)**	(22)
Fixed income securities		**(1,701)**	(1,675)
		(1,783)	(1,697)
Net (sales) purchases of portfolio investments	26	**(1,675)**	76
Increase in cash and short-term deposits	26	**97**	238
		(1,578)	314

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 the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. The balance sheet of the company is prepared in accordance with Section 226 of, and 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.

Operating Profit and Segmental Reporting

Consistent with the Statement of Recommended Practice, investment returns credited to operating results, for investments attributable to shareholders, are determined using the longer term rate of return (see note on investment return, below).

In addition, the balances on the long-term business and general business technical accounts incorporate longer term investment returns for investments attributable to shareholders.

Consistent with this treatment, operating profit, as disclosed within the profit and loss account on pages 48 to 50 and the segmental analysis in note 1 on pages 59 to 61 include investment returns for long-term business and general business (as described above) together with longer term returns for investments of other shareholders' funds.

Profit before tax includes actual investment returns. The company believes that operating profit before amortisation of goodwill (and related earnings per share) which as described above, is based on longer term investment returns, but excludes profits and losses on business disposals, better reflects the group's underlying performance.

Investments

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. In accordance with UK SSAP 19 no depreciation is provided on investment properties as the directors consider that 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 at Jackson National Life 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. For unlisted securities market value is estimated by the directors.

Investment Return

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.

Realised gains are determined as the difference between net proceeds on disposal and purchase price or, in the case of securities carried at amortised cost, previous carrying value. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

Investment return in respect of long-term business, including that on assets matching solvency capital, is included in the long-term business technical account. Other investment return is included in the non-technical account.

For long-term business, an allocation is made from the long-term business technical account for the difference between the longer term investment return and the actual return on investments of the long-term business other than for assets backing the long-term business provision, the technical provisions for linked liabilities and the fund for future appropriations.

For general business, an allocation is made between the non-technical account and the general business technical account of the longer term investment return on investments matching general business provisions and solvency capital.

The longer term investment return is an estimate of the long term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations.

Long-term Business

The results are prepared in accordance with the modified statutory basis of accounting as set out in the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. 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. Premiums exclude any taxes or duties based on premiums.

(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) 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.

For with-profits business, unappropriated surplus is carried forward in the fund for future appropriations and no allocation is made to shareholders.

The fund for future appropriations comprises amounts arising in relation to participating policies and other non-linked policies, the allocation of which to policyholders or to shareholders has not been determined at the balance sheet date.

(v) 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 GAAP in respect of deferred tax. Also, on adjustment to UK GAAP, fixed income securities have been included at amortised cost in the balance sheet. Further details are shown in note 2 on page 62.

General Insurance

General insurance business is accounted for on an annual accounting basis.

(i) Premiums are accounted for when risks are assumed. Premiums are shown gross of commission and exclude any taxes or duties based on premiums. 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.

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.

The transfer from long-term technical account to the non-technical account is grossed up at the effective rate of tax.

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, representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis over its useful economic life. The gain or loss on subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

Present Value of Acquired In Force Business

The present value of in force business arising from the acquisition of portfolios of long-term insurance business is recognised as an asset and amortised and discount unwound over the anticipated lives of the related contracts in the portfolios on a basis which is commensurate with the expected emergence of surplus.

Tangible Assets

Tangible assets, principally computer equipment, software development expenditure, and 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.

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

(i) Results Summary	Profit before tax 1999 £m	Tax 1999 £m	Profit after tax 1999 £m	Profit before tax 1998 £m	Tax 1998 £m	Profit after tax 1998 £m
Operating profit before amortisation of goodwill (note (ii))	**776**	**(209)**	**567**	868	(214)	654
Items excluded from operating profit (note (vi))	**(26)**	**1**	**(25)**	273	(47)	226
Total	**750**	**(208)**	**542**	1,141	(261)	880

	Analysis of new business by product distributor				Analysis of total premiums and operating profit by product provider			
	Single		Regular		Gross premiums written		Operating profit (based on longer term investment returns) before amortisation of goodwill	
(ii) Analysis by Business Area	**1999 £m**	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m
UK operations								
Retail Financial Services and Annuities								
Long-term business	**3,211**	1,821	**146**	192	**4,519**	2,926	**319**	294
General business	**–**	–	**–**	–	**318**	310	**61**	39
Total	**3,211**	1,821	**146**	192	**4,837**	3,236	**380**	333
Retail IFA	**2,476**	1,779	**112**	113	**3,531**	2,754	**99**	88
Retail Insurance Operations	**5,687**	3,600	**258**	305	**8,368**	5,990	**479**	421
Group Pensions	**630**	544	**81**	37	**1,281**	1,137	**36**	22
Prudential M&G Asset Management	**570**	–	**13**	–	**948**	297	**87**	28
egg:| and Prudential Banking	**–**	–	**–**	–	**–**	–	**(150)**	(77)
Total	**6,887**	4,144	**352**	342	**10,597**	7,424	**452**	394
US operations								
Jackson National Life	**4,062**	2,835	**24**	28	**4,449**	3,237	**457**	411
Broker dealer and fund management	**–**	–	**–**	–	**–**	–	**(6)**	–
Total	**4,062**	2,835	**24**	28	**4,449**	3,237	**451**	411
Prudential Corporation Asia								
Long-term business and investment products	**765**	114	**106**	79	**1,237**	532	**27**	23
Development expenses	**–**	–	**–**	–	**–**	–	**(12)**	(10)
Total	**765**	114	**106**	79	**1,237**	532	**15**	13
Prudential Europe	**120**	96	**27**	19	**168**	126	**6**	4
Other income and expenditure (note (v))	**–**	–	**–**	–	**–**	–	**(78)**	38
Re-engineering costs	**–**	–	**–**	–	**–**	–	**(70)**	–
Total continuing operations (note (iii))	**11,834**	7,189	**509**	468	**16,451**	11,319	**776**	860
Discontinued long-term business operations	**–**	276	**–**	46	**–**	456	**–**	8
Group total	**11,834**	7,465	**509**	514	**16,451**	11,775	**776**	868

During 1999 the UK operations were reorganised with Group Pensions and Prudential Europe being established as separate business units.

In addition, the stewardship of the US and Asian institutional fund management operations has been transferred from Prudential M&G Asset Management to the US and Asian operations. Comparative figures have been restated accordingly. The Prudential M&G Asset Management result for 1999 includes £17m arising from M&G long-term business.

Single new business includes UK Department of Social Security rebates, increments under existing group pension schemes, and pensions vested into annuity contracts (at the annuity purchase price). Regular new business is determined on an annualised basis.

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.

1 Segmental Analysis continued

(iii) Analysis by Activity	Analysis of new business by product distributor: Single 1999 £m	Single 1998 £m	Regular 1999 £m	Regular 1998 £m	Analysis of total premiums and operating profit by product provider: Gross premiums written 1999 £m	Gross premiums written 1998 £m	Operating profit (based on longer term investment returns) before amortisation of goodwill 1999 £m	Operating profit (based on longer term investment returns) before amortisation of goodwill 1998 £m
Operating results of business operations								
Long-term business	10,639	6,982	489	453	14,826	10,640	943	832
General business (note (iv))	–	–	–	–	318	310	61	39
Investment management and products	1,195	207	20	15	1,307	369	70	28
Banking	–	–	–	–	–	–	(150)	(77)
Other income and expenditure	–	–	–	–	–	–	(78)	38
Re-engineering costs attributable to shareholders	–	–	–	–	–	–	(70)	–
Total continuing operations	11,834	7,189	509	468	16,451	11,319	776	860

Premiums for investment management and products relate to unit trusts, PEPs, ISAs, and mutual funds.

(iv) General Business	Gross premiums written 1999 £m	Gross premiums written 1998 £m	Underwriting result 1999 £m	Underwriting result 1998 £m	Investment return 1999 £m	Investment return 1998 £m	Operating profit (based on longer term investment returns) 1999 £m	Operating profit (based on longer term investment returns) 1998 £m
Continuing operations								
UK operations								
Home	274	273	35	19	23	21	58	40
Motor	44	37	(3)	(7)	6	6	3	(1)
Total continuing operations	318	310	32	12	29	27	61	39
Discontinued operations	–	–	(11)	(14)	11	14	–	–
Total	318	310	21	(2)	40	41	61	39

(v) Other Income and Expenditure	Operating profit (based on longer term investment returns) 1999 £m	Operating profit (based on longer term investment returns) 1998 £m
Investment return (longer term):		
Investment income (including realised gains)	162	224
Unrealised gains on investments	14	30
Net allocations to technical accounts	(54)	(36)
Investment management expenses	(1)	(5)
less: short-term fluctuations in investment return (note (vi))	(28)	(24)
Investment return and other income	93	189
Interest payable	(131)	(105)
Corporate expenditure	(40)	(46)
Total	(78)	38

(vi) Items Excluded from Operating Profit before Amortisation of Goodwill	1999 £m	1998 £m
Amortisation of goodwill (note 9)	(54)	–
Short-term fluctuations in investment returns (as per note (v))	28	24
Profit on business disposals	–	249
Total	(26)	273

1 Segmental Analysis continued

(vii) Reconciliation of Operating Profit to Profit and Loss Account	Balance on long-term business technical account before tax 1999 £m	1998 £m	Balance on general business technical account 1999 £m	1998 £m	Other activities 1999 £m	1998 £m	Total 1999 £m	1998 £m
Continuing operations								
Retail Financial Services and Annuities	319	294	61	39	–	–	380	333
Retail IFA	99	88	–	–	–	–	99	88
Retail Insurance Operations	418	382	61	39	–	–	479	421
Group Pensions	36	22	–	–	–	–	36	22
Prudential M&G Asset Management	17	–	–	–	70	28	87	28
egg:| and Prudential Banking	–	–	–	–	(150)	(77)	(150)	(77)
US operations	451	411	–	–	–	–	451	411
Asia	15	13	–	–	–	–	15	13
Europe	6	4	–	–	–	–	6	4
Other income and expenditure	–	–	–	–	(78)	38	(78)	38
Total	943	832	61	39	(158)	(11)	846	860
Re-engineering costs attributable to shareholders	(48)	–	(12)	–	(10)	–	(70)	–
Group operating profit before amortisation of goodwill from continuing operations	895	832	49	39	(168)	(11)	776	860
Discontinued operations	–	8	–	–	–	–	–	8
Total operating profit before amortisation of goodwill	895	840	49	39	(168)	(11)	776	868
Items excluded from operating profit (note (vi))	–	–	–	–	(26)	273	(26)	273
Statutory basis profit on ordinary activities before tax	895	840	49	39	(194)	262	750	1,141

(viii) 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	1999 £m	1998 £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)	3,699	2,478
Other group companies (principally the with-profits fund of Prudential Assurance Company)	23,563	18,401
	27,262	20,879
Technical provisions (net of reinsurance)	103,864	87,146
Total	131,126	108,025
Comprising:		
UK operations	105,966	86,520
Jackson National Life	21,783	19,518
Asia	2,848	1,615
Europe	529	372
	131,126	108,025

Analysis of Shareholders' Capital and Reserves	Net assets before core shareholder borrowings 1999 £m	Core structural borrowings of shareholder financed operations (note 21) 1999 £m	Shareholders' funds 1999 £m	Net assets before core shareholder borrowings 1998 £m	Core structural borrowings of shareholder financed operations (note 21) 1998 £m	Shareholders' funds 1998 £m
UK operations	1,145	–	1,145	525	–	525
US operations	2,066	(155)	1,911	1,714	(150)	1,564
Asia	217	–	217	123	–	123
Europe	53	–	53	37	–	37
Retained centrally (including goodwill)	1,858	(1,760)	98	2,223	(1,223)	1,000
Total	5,339	(1,915)	3,424	4,622	(1,373)	3,249

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.

2 US Operations

The results of US operations, mainly 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 UK GAAP and 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 longer term 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	1999 US $m	1998 US $m	1999 £m	1998 £m
Jackson National Life US GAAP operating income	**661**	637	**408**	386
Cumulative effect of change in accounting for guarantee fund assessments (and related deferred acquisition costs)	**28**	–	**17**	–
Longer term investment gains	**52**	42	**32**	25
Broker dealer and fund management operating loss	**(10)**	–	**(6)**	–
Operating profit per group accounts	**731**	679	**451**	411
Adjustment from longer term to actual investment gains	**(24)**	4	**(15)**	2
Profit before tax included in group accounts and in accordance with US GAAP	**707**	683	**436**	413
Represented by:				
Jackson National Life	**717**	683	**442**	413
Broker dealer and fund management	**(10)**	–	**(6)**	–
	707	683	**436**	413

Shareholders' Funds	1999 US $m	1998 US $m	1999 £m	1998 £m
Jackson National Life US GAAP shareholders' funds	**2,461**	2,896	**1,527**	1,740
Investment value and related adjustments	**500**	(292)	**311**	(175)
Deferred tax asset eliminated	**(29)**	(127)	**(18)**	(76)
Other items	**148**	125	**91**	75
Shareholders' funds included in group accounts	**3,080**	2,602	**1,911**	1,564
Represented by:				
Jackson National Life	**2,879**	2,405	**1,787**	1,445
Other (related to funding arrangements, broker dealer and fund management operations)	**201**	197	**124**	119
	3,080	2,602	**1,911**	1,564
Exchange rates used for translation were:				
Average rate for the year for profit before tax			**1.62**	1.66
Year-end rate for shareholders' funds			**1.61**	1.66

3 Investment Return

(i) Longer term investment return

The longer term rate of return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The only significant general business and shareholder investments which require calculation of a longer term rate of return are UK equities. For these investments the longer term rate of return has been taken to be 8% (8%). The net longer term dividend yield has been assumed to be 2.75% (2.6%).

For longer term business the most significant element of gains on investments that are attributable to shareholders arises in Jackson National Life. Gains made on realisation of such investments, which are principally fixed income securities, are averaged over five years for the purposes of determining the longer term rate of return to be included in operating results. From 1998 onwards the gains subject to averaging are determined after deduction of related amortisation charges for deferred acquisition costs.

(ii) Comparison of longer term investment gains with actual investment gains

For the group's continuing operations with investment portfolios that are both attributable to shareholders and subject to short-term volatility, a comparison of actual and longer term gains is set out over.

3 Investment Return continued

	1995 to 1999 £m	1994 to 1998 £m
Actual gains attributable to shareholders:		
Jackson National Life	160	131
General business and shareholders	359	242
	519	373
Longer term gains credited to operating results:		
Jackson National Life	179	161
General business and shareholders	177	142
	356	303

No distinction has been made between gains attributable to general business and shareholders as the relevant assets are managed on a combined basis.

4 Investment Income

	Long-term business technical account 1999 £m	1998 £m	Non-technical account 1999 £m	1998 £m
Income from:				
Land and buildings	660	608	–	–
Listed investments	4,426	4,247	49	110
Other investments	645	613	51	99
	5,731	5,468	100	209
Gains on the realisation of investments	5,086	3,048	62	15
Total	10,817	8,516	162	224

5 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 £3,395m (£3,056m).

6 Net Operating Expenses

	Long-term business technical account 1999 £m	1998 £m	General business technical account 1999 £m	1998 £m
Acquisition costs	928	874	26	29
Change in deferred acquisition costs	(88)	(126)	–	5
Administrative expenses*	725	495	68	55
Reinsurance commissions and profit participation	22	30	(1)	(3)
Amortisation of present value of acquired in force business	22	17	–	–
Total	1,609	1,290	93	86

* Administrative expenses for 1999 include £48m (long-term business) and £12m (general business) of re-engineering costs charged to shareholders' funds.

7 Investment Expenses and Charges

	Long-term business technical account 1999 £m	1998 £m	Non-technical account 1999 £m	1998 £m
Interest on bank loans and overdrafts	29	29	2	3
Interest on other loans	26	9	129	102
Total interest payable	55	38	131	105
Investment management expenses	244	259	1	5
Total	299	297	132	110

8 Tax

	Long-term business technical account 1999 £m	1998 £m	Non-technical account 1999 £m	1998 £m
UK corporation tax	503	306	(48)	24
Double tax relief	(12)	(11)	–	(3)
Tax on franked investment income	3	166	2	3
Overseas tax	166	159	(13)	3
Prior year adjustments	40	(3)	42	(1)
	700	617	(17)	26
Deferred tax	101	74	(34)	3
	801	691	(51)	29
Tax credit attributable to balance on the long-term business technical account	–	–	259	232
Total	801	691	208	261
Analysed between:				
Tax on operating profit	–	–	209	214
Tax on short-term fluctuations in investment returns	–	–	(16)	9
Tax on profit on business disposals	–	–	15	38
	–	–	208	261

Deferred tax	Liability provided (asset recognised) 1999 £m	1998 £m	Liability not provided (asset not recognised) 1999 £m	1998 £m
Unrealised gains on investments	515	413	3,179	2,685
Deferred acquisition costs	375	319	11	–
Short-term timing differences	(292)	(255)	(31)	(91)
Long-term business reserves	–	–	122	97
Capital allowances	(27)	(1)	(4)	(3)
Other items	4	(11)	–	–
Total	575	465	3,277	2,688

The principal reconciling item between the movement during 1999 on the balance sheet provision for deferred tax, and the charge for deferred tax included in the profit and loss account, is the provisions held by M&G on acquisition in 1999.

9 Goodwill

	1999 £m	1998 £m
Balance at beginning of year	59	–
Additions in respect of the acquisition of:		
M&G Group P.L.C. (note 27)	1,527	–
Chinfon Life Insurance Company of Taiwan (note 27)	50	–
Prudential Assurance Malaysia Berhad	–	59
Amortisation expense charged to the profit and loss account	(54)	–
Balance at end of year	1,582	59

The cumulative goodwill charged against the group's reserves arising on acquisitions of subsidiary undertakings that remain part of the group amounted to £679m (£679m).

10 Information on Staff

The average numbers of staff employed by the group during the year were:	1999	1998
UK operations	18,885	18,818
US operations	1,640	1,439
Asia	1,535	1,328
Europe	312	272
Discontinued operations	–	977
Total	22,372	22,834

10 Information on Staff continued

The costs of employment were:	1999 £m	1998 £m
Wages and salaries	**637**	576
Social security costs	**51**	44
Other pension costs (see below)	**47**	41
Total	**735**	661

The group operates a number of pension schemes around the world. The largest scheme is the Prudential Staff Pension Scheme which is the group's main UK scheme and covers approximately 60% 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 1999 by P N Thornton, a qualified actuary and a partner in the firm of Watson Wyatt Partners.

The projected accrued benefits method was used and the principal actuarial assumptions adopted were investment return 7.1% per annum, pensionable earnings growth 5% per annum, increases to pensions in payment 3% per annum and dividend growth 3.5% per annum.

The market value of scheme assets at that date was £4,504m 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 continued at the minimum prescribed under the scheme rules, currently equivalent to 10.6% of pensionable earnings. £4m (£4m) of the pension costs related to overseas schemes.

11 Directors' Remuneration

Information on directors' remuneration is given in the Remuneration Report on pages 39 to 44. No director had an interest in shares, transactions or arrangements which requires disclosure, other than those given in the above Report.

12 Fees Payable to Audit Firms

	KPMG 1999 £m	PwC 1999 £m	Total 1999 £m	PwC 1998 £m
Statutory audit fees	**1.2**	**0.4**	**1.6**	2.0
Audit related services:				
Regulatory returns and achieved profits basis audits	**0.2**	**0.1**	**0.3**	0.5
Tax and accounting advice	**0.2**	**0.4**	**0.6**	0.5
Consultancy services	**5.1**	**6.0**	**11.1**	7.7
Total	**6.7**	**6.9**	**13.6**	10.7

In October 1999 KPMG Audit Plc (KPMG) replaced PricewaterhouseCoopers (PwC) as auditors of the company and its subsidiaries with the exception of companies managed by egg:| and Prudential Banking which will change auditors in 2000.

Statutory audit fees include £0.1m (£0.1m) in respect of the company.

Audit related and consultancy fees payable to KPMG include £0.2m and £4.3m respectively incurred prior to the date of their appointment as auditors. Audit related and consultancy fees include £5.1m and £6.3m for KPMG and for PwC respectively for work performed in the UK (1998 PwC £8.2m).

13 Land and Buildings

	1999 £m	1998 £m
Current value:		
Freehold	**5,291**	4,317
Leasehold with a term of over 50 years	**3,362**	2,865
Leasehold with a term of less than 50 years	**110**	116
Total	**8,763**	7,298

The cost of land and buildings was £5,804m (£4,971m). The value of land and buildings occupied by the group was £177m (£111m).

14 Investments in Participating Interests

	Cost 1999 £m	Cost 1998 £m	Carrying value 1999 £m	Carrying value 1998 £m
Interest in associate undertaking	**146**	146	**61**	58
Interests in joint ventures	**20**	–	**20**	–
Other participating interests	**24**	24	**24**	24
Total	**190**	170	**105**	82

14 Investments in Participating Interests continued

The interest in the associate undertaking is included in the consolidated balance sheet at the group's share of the undertaking's net assets.

Movement in the interest in the associate undertaking	Share of capital 1999 £m	Share of reserves 1999 £m	Share of investment 1999 £m
Profit for the year after taxation	–	4	4
Dividends received	–	(1)	(1)
Movement in the interest in the associate undertaking	–	3	3
Balance at beginning of year	16	42	58
Balance at end of year	16	45	61

The associate undertaking is St James's Place Capital plc, which is incorporated in England and Wales and is listed on a recognised investment exchange. The proportion of ordinary shares held by shareholders' funds is 25% and all shares are held by a subsidiary company. The principal activity of the St James's Place Capital Group of companies is the transacting of insurance business.

Interests in joint ventures reflect amounts contributed in the fourth quarter of 1999 in respect of ventures with the Bank of China in Hong Kong and with Signal Iduna in Germany and represent the investments on both a gross and net equity basis. The other participating interest is in respect of the group's interest in Life Assurance Holding Corporation Limited, a holding company for UK life assurance companies.

15 Other Financial Investments

	Cost		Current value	
	1999 £m	1998 £m	1999 £m	1998 £m
Shares and other variable yield securities and units in unit trusts	25,651	23,113	57,693	49,088
Debt securities and other fixed income securities – carried at market value	21,980	18,685	23,035	21,283
Debt securities and other fixed income securities – carried at amortised cost	16,794	15,847	16,798	15,902
Loans secured by mortgages	2,503	1,849	2,529	1,938
Loans to policyholders secured by insurance policies	681	583	681	583
Other loans	98	57	135	68
Deposits with credit institutions	4,415	3,917	4,415	3,917
Other	562	221	581	235
Total	72,684	64,272	105,867	93,014

	1999 £m	1998 £m
Amounts included in the above relating to listed investments were:		
Shares and other variable yield securities and units in unit trusts	56,406	48,108
Debt securities and other fixed income securities – carried at market value	20,530	19,406
Debt securities and other fixed income securities – carried at amortised cost	14,093	13,411
Total	91,029	80,925

The market value of debt securities and other fixed income securities valued at amortised cost was £16,127m (£16,316m). All debt securities carried at amortised cost are held by long-term business operations.

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 £26m (£100m). There were no investments valued at amortised cost where the purchase price exceeded maturity value.

16 Assets Held to Cover Linked Liabilities

	Cost		Current value	
	1999 £m	1998 £m	1999 £m	1998 £m
Assets held to cover linked liabilities	13,511	7,625	18,643	9,737

Current value includes £4,246m (£3,243m) in respect of managed funds.

17 Tangible Assets

	1999 £m	1998 £m
Cost		
Balance at beginning of year	266	235
Additions	144	67
Arising on acquisition (disposal) of subsidiaries	44	(23)
Disposals	(59)	(13)
Balance at end of year	395	266
Depreciation		
Balance at beginning of year	(125)	(121)
Provided during year	(47)	(30)
Arising on (acquisition) disposal of subsidiaries	(30)	11
Disposals	46	15
Balance at end of year	(156)	(125)
Net book value at end of year	239	141
Net book value at beginning of year	141	114

18 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 1999 £m	Share premium 1999 £m
At beginning of year	1,948,666,170	97.5	221.1
Shares issued under share option schemes and to qualifying employee share ownership trust	3,648,991	0.1	28.5
Shares issued in lieu of cash dividends	1,615,274	0.1	14.8
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	–	(14.8)
At end of year	1,953,930,435	97.7	249.6

At 31 December 1999 there were options subsisting under share option schemes to subscribe for 26,212,009 (28,126,716) shares at prices ranging from 193 pence to 759 pence (163 pence to 759 pence) and exercisable by the year 2006 (2005).

The company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 31 December 1999, 8.4m Prudential plc shares with a market value of £102m were held in such trusts.

The arrangements for distribution to employees of shares held in trusts relating to employee incentive plans and for entitlement to dividends depend upon the particular terms of each 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 these trusts are conditionally gifted to employees. At 31 December 1999, 7.5m of the 7.7m shares held by trusts under employee incentive plans have been accounted for in the consolidated balance sheet as own shares. The carrying value of the shares is £27m, which represents the cost of purchase less the cumulative amounts charged to the profit and loss account. In addition at 31 December 1999, 0.7m shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed shortly after 1 June 2000 on maturity of a savings-related share option scheme. The exercise price under this scheme is 254 pence and the expected proceeds of £2m relating to these shares have also been included in the consolidated balance sheet.

A reconciliation of the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share is set out below:

	1999 m	1998 m
Weighted average number of shares in basic earnings per share calculation	1,947	1,942
Number of shares under option at end of year	26	28
Number of shares held by qualifying employee share ownership trust	(1)	(4)
Number of shares that would have been issued at fair value	(13)	(11)
Weighted average number of shares in diluted earnings per share calculation	1,959	1,955

19 Group Profit and Loss Account Reserve

	1999 £m	1998 £m
At beginning of year	2,930	2,529
Retained profit for the financial year	93	473
Exchange movements	48	(50)
Transfer from share premium in respect of shares issued in lieu of cash dividends	15	–
Charge in respect of shares issued to qualifying employee share ownership trust	(9)	(50)
Goodwill on disposal of subsidiaries	–	28
At end of year	3,077	2,930

20 Long-term Business Provision

The principal valuation methods and assumptions are as follows:

(i) UK Operations and Prudential Corporation 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 1999. The assumed interest rates for UK with-profits contracts valued by the net premium method range from 3.0% to 5.35% whilst the rate of interest for pension annuities in course of payment range from 4.75% to 6.0%. Mortality rates are based on published tables suitably adjusted to reflect actual experience.

Additional provisions are held to meet the expenses, compensation costs and guarantees arising in respect of the FSA pensions review and to meet costs associated with guaranteed annuity options offered by Scottish Amicable Life Assurance Society.

(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 assurance.

The interest sensitive and guaranteed investment products are valued at policyholder account value. Equity-linked indexed deferred annuities are valued at a liability equal to the policyholder guaranteed account value plus the intrinsic value of the underlying equity option portion of the contract. Options are purchased which match very closely the liabilities arising from any excess of indexed values over guarantee values, and the valuation of these options matches the valuation of the additional liabilities relating to any such excess.

The term assurances are valued by a net premium method, with allowance made for discontinuances and claims expenses. Mortality rates are based on published tables suitably adjusted to reflect actual experience. Rates of interest vary between 6.0% and 9.5%.

21 Borrowings

	1999 £m	1998 £m
(i) Core structural borrowings of shareholder financed operations		
Holding company and finance subsidiaries		
Debenture loans (unsecured):		
US$300m 8.25% Guaranteed Bonds 2001	**186**	181
US$250m 7.125% Bonds 2005*	**155**	150
£150m 9.375% Guaranteed Bonds 2007	**150**	150
£250m 5.5% Bonds 2009*	**250**	–
£300m 6.875% Bonds 2023*	**300**	300
£250m 5.875% Bonds 2029*	**250**	–
	1,291	781
Other creditors:		
Floating Rate Guaranteed Unsecured Loan Notes 2004	**168**	–
Commercial paper 2000	**301**	442
	1,760	1,223
Jackson National Life		
Debenture loan (unsecured) – US$250m 8.15% Surplus Notes 2027	**155**	150
Total core structural borrowings of shareholder financed operations	**1,915**	1,373

* Debenture loans issued by the holding company.

(ii) Other borrowings

General insurance and shareholders' funds		
Bank loans and overdrafts repayable on demand	**58**	59
Borrowings of investment subsidiaries managed by US fund management operation (note (d)):		
Secured senior and subordinated debt	**44**	42
Senior secured revolving credit 2004	**103**	–
	205	101
Long-term business with-profits funds		
Debenture loan (unsecured) – £100m 8.5% undated subordinated Guaranteed Bonds issued by Scottish Amicable Finance plc (a subsidiary of the Scottish Amicable Insurance Fund of The Prudential Assurance Company Limited) (note (e))	**100**	100
Bank loans and overdrafts repayable on demand	**–**	5
	100	105
Total other borrowings	**305**	206

21 Borrowings continued

(iii) Total borrowings	1999 £m	1998 £m
Core structural borrowings of shareholder financed operations (as analysed in (i) previous)	**1,915**	1,373
Other borrowings (as analysed in (ii) previous)	**305**	206
Total borrowings	**2,220**	1,579
Borrowings are repayable as follows:		
Within one year or on demand	**359**	506
Between one and two years	**186**	–
Between two and five years	**299**	181
After five years	**1,376**	892
	2,220	1,579

Notes:

(a) **Balance sheet disclosure**	1999 £m	1998 £m
Debenture loans		
Core structural borrowings of shareholder financed operations (as analysed in (i) previous):		
Holding company and related finance subsidiaries	**1,291**	781
Jackson National Life	**155**	150
Long-term business with-profits funds (as analysed in (ii) previous)	**100**	100
	1,546	1,031
Amounts owed to credit institutions		
As included in analysis of other borrowings (as analysed in (ii) previous):		
General insurance and shareholders' funds	**205**	101
Long-term business with-profits funds	**–**	5
Other amounts:		
Obligations under finance leases	**13**	18
Obligations of Jackson National Life under sale and repurchase agreements	**893**	554
	1,111	678

(b) **Reconciliation to borrowings included in cash flow statement disclosures** (per note 26)	1999 £m	1998 £m
Borrowings of general insurance and shareholders' funds		
Holding company and related finance subsidiaries (as analysed in (i) previous)	**1,760**	1,223
Other borrowings (as analysed in (ii) previous)	**205**	101
	1,965	1,324
Borrowings of long-term business operations		
Jackson National Life (as analysed in (i) previous)	**155**	150
With-profits funds (as analysed in (ii) previous)	**100**	105
	255	255

(c) 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.

(d) The senior debt issued by investment subsidiaries managed by the US fund management operation is secured on the investments held by the relevant subsidiaries. The interests of the holders of the subordinated debt issued by these subsidiaries are subordinate to the entitlements of the holders of the senior debt. The terms of the revolving credit facility include a cross default provision with the subordinated notes. In addition to the debt of these subsidiaries, the US fund management operation manages an investment subsidiary with liabilities of £322m (£nil) pertaining to debt instruments issued to external parties. In all instances the holders of the debt instruments issued by these subsidiaries do not have recourse beyond the assets of these subsidiaries.

(e) The interests of the holders of the bonds issued by Scottish Amicable Finance plc are subordinate to the entitlements of the policyholders of the Scottish Amicable Insurance Fund.

(f) Jackson National Life has entered into a programme of funding arrangements under contracts which, in substance, are almost identical to Guaranteed Investment Contracts. The liabilities of £619m (£nil) under these arrangements have been included in the consolidated balance sheet in other creditors.

22 Investments of the Company

	Shares in subsidiary undertakings 1999 £m	Loans to subsidiary undertakings 1999 £m
At beginning of year	2,794	1,464
Investment in subsidiary undertakings	2,238	–
Transfer of subsidiary undertakings	(9)	–
Exchange rate movements	–	6
Advances of new loans	–	61
At end of year	5,023	1,531

23 Profit of the Company

The profit of the company for the year was £530m (£376m). After dividends of £449m (£407m), and a transfer from the share premium account of £15m (£nil) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 1999 amounted to £1,642m (£1,546m).

24 Subsidiary Undertakings

The principal subsidiary undertakings of the company at 31 December 1999 were:

	Main activity	Country of incorporation
Jackson National Life Insurance Company*	Insurance	USA
Prudential Annuities Limited*	Insurance	England and Wales
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
Prudential Banking plc*	Banking	England and Wales
Prudential Portfolio Managers Limited*	Investment management	England and Wales
M&G 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.

25 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.

The total costs of £2 billion associated with the review of personal pensions mis-selling in the UK has been met from the free assets of the long-term fund of The Prudential Assurance Company Limited. Given the strength of the long-term fund, the directors are of the opinion that charging the provision to the free assets of the fund will not have an adverse effect on the levels of bonus paid to policyholders or their reasonable expectations. In the unlikely event of this proving not to be the case, the directors' intention would be that an appropriate contribution to the long-term fund be made from shareholders' funds. In view of the uncertainty, it is not practicable to estimate the level of this potential contribution.

26 Cash Flow

Reconciliation of Operating Profit to Net Cash Inflow from Operations	1999 £m	1998 £m
Operating profit before tax before amortisation of goodwill	776	868
Add back interest charged to operating profit	131	105
Adjustments for non-cash items:		
Tax on long-term business profits and franked investment income	(261)	(235)
General business and shareholder long-term investment gains	(33)	(23)
Decrease in general business technical provisions	(33)	(39)
Amounts retained and invested in long-term business operations	(332)	(309)
Increase in net banking assets	(286)	(69)
Other (including, in 1999, the effects of re-engineering provisions)	80	(53)
Net cash inflow from operations	42	245

Changes in Investments Net of Financing	1999 £m	1998 £m
Increase in cash and short-term deposits	97	238
Net (sales) purchases of portfolio investments	(1,675)	76
Increase in loans	(668)	(314)
Credit facility utilised by investment subsidiaries managed by US fund management operation	(103)	–
Share capital issued	(34)	(15)
Movements arising from cash flow	(2,383)	(15)
Investment appreciation	76	42
Investments and cash acquired with purchase of M&G	214	–
Exchange translation and other	37	(15)
Transfer to retained profit in respect of shares issued in lieu of cash dividends	15	–
Portfolio investments net of financing at beginning of year	1,016	1,004
Portfolio investments net of financing at end of year	(1,025)	1,016
Represented by:		
Investments (including short-term deposits)	1,078	2,339
Cash at bank and in hand	150	270
Borrowings (per note 21)	(1,965)	(1,324)
Share capital and share premium	(347)	(319)
Cumulative charge to group profit and loss account reserve in respect of shares issued to qualifying employee share ownership trust	59	50
	(1,025)	1,016

Reconciliation of Investments to Balance Sheet	1999 £m	1998 £m
General business and shareholders (as above)	1,078	2,339
Long-term business	113,552	97,973
Total portfolio investments per balance sheet	114,630	100,312

Reconciliation of Cash to Balance Sheet	1999 £m	1998 £m
General business and shareholders (as above)	150	270
Long-term business	640	414
Total cash at bank and in hand per balance sheet	790	684

Reconciliation of Borrowings	1999 £m	1998 £m
General business and shareholders (as above)	1,965	1,324
Long-term business	255	255
Total borrowings per note 21	2,220	1,579

26 Cash Flow continued

Acquisitions and Disposals of Subsidiary Undertakings	M&G 1999 £m	Taiwan 1999 £m	Total 1999 £m	Total 1998 £m
Net assets acquired (disposed of):				
Goodwill on acquisitions	1,527	50	1,577	59
Net assets held in long-term business operations	195	18	213	(127)
Investments	187	–	187	–
Cash	27	–	27	–
Tax payable	(9)	–	(9)	(38)
Other net assets	16	–	16	–
	1,943	68	2,011	(106)
Goodwill credited to reserves	–	–	–	(28)
Profit after tax on disposal	–	–	–	(211)
Cash consideration (proceeds) including acquisition and disposal costs	1,943	68	2,011	(345)

27 Acquisitions

Acquisitions relate to the company's purchases of the whole of the M&G Group P.L.C. in April and of a majority holding in Chinfon Life Insurance Company of Taiwan in November. The effect of these transactions which have been accounted for as acquisitions was:

	M&G 1999 £m	Chinfon Life 1999 £m	Total 1999 £m
Fair value of consideration (including expenses)	1,943	68	2,011
Net assets:			
Investments	410	322	732
Assets held to cover linked liabilities	3,981	–	3,981
Long-term business provision, net of reinsurance	(77)	(322)	(399)
Technical provisions for linked liabilities, net of reinsurance	(3,981)	–	(3,981)
Other net assets	36	18	54
Book value at date of acquisition	369	18	387
Fair value adjustment	47	–	47
Fair value of assets acquired	416	18	434
Goodwill recognised on acquisition	1,527	50	1,577

The fair value adjustment of £47m shown above is for the present value of in force long-term business. The goodwill is being amortised from the date of acquisition over a period of 20 years.

The profit and loss account includes the following amounts in respect of these operations:

Long-term business technical account	1999 £m
Gross premiums written	246
Outwards reinsurance premiums	(1)
Earned premiums, net of reinsurance	245
Investment income	250
Unrealised gains on investments	151
Claims incurred, net of reinsurance	(369)
Change in technical provisions, net of reinsurance	(154)
Net operating expenses	(75)
Investment expenses and charges	(3)
Tax attributable to the long-term business	(37)
Balance on the long-term business technical account	**8**

Non-technical account	1999 £m
Balance on the long-term business technical account	8
Tax credit attributable to balance on the long-term business technical account	2
Balance on the long-term business technical account before tax	10
Investment management and products result	31
Profit on ordinary activities before tax	**41**
Analysed as:	
Operating profit before re-engineering costs	56
Re-engineering costs	(7)
Operating profit	49
Short-term fluctuations in investment returns	(8)
	41

Auditors' Report to the Members of Prudential plc

We have audited the financial statements on pages 48 to 72.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 37 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 36 to 38 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit 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 group's circumstances, 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 the group as at 31 December 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
9 March 2000

Five Year Review

Group Summary	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Results for the year					
Long-term business including investment products					
New business of continuing operations including acquisitions:					
Single	**11,834**	7,189	6,780	6,119	3,573
Regular	**509**	468	487	448	405
Premium income:					
Continuing operations including acquisitions	**16,133**	11,009	9,989	8,926	6,204
Discontinued operations	**–**	456	788	2,046	1,708
General business premiums written:					
Continuing operations	**318**	310	306	303	315
Discontinued operations	**–**	–	–	304	292
Operating profit before amortisation of goodwill:					
Long-term business	**943**	832	764	670	560
General business	**61**	39	38	69	47
Investment management and products	**70**	28	20	28	30
Banking	**(150)**	(77)	(22)	(54)	(20)
Shareholders' investment return and other income	**93**	189	141	30	56
Interest payable	**(131)**	(105)	(75)	(61)	(68)
Corporate expenditure	**(40)**	(46)	(32)	(24)	(22)
Re-engineering costs	**(70)**	–	–	–	–
Continuing operations including acquisitions	**776**	860	834	658	583
Discontinued operations	**–**	8	30	196	215
Total operating profit (based on longer term investment returns) before amortisation of goodwill	**776**	868	864	854	798
Amortisation of goodwill	**(54)**	–	–	–	–
Short-term fluctuations in investment returns	**28**	24	83	(37)	215
Profit on business disposals	**–**	249	18	797	31
Reclassification of shareholder reserves of discontinued Australian operation	**–**	–	204	–	–
Profit on ordinary activities before tax (including actual investment returns)	**750**	1,141	1,169	1,614	1,044
Profit after tax:					
Operating profit (including post-tax longer term investment returns)	**567**	654	618	636	543
Profit for the year (including post-tax actual investment returns)	**542**	880	837	1,407	758
Shareholders' Funds and Borrowings					
Statutory basis capital and reserves:					
Employed in business operations	**3,326**	2,249	1,996	1,398	2,125
Retained centrally	**1,858**	2,223	1,789	2,027	352
	5,184	4,472	3,785	3,425	2,477
Borrowings of holding company and related finance subsidiaries	**(1,760)**	(1,223)	(1,002)	(668)	(730)
Total statutory basis capital and reserves	**3,424**	3,249	2,783	2,757	1,747
Additional achieved profits basis retained profit	**4,918**	4,261	4,129	3,816	3,856
Achieved profits basis capital and reserves	**8,342**	7,510	6,912	6,573	5,603
Insurance and Investment Funds under Management (£bn)	**170**	128	119	91	82
Share statistics					
Earnings per share:					
Based on operating profit after tax before amortisation of goodwill	**29.1p**	33.7p	32.0p	33.2p	28.5p
Based on profit for the year after tax	**27.8p**	45.3p	43.3p	73.4p	39.8p
Dividend per share	**23.0p**	21.0p	19.1p	17.3p	15.7p
Market price at 31 December	**1,220p**	908p	734p	492p	415p
Average number of shares	**1,947m**	1,942m	1,932m	1,917m	1,905m

Analysis by Business Area	**1999 £m**	1998 £m	1997 £m	1996 £m	1995 £m
UK operations					
Long-term business including investment products					
New business:					
Single	**6,887**	4,144	3,619	3,569	2,088
Regular	**352**	342	326	303	280
Premium income	**10,279**	7,114	5,969	5,532	3,986
General business premiums written	**318**	310	306	303	315
Operating profit:					
Long-term business	**471**	404	385	330	308
General business	**61**	39	38	69	47
Investment management and products	**70**	28	20	28	30
Banking	**(150)**	(77)	(22)	(54)	(20)
Total operating profit	**452**	394	421	373	365
Statutory basis capital and reserves	**1,145**	525	398	259	217
Additional achieved profits basis retained profit	**3,884**	3,386	3,321	3,007	2,718
Achieved profits basis capital and reserves	**5,029**	3,911	3,719	3,266	2,935
Funds under management (£bn)	**142**	105	93	68	57
US operations					
Long-term business					
New business:					
Single	**4,062**	2,835	2,914	2,462	1,421
Regular	**24**	28	37	42	34
Premium income	**4,449**	3,237	3,340	2,928	1,895
Operating profit (including averaged realised gains)	**451**	411	367	328	241
US GAAP profit (including actual realised gains)	**436**	413	377	300	252
Statutory basis capital and reserves	**1,911**	1,564	1,300	1,017	866
Additional achieved profits basis retained profit	**622**	602	546	519	611
Achieved profits basis capital and reserves	**2,533**	2,166	1,846	1,536	1,477
Funds under management (£bn)	**25**	21	19	16	15
Asia					
Long-term business including investment products					
New business:					
Single	**765**	114	226	88	64
Regular	**106**	79	120	103	91
Premium income	**1,237**	532	653	466	323
Operating profit before development expenses	**27**	23	20	20	16
Development expenses	**(12)**	(10)	(9)	(8)	(5)
Net operating profit	**15**	13	11	12	11
Statutory basis capital and reserves	**217**	123	46	38	36
Additional achieved profits basis retained profit	**376**	255	214	209	177
Achieved profits basis capital and reserves	**593**	378	260	247	213
Funds under management (£bn)	**2.7**	1.7	1.5	1.5	1.4
Europe					
Long-term business					
New business:					
Single	**120**	96	21	–	–
Regular	**27**	19	4	–	–
Premium income	**168**	126	27	–	–
Operating profit	**6**	4	1	–	–
Statutory basis capital and reserves	**53**	37	29	–	–
Additional achieved profits basis retained profit	**15**	9	2	–	–
Achieved profits basis capital and reserves	**68**	46	31	–	–
Funds under management (£bn)	**0.5**	0.4	0.3	–	–

Achieved Profits Basis Supplementary Information
Operating Profit from Continuing Operations

Year ended 31 December 1999

Results Analysis by Business Area	Note	1999 £m	1998 £m
UK operations			
New business	8	304	211
Business in force		327	304
Long-term business		631	515
General business		61	39
Prudential M&G Asset Management		87	28
Banking		(150)	(77)
Total		629	505
US operations			
New business	8	198	137
Business in force		277	231
Long-term business		475	368
Broker dealer and fund management		(6)	–
Total		469	368
Asia			
New business	8	90	56
Business in force		35	27
Long-term business		125	83
Development expenses		(12)	(10)
Total		113	73
Europe			
New business	8	11	9
Business in force		6	5
Long-term business		17	14
Other income and expenditure			
Investment return and other income		111	202
Interest payable		(131)	(105)
Corporate expenditure		(40)	(46)
Total		(60)	51
Re-engineering costs		(70)	–
Total operating profit (based on long-term investment returns) before amortisation of goodwill for continuing operations		1,098	1,011

Summarised Consolidated Profit and Loss Account – Achieved Profits Basis

Year ended 31 December 1999

	Note	1999 £m	1998 £m
Operating profit (including investment returns based on long-term rates of investment return)			
New business	8	603	413
Business in force	9	627	557
Long-term business		1,230	970
General business		61	39
Prudential M&G Asset Management		87	28
Banking		(150)	(77)
Other income and expenditure		(60)	51
Re-engineering costs		(70)	–
Continuing operations		1,098	1,011
Discontinued operations		–	12
Total operating profit before amortisation of goodwill		1,098	1,023
Amortisation of goodwill		(54)	–
Short-term fluctuations in investment returns		637	289
Net loss from changes to projected investment return and risk discount rates		–	(106)
Profit on business disposals		–	202
Profit on ordinary activities before tax (including actual investment returns)		1,681	1,408
Tax		(519)	(371)
Profit for the financial year		1,162	1,037
Dividends		(449)	(407)
Retained profit for the financial year		713	630

Earnings per Share – Achieved Profits Basis

Year ended 31 December 1999

	1999	1998
Based on operating profit after tax before amortisation of goodwill of £762m (£752m)	39.1p	38.7p
Adjustment for amortisation of goodwill	(2.8)p	–
Adjustment from post-tax long-term investment returns to post-tax actual investment returns	24.2p	10.3p
Adjustment for changes to projected investment return and risk discount rates	–	(4.1)p
Adjustment for profit on business disposals (1999 tax paid on prior year disposals)	(0.8)p	8.5p
Based on profit for the financial year of £1,162m (£1,037m)	59.7p	53.4p
Average number of shares	1,947m	1,942m

Statement of Total Recognised Gains and Losses – Achieved Profits Basis

Year ended 31 December 1999

	1999 £m	1998 £m
Profit for the financial year	1,162	1,037
Exchange movements	85	(75)
Total recognised gains relating to the financial year	1,247	962

Summarised Consolidated Balance Sheet – Achieved Profits Basis

31 December 1999

	1999 £m	1998 £m
Investments	114,735	100,394
Assets held to cover linked liabilities	18,643	9,737
Banking business assets	8,850	2,397
Other assets	8,415	6,258
Total assets	150,643	118,786
Less banking business liabilities	(8,438)	(2,271)
Less other liabilities	(6,979)	(4,747)
Total assets less liabilities	135,226	111,768
Less insurance funds		
Technical provisions	104,540	87,640
Fund for future appropriations	27,262	20,879
Less shareholders' accrued interest in the long-term business	(4,918)	(4,261)
	126,884	104,258
Achieved profits basis net assets	8,342	7,510
Shareholders' capital and reserves		
Share capital and share premium	347	319
Statutory basis retained profit	3,077	2,930
Additional achieved profits basis retained profit	4,918	4,261
Achieved profits basis capital and reserves	8,342	7,510

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

Year ended 31 December 1999

	1999 £m	1998 £m
Total recognised gains relating to the financial year	**1,247**	962
Goodwill on disposal of subsidiaries	–	28
New share capital subscribed	**34**	15
Dividends	**(449)**	(407)
Net movement in shareholders' capital and reserves	**832**	598
Shareholders' capital and reserves at beginning of year	**7,510**	6,912
Shareholders' capital and reserves at end of year	**8,342**	7,510

Analysis of Shareholders' Capital and Reserves – Achieved Profits Basis

31 December 1999

	Note	1999 £m	1998 £m
UK operations:			
Long-term business operations		**4,127**	3,604
General business solvency capital		**127**	124
Prudential M&G Asset Management		**312**	37
Banking		**463**	146
		5,029	3,911
US operations:			
Jackson National Life	7	**2,373**	2,047
Other operations (principally related to funding arrangements)		**160**	119
		2,533	2,166
Asia		**593**	378
Europe		**68**	46
Other operations (including goodwill and net shareholders' borrowings/cash)		**119**	1,009
Shareholders' capital and reserves at end of year		**8,342**	7,510

Notes on the Achieved Profits Basis Supplementary Information

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 48 to 72.

In preparing the results of UK long-term business operations, 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 discontinuances, 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 ten per cent. 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.

The results for 1999 and 1998 have been prepared using the same principal 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 1999 and 1998 results for UK operations the key assumptions for these items were:

Real pre-tax rates of investment return	
UK equities	5.5%
Overseas equities	5.5%
Property	5.5%
Expense inflation (per policy)	
Ordinary branch	2.5%
Industrial branch	4.5%
Nominal pre-tax rates of investment return	
Gilts	6.0%
Corporate bonds	7.0%
PAC with-profits fund (applying the rates listed above to the investments held by the fund)	8.0%

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 1999 and 1998, a spread of 1.90 per cent 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' interests in the future net of tax cash flows of the UK long-term businesses and Jackson National Life at 31 December 1999 and 1998 have been discounted to present values using a discount rate of 8.5 per cent.

The discount rate represents 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 (see note 9).

4 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 profit

Except for Jackson National Life, 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 the results of the UK operations.

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.

5 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 Jackson National Life the profit is calculated at the pre-tax level and the effective tax rate is then expected to be applicable on average over the remaining lifetime of the policies.

6 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.

7 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.

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 adjustments to reflect the cost of that capital.

In determining the cost of capital of Jackson National Life, it has been assumed that an amount equal to 200 per cent of the risk based capital required by the US supervisory authorities must be retained. The impact on Jackson National Life's shareholders' funds of the related capital charge is as follows:

	1999 £m	1998 £m
Before capital charge	**2,607**	2,280
Capital charge	**(234)**	(233)
After capital charge	**2,373**	2,047

8 Profit from New Business

	Pre-tax **1999 £m**	Tax **1999 £m**	Post-tax **1999 £m**
UK operations	**304**	**(91)**	**213**
US operations	**198**	**(88)**	**110***
Asia	**90**	**(24)**	**66**
Europe	**11**	**(3)**	**8**
	603	**(206)**	**397**

* Jackson National Life net of tax profit:	
Before capital charge	**141**
Capital charge	**(31)**
After capital charge	**110**

	Pre-tax 1998 £m	Tax 1998 £m	Post-tax 1998 £m
UK operations	211	(65)	146
US operations	137	(58)	79*
Asia	56	(15)	41
Europe	9	(2)	7
	413	(140)	273

* Jackson National Life net of tax profit:	
Before capital charge	104
Capital charge	(25)
After capital charge	79

9 Profit from Business In Force

	1999 £m	1998 £m
Unwind of discount	**634**	574
UK pension mis-selling provisions	**(92)**	(84)
Loss from strengthening of persistency assumption for Jackson National Life	**–**	(53)
Other items including experience variances	**85**	120
	627	557

The Achieved Profits Basis of Financial 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 risk 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 profit recognised at an earlier stage under the achieved profits method is retained within the long-term funds and is known as the shareholders' accrued interest in the long-term business.

The achieved profits basis is designed to report profit which reflects 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.

Auditors' Report on the Achieved Profits Basis Supplementary Information

to the members of Prudential plc

We have reviewed the supplementary information on pages 77 to 81, which has been prepared on the basis set out in note 1 on page 80 and is limited to a restatement of the group profit and the shareholders' interest in the group's long-term business on an achieved profits basis.

Respective Responsibilities of Directors and Auditors

The company's directors are responsible for the preparation of the Annual Report including as described on page 37 the financial statements and supplementary information. Our responsibilities are outlined on page 73.

Basis of Opinion

Our review included examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also included tests of calculation and of the extraction of data from the underlying records.

Opinion

In our opinion, the achieved profits basis group profit for the year ended 31 December 1999 and shareholders' interest in the long-term business at that date have been properly prepared on the basis of the assumptions on page 80 and are in accordance 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.

KPMG Audit Plc
Chartered Accountants
London
9 March 2000

Shareholder Information

Annual General Meeting	5 May 2000
Payment of 1999 final dividend	31 May 2000
Announcement of 2000 interim results	27 July 2000
Ex-dividend date for 2000 interim dividend	18 September 2000
Payment of 2000 interim dividend	30 November 2000

Analysis of Registered Shareholder Accounts

31 December 1999

Size of shareholding	Number of shareholders	%	Number of shares	%
Over 10,000,000	33	0.04	766,563,713	39.23
1,000,001 – 10,000,000	229	0.26	659,581,485	33.76
500,001 – 1,000,000	165	0.19	120,504,492	6.17
100,001 – 500,000	673	0.76	152,623,818	7.81
50,001 – 100,000	482	0.54	34,535,348	1.77
10,001 – 50,000	3,872	4.35	75,975,387	3.89
5,001 – 10,000	5,924	6.65	41,707,120	2.13
1,001 – 5,000	35,352	39.69	80,117,483	4.10
1 – 1,000	42,321	47.52	22,321,589	1.14
Total	**89,051**	**100.00**	**1,953,930,435**	**100.00**

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Stockbrokers Cazenove & Co offer a postal sharedealing service to Prudential shareholders at competitive commission rates. For details telephone 020 7588 2828 or write to 12 Tokenhouse Yard London EC2R 7AN.

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