PRUDENTIAL CORPORATION

PRUDENTIAL CORPORATION plc

1994 ANNUAL REPORT

Contents

Prudential Corporation plc

Prudential Corporation plc is the largest life insurance company in the United Kingdom and one of the leading life insurance companies in the world. It has funds under management of £72 billion, representing the savings and investments of more than eight million customers worldwide.

Strategically, Prudential is focused firmly on meeting people's needs for medium to long-term savings, financial security and retirement in its three main markets of the United Kingdom, the United States and Asia and Southern Pacific.

In all of its markets, Prudential gains competitive advantage from the strength of its brand, its distribution management skills, its marketing and product development expertise, its investment management experience and its widely perceived financial strength.

Prudential's strategy aims to satisfy shareholders, customers and employees. For shareholders, Prudential aims to deliver long-term value and an attractive and steadily rising flow of dividends. For customers, Prudential aims to provide good value and prudent collective investment opportunities, offered clearly and fairly. For employees, Prudential aims to offer personally satisfying and appropriately rewarding careers in an open, sympathetic and dynamic environment.

In all its dealings, Prudential places a particular emphasis on maintaining and developing its reputation for integrity and fair dealing which has been built up over nearly 150 years.

Operational Highlights

United Kingdom

With six million customers and a 8,500 strong field force, Prudential is the largest provider of life, pensions and insurance products in the United Kingdom.

12

United States

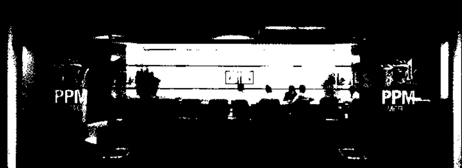
Jackson National Life produced over a quarter of all Prudential's single premium sales in 1994. Jackson's assets have grown from US$2bn to US$20bn since Prudential purchased the company in 1986.

18

Asia and Southern Pacific

Prudential now operates in nine countries in Asia and the Southern Pacific, employing over 9,000 people. Sales from this region increased by 26 per cent in 1994.

20



Prudential Portfolio Managers

PPM manages over £70 billion on behalf of Prudential's eight million customers. PPM now has investment management offices in eight financial centres around the world.

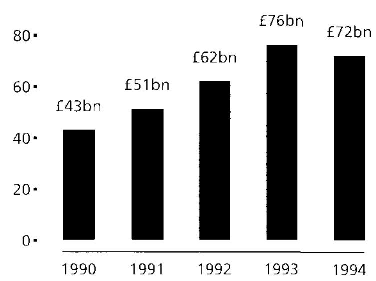
24

Mercantile & General

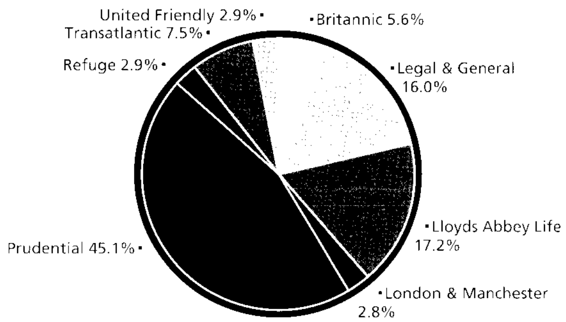
M&G is the largest reinsurance company in the UK. Conducting business in over 100 countries, more than 80 per cent of M&G's business is long-term reinsurance.

26

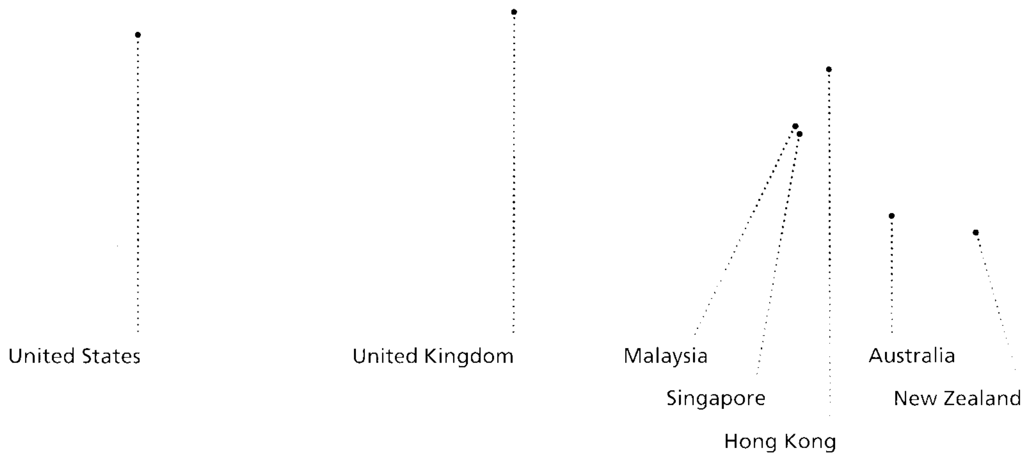
FUNDS UNDER MANAGEMENT



UK LIFE SECTOR MARKET CAPITALISATION
as at 31 December 1994



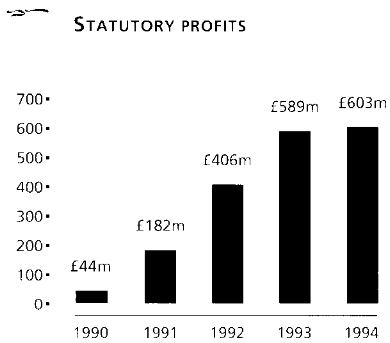
Main Areas of Operation

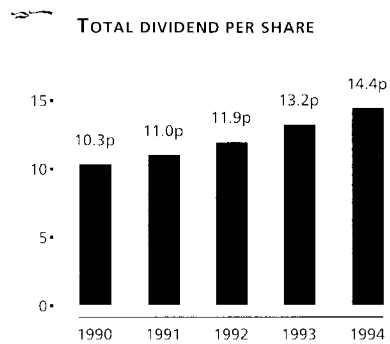


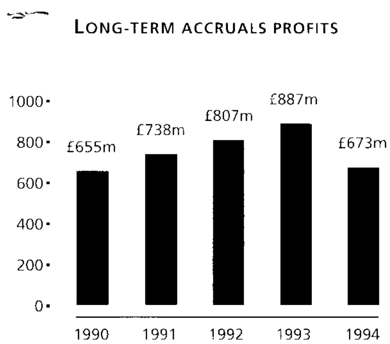
Operational Highlights

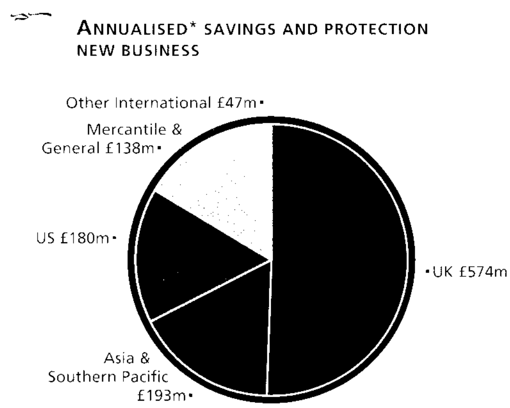
Profit Summary	1994	1993
Total operating profit	£661m	£648m
Profit on ordinary activities before tax	£603m	£589m
Profit for the financial year	£406m	£396m
Earnings per share	21.4p	21.0p
Dividend per share	14.4p	13.2p

Financial Overview

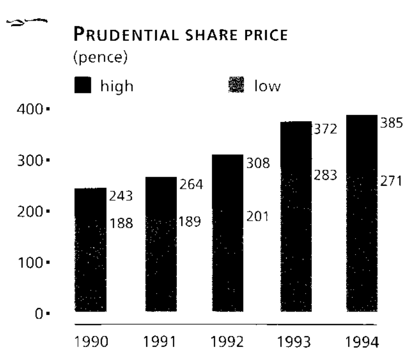


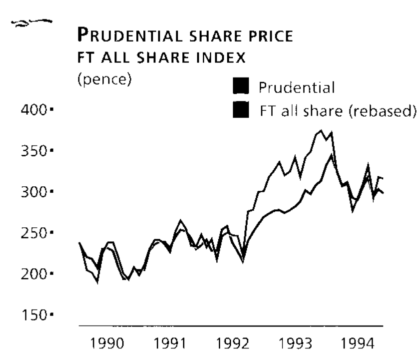






*(Annual contributions + 10% of single contributions)





(Source: Datastream)

Chairman's Statement

Prudential is a truly international business. Nearly half of new business sales come from outside the UK

Statutory profits in 1994 increased to £603 million, while earnings per share grew from 21.0 pence to 21.4 pence. We are committed to enhancing the value of our Company for shareholders and we aim to provide a steadily rising stream of dividends. Given the Company's performance in 1994 and our confidence in the future, we have declared a final dividend of 9.5 pence per share, which brings the total dividend for the year to 14.4 pence, an increase of 9.1 per cent.

On an accruals basis, profits fell to £799 million. This was primarily due to falls in investment markets. A full explanation of our accruals basis results can be found on pages 54 to 62.

Strategically, we are firmly focused on meeting the medium to long-term savings, financial security and retirement needs of individuals in our chosen markets of the United Kingdom, United States and Asia and Southern Pacific. The management actions we have taken to implement our strategy and provide the best possible long-term return for our shareholders are explained fully in our operating review. We have a first class management team running our operations around the world and they are committed to the profitable growth and expansion of our businesses.

Although based in the UK, Prudential is an international business. Nearly half of our new business sales come from outside the UK and we are very well established in both the United States and the Asian and Southern Pacific markets. In addition, our reinsurance company, Mercantile & General operates in more than 100 countries.

Our balanced portfolio of businesses encompassing life, general and reinsurance, and the geographic spread of our operations provides a sound base for growth and cushions us against difficulties experienced in any one sector or country.

Prudential is a respected brand name and has a powerful franchise. It is our aim to develop our reputation and capitalise on our strengths to the mutual benefit of our shareholders, customers and employees.

As I am sure many of you are aware, Mick Newmarch, our group chief executive, resigned in January 1995 because he found the relationship that had developed between himself and the UK retail financial service regulators had become untenable. This placed him in what he regarded as an unacceptable position. He had a long and successful career with Prudential and we were all saddened at his decision to resign. I would like to take

Sir Brian Corby, pictured at Prudential's headquarters in London.

We are committed to enhancing the value of our Company for shareholders and we aim to provide a steadily rising stream of dividends this opportunity to thank him for the contribution he made to Prudential over nearly 40 years.

We have now appointed Peter Davis to be group chief executive with effect from 1 May 1995. He was most recently chairman of publishing and information group Reed Elsevier plc and joined the Board of Prudential as a non-executive director in June 1994. His business acumen, his experience at the helm of a large public company and the contribution he has made to Prudential as a non-executive director, make him an excellent choice. I am confident he will be successful in helping drive forward our business strategy.

The regulation of UK retail financial services is something about which we have been concerned for some time. The objectives of the Financial Services Act are to give greater protection to the investor, while at the same time ensuring that costs are not incurred without commensurate benefit and to ensure freedom of choice is not unreasonably restricted. We fully support these objectives and believe that a regime that strongly enforces a set of clearly understandable rules which concern themselves with 'do's and don'ts' rather than with the 'how's' is the best way to achieve these objectives. We were encouraged to hear Andrew Large, chief executive of the Securities and Investment Board (SIB) talking of a 'lighter regulatory regime' which works on the assumption that companies are on the whole 'doing the right thing'. Despite recent publicity, the UK insurance industry has provided its customers with a high standard of service over the years. As in every industry, there are areas where improvements could, and should, be made but that does not mean the insurance industry has not looked after its customers with care and prudence in the past.

We chose to be regulated directly by the SIB in 1994, in preference to the Personal Investment Authority (PIA). The decision was taken by the Board after much deliberation and our view remains unchanged. Our relationship with the SIB is working well and we are committed to ensuring that it will continue to work well in the future.

The SIB completed its examination of personal pensions last year and asked each life insurance company to review its personal pensions business. We are confident this will confirm our opinion that the vast majority of pensions we have sold have been sold properly. Now we have a clearer idea of the cost of implementing the proposals contained in the SIB report, we have decided to set up prudent provisions in our long-term funds to take account of this. Given the size of the long-term funds, the provisions, which include any expenses associated with carrying out the required investigation and the costs of compensation, are not material.

A properly regulated insurance industry is an important asset of any developed economy. The UK insurance industry plays a vital role in financing the capital raising efforts of British industry. Prudential has £27 billion invested in over 750 British companies and last year we invested a further £487 million from our UK life fund alone.

The collective premiums of individual policyholders are invested on their behalf not only in stock market listed companies but also in large scale property developments, capital projects and new expanding companies. For example, Prudential is in the process of constructing an out of town shopping complex to serve the people of Bristol. We are partly financing the new bridges over the River Severn and connecting the Isle of Skye with the Scottish mainland, and we also invested £60 million in 15

Sir Brian Corby and Sir Martin Jacomb. Sir Brian Corby will hand over the chairmanship of Prudential to Sir Martin Jacomb at the Company's Annual General Meeting on 31 May.

new operations via our venture capital activities last year.

We have been examining the way in which we reward our senior executives and have as a result decided not to renew the existing executive share option scheme. In its place we are introducing in 1996 a restricted share plan. This plan will award Prudential shares to executives which will then be held in trust. The number of shares put in trust and the number that ultimately become the property of the executive will depend on the Company's performance relative to other companies in the FTSE 100 share index over a period of three years. We believe linking the rewards of our executives directly to the performance of the Company in this way is a better method of providing an incentive for our top managers.

We have been reviewing the contracts of our executive directors and are reducing the notice period from three years to 18 months which, we believe, to be in keeping with what is regarded as best practice.

I shall be retiring this year after nearly 43 years with Prudential. Clearly I have seen many changes, but what strikes me more are the threads of continuity that run through the Company, not just in the last 40 years, but throughout its history.

Prudential has always been a company that has fought hard, and sometimes long, to build up its reputation. We have always been a mass market company, supplying simple savings and protection products to the general public, with an honesty and integrity that is at the heart of all our dealings. These values have made Prudential a great company. It is these values that will continue to provide the foundations for our future success.

The next few years will present great opportunities for growth for Prudential, as the burden of care and pension provision around the world grows too great for governments and they look to the private sector to assume some of the cost. Following the large scale re-organisations we have undergone in recent years, we are now well placed to capitalise on these opportunities for growth.

In 1994 we made significant progress towards building and developing our businesses around the world and I am confident this experience will continue. Sir Martin Jacomb will take over the role of chairman following our annual general meeting in May. With his wide experience, particularly in financial services, I am sure he will prove to be a great asset to Prudential.

Tony Freeman, an executive director, retired as managing director of our Home Service division in September last year. He worked with Prudential for 17 years and I would like to take this opportunity to thank him for his help and advice during that time.

I am pleased to welcome Jonathan Bloomer to our Board as finance director. Jonathan joined us in January 1995 from Arthur Andersen, where he was a senior partner with responsibility for the insurance industry. I am sure his expertise will be of great value to us. I am also pleased that Sir David Gillmore has agreed to join the Board as a non-executive director. Sir David retired in August last year as Permanent Under Secretary of State and Head of the Diplomatic Service.

My short period as group chief executive this year, following the resignation of Mick Newmarch, demonstrated clearly what a strong management team we have at Prudential. I thank them and all my colleagues around the world for their support and hard work in what has been a challenging year. I wish them well for the future.

Sir Brian Corby
Chairman
13 April 1995

Financial Summary

The following is a brief summary of our profit and sales performance in 1994. Profits before tax on the statutory basis increased by two per cent to £603 million. Profits from our savings and protection businesses held steady at £477 million, while profits from general insurance operations grew substantially to £120 million. However, profits from shareholders' other income fell 36 per cent to £64 million due to falls in investment markets. In fact, falls in investment markets during 1994 had a significant impact on the results as a whole, reducing profits by £66 million in comparison with 1993.

Savings and Protection Business

Our savings and protection businesses around the world provide some three quarters of Prudential's profits. Broadly half of these profits come from our operations in the United Kingdom, one quarter from Jackson National Life and one fifth from Mercantile & General. The remainder comes from our international operations in Asia, the Southern Pacific and Europe.

Profits fell in both the UK and the US. This was due to shareholders financing sales of unit-linked business in the UK and changes in the financing of certain products in the US. Both of these factors will depress profits only temporarily and in the longer term should stimulate profit growth. The falls in profits in the UK and the US were, however, offset by profit growth in Mercantile & General and our businesses in Asia, the Southern Pacific and Europe, coupled with the absence of losses from our Canadian business.

Overall, worldwide sales of savings and protection products grew, with sales of annual contribution products increasing slightly to £620 million and sales of single contribution products holding steady at £5,121 million. Over a third of our annual contribution sales now come from outside the UK, while 56 per cent of single contribution sales come from our international businesses.

In a difficult market, sales in the UK held up well last year, falling by only two per cent on an annualised basis. This performance was offset by a large growth in sales from Jackson National Life, plus improved sales from Mercantile & General and our businesses in Asia and the Southern Pacific.

General Insurance Business

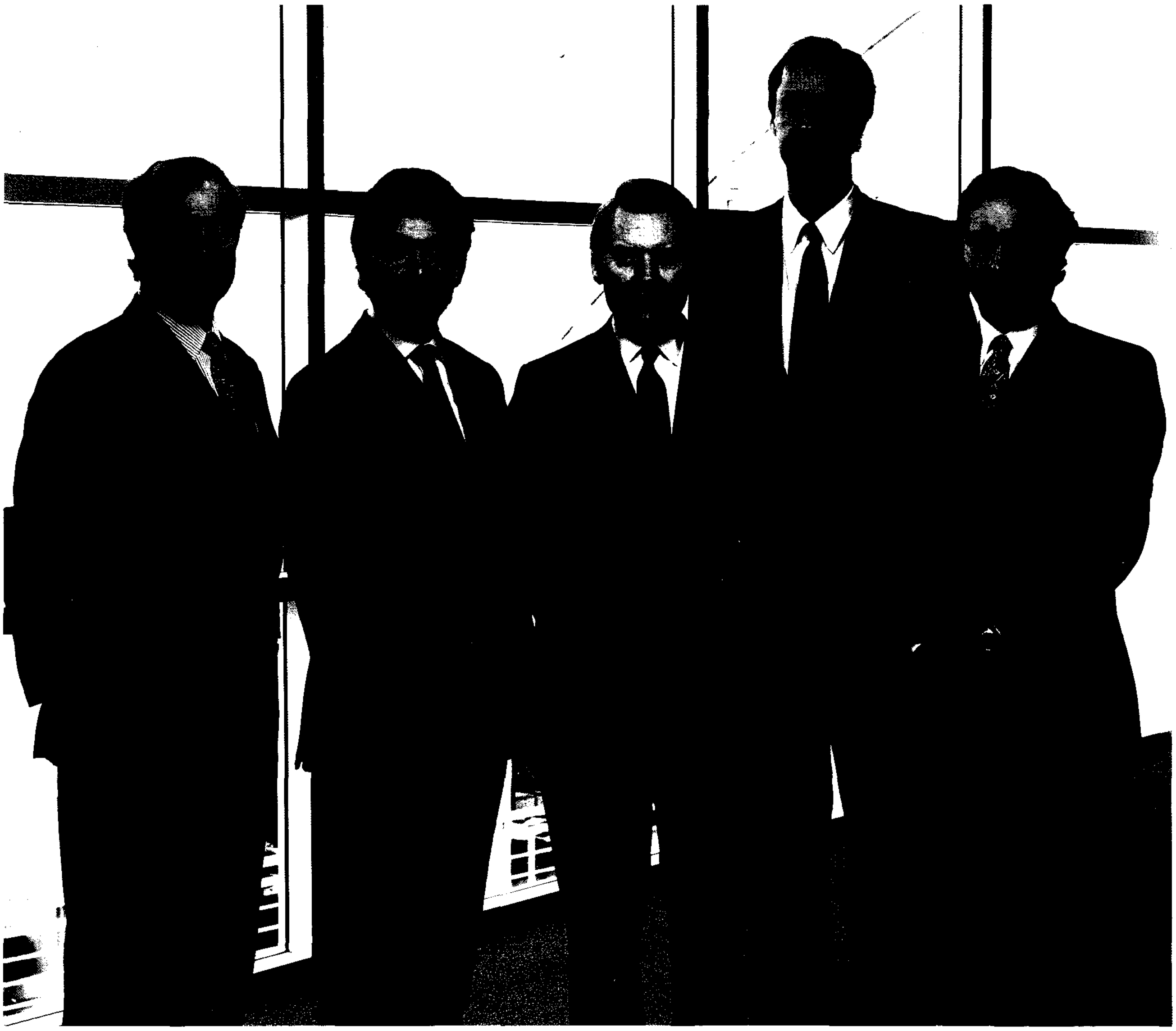
The increase in profits from our general insurance operations resulted from a much improved performance from our UK personal lines business, where profits increased by 49 per cent to £91 million, and a substantial increase in profits to £29 million from the general reinsurance activities of Mercantile & General.

Our general insurance operations are now performing well and are making a significant contribution to Prudential's earnings.

Shareholders' Other Income

Falls in investment markets during 1994 led to a decline in shareholders' other income from £100 million to £64 million. Our UK unit trust and personal equity plan (PEP) business benefited from significant growth in PEP sales and produced a profit of £4 million, compared with £1 million last year. Profits from investment management held steady at £23 million.

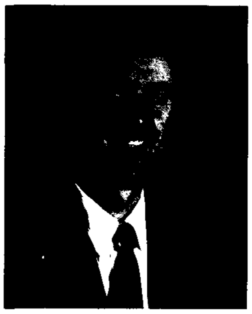
We would now like to review the operations of our major businesses in more detail beginning with our savings and protection businesses in the UK.



Prudential's executive directors pictured at the Company's headquarters in London.
John Maxwell, Jonathan Bloomer, Hugh Jenkins, Jim Sutcliffe and Keith Bedell-Pearce.

United Kingdom: Savings and Protection Businesses

The aim of our direct sales force has always been to provide simple products, to a mass market, at a reasonable cost



Jim Sutcliffe
Managing Director
Home Service

Introduction

Profits from our UK savings and protection businesses fell by seven per cent to £263 million. The growth in underlying profits was offset by the £24 million impact of shareholders financing new unit-linked business from the start of 1994, together with the reductions in the level of bonuses payable to our policyholders which reduced profits by £28 million. The bulk of the shareholders' long-term profits is dependent upon the amount of bonuses paid out to policyholders.

Given the lower investment returns achieved so far in the 1990s and expected for the rest of the decade, we have continued to lower the level of our UK reversionary bonuses and have reduced payouts for most policies. These reductions are consistent with our policy of setting pay out levels according to the investment returns earned by our different classes of assets over the life of each contract. Changes in pay outs are limited from year to year to incorporate the smoothed returns which our customers expect. Our with-profits policies continue to provide excellent value, particularly in the current low inflation, low interest rate environment.

During 1994, over six million customers paid £4 billion into Prudential policies, compared with £4.4 billion in 1993. We also paid out to these customers more than £2.1 billion in claims and maturities.

Sales in 1994 were mixed, affected by the lack of consumer confidence in the economy and the generally difficult pensions market.

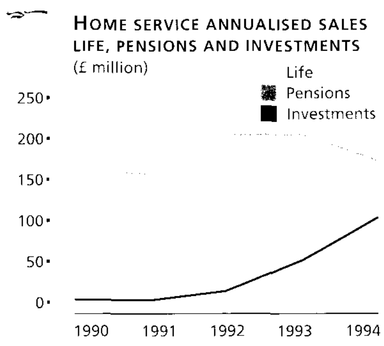
Regular contribution sales grew by 12 per cent to £362 million, helped by strong sales of regular premium PEPs. However, sales of life and pension products fell by seven per cent to £266 million.

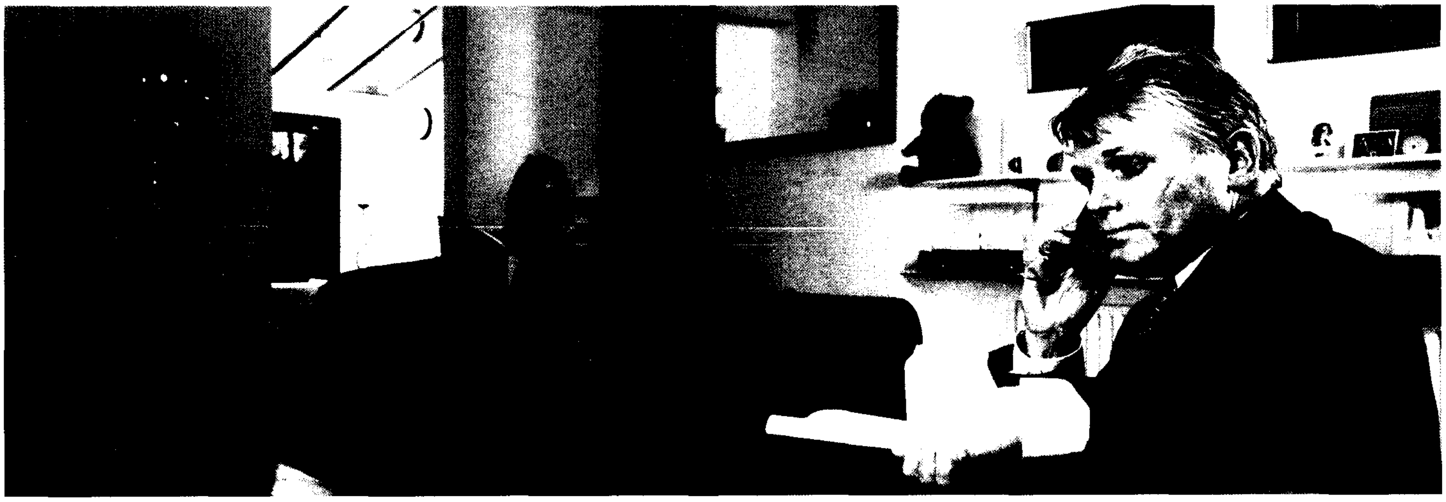
Single contribution sales fell by 20 per cent to £2,117 million, reflecting a decline in the sales of both investment and life and pension products.

Turning now to our Home Service division:

Home Service

Our 8,500 strong field force remains our most powerful distribution resource. Over the last few years we have been changing the structure of our direct sales operation with the aims of reducing costs and increasing productivity. One of the central aims of this reorganisation has been the move from cash collection to direct debit business. The market for cash collection or Industrial Branch (IB) business has been

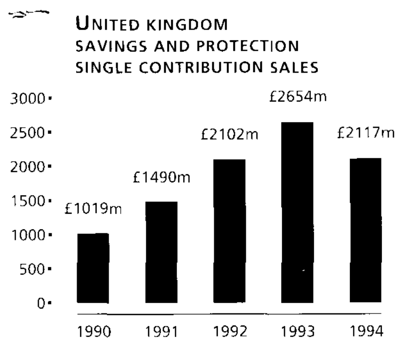


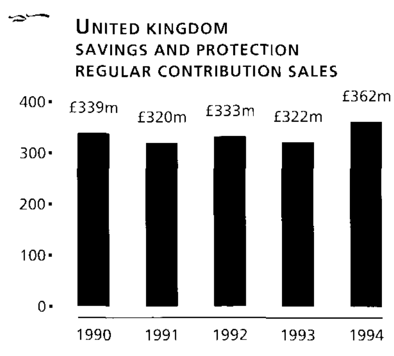


Financial consultant Colin Issac visiting customers Katie and Mark Newton. Prudential's sales force visits 52,000 clients at home every week. To provide customers with quotations easily, we have issued our sales force with mobile phones to connect them to a central quotations team based at Reading.

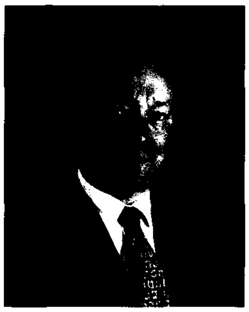
dwindling for a number of years and in 1994 accounted for only two per cent of our direct sales. As a result of this, we ceased selling new IB business from 1 January 1995. We are, however, committed to continue collecting and servicing our existing IB customers and employ 2,100 customer service representatives focused solely upon this task. Reflecting the long-term nature of our business, the last IB collection is scheduled to take place in 2045!

United Kingdom





We are now dealing with more Independent Financial Advisers than at any time in our history



Keith Bedell-Pearce
Chief Executive
Prudential Financial Services

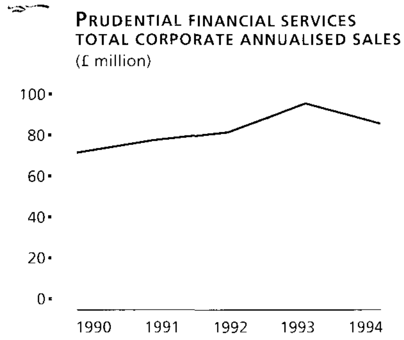
Six thousand, four hundred of our sales people concentrate on dealing with our direct debit customers and attracting new clients to Prudential. Prudential's business was established on the basis of the service we offer to our customers in their homes and we are working hard to maintain and develop this service. To that end, we have put in place a substantial customer contact programme to ensure each of our customers has the opportunity to review their financial needs with one of our representatives each year. Furthermore, we place great emphasis on our investment in training our sales force to the highest standards. We are pleased that LAUTRO gave our training programme its seal of approval last year.

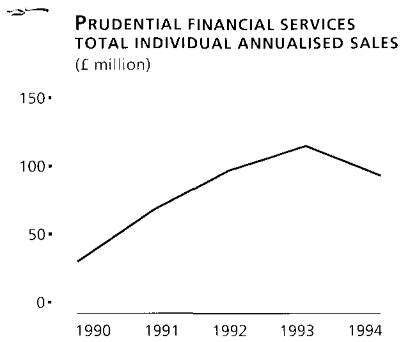
In a difficult 1994, sales results were mixed. Regular contribution sales increased by 15 per cent, boosted by the popularity of regular premium PEPs and the successful launch of our new savings product, the Prudence Savings Account, in July last year. However, sales of single contribution products declined 20 per cent from a record level in 1993 to £878 million in 1994, affected mainly by the collapse of the pensions transfer market. On an annualised basis, new business sold by the direct sales force increased by five per cent. We again attracted substantial numbers of new clients, with 41 per cent of sales being to first time Prudential customers by our 4,500 financial consultants.

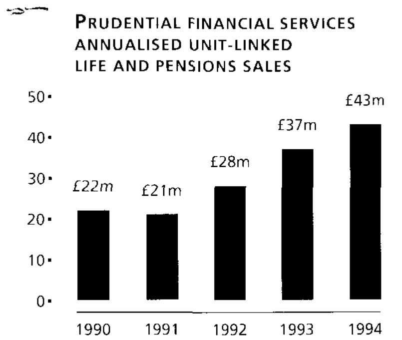
As a result of the changes we made to our sales force, we have both reduced our ongoing costs by £100 million a year and improved sales productivity. There is, however, still work to do. Although the major reorganisations of our sales force are completed, we are still looking at ways of cutting costs and improving sales. The aim of our direct sales force has always been to provide simple products, to a mass market, at a reasonable cost. Our actions over the last few years and our future actions will be focused on helping us realise that aim.

Prudential Financial Services

As well as having the UK's largest financial services direct sales force, Prudential also has an increasingly important share of the market that buys financial services through Independent Financial Advisers (IFAs). We intend to grow our share of the IFA market to ten per cent by the end of the decade. To ensure this, we have changed the way we support IFAs so as to provide







arrangements more closely tailored to the needs of the different types of IFAs. We are now dealing with more IFAs than at any time in our history.

Sales, however, were down in an overall depressed market. Regular savings sales at £53 million were unchanged, while single contribution sales fell by 21 per cent to £1,239 million. A large part of the success of our IFA business in recent years has been attributable to the impressive sales of our with-profits Prudence Bond. To build on the Prudence Bond and extend our appeal to IFAs, Prudential Financial Services (PFS) has focused upon broadening the range of its products. During 1994 PFS introduced a range of unit-linked pension and savings products, and these have been selling well, albeit from a low base. Unit-linked products now account for 16 per cent of the business we sell through IFAs.

Our corporate pensions business has continued to be a steady provider of both premiums and profits, with some notable successes in the area of additional voluntary contributions (AVCs), where we are now one of the market leaders for AVCs provided to members of group pension schemes.

In common with the rest of the UK insurance industry, the IFA market had its difficulties in 1994 and the expected reduction in the number of IFA firms has already begun. We believe, however, that IFAs as a distribution channel will continue to command a substantial share of the UK market. We therefore remain firm in our commitment to maintain our position as one of the leading product providers in this area.

Disclosure

We have been disclosing the charges and commissions associated with our life and pensions products since 1 January 1995. We supported the introduction of full disclosure and therefore implemented client specific quotations six months before the deadline. This process is time consuming and has impacted upon sales, but we expect this impact to diminish as our sales force becomes used to the processes. Prudential does not aim to be the cheapest product provider in the market, but we do believe our charges are competitive and constitute a reasonable cost for the quality of service we provide.

To enable us to handle client specific quotations in people's homes easily, cost effectively and without interrupting the sales process, we have issued each member of our direct sales force with a mobile phone which connects them to a 300 strong quotations team based in Reading.

On the IFA side of the business, we were in a position to provide client specific quotations across our entire retail product range from 1 January 1995. Initial indications are that our new products designed specifically for a full disclosure environment are proving to be popular.

The early introduction of full disclosure, the ease of the technical solution we have adopted, coupled with the cost cutting programme we implemented and the improvements we made to the flexibility and portability of our product range will, we believe, ultimately give us a competitive advantage.

New Products and Developments

For some time, we have been reviewing our products to ensure they meet the changing needs of our customers. We launched a range of flexible pension products in 1993, and effectively unbundled life assurance and savings products with the launch of the Prudence Savings Account in July 1994. We also expanded and revitalised the range of unit-linked products we offer. But there is further work to be done. As consumers become more demanding, so we will have to continue refining and improving our products. We are currently working on a complete overhaul of our product range in preparation for the needs of the consumers of the future.

Last year we explained that we were diversifying the way we sell products in two ways. The launch of Prudential Private Financial Planning Service, aimed at high income individuals, was tested in three areas and proved successful, attracting average premiums of four times the norm for Prudential products. This service is being extended in 1995.

We also set up Prudential Direct which sells investment products using direct marketing and telephone access techniques. This attracted £15 million of contributions in 1994 and is expected to grow in 1995. We shall also be looking at increasing the range of Prudential products available over the telephone.

Attractive products, readily accessible to the consumer, are the keys to success for any financial services company. As the market changes, so we shall continue updating our product range and refining the way we sell these products to meet these changing needs.

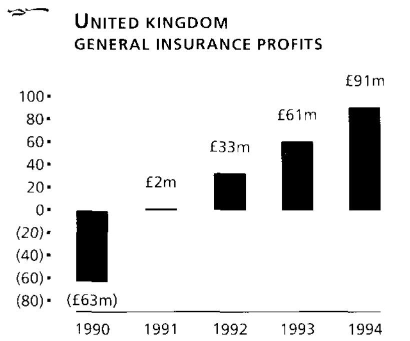
United Kingdom: General Insurance Business

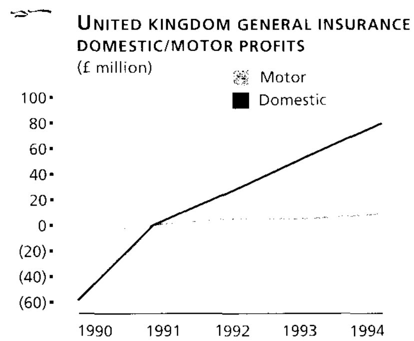
We continue to regard the provision of home and motor insurance by our direct sales force as complementary to the provision of our core savings and protection products. Our home and motor accounts produced profits of £91 million in 1994, an increase of 49 per cent over 1993. Gross written premiums were steady at £333 million.

All three lines of business, home contents, home buildings and motor were profitable. The main factors behind this profit growth were the absence of major weather related losses, an improvement in theft claims and actions taken in recent years to control costs.

Our risk analysis system has allowed us to charge what we believe is a fair price for our policies. The analysis system, together with a number of cost cutting measures we have carried out, has meant we have reduced premium rates and enhanced the range of discounts offered to certain classes of customer.

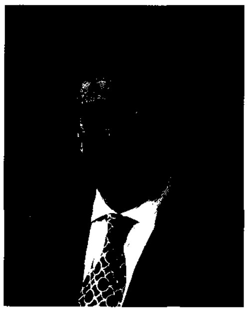
We take great pride in the quality of service we offer to our general insurance customers when taking out and renewing their policies, and when making a claim. This is reflected in the fact that 90 per cent of our general insurance customers renew their policies with us each year.





United States: Jackson National Life

In 1994 Jackson produced 28 per cent of Prudential's single premium sales



Bob Saltzman
Chief Executive Officer
Jackson National Life

With assets under management of over US$20 billion, Jackson is by far Prudential's largest business outside the UK. In 1994 Jackson produced 28 per cent of our single premium new business sales.

At US$165 million, Jackson's profits were down on 1993. This was mainly due to the lower level of investment gains transferred to Jackson's profit and loss account. In addition, changes necessary to improve the competitiveness of Jackson's annuity products also impacted on profits, although this is a question of timing and the impact is reversed at a later date. Taking these factors into account, Jackson's profits remain very healthy.

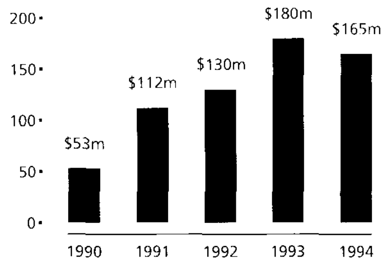
Sales at Jackson improved steadily throughout 1994. In total, sales of single premiums increased by almost a third to US$2,081 million, boosted by rising US interest rates and a new range of bonus annuity products launched in August last year.

In the past, Jackson's product range has been narrowly focused and heavily dependent upon the level of US interest rates. In 1994, a number of steps were taken to diversify Jackson's product range. Last year, Jackson overhauled its annuity products, introducing new bonus products and improving the range of existing annuity products. In 1995, Jackson has already introduced a new range of life assurance products, and variable annuity products will be launched shortly. These product changes should further broaden Jackson's appeal and protect it from the vagaries of changing interest rates.

The vast majority of Jackson's products is distributed via its 78,000 strong network of independent agents. To complement this network, Jackson is currently diversifying its distribution capabilities. In 1994 Jackson sold 11 per cent of its products via banks and other financial institutions. To help achieve Jackson's aim of increasing this proportion to 33 per cent by 1997, Jackson has set up a new office in Atlanta, Georgia to focus on building links with banks across the US.

In addition to broadening its product range and distribution capabilities, Jackson has expanded its geographic coverage, opening an office in Boston, Massachusetts in 1994. It also plans to set up a company to operate in New York State in 1996. The opening of the Boston and New York offices will mean that Jackson will have an entry into the important insurance markets of the eastern seaboard and will then be

JACKSON NATIONAL LIFE LONG-TERM PROFITS



Prudential Portfolio Managers office in Chicago. Traders Mark Alter and Sam Fusco pictured against the Chicago skyline. Jackson's assets have grown from US$2 billion to over US$20 billion in the last eight years. All these assets are managed by PPM in Chicago.

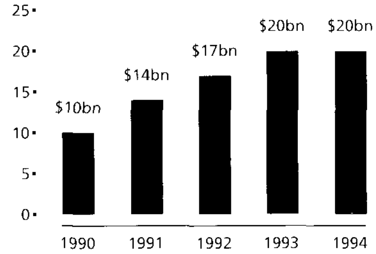
represented in all 50 US states.

In addition, Jackson is centralising customer service at the head office in Lansing, Michigan, leaving the sales offices to concentrate on the important task of selling. The head office is currently reorganising its administration with the aims of reducing costs and further improving customer service. Jackson has tightened up its sales strategy, to improve its relationship with higher producing agents, and taken steps to increase the efficiency of its data processing systems. Jackson has also strengthened its management team by appointing new finance and marketing directors.

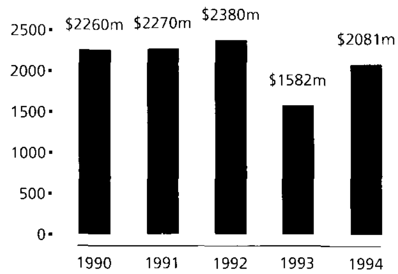
Bob Saltzman became chief executive officer at Jackson in February last year and we are confident that in 1995 we will begin to see the additional benefits from the changes he has made.

United States

JACKSON NATIONAL LIFE ASSETS

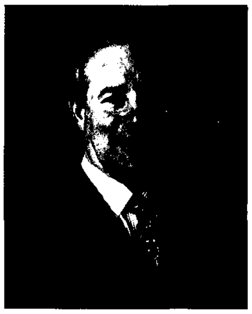


JACKSON NATIONAL LIFE SINGLE PREMIUM SALES



Asia and Southern Pacific

Our businesses in Australia and New Zealand continue to perform well



John Maxwell
Corporate Development Director
Prudential Corporation

The third area of strategic importance for Prudential is the markets of Asia and the Southern Pacific. In this area we have a mixture of established and expanding operations and new start up projects and joint ventures.

Australia and New Zealand

Our businesses in Australia and New Zealand are well established and continue to perform well.

In Australia, where Prudential has a seven per cent share of the individual annual premium market, profits increased by A$16 million to A$25 million as the benefits of shareholders financing unit-linked business began to accrue.

There are some interesting parallels between the markets of Australia and the UK. Expense and commission disclosure were introduced in Australia at the beginning of 1994. The introduction of disclosure in Australia coupled with the effects of the recent recession stimulated the introduction of a whole series of new flexible products into the marketplace and the reduction of expenses.

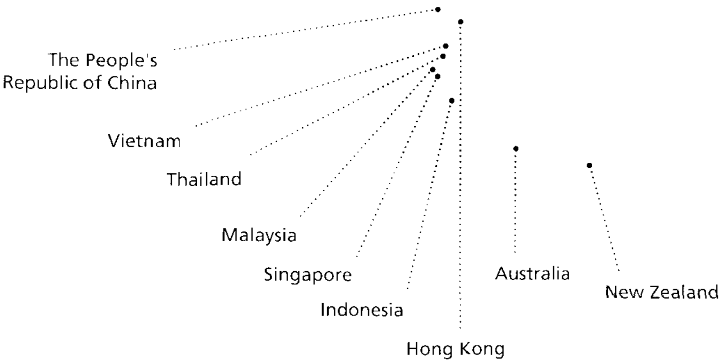
Despite negative predictions about the impact of disclosure, sales have continued to improve, with single premium sales up 19 per cent to A$1,377 million and annual premiums up nine per cent to A$86 million. However, disclosure has created a more competitive environment, where profit margins are likely to be narrower. Prudential Australia has adapted well to the new disclosure environment and is, we believe, well placed to succeed in the increasingly competitive marketplace of the future.

To sharpen the strategic focus of our business in Australia, we domesticated the company on 1 January 1995. Prudential Australia is now an independent subsidiary rather than an overseas branch of the UK based Prudential Assurance Company.

In New Zealand, where we have a 12 per cent share of the individual new annual premium market, profits were down, reflecting strong sales of unit-linked business, which were financed by shareholders from the beginning of 1994. Given the volatile investment markets in New Zealand, sales held up well with annual contribution business growing by 19 per cent, although single contributions fell by 33 per cent.

The management of our New Zealand company has begun a process of consolidating its product range and expanding its distribution capacity. As

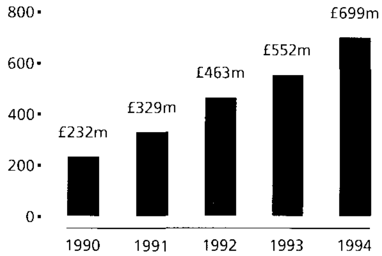
There are significant opportunities for expansion in Asia and the Southern Pacific and much of Prudential's future growth will come from these markets.



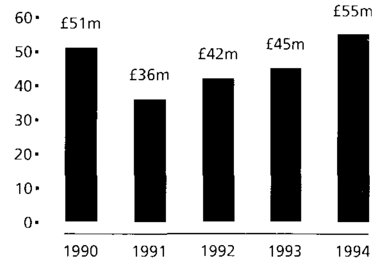
part of this process, we purchased a firm of financial planners in September which we believe will help secure a larger market share for Prudential New Zealand in 1995.

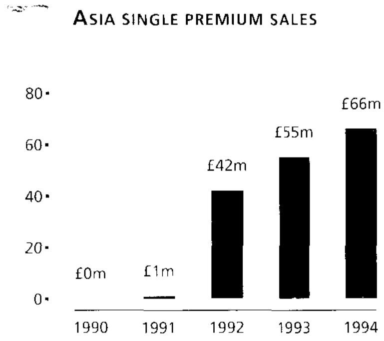
Barrie Martin who retired as managing director of both Prudential Australia and Prudential New Zealand last year has become non-executive chairman of Prudential Australia, while Trevor Perry, previously head of our Singapore operation, has taken over as managing director of our Australian and New Zealand operations.

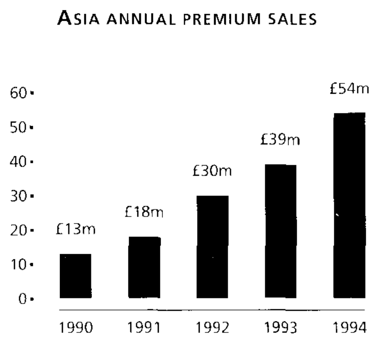
AUSTRALIA AND NEW ZEALAND SINGLE PREMIUM SALES



AUSTRALIA AND NEW ZEALAND ANNUAL PREMIUM SALES







Asia

1994 was an exciting year for Prudential in Asia. In its first full year of operation, Prudential Corporation Asia expanded into four new countries, doubled profits, increased annual premium sales by 40 per cent and brought in gross revenue premiums of £249 million. We now employ 7,500 people in Asia, selling Prudential products and servicing our customers. We also began our first regional advertising campaign in the Spring of 1995.

We have sizable businesses in Hong Kong, Singapore and Malaysia with total funds under management of over £1 billion. In an increasingly competitive market, all our established operations have increased the size of their sales forces while improving the underlying productivity of the agents. In 1994 each operation increased its market share.

In Hong Kong, profits grew by 25 per cent, and sales also rose, with annual premiums up 34 per cent to £21 million. We increased the size of our Hong Kong sales force in 1994 by 45 per cent to over 600 agents. In addition, our general insurance business in Hong Kong performed well, increasing both premiums and profits.

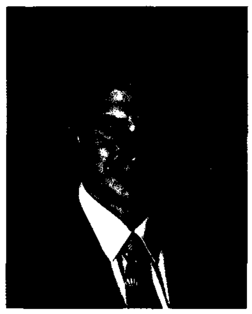
Singapore also had a good year in 1994, with pre-tax profits doubling to S$21 million. Strong sales growth meant Prudential Singapore was able to increase its market share to 14 per cent and firmly establish itself as one of Singapore's top three life companies. Last year annual premiums grew by 38 per cent to S$76 million and single premiums increased by 10 per cent to S$138 million. Prudential Singapore won the best company award in the 1994 Singapore National Productivity Awards.

In Malaysia, where we have a joint venture, both profits and new business premiums grew well. Berjaya Prudential now ranks among the top five insurance companies in Malaysia, with a market share of six per cent and a 2,000 strong sales force.

Last year Prudential opened representative offices in Beijing, Shanghai and Guangzhou in The People's Republic of China and in Hanoi in Vietnam. These offices are fully staffed and we are working hard to obtain operating licences which will allow us to begin selling life and pensions products in these countries. We have also acquired a significant share of a public listed insurance company, TS Life, in Thailand and signed a joint venture agreement in Indonesia to set up Prudential BancBali Life. We expect to commence operations in Indonesia in the latter part of 1995.

We believe there are significant opportunities for expansion in Asia and that much of Prudential's future growth will come from these markets. Prudential Corporation Asia, under the leadership of Mark Tucker, is working hard to develop our existing businesses and secure our entry into new markets.

We now employ 7,500 people in Asia selling Prudential products and servicing customers



Mark Tucker
Managing Director
Prudential Corporation Asia

Other International Operations

In 1994 we sold our business in Ireland and our group life business in Canada for a combined profit of £9 million. We have also recently sold the remainder of our Canadian operations and profits from this sale will be taken in 1995. Together, our Canadian and Irish operations produced less than four per cent of our gross premium income.

Prudential's remaining international operations are limited to two businesses in Italy and the Netherlands. Both are profitable and have considerable scope for growth.

Italy

Prudential Vita continued to increase its share of the Italian market during 1994. The trend away from annual to single premiums continued with Prudential Vita's sales of single premiums more than doubling to £28 million, while annual premiums increased by 12 per cent to £8 million. Last year Prudential Vita concentrated on strengthening its distribution capabilities by setting up a tied agency agreement with a large insurance sales force.

With the innovative approach to product development and the marketing flair that characterises Prudential Vita, we believe the company will continue to flourish and that it is well placed to capitalise on the growing market for private pension and care provision in Italy.

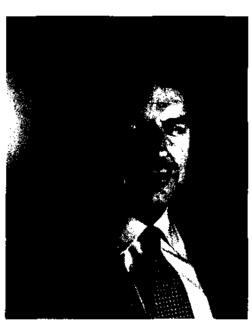
Netherlands

1994 was a difficult year for sales in the Netherlands with a sluggish market place and a number of regulatory changes inhibiting the ability to sell. However, at Prudential Leven, annual premiums increased by 17 per cent to £4.8 million, boosted by sales of a unitised with-profits product.

In the fourth quarter of last year a number of new products were launched. We also strengthened the management team with the introduction of new finance and marketing directors. We believe we are now in good shape to provide a sustainable improvement in performance in 1995.

Prudential Portfolio Managers

PPM manages over £70 billion on behalf of Prudential's customers across the world



Hugh Jenkins
Chief Executive
Prudential Portfolio Managers

As the UK's largest investment management company, Prudential Portfolio Managers (PPM) is a valuable asset of the Corporation. PPM ended 1994 managing over £70 billion on behalf of our customers.

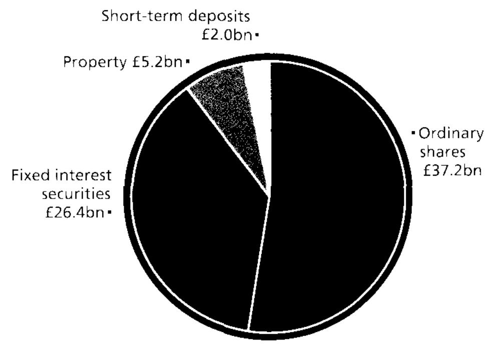
Last year PPM completed the process of establishing investment management operations in our main markets around the world. We now have offices in Cape Town, Chicago, Hong Kong, Singapore, Sydney, Toronto and Wellington, giving us the ability to operate in every major time zone. Directed from PPM's head office in London, these offices not only manage money on behalf of our operations in their areas, but also transact all investments in their markets for all Prudential companies. The phrase 'think globally act locally' neatly encapsulates our ability to implement a central investment policy in markets around the world.

Our offices provide a global information network feeding economic and market data back into London 24 hours a day. This allows our portfolio managers, economists and strategists to gain insight into the factors that will influence our investment decisions.

As well as managing the monies of Prudential's customers, our overseas offices, particularly in Asia and America, will begin seeking the funds of external clients in 1995.

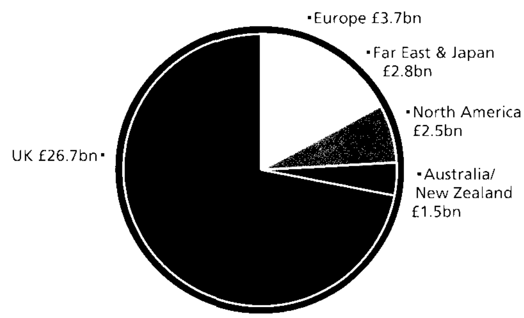
1994 was a year of great volatility in world stock markets. However, in the UK our with-profits life fund, which contains £30 billion in assets, enjoyed above average performance. In addition, the UK equity part of the life fund outperformed the FTSE all share index. Furthermore, our unitised life and pension managed funds performed well.

Market value of funds under management



Directed from its headquarters in London, Prudential Portfolio Managers has established offices in eight financial centres around the world.

Global share holdings



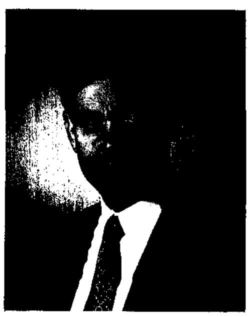
Our fund managers have continued to work hard to enhance the performance of our unit trusts. This paid dividends in 1994 with, amongst other things, an award in Hong Kong as best group fund manager for the performance of a range of seven unit trusts.

The performance of the external balanced segregated pension funds managed by PPM improved during 1994 and was above average. Every effort is being made to ensure this trend continues.

Profits from PPM are closely linked to funds under management and remained at £23 million despite the falls in investment markets during 1994.

Mercantile & General

M&G differs from the vast majority of its competitors by focusing on long-term reinsurance



John Engeström
Group Chief Executive
Mercantile & General

Mercantile & General is one of the world's leading reinsurance companies. In 1994 M&G produced trading profits of £112 million compared with £79 million in 1993, an increase of 42 per cent. This improvement resulted mainly from the recovery in profits from M&G's general business, up four-fold to £29 million, and a 14 per cent increase in long-term profits to £83 million. As we have said in previous years, M&G differs from the vast majority of its competitors by focusing predominantly on long-term reinsurance. As a result of consistent growth in long-term business, reinsurance for living benefits (health-related products) now provides 49 per cent of M&G's premium income, 31 per cent results from traditional life reinsurance, while the remaining 20 per cent is made up of general reinsurance premiums.

M&G's long-term business made good progress, with gross premiums increasing by 18 per cent and more specifically, life premiums up 35 per cent to £407 million due to strong new business growth in the US and the UK. Living benefit premiums increased by nine per cent to £640 million, principally reflecting continued growth in US medical expenses business.

M&G's general business continued its recovery. In 1994 M&G produced profits of £29 million. M&G has continued to refine its reserving techniques and is in a strong position to meet any claims arising from prior years.

As we said last year, stronger underwriting controls mean M&G has lowered its exposure to any single catastrophe, with the result that both the 1994 Los Angeles and the 1995 Kobe earthquakes had very little impact upon M&G's general business, resulting in expected losses of only £3 million and £8 million respectively.

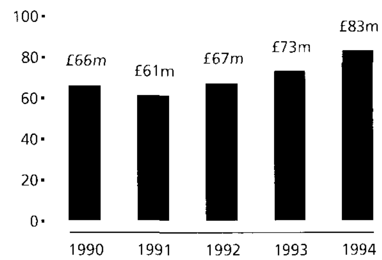
M&G underwent a major organisational change in 1994, with the aim of increasing customer focus. The new flatter structure is set up on a geographical basis rather than on a long-term or general basis. Client teams now offer the full range of M&G's products to customers who require both long-term and general reinsurance.

M&G has a global network of 30 offices, writing business in more than 100 countries. Recent expansion into Continental Europe and the growing markets of South East Asia will continue

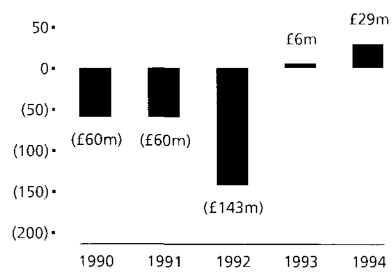
Mercantile & General has a global network of 30 offices, writing business in more than 100 countries.

in 1995. M&G will also focus on new opportunities that should arise from the implementation of the aims of the North American Free Trade Association.
In 1994 M&G was chosen as 'Reinsurance Company of the Year' by a panel of international reinsurance professionals. With the general business producing strong profits and a sound, expanding long-term business, M&G is demonstrating its worth as an asset of both the Corporation and its shareholders.

MERCANTILE & GENERAL
LONG-TERM REINSURANCE PROFITS



MERCANTILE & GENERAL
GENERAL REINSURANCE PROFITS



Group Finance

Consistent with our policy of enhancing the value of our Company for shareholders and providing a rising stream of dividends, we have increased our dividend by 9.1 per cent to 14.4 pence per share

Jonathan Bloomer
Finance Director
Prudential Corporation

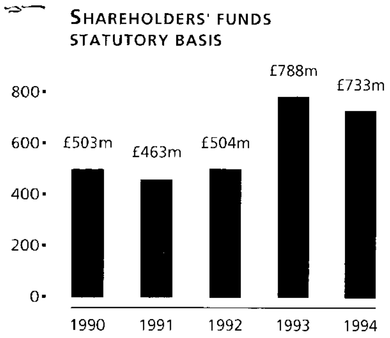
Shareholders' Other Income

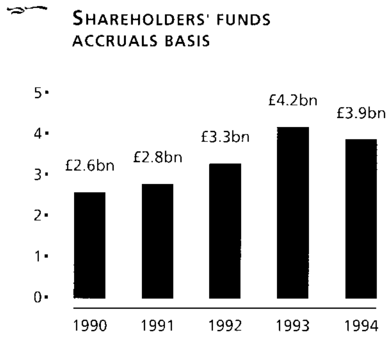
Profits from shareholders' other income were down from £100 million in 1993 to £64 million in 1994. This fall reflects lower investment gains following the declining investment markets during 1994 and an increase in development costs, including investment in our businesses in Asia. As referred to earlier, our investment management business produced steady profits of £23 million, while our UK unit trust and PEP business produced profits of £4 million, compared with £1 million in 1993.

Financial Position

The Group balance sheet shows that shareholders' capital and reserves at the end of 1994 were £733 million, seven per cent lower than at the end of 1993, due to the effects of lower investment values. After dividend payments, profits of £132 million were retained within the business. The main shareholders' financial interest in the business is not disclosed on the statutory basis balance sheet, since this basis excludes the resources retained in our life funds to provide solvency capital and support the businesses' future growth and development.

These life fund resources are shown on the accruals basis balance sheet on page 59. We consider that this basis provides a better indication of our financial strength. On the accruals basis, shareholders' profits retained in the long-term fund were £3.2 billion at the end of 1994, giving total accruals basis shareholders' funds of £3.9 billion. This compares with £4.2 billion at the end of 1993, the reduction in investment values offsetting the underlying growth of the business. During 1994, cash generated by business operations, based mainly on statutory profits earned in the previous year, financed the payment of dividends to shareholders, the interest on shareholders' borrowings and the development of our businesses. Funds were also invested in the development of our Asian operations and in the purchase of certain securities from our Canadian business prior to disposal. This led to an overall increase in shareholders' borrowings from just under £700 million to £777 million. Since the year end, the completion of the Canadian sale has resulted in borrowings returning to their previous level. Some 70 per cent of those borrowings was





at fixed rates of interest with maturity dates ranging from 1997 to 2007. The remainder was met by flexible, short-term commercial paper. Interest cover remains at 11 times statutory basis profits.

Consistent with our policy of enhancing the value of our Company for shareholders and providing a rising stream of dividends, we have increased our dividend by 9.1 per cent to 14.4 pence per share, which is covered 1.5 times by statutory basis post-tax profits.

In the case of the main Prudential long-term fund, the solvency ratio of free assets to liabilities was 19 per cent compared with over 25 per cent at the end of 1993, reflecting the decline in stock markets.

The statutory basis financial statements on pages 34 to 50 are the last to be prepared in the current format. For the full year 1995 we shall be reporting under the European Union Insurance Accounts Directive. This will result in major revisions in the presentation of our financial statements, and at the same time we shall make a number of changes in our accounting policies. We are working with the Association of British Insurers (ABI) and other insurance companies to ensure that, as far as possible, a consistent basis is applied across the industry. Our 1995 interim results will be prepared on the existing basis.

We are also continuing to promote the development and acceptance of a more realistic accounting basis for long-term insurance. Revised guidance updating the accruals basis should shortly be issued by the ABI and we hope that the changes which have been made will now allow the method to be used more widely. For the time being, we will continue to report accruals results as supplementary information with both our interim and final results.

Conclusion

In 1994 we continued to progress our strategic ambitions. In all our operations we are focused firmly on reducing costs, improving productivity and delivering better value-for-money products for our customers. Despite some difficult markets worldwide, our life and pensions sales increased.

Moreover, the actions we have taken to improve the profitability of our general insurance operations have paid off.

Finally, one of our great strengths is our brand name. We have firmly established our reputation for fair dealing over nearly 150 years. This reputation is something we are determined to maintain and enhance.

Board of Directors

Sir Brian Corby FIA **Chairman*** (Age 65)
A director since 1983 and Chairman since 1990. Former Group Chief Executive. Chairman of the South Bank Board. President of the National Institute of Economic and Social Research. Former director of the Bank of England. Former Chairman of the Association of British Insurers. Former President of the Confederation of British Industry. Chancellor of the University of Hertfordshire.

Michael Abrahams CBE DL
Deputy Chairman* (Age 57)
A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions Limited. Chairman of Dalepak and Wots in Store. Director of John Waddington, Drummonds and the London Clinic. Deputy Chairman of the Council of the Prince of Wales's Institute of Architecture.

Keith Bedell-Pearce (Age 49)
A director since January 1992 and Chief Executive of Prudential Financial Services since 1990. He joined Prudential in 1972 as a systems manager and subsequently qualified as a solicitor. He worked for a number of years as a company and commercial law specialist, following which he became Marketing Director of Prudential Portfolio Managers and then General Manager in charge of field operations and marketing at the Home Service division.

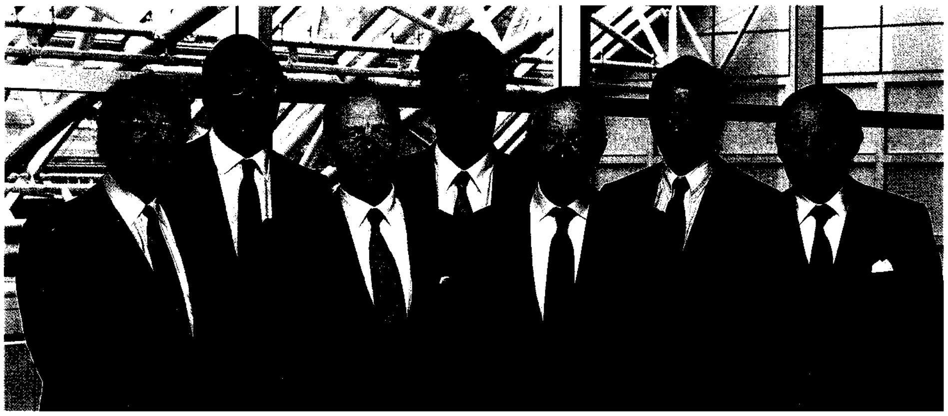
Jonathan Bloomer FCA (Age 41)
Group Finance Director since January 1995. He was previously a senior partner in Arthur Andersen's financial markets division and managing partner for the firm's European insurance practice. He is a former member of the insurance sub-committee of the Institute of Chartered Accountants.

Peter Davis (Age 53)
Group Chief Executive from 1 May 1995. A director since June 1994. Former Chief Executive and Chairman of Reed International and Chairman of Reed Elsevier. Non-executive director of Boots.

Niall FitzGerald* (Age 49)
A director since January 1993. Executive director of Unilever and vice-chairman of Unilever plc. Non-executive director of the Bank of Ireland. Chairman of the Confederation of British Industry Europe Committee.

Sir David Gillmore GCMG* (Age 60)
A director since March 1995. He was Permanent Under-Secretary of State and Head of the Diplomatic Service until August 1994.

Sir Trevor Holdsworth FCA* (Age 67)
A director since 1986. Deputy Chairman from 1988 to 1992. Chairman of Allied Colloids, Lambert Howarth and Beauford. Director of Owens-Corning Fiberglas Inc. Former Chairman of GKN. Former President of the Confederation of British Industry. Chancellor of the University of Bradford. Chairman of the Wigmore Hall Trust.



Prudential's non-executive directors pictured at the Company's headquarters in London.
Left to right: Sir Trevor Holdsworth, Peter Davis (Group Chief Executive from 1 May 1995), Sir Brian Corby, Andrew Teare, Sir Martin Jacomb, Niall FitzGerald and Michael Abrahams.

Sir Martin Jacomb* (Age 65)
A director since March 1994. Chairman of the British Council and Delta. Director of RTZ and Marks and Spencer. Member of the Nolan Committee.

Hugh Jenkins FRICS FPMI (Age 61)
Chief Executive of Prudential Portfolio Managers. Prior to joining Prudential in November 1989 as a director, he was Group Investment Director at Allied Dunbar Assurance. Before that he was Director-General of Investments with British Coal Pensions. He is Chairman of the Department of the Environment's Property Advisory Group, a member of the Chancellor's Private Finance Initiative and a former lay member of the Stock Exchange Council and City Capital Markets Committee and also Vice Chairman of the National Association of Pension Funds.

John Maxwell CA CIM (Age 50)
Corporate Development Director since March 1994. He was previously Chief Executive of BPB Industries and, from 1986 to 1992, of the Provincial Group. Former non-executive director of the Alliance and Leicester Building Society.

Jim Sutcliffe FIA (Age 38)
A director since March 1994 and Managing Director of the Home Service division since October 1994. He joined Prudential in 1976 in the Group Pensions area and between 1989 and 1992 he was Chief Operating Officer of Jackson National Life and then Deputy Managing Director of the Home Service division.

Andrew Teare* (Age 52)
A director since August 1992. Group Chief Executive of English China Clays. Director of NFC. Former President of the National Council of Building Materials Producers.

*non-executive director

Members of the Audit Committee
Michael Abrahams (Chairman)
Sir Trevor Holdsworth
Sir Martin Jacomb
Andrew Teare

Members of the Nomination Committee
Sir Brian Corby (Chairman)
Michael Abrahams
Sir Martin Jacomb

Members of the Remuneration Committee
Sir Trevor Holdsworth (Chairman)
Michael Abrahams
Niall FitzGerald
Andrew Teare

Directors' Report

Year ended 31 December 1994

Corporate Governance

Throughout the year the Company has complied with the current requirements of the Code of Best Practice published by the Cadbury Committee. All sections of the Code were applicable in 1994 with the exception of that on internal control which becomes effective in 1995. Membership of the Audit, Nomination and Remuneration Committees of the Board is shown on page 31. It is now the Company's policy that only non-executive directors are members of these committees. Information about the remuneration of the Company's directors is shown in note 23 on page 49. The statement of directors' responsibilities for the preparation of the financial statements appears on page 51, including the directors' statement on going concern.

Corporate Governance – Auditors' Review

The auditors have reported to the Board that in their opinion the directors' statement on going concern on page 51 has provided the disclosures required by paragraph 4.6 of the Code of Best Practice (as supplemented by the related guidance for directors) and is not inconsistent with the information which came to the auditors' attention as a result of their audit work on the financial statements; and that the directors' statement above appropriately reflects the Group's compliance with the other paragraphs of the Code specified for their review. The auditors were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of the Group's corporate governance procedures nor on the ability of the Group to continue in operational existence.

Principal Activity and Business Review

Prudential Corporation plc is the Group holding company and the principal activity of its subsidiary undertakings is insurance and reinsurance business in the United Kingdom and overseas. Particulars of principal subsidiary undertakings are given on page 48. The Group's business is reviewed in the Chairman's Statement on pages 6 to 9 and the Operating Review on pages 10 to 29.

Financial Statements and Supplementary Information

The consolidated balance sheet on page 35 shows the state of affairs of the Group at 31 December 1994. The Company's balance sheet appears on page 36 and the consolidated profit and loss account on page 34. There is a five year review of the Group on pages 52 and 53. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 54 to 62.

Dividends

The directors have declared a final dividend for 1994 of 9.5 pence per share payable on 31 May 1995 to shareholders on the register at the close of business on 13 April 1995. The dividend for the year, including the interim dividend of 4.9 pence per share paid in 1994, amounts to 14.4 pence per share compared with 13.2 pence per share for 1993. The total cost of dividends for 1994 was £274 million and £132 million was transferred to reserves.

Directors

The present directors are shown on pages 30 and 31. Sir Martin Jacomb, Mr J H Maxwell and Mr J H Sutcliffe were appointed directors on 9 March 1994. Mrs M E Baker, Sir Alex Jarratt and Mr B Medhurst retired from the Board on 25 May 1994. Mr J A Freeman retired and Mr M G Newmarch resigned from the Board on 30 September 1994 and 23 January 1995 respectively. Mr P J Davis was appointed a director on 1 June 1994 and Mr J W Bloomer and Sir David Gillmore were appointed directors on 1 January and 20 March 1995 respectively. They retire in accordance with the Articles of Association and offer themselves for election at the Annual General Meeting.

Mr K L Bedell-Pearce and Mr A H Teare retire by rotation at the Annual General Meeting and offer themselves for re-election. Sir Brian Corby also retires by rotation but does not offer himself for re-election.

Mr A H Teare and Sir David Gillmore do not have service contracts. The service contracts of Mr K L Bedell-Pearce and Mr J W Bloomer are terminable on not less than three years' prior written notice given by the employer and the service contract of Mr P J Davis is terminable on not less than one year's prior written notice given by the employer at any time after 31 March 1997.

A statement of directors' interests in the share capital of the Company is set out on page 50.

Directors' and Officers' Liability Insurance

During the year the Company effected insurance cover for the directors and officers of the Group as permitted by section 310 of the Companies Act 1985.

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.

Number of Employees

The average number of persons employed by the Group in the United Kingdom in each week of 1994 was 20,786 and their total remuneration for the year was £418 million.

Equal Opportunity

Group policy is to recruit, develop and employ staff on the basis of the suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees. Monitoring and enhancing the awareness of equal opportunities issues continues.

Employee Involvement

Arrangements continued in 1994 to communicate with employees on issues which concern them and to develop channels through which employees' views can be sought. Employees were again invited to participate in the Prudential Savings-Related Share Option Scheme. The board of the corporate trustee of The Prudential Staff Pension Scheme includes directors elected by the members of the scheme.

Community Investment Programme

In 1994 substantial progress was made with the two initiatives focusing on carers and safer communities.

The Prudential Carers Initiative is a five year partnership with The Princess Royal Trust for Carers and Crossroads to establish carers centres through the Trust and increase the respite care provided by Crossroads in the same locations. Ten centres are now operational and providing a range of services to meet the needs of carers.

The Prudential Youth Action Initiative is a five year partnership with Crime Concern to increase the number of Youth Action Groups throughout the United Kingdom and extend the range and quality of their activities. In 1994 the number of Groups increased to around 800, actively involving some 15,000 young people in preventing crime.

As part of this Initiative, the Prudential Youth Action Awards were launched for projects which had successfully tackled theft or improved personal safety.

Funding for these two initiatives totalled £1,004,000 in 1994.

Other donations for 1994 totalled £220,000.

The secondment programme represented a further contribution of £41,000 to community projects and donations of £189,000 were made overseas.

Auditors

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

Shareholders

The number of registered shareholders at 31 December 1994 was 87,525 (80,450).

At 31 March 1995, the Company had been notified by Sun Life Holdings plc of its interest in three per cent of the Company's issued share capital.

An analysis of shareholdings in the Company at 31 December is given below:

	1994 %
Banks and other nominee companies	**68**
Insurance companies	**9**
Pension funds	**7**
Investment trusts and unit trusts	**1**
Other corporations	**4**
Individuals (held directly)	**11**
	100

Close Company Provisions

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

On behalf of the board of directors

P R Rawson
Secretary
13 April 1995

Consolidated Profit and Loss Account

Year ended 31 December 1994

Note		1994 £m
	Gross premiums from continuing operations	
	Long-term business	8,037
	General insurance	589
	Total gross premiums	8,626
	Operating profit from continuing operations	
4	Long-term business	477
5	General insurance	120
6	Shareholders' other income	64
	Total operating profit	661
9	Interest payable	(58)
	Profit on ordinary activities before tax	603
10	Tax	(197)
	Profit for the financial year	406
	Dividends	(274)
	Retained profit for the financial year	132
	Earnings per share	21.4p
	Based on earnings of £406m (£396m) and 1,896m (1,884m) shares	
	Dividend per share	14.4p

Statement of Total Recognised Gains and Losses

Year ended 31 December 1994

Note		1994 £m
	Profit for the financial year	406
	Other recognised (losses) gains	
8	(Decrease) increase in investment gains not included in profit	(228)
	Exchange losses	(21)
	Other movements	22
		(227)
	Total recognised gains	179

These financial statements have been prepared on the statutory basis of financial reporting, using the accounting policies set out on pages 38 and 39. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 54 to 62.

Consolidated Balance Sheet

31 December 1994

Note		1994 £m
	Investments	
	Ordinary shares	27,510
	Properties	4,788
	British Government securities	2,581
	Other fixed income securities	21,849
	Mortgages and loans	1,289
	Short-term deposits	1,685
		59,702
	Other assets	
	Fixed assets	102
	Reinsurance recoverable	380
	Tax recoverable	337
	Debtors	1,858
	Bank balances and cash	283
		2,960
	Total assets	62,662
	***Less* Liabilities**	
14	Borrowings	777
	Tax	93
	Final dividend	181
	Other creditors	1,096
		2,147
13	**Total assets less liabilities**	60,515
	***Less* Insurance funds and reserves**	
13	Long-term business	57,830
16	General insurance	1,952
		59,782
		733
	Shareholders' capital and reserves	
22	Share capital	95
22	Share premium	101
	Retained profit and reserves	537
		733

Reconciliation of Movement in Shareholders' Capital and Reserves

Year ended 31 December 1994

Note		1994 £m
	Total recognised gains	179
	Goodwill charge reversed on disposal	20
22	New share capital subscribed	20
	Dividends	(274)
	Net (decrease) increase in shareholders' capital and reserves	(55)
	Shareholders' capital and reserves at beginning of year	788
	Shareholders' capital and reserves at end of year	733

These financial statements have been prepared on the statutory basis of financial reporting, using the accounting policies set out on pages 38 and 39. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 54 to 62.

Balance Sheet of the Company

31 December 1994

Note		1994 £m
	Fixed assets	
	Investments	
19	Shares in subsidiary undertakings	272
19	Loans to subsidiary undertakings	688
		960
	Current assets	
	Debtors	
	Amounts owed by subsidiary undertakings	288
	Tax recoverable	25
	Other debtors	4
		317
	Less **Liabilities: amounts falling due within one year**	
14	Borrowings	–
10	Deferred tax	24
	Amounts owed to subsidiary undertakings	154
	Final dividend	181
	Other creditors	3
		362
	Net current liabilities	45
	Total assets less current liabilities	915
	Less **Liabilities: amounts falling due after more than one year**	
	Amounts owed to subsidiary undertakings	450
		465
	Capital and reserves	
22	Share capital	95
22	Share premium	101
21	Retained profit	269
		465

The financial statements on pages 34 to 50 and the supplementary information on pages 54 to 62 were approved by the board of directors on 13 April 1995.

Sir Brian Corby, Chairman

J W Bloomer, Group Finance Director

General Insurance and Shareholders' Cash Flow Statement

Year ended 31 December 1994

Note		1994 £m
	Operations	
17	Net cash inflow from operations	385
	Servicing of finance	
	Interest paid	(59)
	Dividends paid	(258)
	Net cash outflow for servicing of finance	(317)
	Tax	
	Tax (paid) received	(29)
	Investing activities	
	Purchases:	
	Ordinary shares	(218)
	Fixed income securities	(1,528)
		(1,746)
	Sales:	
	Ordinary shares	81
	Fixed income securities	1,495
		1,576
17	Net purchases of investments (excluding short-term deposits)	(170)
17	Net inflow from sale of subsidiaries	40
	Net cash outflow for investing activities	(130)
	Net cash outflow before financing	(91)
	Financing	
17	Commercial paper borrowings (excluding short-term debt) repaid	–
17, 22	Issues of ordinary share capital	20
	Net cash inflow (outflow) from financing	20
	Net outflow in cash and cash equivalents	(71)
	Changes in cash and cash equivalents	
	Net outflow	(71)
	Exchange translation	(1)
	Decrease for year	(72)
	Balance at beginning of year	61
	Balance at end of year	(11)
	Comprising:	
13	Short-term deposits	100
13	Bank balances and cash	97
17	Short-term debt	(208)
		(11)

Accounting Policies

(A) 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. The financial statements are prepared in accordance with applicable accounting standards and with the statement of recommended practice issued by the Association of British Insurers. The balance sheet of the Company is prepared in accordance with the provisions of Schedule 4 to the Companies Act 1985, which apply to companies generally. The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 from presenting its own profit and loss account.

(B) 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 subsidiary undertakings acquired or disposed of are included in the financial statements from the date of acquisition or up to the date of disposal.

(C) Long-term business

Premiums and annuity considerations are accounted for when due, except for unit-linked business where premiums are accounted for when the liabilities arising from those premiums are created.
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. Death claims and all other claims are accounted for when notified.
Tax on long-term business activities is charged to the long-term business funds.
Long-term profits are allocated from surpluses determined as the result of annual actuarial valuations. For with-profits and reinsurance business, the amount of surplus released to profits is determined by the directors of the companies concerned in accordance with the relevant Articles of Association. For other business the release to profits comprises the whole of the surplus arising in the year.
The transfer of shareholders' profit from the long-term business revenue account to the profit and loss account is grossed up by attributable tax.

(D) General insurance

(i) Personal lines

Personal lines business is accounted for on an annual basis with profits recognised in the financial year in which the risk is carried.
Premiums written are accounted for when risks are assumed. In determining the underwriting result the proportion of the premiums written and acquisition costs incurred relating to periods of risk beyond the year end are carried forward to subsequent accounting periods as unearned premiums and deferred acquisition expenses. The amounts carried forward are calculated mainly on a daily basis.
Claims 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 year end whether reported or not.
An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and anticipated investment return.

(ii) Inwards reinsurance

Inwards reinsurance business is subject to delays in the receipt of information from ceding companies and is accounted for on a funded basis.
Premiums written are accounted for when risks are assumed; claims are recorded in the accounting period in which they are notified. The aggregate net revenue in respect of each underwriting year is carried forward as a fund and additional provisions are made if necessary to meet the estimated costs of all outstanding liabilities including claims incurred but not reported and claims expected on periods of risk beyond the end of the accounting year.
The minimum development period before profit is recognised on an underwriting year depends upon the nature of the business and ranges from one to three years.
Previously premiums were recorded in the accounting period in which they were notified. The prior year comparative has been restated. This change has not affected the timing of recognition of operating profit.

(iii) Discounting

Certain long-tail liabilities in respect of reinsurance and discontinued businesses are discounted to take account of the extended settlement period.
For continuing operations, the investment return earned over the period to settlement is credited to the underwriting result.

(E) Tax

Tax is charged on all profits and income earned to date less reliefs. 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.

(F) Investments

(i) Investment valuations

Listed investments are shown at market value, properties at open market value as valued by the Group's qualified surveyors or by professional external valuers and unlisted investments, mortgages and loans at directors' valuation. Shares in subsidiary undertakings are shown at cost less provisions for diminution in value.

(ii) Investment gains

Long-term business funds

For non-linked business, realised and unrealised gains and related tax are taken to investment reserves. Transfers are made between investment reserves and the long-term business revenue account as determined by the directors of the companies concerned.

For linked business, gains are accounted for in the revenue account.

General insurance and shareholders' funds

Insurance company realised and unrealised gains of continuing operations are taken initially to reserves. The five year average of these gains is credited to operating results.

Non-insurance company realised gains are included in operating results. Unrealised gains are taken to revaluation reserve.

(iii) Allocation of investment return

Investment return on assets matching general insurance liabilities and shareholders' funds is credited to operating results or, for discontinued operations, to the closure provisions.

(G) Foreign currencies

Foreign currency revenue transactions, assets and liabilities are translated at year end exchange rates except that certain revenue transactions are translated at rates ruling at the transaction dates. Within general insurance and shareholders' funds, exchange differences on net investments in foreign enterprises less matching borrowings are taken to retained profit and other exchange differences to shareholders' other income. Exchange differences on long-term business are taken to investment reserves.

(H) Goodwill

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

(I) Fixed assets and depreciation

Fixed assets are capitalised and depreciated by equal annual instalments over their estimated useful lives.

(J) Leased assets

Assets held under finance leases are capitalised at their fair market value. Commitments under these leases are included within other creditors.

(K) 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

Note 1 Segmental Analysis

Premiums and operating profit (loss)

Long-term Business	New business: Annual premiums 1994 £m	1993 £m	New business: Single premiums 1994 £m	1993 £m	Gross premium income 1994 £m	1993 £m	Operating profit (loss) 1994 £m	1993 £m
United Kingdom								
Non-linked:								
Pensions	108	120	421	656	1,022	1,221	88	91
Life and annuity	80	90	869	1,089	1,711	1,960	164	164
Linked life and pensions	7	1	134	77	186	133	(15)	6
Total individual business	195	214	1,424	1,822	2,919	3,314	237	261
Corporate pensions	71	72	525	620	766	820	22	21
Total United Kingdom	266	286	1,949	2,442	3,685	4,134	259	282
USA	46	64	1,330	1,068	1,831	1,588	107	122
Other countries								
Australia and New Zealand	55	45	699	552	908	727	9	6
Asian markets	54	39	66	55	249	193	10	5
Other markets	33	41	111	129	317	366	9	(7)
Total other countries	142	125	876	736	1,474	1,286	28	4
Mercantile & General Reinsurance								
United Kingdom	34	38	161	76	353	248	51	42
North America	27	16	497	451	622	568	11	16
Other countries	9	9	27	25	72	72	21	14
Total Mercantile & General Reinsurance	70	63	685	552	1,047	888	83	72
4 **Group Total**	524	538	4,840	4,798	8,037	7,896	477	481

Unit Trust and PEP Sales	Annual premiums 1994 £m	1993 £m	Single premiums 1994 £m	1993 £m
United Kingdom	96	54	168	212
Other countries	–		113	111
Group Total	96	54	281	323

General Insurance Operations	Gross premium income 1994 £m	1993 £m	Underwriting result 1994 £m	1993 £m	Investment return 1994 £m	1993 £m	Operating profit (loss) 1994 £m	1993 £m
United Kingdom								
Domestic	265	261	67	37	14	18	81	55
Motor	68	72	2	(3)	8	9	10	6
Total United Kingdom	333	333	69	34	22	27	91	61
Mercantile & General Reinsurance								
United Kingdom	160	197	(12)	(51)	24	41	12	(10)
North America	58	75	6		6	13	12	13
Other countries	38	45	1	(2)	4	5	5	3
Total Mercantile & General Reinsurance	256	317	(5)	(53)	34	59	29	6
5 **Group Total**	589	650	64	(19)	56	86	120	67

The geographical analyses of premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different, except in respect of the general insurance operations of Mercantile & General Reinsurance, for which the analysis by territory of risk comprises United Kingdom £72m (£54m), Continental Europe £39m (£55m), North America £56m (£84m) and other countries £89m (£124m).

Note	Premiums by class of business	New business		
		Annual premiums	Single premiums	Gross premium income
	Long-term Business	1994 £m	1994 £m	1994 £m
	Non-linked:			
	Pensions	180	579	1,425
	Life	231	1,074	3,044
	Annuity	1	1,538	1,546
	Permanent health	45	529	717
	Total non-linked	457	3,720	6,732
	Linked:			
	Pensions	9	273	307
	Life	58	847	998
	Total linked	67	1,120	1,305
4	**Group Total**	524	4,840	8,037
	Comprising: Individual business	404	3,478	6,164
	Corporate business	120	1,362	1,873
		524	4,840	8,037

Note	**General Insurance Operations**	Gross premium income 1994 £m
	Property	372
	Liability	183
	Other	34
5	**Group Total**	589

Net assets and shareholders' other income – geographical analysis

Shareholders' funds held to meet solvency requirements are not regarded as operating net assets for the purposes of calculating profits of the long-term and general insurance businesses. Therefore the net assets of these businesses are considered to be nil. The geographical spread of the businesses is indicated by the following analysis of insurance funds:

Note	**Insurance Funds**	Long-term business funds 1994 £m	General insurance funds 1994 £m
	United Kingdom	31,441	1,360
	USA	13,077	121
	Canada	1,564	48
	Australia and New Zealand	3,464	37
	Asian markets	662	4
	Other countries	552	28
16	**Group Total**	50,760	1,598

Note	**Shareholders' Funds**	Shareholders' other income 1994 £m	Shareholders' capital and reserves 1994 £m
	United Kingdom	(2)	419
	USA	45	845
	Canada	10	120
	Other countries	11	126
		64	1,510
14	*Less* Borrowings	–	777
6, 13	**Group Total**	64	733

Details of Group borrowings by currency are included in note 14.

Notes on the Financial Statements

Note 2 Historical Cost Profit

A note of the historical cost profit for the year has not been presented as it is not materially different from the profit disclosed in the profit and loss account.

3 Sale of Canadian Individual Life Operations

The disposal of the Canadian individual life operations was completed on 1 March 1995. The consideration was £103m and the profit on sale of £31m will be accounted for in 1995.

4 Long-term Business Revenue Account

Note		1994 £m	1993 £m
	Gross premium income	**8,037**	7,896
	Less reassurance	**320**	197
	Net premium income	**7,717**	7,699
7	Investment income	**3,277**	3,091
	Investment gains transferred from investment reserves	**545**	1,983
7	Investment (losses) gains relating to linked business	**(500)**	1,004
		11,039	13,777
	Gross claims and surrenders	**5,490**	4,812
	Less reassurance	**23**	160
	Net claims and surrenders	**5,467**	4,652
	Commission	**548**	564
	Expenses	**689**	789
10	Tax	**165**	175
	Increase in insurance liability	**2,043**	5,432
		8,912	11,612
	Surplus for distribution	**2,127**	2,165
	Less policyholders' bonuses	**1,803**	1,843
	Shareholders' profit after tax	**324**	322
10	Shareholders' tax	**153**	159
	Operating profit	**477**	481

5 General Insurance Revenue Account

Note		1994 £m	1993 £m
	Gross premium income	**589**	650
	Less reinsurance	**35**	59
	Net premium income	**554**	591
	Gross claims	**394**	629
	Less reinsurance	**53**	120
	Net claims	**341**	509
	Commission	**73**	109
	Expenses	**92**	83
	Deferred acquisition expenses	**11**	6
	Decrease in insurance liability	**(27)**	(97)
		490	610
	Underwriting result	**64**	(19)
8	Investment return	**56**	86
	Operating profit	**120**	67

Note	6 Shareholders' Other Income	1994 £m	1993 £m
	Investment return:		
	Investment income	63	55
	Insurance company averaged investment (losses) gains	(7)	36
	Non-insurance company realised investment gains	11	6
8		67	97
	Trading results from:		
	Investment management	23	23
	Unit trusts and personal equity plans	4	1
	Development expenses	(7)	
	Corporate expenditure	(23)	(21)
	Operating profit	64	100

7 Long-term Business Investment Return	1994 £m	1993 £m
Investment income	3,422	3,227
Less investment expenses	145	136
	3,277	3,091
Investment (losses) gains: non-linked business	(4,698)	6,686
linked business	(500)	1,004
Total long-term business investment return	(1,921)	10,781

8 General Insurance and Shareholders' Investment Return	1994 £m	1993 £m
Investment income	159	165
Less investment expenses	4	4
	155	161
Investment (losses) gains arising in the year	(262)	191
Decrease (increase) in investment gains not included in profit:		
Deferred investment gains	208	(64)
Non-insurance company unrealised gains	20	(46)
Total general insurance and shareholders' investment return recognised in year	121	242
Allocated to:		
General insurance	56	86
Shareholders' investment return	67	97
Closure provision for discontinued operations	(2)	59
	121	242

Deferred investment losses at the end of the year amounted to £68m (deferred investment gains of £138m in 1993).

9 Interest on Borrowings	Long-term business 1994 £m	Long-term business 1993 £m	General insurance and shareholders 1994 £m	General insurance and shareholders 1993 £m
Interest on borrowings repayable within 5 years	8	7	28	29
Interest on other borrowings	–	–	30	30
	8	7	58	59

Interest charged to the long-term business revenue account is deducted from investment income.

Notes on the Financial Statements

Note 10 Tax

Tax charged to long-term business revenue account and to profit and loss account	Long-term business 1994 £m	[illegible]	General insurance and shareholders 1994 £m	[illegible]
Corporation tax	29	[illegible]	20	[illegible]
Double tax relief	(6)	(14)	(13)	[illegible]
Tax on franked investment income	87	[illegible]	3	[illegible]
Overseas tax	88	108	8	25
Prior year adjustments	(32)	[illegible]	12	
	166	[illegible]	30	[illegible]
Deferred tax	(1)	[illegible]	14	[illegible]
	165	[illegible]	44	[illegible]
Shareholders' attributable tax on long-term profits	(153)	[illegible]	153	[illegible]
	12	[illegible]	197	[illegible]
Tax charged (credited) to reserves				
Current tax	29	[illegible]	(23)	[illegible]
Deferred tax				
Liability provided (asset recognised) in balance sheets:				
Short-term timing differences	17	[illegible]	5	[illegible]
General insurance funds	–		15	
Acquisition expenses	(15)	[illegible]	–	
Closure cost provisions	–		(27)	[illegible]
13	2	[illegible]	(7)	[illegible]
Potential liability not provided (asset not recognised):				
Investment gains	1,392	[illegible]	29	[illegible]
Unrelieved losses	(2)	[illegible]	(25)	[illegible]
General insurance funds	–		(23)	[illegible]
Other timing differences	(49)		(20)	[illegible]
	1,341	[illegible]	(39)	[illegible]

The deferred tax liability of £24m (£18m) in the balance sheet of the Company relates to short-term timing differences.

11 Pension Costs

The Group operates a number of pension schemes around the world. The major schemes are of the defined benefit type with scheme assets held in separate trustee administered funds.

The Group's main United Kingdom scheme, which covers approximately 75% of eligible employees in service, was valued as at 5 April 1993 by a qualified actuary who is an employee of the Group. The projected accrued benefits method was used and the principal actuarial assumptions adopted were: investment return 9% per annum, pensionable earnings growth 7.5% per annum, increases to pensions in payment 4% per annum and dividend growth 5% per annum. The market value of scheme assets at that date was £2,580m and the actuarial value of the assets was sufficient to cover 122% of the benefits that had accrued to members, allowing for expected future increases in earnings. As a result of the actuarial valuation, the employers' contribution rate was maintained at approximately 8% of pensionable earnings.

For the year ended 31 December 1994, the total pension cost for the Group was £45m (£40m) of which £10m (£6m) related to overseas schemes.

Note	12 Fees Payable to Audit Firms	Price Waterhouse 1994 £m	Other firms 1994 £m	Total 1994 £m
	Statutory audit	1.7	0.5	2.2
	Audit related services	1.5	1.8	3.3
	Consultancy services	2.8	0.3	3.1
		6.0	2.6	8.6

Fees payable to Price Waterhouse for work performed in the United Kingdom other than for statutory audit amounted to £3.1m (£2.9m).

Note	13 Balance Sheets	Long-term business 1994 £m	General insurance and shareholders 1994 £m
	Investments		
	Ordinary shares	26,869	641
	Properties	4,769	19
	British Government securities	2,343	238
	Other fixed income securities	20,347	1,502
	Mortgages and loans	1,150	139
	Short-term deposits	1,585	100
		57,063	2,639
	Other assets		
	Fixed assets	45	57
	Reinsurance recoverable	26	354
	Tax recoverable	224	108
	Deferred tax	(2)	7
	Debtors	1,447	813
	Bank balances and cash	186	97
		1,926	1,436
	Total assets	58,989	4,075
	Less Liabilities		
14	Borrowings	–	777
	Tax	49	44
	Final dividend	–	181
	Other creditors	1,110	388
		1,159	1,390
	Total assets less liabilities	57,830	2,685
16	*Less* General insurance funds	–	1,952
		57,830	733
16	Long-term business funds	50,786	–
	Long-term business reserves	7,044	–
	Shareholders' capital and reserves	–	733
		57,830	733

Notes on the Financial Statements

14 Borrowings	General insurance and shareholders 1994 £m	1993 £m
Unsecured loans:		
Sterling commercial paper	**66**	–
US dollar commercial paper	**140**	84
DM300m 6% Guaranteed Notes 1997	**124**	117
SF200m 4.75% Guaranteed Bonds 1998	**97**	91
US$300m 8.25% Guaranteed Bonds 2001	**192**	203
£150m 9.375% Guaranteed Bonds 2007	**150**	150
Currency translation liability on swap transactions	**6**	24
Total unsecured loans	**775**	669
Bank loans and overdrafts (repayable on demand)	**2**	18
Total borrowings	**777**	687
Borrowings are repayable as follows:		
Within one year or on demand	**221**	102
Between two and five years	**214**	232
After five years	**342**	353
	777	687

The Company has bank loans and overdrafts of £nil (£9m). The bank overdrafts at 31 December 1993 were wholly repayable within one year or on demand.
The Group has entered into a number of swap transactions in respect of unsecured loans of the general insurance and shareholders' funds. As a result of these transactions, the effective liabilities at 31 December 1994 for the unsecured loans are US$837m, DM300m and £116m, equivalent in total to £775m. The weighted average rate of interest payable on these loans is 8.4% (8.7%).
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.

15 Investors' Compensation Scheme

The Group may be required to make payments to the Investors' Compensation Scheme in respect of compensation awarded to personal pension policyholders for policies sold by independent financial advisers. No provision has been made in the accounts for this contingent liability because the basis of any levy and its potential amount are not known.

16 Insurance Funds

Long-term Business	1994 £m	1993 £m
Insurance funds	**50,447**	47,645
Gross outstanding claims	**339**	283
Total funds gross of reinsurance	**50,786**	47,928
Reinsurance recoverable	**(26)**	(30)
Total funds net of reinsurance recoverable	**50,760**	47,898

General Insurance	1994 £m	1993 £m
Funds gross of reinsurance:		
Unearned premiums	**175**	185
Outstanding claims	**405**	493
Inwards reinsurance and other funds	**1,391**	1,343
	1,971	2,021
Deferred acquisition expenses	**(19)**	(30)
Total funds gross of reinsurance	**1,952**	1,991
Reinsurance recoverable	**(354)**	(295)
Total funds net of reinsurance recoverable	**1,598**	1,696

Discounting has been applied to certain long-tail general insurance funds in respect of accident non-proportional reinsurance, direct liability business and asbestos and pollution claims. The discount rate applied is 5% per annum and the average periods of settlement are between three and fifteen years. The overall effect of discounting is to reduce the general insurance funds at 31 December 1994 by £216m (£240m) and to increase Group profit before tax by £5m (£18m).
In the case of discontinued businesses, the future investment return on insurance funds has been recognised in calculating the closure provisions.

Note 17 General Insurance and Shareholders' Cash Flow

Reconciliation of operating profit to net cash inflow from operations	1994 £m
Total operating profit	661
Adjustments for non-cash items:	
Depreciation	18
Investment gains and other movements	9
Tax on long-term profits and franked investment income	(156)
Decrease in general insurance fund	(32)
Increase in long-term business profit transfer	(2)
Increase in reinsurance recoverable	(59)
(Increase) decrease in other assets	(33)
Decrease in other liabilities	(21)
Net cash inflow from operations	385

Changes in investments	1994 £m
Net purchases of investments (excluding short-term deposits)	170
Realised and unrealised investment (losses) gains	(262)
Exchange translation and other movements	(37)
Increase (decrease) in short-term deposits	7
(Decrease) increase for year	(122)
Investments at beginning of year	2,761
Investments at end of year	2,639

Sale of subsidiaries	1994 £m
Cash consideration net of expenses	42
Less Cash and cash equivalents disposed of in sale	(2)
Net inflow from sale of subsidiaries	40

Changes in borrowings and share capital	Borrowings 1994 £m	Share capital (including share premium) 1994 £m
Financing:		
Net cash raised (borrowings repaid)	–	20
Exchange translation	(16)	–
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	(38)
(Decrease) increase for year	(16)	(18)
Financing at beginning of year	585	214
Financing at end of year	569	196
Other borrowings:		
Short-term debt included in cash and cash equivalents	208	–
22 Total borrowings/share capital	777	196

18 Exchange Rates

The principal year end exchange rates used for translation were:

	Currency	1994
Australia	A$	2.02
Canada	C$	2.19
USA	US$	1.56

19 Investments of the Company	Shares in subsidiary undertakings 1994 £m	Loans to subsidiary undertakings 1994 £m
At beginning of year	299	697
Exchange rate movements	–	(21)
Advances of new loans	3	31
Repayment of shares/loans	(30)	(19)
At end of year	272	688

Notes on the Financial Statements

20 Subsidiary Undertakings

The principal subsidiary undertakings of the Company were:

	Country of incorporation
Jackson National Life Insurance Company*	United States of America
The Mercantile & General Reinsurance Company plc*	Scotland
Prudential Annuities Limited*	England and Wales
The Prudential Assurance Company Limited	England and Wales
Prudential Finance BV*	The Netherlands
Prudential Financial Services Limited	England and Wales
Prudential Portfolio Managers Limited	England and Wales

*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, apart from The Mercantile & General Reinsurance Company plc which operates mainly in England.
The main activity of these undertakings is insurance with the exception of Prudential Finance BV, a finance company, and Prudential Portfolio Managers Limited, an investment management company. Other undertakings that do not materially affect the profit of the Group or the amount of its assets are not shown.
The cumulative goodwill charged against the Group's reserves arising on acquisitions of subsidiary undertakings that remain part of the Group amounted to £406m (£410m).

21 Profit of the Company

The profit of the Company for the year was £345m (£234m). After dividends of £274m (£250m) and a transfer from share premium of £38m for shares issued in lieu of cash dividends in respect of the period 1988-1994, retained profit at 31 December 1994 amounted to £269m (£160m).

22 Share Capital and Share Premium

Authorised share capital is £120m comprising 2,400,000,000 shares of 5p each.

Issued shares of 5p each fully paid	Number of shares	Share capital 1994 £m	Share premium 1994 £m
At beginning of year	**1,891,244,433**	**94.5**	**119.4**
Shares issued under share option schemes	**6,683,300**	**0.4**	**12.1**
Shares issued in lieu of cash dividends	**2,584,861**	**0.1**	**7.7**
Transfer to retained profit in respect of shares issued in lieu of cash dividends		**–**	**(38.4)**
At end of year	**1,900,512,594**	**95.0**	**100.8**

The accounting for shares issued in lieu of cash dividends has been revised in accordance with FRS4 – Capital Instruments. These shares are now recorded as bonus issues. Accordingly the balance on share premium account at 31 December 1994 has been reduced by £38.4m for the cumulative amount of these dividends with a corresponding increase in retained profit. Previously shares issued in lieu of cash dividends were charged to retained profit.

Options subsisting under share option schemes at 31 December 1994 were:

Year options granted	Number of options	Exercise price pence per share	Period during which options are exercisable
1987	**539,250**	**175.2-199.0**	**1995-1997**
1988	**826,255**	**149.0-166.4**	**1995-1998**
1989	**1,559,560**	**167.0-200.5**	**1995-1999**
1990	**8,647,193**	**156.0-197.0**	**1995-2000**
1991	**5,525,068**	**192.0-248.0**	**1995-2001**
1992	**10,474,817**	**163.0-256.0**	**1995-2002**
1993	**7,678,780**	**264.0-331.0**	**1996-2003**
1994	**10,821,597**	**249.0-312.0**	**1997-2004**

23 Directors' Emoluments

Remuneration Policy The contracts and emoluments of executive directors are determined by the Remuneration Committee. This Committee now comprises only non-executive directors as set out on page 31. During 1994 its membership also included the group chief executive who was not involved in the determination of his own emoluments. The remuneration philosophy of the Company is that pay levels and benefit structures should be competitive in order to recruit and retain high calibre executives. Furthermore remuneration should reflect both individual and business performance. In addition to annual salary and benefits, executive directors' remuneration includes longer term elements.

Salaries are market and performance related and are reviewed against surveys of other companies. The annual salary and performance of executive directors are reviewed annually by the Remuneration Committee.

Longer Term Benefits The longer term benefits comprise two elements, a performance related element, known as the Share Participation Plan, and the Prudential Executive Share Option Scheme.

The Share Participation Plan which was introduced in 1992 is designed to encourage share ownership and retention by executive directors and other senior executives. Under the Plan, directors receive an initial cash award and they may elect to convert the after tax amount into shares in the Company. If this election is made, the Company will award additional shares on the basis that both sets of shares are deposited with the Plan trustee for five years. Awards under the Plan are determined by the Remuneration Committee, based on the performance of the Group, taking into account shareholders' expectations and earnings per share growth in recent years and relative to comparable companies.

The initial cash award is up to 15% of salary at the time of the award. The additional award is normally equivalent to the gross initial cash award but may range from nil to 30% of salary. These additional shares are purchased in the market. Normally, a director benefits from the additional award only if the shares deposited by the director are held by the trustee for five years but the Remuneration Committee has the discretion to release the additional shares in the event of a director leaving.

In respect of 1994, the present executive directors have elected to deposit shares with the trustee. The emoluments shown below reflect all pre-tax amounts awarded under the Plan including the cost of the additional shares.

Executive directors also qualify for share options under the Prudential Executive Share Option Scheme. Options to subscribe for shares are granted up to a maximum value holding of four times eligible earnings and must be held for at least three years before exercise. Details of holdings of share options are included in note 24. It has been decided not to renew this Scheme when it expires in May 1995, although options outstanding at that date will remain in force. The Scheme will be replaced in 1996 with a new Restricted Share Plan, under which executive directors will receive an annual grant of restricted shares to be held in trust for five years. The number of shares that will ultimately become the property of the director will depend upon the Company's total return to shareholders relative to other companies in the FTSE 100 share index over the period of three years since grant. In addition the Remuneration Committee will need to be satisfied that the financial performance of Prudential has been satisfactory over the three year period. Subject to these conditions, executive directors will receive shares up to a value of 30% of annual salary at the time of the grant.

The new Group Chief Executive will not participate in the Prudential Executive Share Option Scheme and will be limited to a maximum additional award of shares under the Share Participation Plan, equivalent to 15% of salary. In his case the first award of shares under the new Restricted Share Plan will be in 1995 and the maximum award under the Plan will be 70% of salary.

Pensions Executive directors are eligible to be members of the Prudential Staff Pension Scheme which provides pensions and other benefits on the same basis as for other members of the Scheme. Additional arrangements are made in respect of those executive directors whose entitlements under the Scheme are restricted by Inland Revenue limits.

Service Contracts Executive directors' service contracts have been reviewed by the Remuneration Committee which has announced its intention to reduce the notice of termination which the Company is required to give from three years to 18 months.

Emoluments of executive directors were:	Salary £000	Performance Related Award £000	Benefits £000	1994 Total £000	1993 Total £000
M G Newmarch (group chief executive to 23 January 1995)	520	156	31	**707**	778
K L Bedell-Pearce	198	62	17	**277**	309
J A Freeman (retired 30 September 1994)	149	44	24	**217**	298
H R Jenkins	270	81	22	**373**	432
M J Lawrence (resigned 31 December 1993)	–	–	–	**–**	394
J H Maxwell (appointed 9 March 1994)	187	53	13	**253**	–
B Medhurst (retired 25 May 1994)	82	25	7	**114**	305
J H Sutcliffe (appointed 9 March 1994)	152	58	9	**219**	–
	1,558	479	123	**2,160**	2,516
Fees to non-executive directors				**255**	281
Pension contributions				**554**	684
Total emoluments				**2,969**	3,481
Emoluments of executive directors 1993	1,749	623	144		

The emoluments of the Chairman, Sir Brian Corby, were £103,000 (£97,000). The Chairman was not eligible for performance related awards and no pension contributions were made on his behalf. The emoluments of the highest paid director, M G Newmarch, were £763,000 (£834,000) including pension contributions of £56,000 (£56,000).

The number of non-executive directors (excluding the Chairman) with emoluments (excluding pension contributions) falling into the following bands were:

Emoluments £ £	Number of directors 1994	Emoluments £ £	Number of directors 1994	1993
5,001 to 10,000	**1**	15,001 to 20,000	**5**	4
10,001 to 15,000	**1**	35,001 to 40,000	**1**	2

Notes on the Financial Statements

24 Directors' Interests and Options

The interests of directors in the issued share capital of the Company were:

	1 Jan 1994 or later date of appointment	31 Dec 1994		1 Jan 1994 or later date of appointment	31 Dec 1994
M D Abrahams	12,000	12,000	Sir Martin Jacomb	16,000	16,000
K L Bedell-Pearce	29,274	49,780	H R Jenkins	19,648	53,297
Sir Brian Corby	28,306	28,306	J H Maxwell	7,700	7,700
P J Davis	2,500	2,500	M G Newmarch	39,396	108,879
N W A FitzGerald	3,040	3,177	J H Sutcliffe	36,594	54,373
Sir Trevor Holdsworth	6,283	7,581	A H Teare	2,500	2,500

All interests disclosed above are beneficial interests. There have been the following changes in directors' interests between 31 December 1994 and 31 March 1995: Mr J H Maxwell acquired 4,916 shares and Mr H R Jenkins acquired 7,559 shares.

Options held by directors on shares in the Company under the Prudential Executive Share Option Scheme and the Prudential Savings-Related Share Option Scheme were:

	Options to subscribe for shares of 5p each in the Company				Exercise	Market price at	Earliest	Latest
	1 Jan 1994 or later date of appointment	Granted in 1994	Exercised in 1994	31 Dec 1994	price (pence)	date of exercise (pence)	exercise date	exercise date
K L Bedell-Pearce	29,250		29,250		164	318		
	19,500		19,500		193	318		
	32,500		32,500		236	318		
	189,000			189,000	201		1995	2002
	105,000			105,000	328		1996	2003
	5,769			5,769*	156		1997	1998
		60,500		60,500	309		1997	2004
	6,716			6,716*	201		1998	1999
	387,735	60,500	81,250	366,985				
H R Jenkins	41,000		41,000		196	329		
	31,000			31,000	236		1994	2001
	120,500			120,500	201		1995	2002
	244,000			244,000	328		1996	2003
	436,500		41,000	395,500				
J H Maxwell		129,250		129,250	309		1997	2004
		129,250		129,250	309		1999	2004
		7,831		7,831*	249		2001	2001
		266,331		266,331				
M G Newmarch	2,155		2,155		167	313		
	84,500		84,500		199	296		
	64,250		64,250		164	296		
	60,000		60,000		236	296		
	4,807			4,807*	156		1995	1996
	291,500			291,500	201		1995	2002
	3,731			3,731*	201		1996	1997
	112,000			112,000	327		1996	2003
	285,000			285,000	328		1996	2003
		29,000		29,000	309		1997	2004
		140,500		140,500	296		1997	2004
		1,385		1,385*	249		1999	1999
	907,943	170,885	210,905	867,923				
J H Sutcliffe	1,293		1,293		167	299		
	25,000			25,000	199		1993	1997
	3,945			3,945*	149		1995	1995
	2,403			2,403*	156		1995	1996
	137,000			137,000	201		1995	2002
	3,731			3,731*	201		1996	1997
	22,500			22,500	327		1996	2003
	61,000			61,000	328		1996	2003
		77,000		77,000	309		1997	2004
		2,771		2,771*	249		1999	1999
	256,872	79,771	1,293	335,350				

No options lapsed during the year. The market price of the shares at 31 December 1994 was 316 pence and the range during 1994 was from 271 pence to 385 pence. No director had an interest in any other shares, transactions or arrangements (other than service contracts) which requires disclosure.

*Prudential Savings-Related Share Option Scheme

Statement of Directors' Responsibilities

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 34 to 50 and the supplementary information on pages 54 to 62.
Company law requires the directors to prepare financial statements for the Company and the Group which comply with the relevant provisions of the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained for the preparation of those statements and that reasonable steps are taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the forseeable future. They therefore continue to use the going concern basis in preparing the financial statements.

Sir Brian Corby, Chairman

J W Bloomer, Group Finance Director

Report of the Auditors on the Financial Statements

to the members of Prudential Corporation plc

We have audited the financial statements on pages 34 to 50 which have been prepared in accordance with the accounting policies set out on pages 38 to 39.

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

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

Opinion
In our opinion, the balance sheet of the Company gives a true and fair view of the Company's state of affairs at 31 December 1994 and has been properly prepared in accordance with the Companies Act 1985, and the consolidated financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

Price Waterhouse
Chartered Accountants
and Registered Auditors
London
13 April 1995

Five Year Review

	1994 £m
Summary of Results	
Operating profit (loss)	
Continuing operations:	
Long-term business	477
General insurance	120
Shareholders' other income	64
	661
Discontinued operations:	
General insurance	–
Estate agency	–
	–
Total operating profit	661
(Loss) gain on closure disposal	–
Estate agency goodwill previously charged to reserves	–
Profit on ordinary activities before interest payable	661
Interest payable	(58)
Profit on ordinary activities before tax	603
Tax and minority interests	(197)
Profit (loss) for the financial year	406
Share Statistics	
Earnings per share	21.4p
Dividend per share	14.4p
Market price at 31 December	316.0p
Insurance Funds and Reserves	
Long-term business	57,830
General insurance	1,952
Shareholders' capital and reserves	733
Investments at Market Value	
Long-term business	57,063
General insurance and shareholders	2,639
Other funds under management	12,497
Total investments	72,199
Long-term Business Investments	
Net Investment in year	
Funds arising in United Kingdom:	
Ordinary shares	487
Properties	548
British Government securities	(108)
Other fixed income securities	962
Short-term deposits	(1,108)
	781
Funds arising overseas:	
Ordinary shares	(70)
Properties	20
Fixed income securities	1,758
Short-term deposits	238
	1,946

		1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Sales of Savings and Protection Products						
Long-term business:	regular contributions	**524**	536	592	542	578
	single contributions	**4,840**	4,798	4,581	3,430	2,746
Investment products:	regular contributions	**96**	36	8		–
	single contributions	**281**	323	200	109	105
Results of Continuing Operations						
Long-term Business						
Gross premium income		**8,037**	7,896	7,596	6,163	5,231
Investment income		**3,277**	3,091	2,850	2,477	2,284
Investment gains transferred from investment reserves		**545**	1,983	1,492	1,406	779
Commission and expenses		**1,237**	1,353	1,342	1,171	1,081
Policyholders' bonuses		**1,803**	1,843	1,705	1,677	1,574
Shareholders' operating profit		**477**	481	444	385	367
General Insurance						
Gross premium income		**589**	650	830	673	585
Underwriting result		**64**	(19)	(179)	(122)	(190)
Investment return		**56**	86	69	64	67
Operating profit (loss)		**120**	67	(110)	(58)	(123)
Shareholders' Other Income						
Investment return:						
Investment income		**63**	55	80	71	84
Insurance company averaged investment gains		**(7)**	36	30	20	28
Non-insurance company realised investment gains		**11**	6	50	10	36
		67	97	160	101	148
Trading results from:						
Investment management		**23**	23	8	12	7
Unit trusts and personal equity plans		**4**	1	(1)	(1)	(1)
Development expenses		**(7)**	–		–	
Corporate expenditure		**(23)**	(21)	(33)	(26)	(26)
Operating profit		**64**	100	134	86	128
Total continuing operations		**661**	648	468	413	372
Discontinued Operations						
General Insurance						
Gross premium income		–	–	392	544	585
Underwriting result		–		(66)	(161)	(128)
Investment return		–	–	55	70	66
Operating loss		–	–	(11)	(91)	(62)
Estate Agency						
Operating loss		–	–	–	–	(34)
Total discontinued operations		–	–	(11)	(91)	(96)

Long-term Business Results - Accruals Basis

Financial Overview	1994 £m
Operating profit	
Long-term business	673
General insurance and shareholders' other income	184
	857
Interest payable	(58)
Profit on ordinary activities before tax	799
Earnings per share	27.5p

	1994 £m
Shareholders' capital and reserves	
Statutory basis	733
Profits retained in long-term funds	3,168
Accruals basis	3,901

Review of Results

On the accruals basis the Group's long-term business contributed profits of £673 million in 1994 compared with £887 million in 1993. Excluding the effects of investment related items, profits improved by seven per cent. After including the significantly increased contribution from general insurance operations together with shareholders' other income, total pre-tax profits on the accruals basis were £799 million (£995 million) and earnings per share were 27.5 pence (35.1 pence).

Accruals profits arise from three sources – new business, business in force and the investment return on the shareholders' interest retained in the long-term funds.

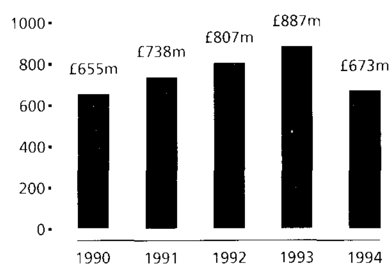
Profits from new business in 1994 fell by eight per cent to £266 million (£289 million). The new business growth achieved in the United States, Asia and by Prudential's reinsurance subsidiary, Mercantile & General, was offset by a decline in sales in the UK.

Profits from business in force were heavily impacted by declining investment markets and reduced realised investment gains in Prudential's US subsidiary Jackson National Life. Consequently profits fell by two thirds to £63 million (£192 million). However, excluding the effects of investment related items, profits from business in force increased by £60 million reflecting improved business trends in Jackson National and Mercantile & General.

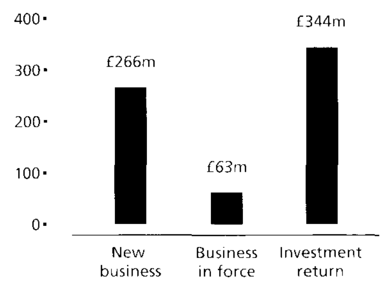
The third element of the accruals profits, the investment return on the shareholders' accrued interest retained in the long-term business funds was also affected by investment market conditions and fell by 15 per cent to £344 million (£406 million).

The lower investment values also meant the shareholders' retained interest

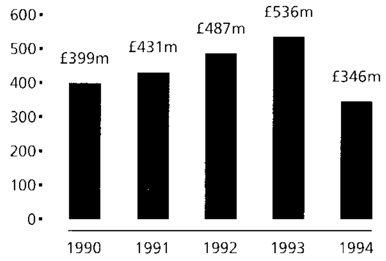
LONG-TERM PROFITS



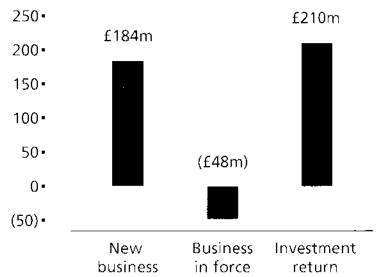
LONG-TERM PROFITS BY CATEGORY



PRUDENTIAL ASSURANCE LONG-TERM PROFITS



PRUDENTIAL ASSURANCE LONG-TERM PROFITS BY CATEGORY



in the funds fell by six per cent to £3,168 million during 1994.

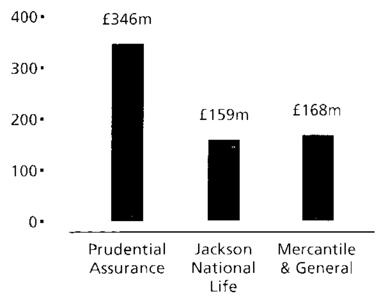
After including the net assets of £733 million (£788 million) reported on the statutory basis, shareholders' funds on the accruals basis were £3,901 million at the end of 1994, down £273 million on 1993.

Segmental Analysis

Prudential's accruals results are analysed as three main businesses – Prudential Assurance, Jackson National Life and Mercantile & General.

Beginning with Prudential Assurance:

LONG-TERM PROFITS BY BUSINESS AREA



Prudential Assurance	1994 £m
New business	
Annual premiums	408
Single premiums	2,825
Operating profit (loss)	
New business	184
Business in force	(48)
Investment return on the shareholders' accrued interest	210
	346
Shareholders' accrued interest in the long-term business	1,968

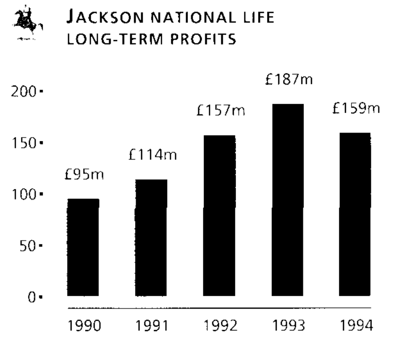
Prudential Assurance and its subsidiaries encompass all our retail operations outside the United States. These businesses sell life and pension products to both the individual and corporate markets. Most of the policies sold have a high savings and low risk content and are designed to be held for the long-term. The nature of the products allows recognition in the year of sale of a high proportion of the total shareholders' profits which will ultimately emerge from new business.

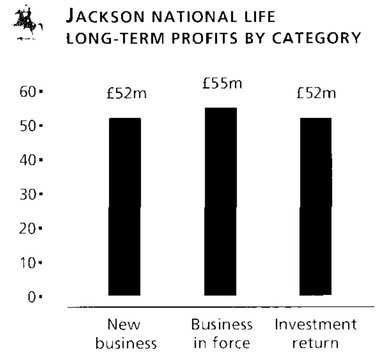
The investment return on the shareholders' interest in the long-term business is also a large constituent of profit, comprising the return on shareholders' funds retained within the funds to meet valuation and solvency requirements.

Owing to difficult market conditions in the UK in 1994, new business profits fell from £223 million to £184 million.

There were, however, some encouraging features, particularly in our Pacific market operations where new business profits increased by nearly 30 per cent to £45 million.

In the UK, the Prudence Savings Account was successfully launched in July and sold £158 million of single premiums and £24 million of annual premiums, contributing £8 million of new business profits.





Profits from business in force fell from £41 million to a loss of £48 million mainly as a result of falls in investment markets.

The investment return on the shareholders' accrued interest fell 23 per cent to £210 million (£272 million), again reflecting poor investment market conditions.

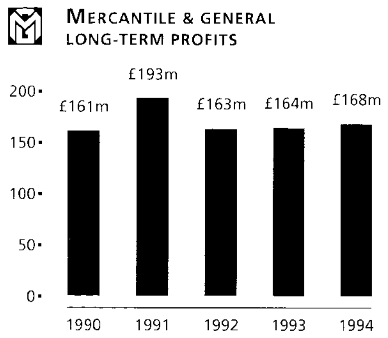
Jackson National Life	1994 £m	1993 £m
New business		
Annual premiums	**46**	64
Single premiums	**1,330**	1,068
Operating profit		
New business	**52**	39
Business in force	**55**	97
Investment return on the shareholders' accrued interest	**52**	51
	159	187
Shareholders' accrued interest in the long-term business	**486**	470

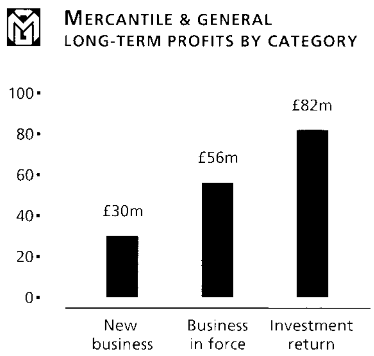
Jackson National Life sells savings and protection products in the USA individual market, with the majority of its sales being single premium annuities. In recognition of the different risk characteristics of the USA annuity market, profit emergence on Jackson's products is somewhat slower than is the case for Prudential Assurance. A larger proportion of profit therefore tends to arise from business in force.

Investment return on the shareholders' accrued interest forms a smaller proportion of Jackson's total accruals profits than for Prudential Assurance since Jackson holds its solvency capital outside its life fund.

Single premium sales at Jackson increased in 1994 by almost a third to US$2.1 billion. Accordingly, new business profits grew strongly to £52 million, up a third on 1993.

Following an exceptional level of realised investment gains allocated to shareholders in 1993, profits from business in force fell from £97 million to £55 million. Excluding the effects of investment gains, profits from business in force increased sharply, mainly due to improved crediting rate margins and the introduction of mortality charges on single premium whole life contracts.





Mercantile & General	1994 £m	[illegible]
New business		
Annual premiums	**70**	61
Single premiums	**685**	552
Operating profit		
New business	**30**	27
Business in force	**56**	54
Investment return on the shareholders' accrued interest	**82**	83
	168	164
Shareholders' accrued interest in the long-term business	**714**	763

Mercantile & General is a major participant in worldwide life and disability reassurance markets. Its business is more exposed to underwriting risk than the Group's retail businesses and the pattern of accruals profit emergence reflects this characteristic by recognising a lower proportion of the ultimate profit in the year of sale.

Investment return on the shareholders' accrued interest in the long-term business forms the largest constituent of M&G's accruals basis profits, reflecting the high level of profits and solvency capital retained within M&G's long-term funds. Since M&G does not have any participating policyholders the whole of the investment return on these retained funds is attributable to shareholders.

Despite the adverse investment market conditions, M&G increased profits slightly to £168 million (£164 million). Strong new business sales, particularly in North America, helped increase new business profits by 11 per cent to £30 million (£27 million).

The contribution from business in force increased to £56 million (£54 million), with improved mortality and morbidity offsetting the impact of poor investment markets.

The return on the shareholders' accrued interest was down only slightly at £82 million (£83 million). Last year's growth in the shareholders' interest, has counterbalanced the effect of weaker investment markets.

Conclusion

The accruals basis of reporting provides information on the performance and profitability of the Group's long-term business in addition to the statutory basis results. Whilst the accruals basis is still at an experimental stage, these results will be shown as supplementary information. An explanation of the accruals basis of reporting is set out on page 60.

Consolidated Profit and Loss Account - Accruals Basis

Year ended 31 December 1994

	1994 £m
Operating profit	
Long-term business	
New business	266
Business in force	63
Investment return on the shareholders' accrued interest	344
	673
General insurance	120
Shareholders' other income	64
Total operating profit	857
Interest payable	(58)
Profit on ordinary activities before tax	799
Tax	(277)
Profit for the financial year	522
Dividends	(274)
Retained profit for the financial year	248

Earnings per share	27.5p
Based on earnings of £522m (£662m) and 1,896m (1,884m) shares	
Dividend per share	14.4p

Statement of Total Recognised Gains and Losses - Accruals Basis

Year ended 31 December 1994

Note		1994 £m
	Profit for the financial year	522
	Other recognised (losses) gains	
5	(Decrease) increase in investment gains not included in profit	(521)
8	Exchange losses	(51)
	Other movements	31
		(541)
	Total recognised (losses) gains	(19)

This supplementary information has been prepared on the accruals basis of financial reporting described on page 60.
Financial statements prepared on the statutory basis of financial reporting are provided on pages 34 to 50.

Summarised Consolidated Balance Sheet - Accruals Basis

31 December 1994

	1994 £m
Investments	59,702
Other assets	2,960
Total assets	62,662
Less Liabilities	2,147
Total assets less liabilities	60,515
Less Insurance funds and reserves	
Long-term business	57,830
Less Shareholders' accrued interest in the long-term business	3,168
	54,662
General insurance	1,952
	56,614
	3,901
Shareholders' capital and reserves	
Share capital	95
Share premium	101
Retained profit and reserves (statutory basis)	537
Profit retained in long-term funds (accruals basis)	3,168
	3,901

Reconciliation of Movement in Shareholders' Capital and Reserves - Accruals Basis

Year ended 31 December 1994

	1994 £m
Total recognised (losses) gains	(19)
New share capital subscribed	20
Dividends	(274)
Net (decrease) increase in shareholders' capital and reserves	(273)
Shareholders' capital and reserves at beginning of year	4,174
Shareholders' capital and reserves at end of year	3,901

This supplementary information has been prepared on the accruals basis of financial reporting described on page 60.
Financial statements prepared on the statutory basis of financial reporting is provided on pages 34 to 50.

The Accruals Basis of Financial Reporting

The accruals 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 profits from long-term business calculated under this method are the same as under the statutory solvency method, the timing of recognition is different.

The timing difference can be illustrated by considering an individual contract. Using prudent assumptions of the main elements of future income and expenditure – investment return, death 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.

Under the statutory solvency basis of reporting, this profit will be recognised as it is released to shareholders as a series of cash flows from the long-term funds. Under the accruals method, however, the pattern of profit recognition is based on an assessment of work performed and risks borne by the insurer over the life of the contract. The total profit expected to be earned is allocated to individual financial years by incorporating planned profit margins into the assumptions made at the time of sale about future income and expenditure. These margins are set by Prudential's board to reflect work done and risks borne in future financial years. Provided that the actual outcome is in line with the original assumptions, profits will be earned in each accounting period as these margins are released. Any anticipated losses are recognised immediately as are differences between actual and assumed income and expenditure.

Major elements of work performed are marketing, staff training and policy administration, all of which are concentrated to a large extent in the year of sale. Consequently, a significant proportion of the total profit from the contract will normally be recognised in the year of sale, reflecting the success of these efforts. This element of profit is known as the profit on new business. The release of planned margins and variances between actual and assumed experience during the remainder of the contract period produces the profit on business in force.

Under the accruals method, profits are recognised earlier than under the statutory solvency basis of reporting, which derives from statutory requirements designed to ensure and demonstrate solvency in the long-term funds. The additional profits recognised at an earlier stage under the accruals method are retained within the long-term funds, thus ensuring the solvency of those funds. These retained profits are known as the shareholders' accrued interest in the long-term business and the investment return on this amount forms part of the accruals profit for the year.

The total accruals basis profits reported for an accounting year can therefore be analysed into three separate components:
- profits from new business;
- profits from business in force; and
- the investment return on the shareholders' accrued interest in the long-term business.

The accruals basis is designed to report profits which reflect business performance during the year under review, particularly new business sales and investment performance. Both sales and investment returns can change significantly from period to period and so accruals basis profits are expected to show more variability than profits reported on the statutory solvency basis.

It is important to note that the use of the accruals basis does not affect the cash surpluses which are released to shareholders' funds from the long-term funds. These continue to be determined by post-tax profits recognised on the statutory solvency basis. It should also be noted that the accruals basis does not affect amounts available for dividend payments to shareholders, as the profits which are recognised earlier when using the accruals basis are not legally distributable.

The non-distributable element of retained profit is represented by the shareholders' accrued interest in the long-term business and, when combined with shareholders' funds reported on the statutory solvency basis, provides an improved measure of total shareholders' funds of the Group. It is important to realise, however, that the shareholders' accrued interest does not represent the value to shareholders of the business in force as, in future years, further profits will be earned on this business.

Notes on the Supplementary Information

1 Basis of Preparation

The accruals basis results have been prepared in accordance with the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business' issued by the Association of British Insurers in July 1992.
The information is supplementary to the financial statements on pages 34 to 50.

2 Assumptions

The accruals basis results have been prepared on the basis of prudent forecasts of future rates of investment return, policy discontinuances, mortality and morbidity, expenses, expense inflation and taxation. 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 any of the countries in which the Group operates.
Assumed future rates of investment return reflect prevailing interest rates, the outlook for inflation and the mix of the investment portfolios. A pre-tax rate of 10% per annum, before applying planned margins, has been assumed for the UK with-profits fund of Prudential Assurance.
The proportion of surplus from the with-profits business of Prudential Assurance allocated to shareholders has been based on the present level of 10% but with an allowance for the estimated future effects of taxation on UK pensions business.
In the UK, Department of Social Security rebate business has been treated as single premium business.
Management charges on unit-linked business have been projected from a smoothed unit price.

3 Planned Margins

Planned margins are designed to provide an appropriate return on risks borne and work done in future periods. The margins on the most important assumptions, expressed as proportions of those assumptions, are as follows:

Investment return	15-22%	Mortality and morbidity	8-18%
Proprietor's margin on investment returns		Policy discontinuance	20-50%
(USA annuity products)	25%	Expenses	20%

The planned margins used are the same as in 1993.

4 Investment Return

The accruals basis of accounting recognises the total investment return of the long-term business to the extent attributable to shareholders. The return comprises income and gains, both realised and unrealised, and includes expected future returns on existing contracts after providing for planned margins.
With the exception of fixed interest investments held by North American subsidiaries, investment gains during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included in the shareholders' accrued interest as they arise. The gains are spread forward over five years for the purposes of calculating operating results.
In the case of North American subsidiaries, it is assumed that fixed interest investments will normally be held until maturity. Therefore unrealised gains are not reflected in the accruals results and only income received and the amortisation of the difference between cost and maturity values, to the extent attributable to shareholders, are recognised in operating results. Some investments are realised before maturity, mainly through early redemption by issuers or mortgage holders. In the case of Jackson National Life, the directors have discretion over the allocation of resulting gains between shareholders and policyholders. The amount allocated to shareholders is consistent with assumed future policyholder interest crediting rates, and is recognised in the operating result and shareholders' accrued interest in the year of realisation. Realised gains on fixed interest investments arising in other North American subsidiaries are amortised to the original maturity date.

5 Deferred Investment Gains

Deferred gains included within the shareholders' accrued interest but not yet recognised in operating results amounted to £237m (£530m), net of tax.

Notes on the Supplementary Information

6 Discount Rates
The shareholders' interests in future cash flows within the long-term funds have been discounted to present value at the post-tax rates of return assumed to be earned by the relevant funds. The release of the discount is included in the investment return on the shareholders' accrued interest.

7 Tax
Under the accruals method, the profit for the year is calculated initially at the post-tax level. This profit has been grossed up for presentation purposes at the full rates of company tax applicable to the countries and periods concerned irrespective of the effective rates of tax actually allowed for in calculating the profit after tax.

8 Foreign Currency Translation
Foreign currency amounts have been translated at year end rates of exchange. Exchange losses on the opening shareholders' interest of £30m (nil) have been excluded from profits, but are included in the Statement of Total Recognised Gains and Losses.

Report of the Auditors on the Supplementary Information

to the members of Prudential Corporation plc

We have audited the supplementary information on pages 58 to 62, which has been prepared on the basis set out in Note 1 on page 61 and is limited to a restatement of the Group profit and the shareholders' interest in the Group's life funds to an accruals basis.

Respective responsibilities of directors and auditors
As noted in the Statement of Directors' Responsibilities on page 51, the Company's directors are responsible for the preparation of the supplementary information. It is our responsibility to form an independent opinion, based on our audit, on that supplementary information and to report our opinion to you.

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

Opinion
In our opinion, the accruals basis Group profit for the year ended 31 December 1994 and shareholders' interest in the life funds at that date have been properly prepared in conformity with the methodology and disclosure requirements contained in the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business' issued by the Association of British Insurers in July 1992.

Price Waterhouse
Chartered Accountants
London
13 April 1995

Notice of Meeting

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

Notice is hereby given that the Annual General Meeting of the Company will be held at the Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Wednesday 31 May 1995 at 12 noon for the following purposes:

Ordinary Business

Resolution 1 To receive and consider the Directors' Report and the Financial Statements for the year ended 31 December 1994 with the Auditors' Report thereon.

Resolution 2 To re-elect as a director Mr K L Bedell-Pearce.

Resolution 3 To re-elect as a director Mr A H Teare.

Resolution 4 To elect as a director Mr J W Bloomer.

Resolution 5 To elect as a director Mr P J Davis.

Resolution 6 To elect as a director Sir David Gillmore.

Resolution 7 To re-appoint Price Waterhouse as auditors and to authorise the directors to fix the amount of their remuneration.

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

On behalf of the board of directors

P R Rawson
Secretary
142 Holborn Bars, London EC1N 2NH

27 April 1995

Members' attention is drawn to the form of proxy accompanying this notice. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of the member; a proxy need not be a member of the Company.

The register of directors' interests kept under the Companies Act 1985 will be available for inspection at the meeting. Copies of the service contracts of executive directors will be available for inspection at the registered office of the Company, 142 Holborn Bars, London EC1N 2NH during normal business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until the close of the meeting and will be available for inspection at the Plaisterers Hall for at least 15 minutes prior to, and during the meeting.

1995 Financial Calendar

Payment of 1994 final dividend	31 May 1995
Annual General Meeting	31 May 1995
Announcement of 1995 interim results	13 September 1995
Ex-dividend date for 1995 interim dividend	25 September 1995
Payment of 1995 interim dividend	30 November 1995

PRUDENTIAL
CORPORATION

Prudential Corporation plc, Registered office: 142 Holborn Bars, London EC1N 2NH. Telephone 0171-405 9222