THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the Offer or what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

This document should be read in conjunction with the accompanying Information Memorandum, Form of Acceptance (if you hold Egg Shares in certificated form) or Form of Instruction (if you hold your Egg Shares through the Egg Share Account) and Share Dealing Facility Booklet. Non-UK residents will not receive a Share Dealing Facility Booklet as this facility is for UK residents only.

IF YOU HAVE SOLD OR OTHERWISE TRANSFERRED ALL OF YOUR EGG SHARES OR ALL OF YOUR SHAREHOLDING IN THE EGG SHARE ACCOUNT, you should send this document and the accompanying documents as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this document and any accompanying documents into certain jurisdictions may be restricted by law. Therefore persons into whose possession this document and any accompanying documents come should inform themselves about and observe any such restrictions. In particular, such documents should not be distributed, forwarded to or transmitted in or into the United States of America, Canada, Australia or Japan or any other jurisdiction if to do so would constitute a violation of the relevant laws in such jurisdiction. If you have sold or otherwise transferred part only of your holding of Egg Shares or shareholding in the Egg Share Account, you should retain these documents.

Recommended Offer

by

Lexicon Partners

on behalf of

PRUDENTIAL PLC

for

the entire issued and to be issued share capital of

EGG PLC

not already owned by the Prudential Group

Your attention is drawn to the letter from the Senior Independent Non-executive Director of Egg set out in Part I(A) of this document which contains a recommendation from the Independent Committee of the Board of Egg that you accept the Offer.

If you hold your Egg Shares in certificated form, you may only accept the Offer in respect of such shares if you complete and sign the Form of Acceptance and return it in the Red reply-paid envelope together with any appropriate document(s) of title such as your share certificate(s) by post or by hand (during normal business hours) to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London, EC4R 0AX as soon as possible and, in any event, so as to be received not later than 1.00 p.m. on 20 January 2006.

If you hold your Egg Shares through the Egg Share Account, to instruct the Corporate Nominee to accept the Offer on your behalf in respect of your holding of Egg Shares, the Form of Instruction must be completed, signed and returned in accordance with the instructions printed thereon in the Yellow reply-paid envelope as soon as possible and, in any event, so as to be received by post or by hand (during normal business hours) by Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London, EC4R 0AX as soon as possible and, in any event, so as to be received not later than 1.00 p.m. on 20 January 2006.

If you hold your Egg Shares in uncertificated form (that is, in CREST), to accept the Offer you must make your acceptance electronically through CREST so that the TTE instruction settles not later than 1.00 p.m. on 20 January 2006.

Application has been made for the New Prudential Shares to be admitted to the Official List of the UK Listing Authority, and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and dealings in the New Prudential Shares on the London Stock Exchange's main market for listed securities will commence on 22 December 2005.

You are advised to read this document carefully. If you have any questions please call our Helpline on 0845 606 0252 (or +44 1903 276 321 from outside the UK). This helpline is available from 8.30 a.m. to 5.30 p.m. (UK time) Monday to Friday (excluding UK public holidays). Calls from within the UK are charged at the local rate.

Lexicon Partners, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Prudential only and no-one else in connection with the Offer and will not regard any other person as its client or be responsible to any person other than Prudential for providing the protections afforded to clients of Lexicon Partners nor for providing advice in relation to the Offer, the contents of this document or any transaction referred to therein.

UBS is acting for Prudential and no-one else in connection with the Offer, and will not regard any other person as its client or be responsible to any person other than Prudential for providing the protections afforded to clients of UBS nor for providing advice in relation to the Offer, the contents of this document or any transaction referred to therein.

Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Egg and no-one else in connection with the Offer and is not advising any other person and accordingly will not be responsible to any person other than Egg for providing the protections afforded to clients of Goldman Sachs International or for providing advice in relation to the Offer.

JPMorgan Cazenove, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Egg only in connection with the Offer and no-one else and will not regard any other person as its client or be responsible to any person other than Egg for providing the protections afforded to clients of JPMorgan Cazenove nor for providing advice in relation to the Offer.

Unless otherwise determined by Prudential, the Offer is not being made, and will not be made, directly or indirectly, in or into, or by use of the mails, or by any means or instrumentality (including, without limitation, by means of telephone, fax, telex or other forms of electronic communication) of interstate or foreign commerce of, or by any facility of a national securities exchange of, the United States of America, Canada, Australia or Japan and is not capable of acceptance by any such use, means, instrumentality or facility. Accordingly, copies of this document, the Information Memorandum, the Form of Acceptance, the Form of Instruction, the Share Dealing Facility Booklet and any related documents are not being, and must not be, mailed or otherwise forwarded, transmitted, distributed or sent in, into or from the United States of America, Canada, Australia or Japan. Doing so may render invalid any purported acceptance of the Offer. The availability of the Offer to persons who are not citizens, nationals or residents of the United Kingdom may be affected by the laws of their respective jurisdictions. Egg Shareholders who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements of their respective jurisdictions. Further information for overseas shareholders is set out in paragraph 15 of the letter from Lexicon Partners contained in Part I(B) of this document and paragraph 5 of Part B of Appendix I to this document.

All Egg Shareholders or other persons (including nominees, trustees or custodians) who would or otherwise intend to, or may have a contractual or legal obligation to, forward this document together with the accompanying Information Memorandum, and/or Form of Acceptance or Form of Instruction and/or the Share Dealing Facility booklet to any jurisdiction outside the United Kingdom, should refrain from doing so and seek appropriate professional advice before taking any action.

The Offer is not an offer of securities for sale in the United States of America or in any jurisdiction in which such an offer is unlawful. The New Prudential Shares to be issued in connection with the Offer have not been, nor will they be, registered under the Securities Act, as amended, or under the securities laws of any state of the United States of America and may not be offered or sold in the United States of America, absent registration or an applicable exemption from registration. The relevant clearances have not been, and will not be, obtained from the securities commission or similar authority of any province or territory of Canada and no prospectus, information memorandum or other documents relating to the New Prudential Shares has been or will be filed or registration made under any securities laws of any province or territory of Canada nor has any prospectus, information memorandum or other documents relating to the New Prudential Shares been, or will be, lodged with, or registered by, the Australian Securities Investments Commission or the Japanese Ministry of Finance and the New Prudential Shares have not been, and nor will they be, registered under or offered in compliance with applicable securities laws of any state, province, territory or jurisdiction of Canada, Australia or Japan. Accordingly, unless an exemption under relevant securities laws is applicable, the New Prudential Shares may not be offered, sold, resold or delivered, directly or indirectly, in or into Canada, Australia, Japan or any other jurisdiction where to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction or to, or for the account or benefit of, a person located in Canada, Australia or Japan.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains a number of forward-looking statements relating to Prudential and Egg with respect to, among others, the following: financial condition; results of operation; the businesses of Prudential and Egg; future benefits of the transaction; and management plans and objectives. Prudential and Egg consider any statements that are not historical facts to be "forward-looking statements". These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by them. Important factors that could cause actual results to differ materially from estimates or forecasts contained in the forward-looking statements include, among others, the following possibilities: future revenues are lower than expected; costs or difficulties relating to the combination of the businesses of Prudential and Egg, or of other future acquisitions, are greater than expected; expected cost savings from the transaction or from other future acquisitions are not fully realised or not realised within the expected timeframe; competitive pressures in the industry increase; general economic conditions or conditions affecting the relevant industries, whether internationally or in the places Prudential and Egg do business are less favourable than expected; and/or conditions in the securities market are less favourable than expected.

Subject to any requirements of the City Code and the Disclosure Rules, Prudential and Egg disclaim any obligations to disseminate any updates or revisions to any forward-looking statements contained herein, to reflect any change in Egg's and Prudential's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Forward-looking statements made in this document relate only to events as of the date on which statements are made.

The estimated operational cost savings and financial synergies have been calculated on the basis of the existing cost and operating structures of the companies and by reference to current prices and the current regulatory environment. These statements of estimated cost savings relate to future actions and circumstances which, by their nature, involve risk, uncertainties and other factors. Because of this, the cost savings and financial synergies referred to may not be achieved, or those achieved could be materially different from those estimated. These statements should not be interpreted to mean that the earnings per share in the first full financial year following the Acquisition, or in any subsequent period, would necessarily match or be greater than those for the relevant preceding financial period.

DEALING DISCLOSURE REQUIREMENTS

Under the provisions of Rule 8.3 of the City Code on Takeovers and Mergers (the "Code"), if any person is, or becomes, "interested" (directly or indirectly) in 1 per cent. or more of any class of "relevant securities" of Prudential or of Egg, all "dealings" in any "relevant securities" of that company (including by means of an option in respect of, or a derivative referenced to, any such "relevant securities") must be publicly disclosed by no later than 3.30 pm (London time) on the London Business Day following the date of the relevant transaction. This requirement will continue until the First Closing Date. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an "interest" in "relevant securities" of Prudential or Egg, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the Code, all "dealings" in "relevant securities" of Prudential or of Egg by Prudential or Egg, or by any of their respective "associates", must be disclosed by no later than 12.00 noon (London time) on the London Business Day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose "relevant securities" "dealings" should be disclosed, and the number of such securities in issue, can be found on the Panel's website at *www.thetakeoverpanel.org.uk*.

"Interests in securities" arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an "interest" by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the Code, which can also be found on the Panel's website. If you are in any doubt as to whether or not you are required to disclose a "dealing" under Rule 8 of the Code, you should consult the Panel.

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EXPECTED TIMETABLE

All times in this document are London times unless otherwise stated. Each of the times and dates in the below are indicative only.

Event	**Time and/or Date**
Publication of this Offer Document and the Information Memorandum	19 December 2005
Commencement of Offer acceptance period	19 December 2005
Expected date for commencement of dealings of New Prudential Shares on the London Stock Exchange	22 December 2005
Early Settlement Date	28 December 2005
First Closing Date	20 January 2006

You are advised to read this document carefully. If you have any questions please call our Helpline on 0845 606 0252 (or +44 1903 276 321 from outside the UK). This helpline is available from 8.30 a.m. to 5.30 p.m. (UK time) Monday to Friday (excluding UK public holidays). Calls from within the UK are charged at the local rate.

Note: for legal reasons the shareholder helpline will only be available to provide information contained in this document and will be unable to give advice on the merits of the Offer or provide legal, financial or taxation advice.

TO ACCEPT THE OFFER

1. If you hold your Egg Shares in certificated form, to accept the Offer, you must:
   (a) complete the Form of Acceptance in accordance with paragraph 16(b) of the letter from Lexicon Partners contained in Part I(B) of this document and the instructions set out in the Form of Acceptance; and
   (b) return the completed Form of Acceptance (along with any appropriate documents of title) using the enclosed Red reply-paid envelope as soon as possible.
2. If you are an Egg Share Account Shareholder, to instruct the Corporate Nominee to accept the Offer on your behalf, you must:
   (a) complete the Form of Instruction in accordance with paragraph 16(c) of the letter from Lexicon Partners contained in Part I(B) of this document and the instructions set out in the Form of Instruction; and
   (b) return the completed Form of Instruction using the enclosed Yellow reply-paid envelope as soon as possible.
3. If you hold your Egg Shares in uncertificated form (that is, in CREST), to accept the Offer you must make your acceptance electronically through CREST so that the TTE instruction settles not later than 1.00 p.m. on 20 January 2006.

Please Call Our Helpline

on 0845 606 0252 (or +44 1903 276 321 if calling from outside the UK) if you require assistance in completing the Form of Acceptance or Form of Instruction

Your Form of Acceptance or Form of Instruction should be received not later than 1.00 p.m. on 20 January 2006 and/or your TTE instruction should settle not later than 1.00 p.m. on 20 January 2006.

This page should be read in conjunction with the rest of this document. If you are in any doubt about the Offer or what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser, duly authorised under the Financial Services and Markets Act 2000, if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

Note: For legal reasons no-one at the Helpline will be able to give advice on the merits of the Offer or to provide legal, financial or taxation advice.

PART I(A)
LETTER FROM THE SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR OF EGG

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Independent Committee

Ronnie Baird, *Non-executive Director and Senior Independent Director*
Paul Gratton, *Chief Executive Officer*
Mark Nancarrow, *Chief Financial Officer*
Pascal Cagni, *Non-executive Director*
Leslie Priestley, *Non-executive Director*
Juan Rada, *Non-executive Director*

19 December 2005

To Egg Shareholders, Egg Share Account Shareholders and, for information only, to participants in the Egg Share Schemes

Dear Sir or Madam,

Recommended Offer by Lexicon Partners
on behalf of Prudential for the entire issued and to be issued
share capital of Egg not already owned by the Prudential Group

1. Introduction

On 1 December 2005, the Boards of Egg and Prudential announced that they had agreed the terms of a recommended Offer to be made by Lexicon Partners, on behalf of Prudential, for the whole of the issued and to be issued share capital of Egg not already owned by the Prudential Group, representing approximately 21.7 per cent. of the existing issued share capital of Egg.

I am writing on behalf of the Independent Committee of the Board of Egg to explain the background to the Offer and the reasons why the Independent Committee, which has been so advised by Goldman Sachs International, considers the terms of the Offer to be fair and reasonable and unanimously recommends that you accept the Offer.

2. Terms of the Offer

The Offer is set out in the letter from Lexicon Partners, Prudential's financial adviser, in Part I(B) of this document. The Offer, which is subject to the Condition and Further Terms set out in Appendix I to this document, is being made on the following basis:

for each Egg Share **0.2237 New Prudential Shares**

Based on the closing middle market price of 527.5 pence per Prudential Share on 30 November 2005, the last Business Day prior to the announcement of Prudential's intention to make the Offer, the Offer:

- values the existing issued share capital of Egg at approximately £973 million;
- values each Egg Share at approximately 118 pence;
- represents a premium of approximately 18 per cent. to the closing middle market price of 100.25 pence per Egg Share on 25 October 2005, being the last Business Day prior to the announcement by Prudential that it was considering acquiring the Minority; and

- represents a premium of approximately 15 per cent. to the closing middle market price of 102.5 pence per Egg Share on 30 November 2005, being the last Business Day prior to the date of the announcement of the Offer.

Based on the closing middle market price of 521 pence per Prudential Share on 16 December 2005, being the last Business Day prior to the publication of this document, the Offer:

- values the existing issued share capital of Egg at approximately £961 million;
- values each Egg Share at approximately 116.5 pence; and
- represents a premium of approximately 16 per cent. to the closing middle market price of 100.25 pence per Egg Share on 25 October 2005, being the last Business Day prior to the announcement by Prudential that it was considering acquiring the Minority.

If you accept the Offer, its value will depend on the value of the New Prudential Shares you receive on the settlement day. This value may differ on a daily basis. Arrangements have been made to enable Egg Shareholders who accept the Offer to receive their New Prudential Shares as soon as practicable.

To receive your New Prudential Shares as soon as practicable, you should promptly follow the instructions to accept the Offer set out in paragraph 16 of Part I(B) of this document as well as the Form of Acceptance or Form of Instruction (as relevant). **In summary, if your Form of Acceptance or Form of Instruction is received valid and complete in all respects by 5.00 p.m. on 28 December 2005, the certificates representing your New Prudential Shares will be despatched on 5 January 2006. In the case of Egg Shares that are held in CREST, if your TTE instruction is settled by 5.00 p.m. on 28 December 2005, your New Prudential Shares will be credited to your CREST account by 8.00 a.m. on 5 January 2006.**

The Offer, if accepted in full by all Egg Shareholders, assuming exercise of all in the money existing options under the Egg Share Schemes, will result in the Prudential Group owning the entire issued share capital of Egg. The Prudential Group currently owns 645,955,847 Egg Shares, representing approximately 78.3 per cent. of Egg's issued ordinary share capital.

Full acceptance of the Offer by Egg Shareholders would result in the issue of approximately 41 million New Prudential Shares, representing approximately 1.7 per cent. of the issued ordinary share capital of Prudential as enlarged by the Acquisition.

Application has been made for the New Prudential Shares to be admitted to the Official List of the UK Listing Authority, and to trading on the London Stock Exchange's main market for listed securities. The expected date for Admission and commencement of dealings in the New Prudential Shares on the London Stock Exchange's main market for listed securities is 22 December 2005.

3. Background to and reasons for recommending the Offer

Since its launch in 1998, Egg has grown rapidly to build a strong retail banking franchise and is now one of the world's largest online banks with approximately 3.7 million customers in total. Egg has adopted an unique approach to consumer banking, and has developed an effective product manufacturing capability together with a powerful, differentiated direct-to-consumer brand with a proven track record of generating profitable new customer relationships.

The strategic priority of Egg over the last year has been to focus on its core operations in the United Kingdom. In this context, the Independent Committee believes that under the full ownership of Prudential, Egg will be able to access significant further growth opportunities and cost benefits that would not be available to a stand-alone Egg. The Independent Committee believes the Offer terms include an element of value relating to these benefits. It also believes the Offer of New Prudential Shares will allow Egg Shareholders to benefit from the enhanced profitability of the combined group. In addition, Egg Shareholders who accept the Offer before it closes will receive Prudential's dividend in respect of the year ended 31 December 2005 in the circumstances described in paragraph 2 of Part I(B) of this document, as well as any future Prudential dividends. It is against this background that the Independent Committee unanimously recommends the Offer to Egg Shareholders.

4. Current trading and prospects

In the context of a highly competitive unsecured lending market, Egg's performance has been solid for the nine months to 30 September 2005. For this period, Egg's pre-tax profit was £41 million (on an IFRS basis) for the core UK business and the overall Egg pre-tax profit, including discontinued activities, was £33 million (on an IFRS basis).

Pre-tax profit in the UK in the three months to 30 September 2005 rose approximately 37 per cent. to £18 million, compared with £13 million in the previous quarter.

5. Undertakings to accept the Offer

Irrevocable undertakings to accept the Offer have been given by the Independent Committee in respect of their entire beneficial holdings amounting in aggregate to approximately 856,736 Egg Shares, representing approximately 0.5 per cent. of Egg's existing issued share capital not already owned by the Prudential Group.

6. Management and employees

Prudential has given assurances to the Board of Egg that, on the Offer becoming unconditional, the existing employment rights, including pension rights, of all employees of Egg will be fully safeguarded.

Prudential has invited the Directors of Egg initially to remain on the Board of Egg after the Offer becomes unconditional.

7. Egg Share Option Schemes

The Offer extends to all Egg Shares which are issued or unconditionally allotted and fully paid (or credited as fully paid) while the Offer remains open for acceptances (or, subject to the City Code, by such earlier date as Prudential may decide), including Egg Shares issued pursuant to the exercise of options granted under the Egg Share Schemes or otherwise.

Prudential intends to offer to participants in the Egg Savings-Related Share Option Scheme the opportunity, subject to HM Revenue & Customs approval, to exchange their options over Egg Shares for equivalent rights over Prudential Shares. All outstanding options under the Egg Employee Share Option Plan have become exercisable as a result of making the Offer. If any awards under the Egg Restricted Share Plan have met the performance conditions under the plan, they will vest as a result of making the Offer. The awards will be satisfied by the transfer of Egg Shares from the Egg Employee Benefit Trust. Any awards that have not met the performance conditions have lapsed.

8. Compulsory acquisition, delisting and cancellation of trading

After the First Closing Date of the Offer on 20 January 2006, the Board of Egg will make an application to delist the Egg Shares from the Official List and to cancel trading of Egg Shares on the London Stock Exchange's market for listed securities. Delisting will significantly reduce the liquidity and marketability of any Egg Shares not assented to the Offer at that time.

The attention of Egg Shareholders is drawn to paragraph 13 of the letter from Lexicon Partners set out in Part I(B) of this document in relation to Prudential's intentions regarding the compulsory acquisition of Egg Shares.

9. Taxation

Your attention is drawn to paragraph 14 of the letter from Lexicon Partners in Part I(B) of this document, which sets out some general information on United Kingdom taxation based on current legislation and an understanding of HM Revenue & Customs published practice as at the date of this document. If you are in any doubt as to the taxation consequences of accepting the Offer, you should consult your independent financial adviser immediately.

10. Further information

Your attention is drawn to the letter from Lexicon Partners in Part I(B) of this document, to Appendices I to V to this document and the Form of Acceptance or Form of Instruction (as relevant).

Your attention is also drawn to the Information Memorandum that has been issued in connection with the listing of the New Prudential Shares and has been supplied with this Offer Document.

11. Action to be taken to accept the Offer

If you hold your Egg Shares in certificated form, you may only accept the Offer in respect of such shares if you complete and sign the Form of Acceptance and return it, together with any appropriate document(s) of title such as your share certificate(s) (in the Red reply-paid envelope) by post or by hand (during normal business hours) to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London, EC4R 0AX as soon as possible and, in any event, so as to be received not later than 1.00 p.m. on 20 January 2006. The procedure for acceptance is set out in paragraph 16 of the letter from Lexicon Partners contained in Part I(B) of this document and the accompanying Form of Acceptance.

If you hold your Egg Shares through the Egg Share Account, to instruct the Corporate Nominee to accept the Offer on your behalf in respect of your holding of Egg Shares, the Form of Instruction must be completed, signed and returned in accordance with the instructions printed thereon in the Yellow reply-paid envelope as soon as possible and, in any event, so as to be received by post or by hand (during normal business hours) by Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London, EC4R 0AX, not later than 1.00 p.m. on 20 January 2006. The procedure for acceptance is set out in paragraph 16 of the letter from Lexicon Partners contained in Part I(B) of this document and the accompanying Form of Instruction.

If you hold your Egg Shares in uncertificated form (that is, in CREST) you may only accept the Offer in respect of such shares by TTE instructions in accordance with the instructions set out in paragraph 16 of the letter from Lexicon Partners contained in Part I(B) of this document as soon as possible, and in any event so as to be received not later than 1.00 p.m. on 20 January 2006. The procedure for acceptance is set out in paragraph 16 of the letter from Lexicon Partners contained in Part I(B) of this document.

Early settlement: If your Form of Acceptance or Form of Instruction is received by 5.00 p.m. on 28 December 2005 and is valid and complete in all respects, the certificates representing your New Prudential Shares will be despatched on 5 January 2006. In the case of Egg Shares that are held in CREST, if your TTE instruction is settled by 5.00 p.m. on 28 December 2005, your New Prudential Shares will be credited to your CREST account by 8.00 a.m. on 5 January 2006.

If you have any questions, please call our Helpline on 0845 606 0252 if you are in the UK (or +44 1903 276 321 if you are outside the UK).

If you are in any doubt about the Offer or what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who is duly authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

12. Share Dealing Facility

Prudential has indicated to Egg that it has arranged for a free share dealing facility to be made available to certain Egg Shareholders who are resident in the UK and who accept the Offer and receive their entitlement of New Prudential Shares to enable them to sell:

- if they are entitled to 300 or fewer New Prudential Shares under the Offer, all (but not some only) of these New Prudential Shares; or
- if they are entitled to more than 300 New Prudential Shares under the Offer, 300 New Prudential Shares (but not more or less).

For further information concerning the facility, please see the enclosed Share Dealing Facility Booklet.

13. Recommendation

Roberto Mendoza and Philip Broadley are Directors of both Egg and Prudential and have not participated in the Egg Board's deliberations in relation to the Offer. The Egg Board of Directors has established a committee of Directors who are independent of Prudential to consider the terms of the Offer on behalf of Egg Shareholders. This committee (the "Independent Committee") comprises Ronnie Baird, Pascal Cagni, Leslie Priestley, Juan Rada, Paul Gratton and Mark Nancarrow.

The Independent Committee, which has been so advised by Goldman Sachs International, considers the terms of the Offer to be fair and reasonable. In providing its financial advice to the Independent Committee, Goldman Sachs International has taken into account the commercial assessments of the Independent Committee.

Accordingly, the Independent Committee unanimously recommends that Egg Shareholders accept the Offer, as they have irrevocably undertaken to do in respect of their own beneficial holdings of Egg Shares amounting in aggregate to 856,736 Egg Shares, representing approximately 0.5 per cent. of Egg's existing issued share capital not owned by the Prudential Group.

Yours faithfully,

Ronnie Baird

LEXICON PARTNERS

19 December 2005

To Egg Shareholders, Egg Share Account Shareholders and, for information only, to participants in the Egg Share Schemes

Dear Sir or Madam,

**Recommended Offer by Lexicon Partners
on behalf of Prudential to acquire the entire issued and to be issued
share capital of Egg not already owned by the Prudential Group**

1. Introduction

On 1 December 2005, the Boards of Prudential and Egg announced the terms of a recommended Offer for the whole of the issued and to be issued shares of Egg not already owned by the Prudential Group, representing approximately 21.7 per cent. of the existing issued share capital of Egg.

This document sets out the formal Offer by Lexicon Partners on behalf of Prudential for all of the issued and to be issued ordinary share capital of Egg not already owned by the Prudential Group.

Your attention is also drawn to the letter from the Senior Independent Non-executive Director of Egg set out in Part I(A) of this document and to the commentary set out in paragraph 3 of that letter which explains the reasons for the Offer and why you should accept the Offer.

Acceptances of the Offer should be received as soon as possible and in any event not later than 1.00 p.m. on 20 January 2006.

The attention of Egg Shareholders who are resident in, or citizens of, territories outside the United Kingdom is drawn to paragraph 15 of this letter and paragraph 5 of Part B of Appendix I to this document.

2. The Offer

On behalf of Prudential, Lexicon Partners hereby offers to acquire, subject to the Condition and Further Terms set out or referred to in this document, the Form of Acceptance, the Form of Instruction and the Information Memorandum, all of the issued and to be issued Egg Shares not already owned by the Prudential Group on the following basis:

for each Egg Share	**0.2237 New Prudential Shares**

Based on the closing middle market price of 527.5 pence per Prudential share on 30 November 2005, the last Business Day prior to the announcement of Prudential's intention to make the Offer, the Offer:

- values the existing issued share capital of Egg at approximately £973 million;
- values each Egg Share at approximately 118 pence;
- represents a premium of approximately 18 per cent. to the closing middle market price of 100.25 pence per Egg Share on 25 October 2005, being the last Business Day prior to the announcement by Prudential that it was considering acquiring the Minority; and
- represents a premium of approximately 15 per cent. to the closing middle market price of 102.5 pence per Egg Share on 30 November 2005, being the last Business Day prior to the date of the announcement of the Offer.

Based on the closing middle market price of 521 pence per Prudential share on 16 December 2005, being the last Business Day prior to the publication of this document, the Offer:

- values the existing issued share capital of Egg at approximately £961 million;

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- values each Egg Share at approximately 116.5 pence; and
- represents a premium of approximately 16 per cent. to the closing middle market price of 100.25 pence per Egg Share on 25 October 2005, being the last Business Day prior to the announcement by Prudential that it was considering acquiring the Minority.

The Offer, if accepted in full by all Egg Shareholders, will result in the Prudential Group owning the entire issued share capital of Egg. The Prudential Group currently owns 645,955,847 Egg Shares, representing approximately 78.3 per cent. of Egg's issued ordinary share capital.

Full acceptance of the Offer, assuming exercise of all in the money existing options under the Egg Share Option Schemes, would result in the issue of approximately 41 million New Prudential Shares, representing approximately 1.7 per cent. of the issued ordinary share capital of Prudential as enlarged by the Acquisition.

The Offer is subject only to the condition that the admission of the New Prudential Shares (i) to listing on the Official List of the UK Listing Authority becomes effective in accordance with the Listing Rules of the UK Listing Authority and (ii) to trading on the London Stock Exchange's market for listed securities becomes effective in accordance with the Admission and Disclosure Standards made by the London Stock Exchange from time to time.

Upon the Offer becoming unconditional, Egg Shareholders who accept the Offer before it closes will receive any final dividend that is declared by the Board of Prudential in respect of the year ending 31 December 2005. The New Prudential Shares will rank pari passu with existing Prudential Shares in all respects, including (but not limited to) any dividend proposed, declared or paid by Prudential after the date of the Offer.

The Condition and Further Terms of the Offer are set out in Appendix I to this document and in the enclosed Form of Acceptance.

3. Financial effects of acceptance for Egg Shareholders

The following table shows, for illustrative purposes only, and on the bases and assumptions set out in the notes below, the financial effects of acceptance of the Offer on capital value for an accepting Egg Shareholder holding one Egg Share on the Offer becoming wholly unconditional.

Capital value

	Note	*(pence)*
Consideration for one Egg Share	(1)	118.00
Market Value of one Egg Share	(2)	100.25
Increase in capital value		17.75
This represents an increase of		**17.70 per cent.**

No account has been taken of any potential liability for taxation of New Prudential Shares in assessing the financial effects of acceptance of the Offer.

1. Based on the closing middle market quotation of 527.5 pence per Prudential Share on 30 November 2005, being the last Business Day prior to the announcement of the Offer.
2. Based on the closing middle market quotation of 100.25 pence per Egg Share on 25 October 2005, being the last Business Day prior to the announcement by Prudential that it was considering acquiring the Minority.

In addition, Egg Shareholders who accept the Offer and receive their entitlement of New Prudential Shares will be eligible for dividend income on those shares.

The first dividend for which Egg Shareholders who accept the Offer will be eligible will be the final dividend in respect of the financial year ending 31 December 2005. Any dividend to be paid to Prudential Shareholders will be announced with Prudential's preliminary results in March 2006.

By comparison, Egg does not and has never paid any dividends on the Egg Shares.

By way of *illustration only* (and on the bases and assumptions set out in the notes below), the table below sets out the illustrative financial effects of acceptance of the Offer on the income position for an accepting Egg Shareholder holding one Egg Share. As Prudential has not yet declared a final dividend in respect of the financial year ending 31 December 2005, being the first dividend to which an accepting Egg Shareholder would be entitled, this analysis uses historical dividends to illustrate the effect on the income position of an Egg Shareholder. It should not be interpreted to mean that Prudential's future interim and final dividend would necessarily match or exceed those set out below.

Income position

	Note	*(pence)*
2004 full year dividend on one Egg Share	(1)	0
Illustrative Entitlement to 2004 full year dividend on 0.2237 Prudential shares	(2)	3.54
Illustrative increase in 2004 annual income		3.54
2005 interim year dividend on one Egg Share	(3)	0
Illustrative Entitlement to 2005 interim year dividend on 0.2237 Prudential shares	(4)	1.19
Illustrative increase in income for the first six months of 2005		1.19

1. No dividend was paid by Egg in respect of the financial year ended 31 December 2004.
2. The full year dividend payable on Prudential Shares is based on the dividend of 15.84 pence per Prudential Share (comprising the sum of the interim and final dividend) for the year ended 31 December 2004.
3. No interim dividend was paid by Egg in respect of the half year ended 30 June 2005.
4. The interim dividend payable on Prudential Shares is based on the interim dividend of 5.30 pence per Prudential Share for the half year ended 30 June 2005.

No account has been taken of any potential liability for taxation of New Prudential Shares in assessing the financial effects of acceptance of the Offer.

4. Delisting of Egg Shares

After the First Closing Date of the Offer on 20 January 2006, the Board of Egg will make an application to delist the Egg Shares from the Official List and to cancel trading of Egg Shares on the London Stock Exchange's market for listed securities. Delisting will significantly reduce the liquidity and marketability of any Egg Share not assented to the Offer at that time.

5. Background to and reasons for the Offer

On 26 October 2005, Prudential announced its intention to retain and develop Egg. It also announced that it was considering the financial and commercial case for bringing Egg fully into the Prudential Group through a share exchange to acquire the Minority. Having completed its analysis, the Board of Prudential believes that there is a strong financial and commercial case to acquire the Minority.

In the UK, the Prudential Group has three powerful franchises operating in the life and pensions, retail fund management and personal banking sectors under the Prudential, M&G and Egg brands. While each of these businesses will continue to operate as a distinct business unit following completion of this transaction, Prudential sees significant scope to create substantial financial benefits to the Group through greater collaboration, both in terms of cost savings and revenue opportunities.

Since its launch in 1998, Egg has grown rapidly to build a strong retail banking franchise with strong brand loyalty and an attractive customer base. As an integral part of Prudential's broader UK strategy, Egg has the following key attributes:

- A strong customer base with, in aggregate, approximately 3.7 million younger, more affluent customers. These customers are a valuable complement to Prudential's UK life and pensions and retail fund management customers.
- A powerful, consumer-focused brand which will present opportunities for the Prudential Group to win new customers and access new markets, for banking and savings products as well as protection products.
- A direct distribution model offering greater "ownership" of the customer relationship to balance Prudential's continuing and successful intermediary-led life assurance distribution strategy.

Egg represents a scale platform from which Prudential will further develop its exposure to the profitable and fast growing personal savings and loans market. Egg provides an effective product manufacturing capability together with a powerful, differentiated direct-to-consumer brand with a proven track record of generating profitable new customer relationships.

Cost benefits

Without the constraints of a publicly quoted minority, Prudential will be able to maximise the synergy benefits from closer collaboration between Egg and Prudential UK, whilst still retaining each business as a distinct business unit.

Through the Acquisition and the closer partnership of Egg with Prudential's UK life and pensions business, Prudential expects to achieve total annualised pre-tax cost savings across the combined businesses of £40 million by the end of 2007.

Cost savings across the businesses are expected to result from:

- Co-ordination of Treasury activities to reduce the Group's overall funding costs;
- Co-ordination of selected activities, across customer service, IT, administration and marketing to deliver greater effectiveness and benefit from improved scale efficiencies;
- Rationalisation of project and development spend through co-ordination and collaboration; and
- Elimination of Egg's separate listing costs and the infrastructure to support this listing.

Restructuring costs of approximately £50 million pre-tax are estimated to be incurred from these initiatives. These will be provided for in 2006.

Revenue benefits

Prudential's UK life and pensions business, Egg and M&G are highly complementary. Between them, these businesses have the product capabilities and expertise to provide a comprehensive range of financial products to meet the changing requirements of customers as they move through the different phases of their lives. This product range includes lending and deposit-taking, retail asset management, protection, health, pensions and annuities.

At present, there is very little overlap between the three businesses' customer bases. Through working together to address the needs of each business's customers in a systematic and targeted manner that combines banking, life and pensions and retail fund management, the Board of Prudential believes that there are clear opportunities to increase sales to the Prudential Group's combined UK marketable customer base of approximately 4.8 million. The Board of Prudential has identified the following initial revenue opportunities which will leverage the product expertise, customer relationships and brand recognition of Prudential UK, Egg and M&G:

- Offering Prudential branded deposit and savings accounts, manufactured by Egg, to capture maturing Prudential pension and life assurance policy proceeds.
- Offering Prudential branded mortgages, manufactured by Egg, to Prudential UK's marketable customer base as well as to customers of Prudential's multi-tie partnerships and the wider IFA community.
- Offering Egg branded credit cards and unsecured loans into both Prudential UK's direct-to-consumer and IFA customer bases through direct marketing and intermediary promotions.
- Offering PruHealth products to the Egg customer base. Approximately 20 per cent. of Egg customers currently buy their own private medical insurance.
- Offering M&G branded investment products to customers of Egg and Prudential UK.

Benefits for Egg customers

As a result of the Acquisition and the closer collaboration it will facilitate, the customers of Egg will benefit from an enhanced range of products, particularly in the life and pensions market. As a wholly owned subsidiary of the Prudential Group, Egg will also benefit from the financial strength of the Prudential Group which will enhance its competitive position in the secured and unsecured lending markets.

Financial effects of the Acquisition on Prudential

The Acquisition is expected to be earnings enhancing (both on an IFRS operating earnings per share basis and on an EEV operating earnings per share basis) for Prudential in 2006[(1) (2) (3)].

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1. Supplemental reporting European Embedded Value (EEV) operating earnings per share is calculated by reference to Prudential Group's operating profit based on longer-term investment returns after tax and minority interests and before exceptional items, on a European Embedded Value basis.
2. IFRS operating earnings per share is calculated by reference to Prudential Group's operating profit based on longer-term investment returns after tax and minority interests and before exceptional items.
3. The statements that the Acquisition will be earnings enhancing do not constitute a profit forecast and should not be interpreted to mean that the earnings per share in the first full year following the Acquisition, or in any subsequent period, will necessarily match or be greater than those for the relevant preceding financial period.

It is also expected that Prudential's capital surplus position (on an EU Financial Conglomerates Directive solvency basis) would increase as a result of the Acquisition from the date of completion[4].

One-off restructuring costs estimated at approximately £50 million pre-tax will be provided for in 2006.

6. Information relating to Prudential

Established in 1848, Prudential is a leading international financial services company providing retail financial services and fund management via operational subsidiaries in its chosen markets of the United Kingdom, the United States of America, Asia and continental Europe.

The Prudential Group has some 18 million customers, policyholders and unit holders and approximately 24,000 employees worldwide.

As at 16 December 2005, Prudential had a market capitalisation of approximately £12.4 billion.

In the UK, Prudential is a leading life and pensions provider. M&G, which was acquired by Prudential in 1999, is the Prudential Group's UK and European fund manager and is responsible for managing over £126 billion in funds (as at 31 December 2004). Prudential also is the majority owner of Egg with a current shareholding of approximately 78.3 per cent. of Egg's existing issued ordinary share capital.

In Asia, Prudential is the leading European life assurer with life and fund management operations in 12 countries.

In the US, Prudential owns Jackson National Life, a leading life assurance company specialising in the annuity market.

Through these operations, Prudential has strong positions in three of the largest and most attractive markets in the world, where rising global wealth and changing demographics are fuelling demand for long-term savings. Prudential's strategy is to build sustainable, profitable businesses in each of these markets and maximise returns to shareholders.

For the half year to 30 June 2005, the Prudential Group wrote worldwide Annual Premium Equivalent (APE) sales of £1,129 million and reported profits on continuing ordinary activities before tax on an achieved profits basis (following implementation of IFRS) of £816 million. As at 30 June 2005, Prudential had achieved profit shareholders' funds of £9.3 billion.

Further information on Prudential can be found in Parts VII and IX of the Information Memorandum which accompanies this document.

7. Current trading and prospects of Prudential

Prudential's businesses have continued to build on strong performance delivered in the first nine months of the year. With its broad product range and diversified distribution channels, the Board of Prudential believes Prudential is well positioned to deliver growth in its core markets in the future.

8. Information relating to Egg

Launched by Prudential in October 1998, Egg is an innovative financial services company. Egg's wholly owned subsidiary, Egg Banking plc, is authorised as a bank by the FSA and provides a range of banking and financial services products that are distributed via the Internet and phone only.

Following its launch, Egg immediately developed strong brand recognition and was among the first to the market with its internet-based services and products. In June 2000, approximately 21 per cent. of the shares of Egg were offered by Prudential in an initial public offering. Currently, Prudential holds approximately 78.3 per cent. of the shares of Egg.

Egg is now one of the world's largest online banks with approximately 3.7 million customers in total.

4. The Group's Financial Conglomerates Directive solvency position is calculated in accordance with the requirements of the directive and the FSA's Integrated Prudential Sourcebook.

Egg focuses on offering financial services products and services, specifically, personal loans, credit cards, mortgage loans, personal insurances, investments and deposit and savings accounts through its operational subsidiaries.

The strategic focus of Egg over the last year has been to concentrate on its core operations in the United Kingdom. As a result, Egg has disposed of its interests in France and Funds Direct, its UK investment platform business. Egg has concentrated on maximising its unsecured lending business whilst continuing to exploit new technologies to offer innovative products to its customers.

Egg reported operating income and profits on continuing ordinary activities before tax on an IFRS basis for the half year to 30 June 2005 of £251 million and £12.9 million respectively. As at 30 June 2005, Egg had shareholders' funds of £336.4 million.

9. Prudential's ownership of Egg Shares and irrevocable undertakings to accept the Offer

The Prudential Group owns in aggregate 645,955,847 Egg Shares representing approximately 78.3 per cent. of Egg's existing issued ordinary share capital.

Prudential has received irrevocable undertakings to accept the Offer from the Independent Committee of the Board of Egg in respect of their entire beneficial holdings amounting in aggregate to 856,736 Egg Shares, representing approximately 0.5 per cent. of Egg's existing issued share capital not owned by Prudential (and 0.1 per cent. of Egg's existing issued ordinary share capital).

10. Management and employees

The Board of Prudential has confirmed that on the Offer becoming unconditional, the existing employment rights, including pension rights, of all employees of Egg will be fully safeguarded.

Prudential has invited the Directors of Egg initially to remain on the Board of Egg after the Offer becomes unconditional.

11. Egg Share Option Schemes

The Offer extends to all Egg Shares which are issued or unconditionally allotted and fully paid (or credited as fully paid) while the Offer remains open for acceptances (or, subject to the City Code, by such earlier date as Prudential may decide), including Egg Shares issued pursuant to the exercise of options granted under the Egg Share Schemes or otherwise.

Prudential intends to offer to participants in the Egg Savings-Related Share Option Scheme the opportunity, subject to HM Revenue & Customs approval, to exchange their options over Egg Shares for equivalent rights over Prudential Shares. All outstanding options under the Egg Employee Share Option Plan have become exercisable as a result of making the Offer. If any awards under the Egg Restricted Share Plan have met the performance conditions under the plan, they will vest as a result of making the Offer. The awards will be satisfied by the transfer of Egg Shares from the Egg Employee Benefit Trust. Any awards that have not met the performance conditions have lapsed.

12. Fractional entitlements

Fractions of New Prudential Shares will not be allotted or issued pursuant to the Offer but will be aggregated and sold in the market and the net proceeds of sale distributed pro rata to Egg Shareholders entitled thereto, save that individual entitlements of amounts of less than £3 will not be so distributed but will be retained by Prudential and then passed to ShareGift, the share donation charity (registered charity no. 1052686), which uses its funds to support a wide range of other UK charities.

Further information about ShareGift may be obtained by writing to 46 Grosvenor Street, London, W1K 3HN or from www.sharegift.org.

13. Compulsory acquisition

If Prudential receives acceptances under the Offer in respect of, and/or otherwise acquires, 90 per cent. or more of the Egg Shares to which the Offer relates, Prudential will exercise its rights pursuant to the provisions of sections 428 to 430F (inclusive) of the Companies Act to acquire compulsorily the remaining Egg Shares in respect of which the Offer has not been accepted on the same terms as the Offer.

14. United Kingdom taxation considerations

The following summarises the material UK taxation considerations that arise in connection with the Offer. It is based on current UK legislation and an understanding of HM Revenue & Customs published practice as at the date of this document. Except as expressly provided otherwise, it is of a general nature and addressed only to Egg Shareholders and Egg Share Account Shareholders who are resident or (if individuals) ordinarily resident in the UK for UK tax purposes and who hold their Egg Shares or will hold their New Prudential Shares beneficially as an investment (otherwise than under a personal equity plan or an individual savings account) and not as trading stock and who have not (and are not deemed to have) acquired their shares by virtue of an office or employment of any person (for instance, Egg Shareholders who have acquired or will acquire their New Prudential Shares by virtue of Egg Share Option Schemes). Shareholders who are in any doubt as to their taxation position or who may be subject to taxation in a jurisdiction other than the UK should consult an appropriate professional adviser immediately.

14.1 United Kingdom Taxation on Chargeable Gains

UK Resident Shareholders

No Egg Shareholder or Egg Share Account Shareholder who, either alone or together with persons connected with him, does not own more than five per cent. of, or of any class of, the shares in or debentures of Egg should be treated as having made a disposal of Egg Shares for the purposes of UK tax on changeable gains as a result of accepting the Offer to the extent that he receives New Prudential Shares as consideration. Any gain or loss which would otherwise have arisen on a disposal of his Egg Shares in exchange for New Prudential Shares should be "rolled over" into the New Prudential Shares and the New Prudential Shares should be treated as the same asset as those Egg Shares and as acquired at the same time and for the same price as those Egg Shares.

Any Egg Shareholder or Egg Share Account Shareholder who, alone or together with persons connected with him, holds more than five per cent. of, or of any class of, shares in or debentures of Egg should not be treated as making a disposal provided the exchange of Egg Shares for New Prudential Shares is effected for bona fide commercial reasons and does not form part of a scheme or arrangement of which the main purpose, or one of the main purposes, is avoidance of liability to capital gains tax or corporation tax. Any such Egg Shareholder is advised that an application for clearance in respect of the Offer has been made to HM Revenue & Customs under section 138 of the Taxation of Chargeable Gains Act 1992.

Any subsequent disposal (or deemed disposal) of New Prudential Shares by a person who is resident or (in the case of an individual) ordinarily resident for tax purposes in the UK or who carries on a trade, profession or vocation in the UK through a branch, agency or permanent establishment where such New Prudential Shares are or have been used, held or acquired for the purposes of such trade or branch, agency or permanent establishment may, depending on that person's particular circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation on chargeable gains.

Any chargeable gain or allowable loss on a disposal of the New Prudential Shares should be calculated by taking into account the allowable original cost to the holder of acquiring his Egg Shares and when calculating a chargeable gain but not an allowable loss and for the purposes of corporation tax, indexation allowance will be calculated by reference to the date of disposal of the New Prudential Shares. For individual shareholders, indexation allowance up to the month of April 1998 will be applied to the cost of acquiring the relevant Egg Shares and taper relief may apply in respect of the period from 6 April 1998 (or later acquisition date) to the date of disposal to reduce the percentage of the gain chargeable to tax.

14.2 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No United Kingdom stamp duty or stamp duty reserve tax will be payable by Egg Shareholders as a result of accepting the Offer or on the allotment and issue to Egg Shareholders in certificated form or in CREST of New Prudential Shares. The preceding statement does not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depositary arrangements or clearance services who may be subject to special rules.

Subsequent transfers or conveyances on sale of New Prudential Shares will generally be subject to United Kingdom stamp duty at a rate of 0.5 per cent of the consideration given for the transfer (such stamp duty being rounded up to the nearest £5). The purchaser normally pays the stamp duty.

An unconditional agreement to transfer New Prudential Shares will normally give rise to a charge to SDRT at a rate of 0.5 per cent of the amount or value of the consideration payable for the transfer. If a duly stamped transfer of such New Prudential Shares in pursuance of the agreement is produced and stamp duty is paid within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the condition is satisfied) the SDRT charge will be cancelled and, where the charge to SDRT has been paid, the SDRT will, provided a claim for repayment is made, be repaid. Any SDRT paid is repayable, generally with interest, and the SDRT charge is cancelled. SDRT is, in general, payable by the purchaser.

Paperless transfers of New Prudential Shares within the CREST system will generally be liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST will normally collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to stamp duty reserve tax, unless the transfer into CREST is itself for consideration.

If you are in any doubt as to your tax position or if you require more detailed information than that outlined above you should consult an appropriate professional adviser immediately.

15. Overseas shareholders

If you are an overseas shareholder and you are in any doubt about your position, you should consult your professional adviser in the relevant jurisdiction. The attention of Egg Shareholders who are citizens of or nationals of, or resident in, a jurisdiction outside the United Kingdom (and of persons, including, without limitation, custodians, nominees or trustees for citizens or nationals or residents in any such jurisdiction, who may have a legal or contractual obligation to forward any document in connection with the Offer outside the United Kingdom) is drawn to paragraph 5 of Part B of Appendix I to this document, and to the relevant provisions of the Form of Acceptance or Form of Instruction (whichever is relevant). The availability of the Offer to such persons may be affected by the laws of the relevant jurisdictions. Any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about and observe any applicable requirements. It is the responsibility of any such person wishing to accept the Offer to satisfy himself as to the full observance of the laws in the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities. Any such overseas shareholder will be responsible for the payment of any issue, transfer or other taxes or duties or other requisite payment due in that jurisdiction to whomsoever payable, and Prudential and Lexicon Partners and any person acting on their behalf shall be fully indemnified and held harmless by such overseas shareholder for any such issue, transfer or other taxes as such person may be required to pay.

Unless Prudential otherwise determines, the Offer is not being made, directly or indirectly, in or into, or by use of the mails of, or by any means or instrumentality (including, without limitation, by means of telephone, fax, telex or other forms of electronic communication) of interstate or foreign commerce of, or by any other facilities of a national securities exchange of, the United States of America, Canada, Australia or Japan and will not be capable of acceptance by any such use, means, instrumentality or facility. Accordingly, copies of this document, the Information Memorandum, the Form of Acceptance, the Form of Instruction and the Share Dealing Facility Booklet and any related documents are not being, and must not be, mailed or otherwise distributed or sent in or into or from the United States of America, Canada, Australia or Japan, and persons doing so may render invalid any purported Offer. Accordingly, any accepting Egg Shareholder or Egg Share Account Shareholder who is unable to give the warranties set out in paragraph (C) of Part C (or paragraph (C) of Part D (as the case may be)) of Appendix I to this document may, at the discretion of Prudential be deemed not to have accepted the Offer.

The New Prudential Shares to be issued in connection with the Offer have not been, and will not be, registered under the Securities Act or under any relevant securities laws of any state of the United States of America and may not be offered or sold in the United States of America, absent registration or an applicable exemption from registration.

The relevant clearances have not been, and will not be obtained from the securities commission or similar authority of any province or territory of Canada, and no prospectus, information memorandum or other documents relating to the New Prudential Shares has been or will be filed or registration made under any securities laws of any province or territory of Canada, nor has a prospectus, information memorandum or other documents relating to the New Prudential Shares, been, nor will one be lodged with or registered by the Australian Securities and Investments Commission nor have any steps been taken, nor will any steps be taken to enable New Prudential Shares to be offered in compliance with applicable securities laws of Japan. Accordingly, unless an exemption under relevant securities law is available, the New Prudential Shares may not be offered, sold, re-sold or delivered, directly or indirectly, in, into or from, or for the account or benefit of, a person located in Canada, Australia, Japan or any other jurisdiction where to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction.

16. Procedure for acceptance of the Offer

This paragraph 16 should be read together with the Form of Acceptance or Form of Instruction (as relevant) which are deemed to be incorporated into, and form part of, the terms of the Offer. You may only accept the Offer in accordance with the instructions explained below.

(a) Different procedures for acceptance of the Offer

If you hold Egg Shares in certificated form, you may only accept the Offer in respect of such shares by completing and returning the enclosed Form of Acceptance in accordance with the procedure set out in paragraph (b) below. If you hold Egg Shares in certificated form, but under different designations, you should complete a separate Form of Acceptance in respect of each designation.

If you hold your shares through the Egg Share Account, to instruct the Corporate Nominee to accept the Offer on your behalf in respect of your holding of Egg Shares, you must complete and return the enclosed Form of Instruction in accordance with the procedure set out in paragraph (c) below.

If you hold Egg Shares in uncertificated form (that is, in CREST) you may only accept the Offer in respect of such shares by TTE instruction in accordance with the procedure set out in paragraph (d) below and, if those shares are held under different member account IDs, you should send a separate TTE instruction for each member account ID.

If you are in any doubt as to the procedure for acceptance or if you require additional Forms of Acceptance or Forms of Instruction, please call the Helpline on 0845 606 0252, or +44 1903 276 321 if calling from outside the UK.

(b) Egg Shares in certificated form (that is, not in CREST)

This section should be read in conjunction with the Form of Acceptance and Parts B and C of Appendix I to this document. The instructions in the Form of Acceptance are deemed to form part of the terms of the Offer.

(i) To accept the Offer

To accept the Offer in respect of all your Egg Shares, you must complete Boxes 2, 3A and 3B of the enclosed Form of Acceptance. **You must sign Box 3B in the presence of a witness, who should also sign in accordance with the instructions printed thereon**. You should also complete Boxes 4, 5 and 6 if they are relevant.

(ii) To accept the Offer in respect of less than all your Egg Shares

To accept the Offer in respect of less than all your Egg Shares, you must insert in Box 3A on the enclosed Form of Acceptance such lesser number of Egg Shares in respect of which you wish to accept the Offer in accordance with the instructions printed thereon. You should then follow the procedure set out in paragraph (i) above in respect of such lesser number of Egg Shares.

If you do not insert a number in Box 3A of the Form of Acceptance, or if you inserted in Box 3A a number which is greater than your actual holding of Egg Shares and you have signed Box 3B, your acceptance will be deemed to be in respect of all the Egg Shares held by you.

If you have any questions as to how to complete the Form of Acceptance, please call the Helpline on 0845 606 0252 (or +44 1903 276 321 if calling from outside the UK).

(iii) Share Dealing Facility

Please refer to the Share Dealing Facility Booklet for more information about the Share Dealing Facility. If you wish to accept the Offer, but do not wish to use the Share Dealing Facility, leave Box 5 blank.

(iv) Return of the Form of Acceptance

To accept the Offer in respect of your certificated shares, the completed, signed and witnessed Form of Acceptance should be returned by post or by hand (during normal business hours) to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX, together (subject to paragraph (v) below) with the relevant share certificate(s) and/or other document(s) of title, as soon as possible, and in any event, so as to arrive not later than 1.00 p.m. on 20 January 2006.

A Red reply-paid envelope for use in the UK only is enclosed for your convenience. No acknowledgement of receipt of documents will be given by or on behalf of Prudential. The instructions printed on the Form of Acceptance are deemed to form part of the terms of the Offer. Any Form of Acceptance received in an envelope post marked in the United States of America, Canada, Australia or Japan or otherwise appearing to Prudential or its agents to have been sent from the United States of America, Canada, Australia or Japan may be rejected as an invalid acceptance of the Offer.

(v) Share certificates/documents of title not readily available or lost

If your Egg Shares are in certificated form, a completed, signed and witnessed Form of Acceptance should be accompanied by the relevant share certificate(s) and/or other document(s) of title. If for any reason the relevant share certificate(s) and/or the other document(s) of title is/are lost or not readily available, you should nevertheless complete, sign and return the Form of Acceptance as stated above so as to be received by post or by hand (during normal business hours) by Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX, by not later than 1.00 p.m. on 20 January 2006.

You should send with the Form of Acceptance any share certificate(s) and/or other document(s) of title which you may have available and a letter stating that the remaining documents will follow as soon as possible or that you have lost your share certificate(s) and/or other document(s) of title. No acknowledgement of receipt of documents will be given. If you have lost your share certificate(s) and/or other document(s) of title, you should contact Egg's registrars, Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX, requesting a letter of indemnity for the lost share certificate(s) and/or other documents of title which, when completed in accordance with the instructions given, should be returned by post or by hand (during normal business hours) to Lloyds TSB Registrars, at the address set out above.

(vi) Validity of acceptances

Without prejudice to Parts B and C of Appendix I to this document, Prudential reserves the right (subject to the terms of the Offer and the Code) to treat as valid in whole or in part any acceptance of the Offer in relation to Egg Shares in certificated form which is not entirely in order or which is not accompanied by the relevant share certificate(s) and/or other document(s) of title. In that event, no share certificates will be issued in respect of New Prudential Shares until after the relevant share certificate(s) and/or other document(s) of title or indemnities in respect of the Egg Shares satisfactory to Prudential or its agents have been received.

If you are in any doubt as to the procedure for acceptance, please call the Helpline on 0845 606 0252 (or +44 1903 276 321 if calling from outside the UK).

(c) Egg Share Account Shareholders

This section should be read in conjunction with the Form of Instruction and parts B and C of Appendix I to this document.

(i) To instruct the Corporate Nominee to accept the Offer on your behalf

To instruct the Corporate Nominee to accept the Offer in respect of all of your Egg Shares, you must complete Boxes 2, 3A and 3B of the enclosed Form of Instruction. **You must sign Box 3B in the presence of a witness, who should also sign in accordance with the instructions printed thereon**.

(ii) To instruct the Corporate Nominee to accept the Offer in respect of less than all your Egg Shares

To instruct the Corporate Nominee to accept the Offer in respect of less than all of your Egg Shares, you must insert in Box 3A on the enclosed Form of Instruction such lesser number of Egg Shares in respect of which you wish the Corporate Nominee to accept the Offer in accordance with the instructions printed thereon. You should then follow the procedure set out in paragraph (i) above in respect of such lesser number of Egg Shares.

If you do not insert a number in Box 3A of the Form of Instruction, or if you insert in Box 3A a number which is greater than your actual holding of Egg Shares and you have signed Box 3B, your acceptance will be deemed to be in respect of all the Egg Shares held by you.

If you have any questions as to how to complete the Form of Instruction, please call the Helpline on 0846 606 0252 (or +44 1903 276 321 if calling from outside the UK).

(iii) Share Dealing Facility

Please refer to the Share Dealing Facility Booklet for more information about the Share Dealing Facility. If you wish to instruct the Corporate Nominee to accept the Offer, but do not wish to use the Share Dealing Facility, leave Box 5 blank.

(iv) Return of the Form of Instruction

To instruct the Corporate Nominee to accept the Offer, the completed, signed and witnessed Form of Instruction should be returned by post or by hand (during normal business hours) to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX, as soon as possible, and in any event, so as to arrive not later than 1.00 p.m. on 20 January 2006.

A yellow reply-paid envelope for use in the UK only is enclosed for your convenience. No acknowledgement of receipt of documents will be given by or on behalf of Prudential. Any Form of Instruction received in an envelope post marked in the United States of America, Canada, Australia or Japan or otherwise appearing to Prudential or its agents to have been sent from the United States of America, Canada, Australia or Japan may be rejected as an invalid instruction to accept the Offer.

(v) Validity of acceptances

Without prejudice to Parts B and C of Appendix I to this document, Prudential reserves the right (subject to the terms of the Offer and the Code) to treat as valid in whole or in part any acceptance of the Offer, (which, in the case of Egg Share Account Shareholders will come from the Corporate Nominee), which is not entirely in order.

If you are in any doubt as to the procedure for acceptance, please call the Helpline on 0845 606 0252 (or +44 1903 276 321 if calling from outside the UK).

(d) Egg Shares in uncertificated form (that is, in CREST)

If your Egg Shares are in uncertificated form (that is, in CREST), in order to accept the Offer you should take (or procure the taking of) the action set out below to transfer the Egg Shares in respect of which you wish to accept the Offer to the appropriate escrow balances, specifying Lloyds TSB Registrars (in its capacity as a CREST participant under the Escrow Agent participant ID referred to below) as the Escrow Agent, as soon as possible and **in any event so that the TTE instruction settles not later than 1.00 p.m. on 20 January 2006. Note that settlement cannot take place on weekends or bank holidays (or other times at which the CREST system is non-operational) and you should therefore ensure that you time the input of any TTE instruction(s) accordingly.**

The input and settlement of a TTE instruction in accordance with this paragraph 16(d) will (subject to satisfying the requirements set out in Part B and D of Appendix I to this document) constitute an acceptance of the Offer in respect of the number of Egg Shares so transferred to escrow.

If you are a CREST personal member you should refer to your CREST sponsor before taking any action. Only your CREST sponsor will be able to send the TTE instruction(s) to CRESTCo in relation to your Egg Shares.

After settlement of a TTE instruction you will not be able to access the Egg Shares concerned in CREST for any transaction or charging purposes. If the Offer becomes unconditional, the Escrow Agent will transfer the Egg Shares concerned to itself in accordance with paragraph (E) of Part D of Appendix I to this document.

You are recommended to refer to the CREST manual published by CRESTCo for further information on the CREST procedures outlined below.

(i) To accept the Offer in respect of all or some of your Egg Shares

To accept the Offer in respect of Egg Shares in uncertificated form you should send (or, if you are a CREST sponsored member, procure that your CREST sponsor sends) a TTE instruction to CRESTCo, in relation to such Egg Shares (the "**Offer TTE Institution**").

The Offer TTE Instruction to CRESTCo must be properly authenticated in accordance with CRESTCo's specifications for transfers to escrow and must contain the following details:

— the number of Egg Shares in respect of which you wish to accept the Offer (i.e. the number of Egg Shares owned by you which are to be transferred to an escrow balance);

— your member account ID;

— your participant ID;

— the participant ID of the Escrow Agent. This is 6RA33;

— the member account ID of the Escrow Agent for acceptance of the Offer. This is PRUEGG01;

— the intended settlement date. This should be as soon as possible and, in any event, not later than 1.00 p.m. on 20 January 2006;

— the corporate action ISIN. This is GB0006105281;

— corporate action number for the Offer. This is allocated by CRESTCo and can be found by viewing the relevant corporate action details on screen in CREST;

— the delivery instruction with a priority of 80; and

— contact name and telephone number inserted in the shared note field.

(ii) Share Dealing Facility

Please refer to the Share Dealing Facility Booklet for more information about the Share Dealing Facility.

(iii) Validity of acceptances

Holders of Egg Shares in uncertificated form who wish to accept the Offer should note that a TTE instruction will only be a valid acceptance of the Offer as at the relevant closing date if it has settled on or before that date. **A Form of Acceptance which is received in respect of Egg Shares held in uncertificated form will not constitute a valid acceptance and will be disregarded.**

(f) General

You should note that CRESTCo does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in connection with a TTE instruction and its settlement. You should therefore ensure that all necessary action is taken by you (or by your CREST sponsor) to enable a TTE instruction relating to your Egg Shares to settle prior to 1.00 p.m. on 20 January 2006. In this regard, you are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

Prudential will make an appropriate announcement if any of the details in this paragraph 16 alter for any reason.

(i) Deposits of Egg Shares into, and withdrawals of Egg Shares from, CREST

Normal CREST procedures (including timings) apply in relation to any Egg Shares that are, or are to be, converted from uncertificated to certificated form, or from certificated to uncertificated form, during the course of the Offer acceptance period (whether any such conversion arises as a result of a transfer of Egg Shares or otherwise). Holders of Egg Shares who are proposing to convert any such Egg Shares are recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Egg Shares as a result of the conversion to take all necessary steps in connection with an acceptance of the Offer (in particular, as regards delivery of share certificate(s) and/or other document(s) of title or transfers to an escrow balance as described above) **prior to 1.00 p.m. on 20 January 2006.**

If you are in any doubt as to the procedure for acceptance, please call the Helpline on 0845 606 0252 (or +44 1903 276 321 if calling from outside the UK). You are reminded that, if you are a CREST personal member, you should contact your CREST sponsor before taking any action.

(ii) Overseas shareholders

The attention of Egg Shareholders who are citizens, residents or nationals of jurisdictions outside the UK and any person (including, without limitation, any custodians, nominees or trustees) who would, or otherwise intend to, forward this document and/or the accompanying documents outside the UK, is drawn to paragraph 5 of Part B of Appendix I to this document. The availability of the Offer to persons not citizens, residents or nationals of the UK may be affected by the laws of the relevant jurisdictions. Persons who are citizens, residents or nationals of jurisdictions outside the UK should inform themselves about and observe any applicable requirements. If you are in any doubt as to your position or the action you should take you should consult an appropriate adviser.

Unless Prudential otherwise determines, the Offer is not being made, directly or indirectly, in or into, the United States of America, Canada, Australia or Japan. Accordingly, unless otherwise determined by Prudential, any accepting Egg Shareholder who is unable to give the warranties set out in paragraph (C) of Part C and paragraph (C) of Part D of Appendix I to this document will be deemed not to have accepted the Offer.

17. Listing, dealings and settlement

Application has been made for the New Prudential Shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and dealings in the New Prudential Shares on the London Stock Exchange's main market for listed securities will commence on 22 December 2005.

Subject to the Offer becoming unconditional, settlement of the consideration to which any Egg Shareholder is entitled under the Offer (except as provided in paragraph 5 of Part B of Appendix I in the case of certain overseas Egg Shareholders) will be:

(i) in the case of certificated Egg Shareholders (or those instructing the Corporate Nominee under the Form of Instruction) whose acceptance is received valid and complete in all respects, by 5.00 p.m. on 28 December 2005, despatched by 5 January 2006,

(ii) in the case of uncertificated Egg Shareholders (who hold their shares through CREST), whose TTE instruction settles by 5.00 p.m. on 28 December 2005, credited to your CREST account by 8.00 a.m. on 5 January 2006,

(iii) in the case of acceptances (certificated or uncertificated) received, valid and complete in all respects after 5.00 p.m. on 28 December 2005, but while the Offer remains open for acceptance, despatched (or otherwise transmitted) within 14 days of such receipt.

Egg Shareholders and Egg Share Account Shareholders choosing to use the free Share Dealing Facility will receive their consideration for the New Prudential Shares sold under the Share Dealing Facility at a different date in accordance with the Terms and Conditions of the Share Dealing Facility as set out in the Share Dealing Facility Booklet.

(a) Egg Shares in uncertificated form (that is, in CREST)

Where an acceptance relates to Egg Shares in uncertificated form, the New Prudential Shares to which the accepting Egg Shareholder is entitled will be issued in uncertificated form. In such event, Prudential will procure that CRESTCo is instructed to credit the appropriate stock account in CREST of the accepting Egg Shareholder with such shareholder's entitlement to New Prudential Shares. The stock account concerned will be an account under the Egg Shareholder's existing participant ID and member account ID.

Prudential reserves the right to settle all or any part of the consideration referred to in this paragraph (a), for all or any accepting Egg Shareholder(s), in the manner referred to in paragraph (b) below, if, for any reason, it wishes to do so.

A different procedure will apply if an Egg Shareholder uses the free Share Dealing Facility. Further details can be found in the Share Dealing Facility Booklet.

(b) Egg Share Account Shareholders

Where an acceptance relates to Egg Shares held on behalf of an Egg Share Account Shareholder by the Corporate Nominee, the New Prudential Shares will be issued in certificated form and despatched by first class post (or by such other method as the Panel may approve) to the former Egg Share Account Shareholder.

A different procedure will apply if an Egg Share Account Shareholder uses the free Share Dealing Facility. Further details can be found in the Share Dealing Facility Booklet.

(c) Egg Shares in certificated form

Where an acceptance relates to Egg Shares held in certificated form, the New Prudential Shares to which the accepting Egg Shareholder is entitled will be issued in certificated form. Definitive certificates for New Prudential Shares will be despatched by first class post (or by such other method as the Panel may approve).

All documents, remittances and transfer delivered or sent by, to or from Egg Shareholders or their appointed agents will be sent at their own risk.

A different procedure may apply if an Egg Shareholder uses the free Share Dealing Facility. Further details can be found in the Share Dealing Facility Booklet.

18. Share Dealing Facility

Prudential has arranged for a free share dealing facility to be made available to certain Egg Shareholders and Egg Share Account Shareholders who accept the Offer. The purpose of the Share Dealing Facility is to allow each eligible Egg Shareholder who accepts the Offer to sell:

- if they are entitled to 300 or fewer New Prudential Shares under the Offer, all (but not some only) of these New Prudential Shares; or
- if they are entitled to more than 300 New Prudential Shares under the Offer, 300 New Prudential Shares (but not more or less),

without paying commission or other dealing charges.

The free Share Dealing Facility will be available to eligible New Prudential Shareholders, as detailed in the Share Dealing Facility Booklet, who validly accept the Offer and are resident in the United Kingdom.

The free Share Dealing Facility is not be available to persons who are resident in countries other than the United Kingdom.

Egg Shareholders who wish to use the free Share Dealing Facility should follow the instructions in the Share Dealing Facility Booklet and, if holding certificated Egg Shares, on the Form of Acceptance, or, if holding Egg Shares through the Egg Share Account, on the Form of Instruction. Other Egg Shareholders who hold their Egg Shares through a nominee should call the Helpline on 0845 606 0252 (or +44 1903 276 321 from outside the UK) for information on how to use the free Share Dealing Facility.

Egg Shareholders who hold their shares in uncertificated form and who wish to use the free Share Dealing Facility should follow the instructions in the Share Dealing Facility Booklet to re-materialise the New Prudential Shares they wish to sell using the Share Dealing Facility and apply to Lloyds TSB Registrars for use of the facility.

Egg Shareholders and Egg Share Account Shareholders are not obliged to sell any of the New Prudential Shares to which they become entitled as a result of their acceptance of the Offer and, if they do wish to sell any New Prudential Shares, they are not obliged to sell them through the Share Dealing Facility.

The Share Dealing Facility cannot be used to buy additional Prudential Shares or to buy or sell other securities or investment products.

Former Egg Shareholders who sell up to 300 New Prudential Shares through the free Share Dealing Facility will be sent the proceeds of such sale in sterling by cheque through the post.

Further information about the free Share Dealing Facility can be found in the Share Dealing Facility Booklet accompanying this document.

A Helpline is available to assist Egg Shareholders and Egg Share Account Shareholders wishing to make use of the Share Dealing Facility, within the United Kingdom on 0845 606 0252 and from outside the United Kingdom on + 44 1903 276 321.

19. Further information

Your attention is drawn to the Information Memorandum and the Form of Acceptance (if you hold Egg Shares in certificated form) or the Form of Instruction (if you hold Egg Shares through the Egg Share Account), which accompany this Offer document and the following Appendices which form part of this document:

Appendix I	Condition and Further Terms of the Offer
Appendix II	Financial information on Egg
Appendix III	Financial information on Prudential
Appendix IV	Additional information
Appendix V	Definitions

In addition, if you are resident in the United Kingdom details of the free Share Dealing Facility can be found in the enclosed Share Dealing Facility Booklet.

20. Action to be taken

If you hold your Egg Shares in certificated form, you may only accept the Offer in respect of such shares if you complete and sign the Form of Acceptance and return it, together with any appropriate document(s) of title such as your share certificate(s) (in the Red reply-paid envelope) by post or by hand (during normal business hours) to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX as soon as possible and, in any event, so as to be received not later than 1.00 p.m. on 20 January 2006. The procedure for acceptance is set out in paragraph 16 of this letter and the accompanying Form of Acceptance.

If you hold your Egg Shares through the Egg Share Account, to instruct the Corporate Nominee to accept the Offer on your behalf, the Form of Instruction must be completed, signed and returned in accordance with the instructions printed thereon, in the Yellow reply-paid envelope as soon as possible and, in any event, so as to be received by post or by hand (during normal business hours) by Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX not later than 1.00 p.m. on 20 January 2006. The procedure for acceptance is set out in paragraph 16 of this letter and the accompanying Form of Instruction.

If you hold your Egg Shares in uncertificated form (that is, in CREST), you may only accept the Offer in respect of such shares by TTE instructions in accordance with the instructions set out in paragraph 16 of this letter as soon as possible, and in any event so as to be received not later than 1.00 p.m. on 20 January 2006. The procedure for acceptance is set out in paragraph 16 of this letter.

Yours faithfully,

for Lexicon Partners

APPENDIX I
Condition and Further Terms of the Offer

Part A Condition of the Offer

The Offer is subject to the admission of the New Prudential Shares (i) to listing on the Official List of the UK Listing Authority becoming effective in accordance with the Listing Rules of the UK Listing Authority and (ii) to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with the Admission and Disclosure Standards made by the London Stock Exchange from time to time, or (if Prudential so determines and subject to the consent of the Panel) the UK Listing Authority and the London Stock Exchange agreeing to admit such shares to listing and trading respectively subject to allotment of such shares.

Part B Further Terms of the Offer

The following further terms apply to the Offer. Except where the context otherwise requires, any reference in Parts B, C or D of this Appendix I and in the Form of Acceptance and Form of Instruction: (i) to the "Offer" shall mean the Offer and any revision, variation or renewal thereof or extension thereto; (ii) to "acceptances of the Offer" shall include deemed acceptances of the Offer and (iii) to the "offer becoming unconditional" means the condition in Part A of this Appendix I being or becoming satisfied.

1. Acceptance period

(A) The Offer will initially be open for acceptance until 1.00 p.m. on 20 January 2006, but may be extended beyond that date subject to paragraph 1 (B) below.

(B) If it is stated by or on behalf of Prudential that the Offer will remain open until further notice, then not less than 14 days' written notice will be given prior to the closing of the Offer to those Egg Shareholders who have not accepted the Offer.

2. Announcements

(A) By 8.00 a.m. on the Business Day (the "relevant day") following the day on which the Offer is due to expire or is extended (or such later time(s) or date(s) as the Panel may agree), Prudential will make an appropriate announcement and simultaneously inform the London Stock Exchange via a Regulatory Information Service of the status of the Offer. Such announcement will (unless otherwise permitted by the Panel) also state (as nearly as practicable):

(i) the number of Egg Shares for which acceptances of the Offer have been received, specifying the extent to which acceptances have been received from persons acting in concert with Prudential or in respect of shares which were subject to an irrevocable commitment or a letter of intent procured by Prudential or any of its associates;

(ii) details of any relevant securities of Egg in which Prudential or any person acting in concert with it has an interest or in respect of which he has a right to subscribe, in each case specifying the nature of the interests or rights concerned. Similar details of any short positions (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery will also be stated;

(iii) details of any relevant securities of Egg in respect of which Prudential or any of its associates has an outstanding irrevocable commitment or letter of intent;

(iv) details of any relevant securities of Egg which Prudential or any person acting in concert with it has borrowed or lent, save for any borrowed shares which have been either on-lent or sold; and

will in each case specify the percentages of relevant securities of Egg represented by these figures.

(B) Any decision to extend the Offer may be made at any time up to, and will be announced not later than, 8.00 a.m. on the relevant day (or such later time and/or date as the Panel may agree) and the announcement may state that the Offer will remain open until further notice. Subject to the rules of the Code, in computing the number of Egg Shares represented by acceptances and/or purchases, the announcement may include or exclude acceptances and purchases not, in all respects, in order or subject to verification.

(C) In this Appendix I, references to the making of an announcement or the giving of notice by or on behalf of Prudential include the release of an announcement to the press by public relations consultants or by Lexicon Partners and the delivery by hand or telephone, telex or facsimile or other electronic transmission of an announcement to a Regulatory Information Service. An announcement made otherwise than to a Regulatory Information Service shall be notified simultaneously to a Regulatory Information Service (unless otherwise agreed by the Panel).

3. Rights of withdrawal

(A) If Prudential fails to comply by 3.30 p.m. on the relevant day (or such later time and/or date as the Panel may agree) with any of the relevant requirements specified in paragraph 2(A) above, an accepting Egg Shareholder may (unless the Panel agrees otherwise) immediately thereafter withdraw his acceptance of the Offer by written notice given by post or by hand (during normal business hours) to Lloyds TSB Registrars at Princess House, 1 Suffolk Lane, London, EC4R 0AX, on behalf of Prudential. Alternatively, in the case of Egg Shares in uncertificated form, withdrawals can also be effected in the manner set out in paragraph 3(D) of this Part B. This right of withdrawal may be terminated not less than eight days after the relevant day by Prudential complying with the requirements specified in paragraph 2(A) above.

(B) Except as provided by this paragraph 3, acceptances of the Offer shall be irrevocable.

(C) In this paragraph 3, "written notice" (including any letter of appointment, direction or authority) means notice in writing bearing the original signature(s) of the relevant accepting Egg Shareholder(s) or his/their agent(s) duly appointed in writing (evidence of whose appointment in a form reasonably satisfactory to Prudential is produced with the notice). Telex, e-mail or facsimile transmission or copies will not be sufficient to constitute written notice. No notice which is postmarked in, or otherwise appears to Prudential, its advisers or its agents to have been sent from or otherwise evidences use of any means or instrumentality of interstate or foreign commerce of or any facility of a national securities exchange of, the United States of America, Canada, Japan or Australia will be treated as valid.

(D) In the case of Egg Shares held in uncertificated form, if withdrawals are permitted pursuant to paragraph 3(A) of this Part B, an accepting Egg Shareholder may withdraw his acceptance through CREST by sending (or, if a CREST personal member, procuring that his CREST sponsor sends) a valid ESA instruction to settle in CREST in relation to each Electronic Acceptance to be withdrawn. Each ESA instruction must, in order for it to be valid and settle, include the following details:

(i) the number of Egg Shares to be withdrawn, together with their ISIN number (this is: GB0006105281);

(ii) the member account ID of the accepting shareholder, together with his participant ID;

(iii) the member account ID of the Escrow Agent (this is PRUEGG01) included in the relevant Electronic Acceptance, together with the Escrow Agent's participant ID (this is 6RA33);

(iv) the transaction reference number of the Electronic Acceptance to be withdrawn;

(v) the intended settlement date for the withdrawal; and

(vi) the corporate action number for the Offer.

Any such withdrawal will be conditional upon Lloyds TSB Registrars verifying that the withdrawal request is validly made. Accordingly, Lloyds TSB Registrars will on behalf of Prudential reject or accept the withdrawal by transmitting in CREST a receiving agent reject (AEAD) or receiving agent accept (AEAN) message.

(E) Egg Shares in respect of which acceptances have been properly withdrawn in accordance with this paragraph 3 may subsequently be re-assented to the Offer by following one of the procedures described in paragraph 16 of the letter from Lexicon Partners in Part I(B) of this document at any time while the Offer remains open for acceptance.

(F) All questions as to the validity (including time of receipt) of any notice of withdrawal will be determined by Prudential whose determination, except as may be determined otherwise by the

Panel, will be final and binding. None of Prudential, Lexicon Partners, Lloyds TSB Registrars or any other person will be under any duty to give notice of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give such notice.

4. General

(A) Save with the consent of the Panel, the Offer will lapse unless the Condition has been fulfilled by midnight on 30 January 2006.

(B) The expression "Offer Period" when used in this document means, in relation to the Offer, the period commencing on 26 October 2005 and ending on the later of the First Closing Date and the time and date on which the Offer lapses.

(C) Except with the consent of the Panel, and subject to the Offer becoming unconditional, settlement of the consideration to which any Egg Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Prudential or Lexicon Partners may otherwise be, or claim to be, entitled as against such Egg Shareholder and will be

(i) in the case of certificated Egg Shareholders (or those instructing the Corporate Nominee under the Form of Instruction) whose acceptance is received valid and complete in all respects, by 5.00 p.m. on 28 December 2005, despatched by 5 January 2006,

(ii) in the case of uncertificated Egg Shareholders (who hold their shares through CREST), whose TTE instruction settles by 5:00 p.m. on 28 December 2005, credited to your CREST account by 8.00 a.m. on 5 January 2006,

(iii) in the case of acceptances (certificated or uncertificated) received, valid and complete in all respects after 5.00 p.m. on 28 December 2005, but while the Offer remains open for acceptance, despatched (or otherwise transmitted) within 14 days of such receipt.

Subject to paragraph 5 of this Appendix I, no consideration will be sent to an address in the United States of America, Canada, Australia or Japan.

(D) The terms, provisions, instructions and authorities contained in or deemed to be incorporated in the Form of Acceptance constitute part of the terms of the Offer. Words and expressions defined in this document have the same meanings when used in the Form of Acceptance, unless the context otherwise requires. The provisions of this Appendix I shall be deemed to be incorporated in and form part of the Form of Acceptance.

(E) Without prejudice to any other provision in this Part B of Appendix I and subject to the Code, Prudential and Lexicon Partners reserve the right to treat acceptances of the Offer as valid if received by or on behalf of either of them at any place or places determined by them otherwise than as set out herein or in the Form of Acceptance.

(F) Without prejudice to any other provision in this Part B of Appendix I and subject to the Code, Prudential reserves the right to treat as valid in whole or in part acceptances of the Offer, in respect of Egg Shares held in certificated form, that are not entirely in order or that are not accompanied by the relevant share certificate(s) and/or other document(s) of title or in respect of Egg Shares held in uncertificated form, that are not accompanied by the relevant TTE instruction(s).

(G) The Offer and all acceptances thereof and the relevant Form of Acceptance or Electronic Acceptance and all contracts made pursuant thereto and action taken or made or deemed to be taken or made under any of the foregoing shall be governed by and construed in accordance with English law. Execution of a Form of Acceptance or the making of an Electronic Acceptance by or on behalf of an Egg Shareholder will constitute his submission, in relation to all matters arising out of or in connection with the Offer and the Form of Acceptance or the Electronic Acceptance (as appropriate), to the jurisdiction of the Courts of England and his agreement that nothing shall limit the right of Prudential or Lexicon Partners to bring any action, suit or proceeding arising out of or in connection with the Offer and the Form of Acceptance or the Electronic Acceptance (as appropriate) in any other manner permitted by law or in any court of competent jurisdiction.

(H) Any omission to despatch this document, the Form of Acceptance, the Form of Instruction, the Information Memorandum, any notice required to be despatched under the terms of the Offer to, or any failure to receive the same by, any person to whom the Offer is made, or should be made, shall not invalidate the Offer in any way or create any implication that the Offer has not been made to any such person. Subject to paragraph 5 below, the Offer extends to all Egg Shareholders to whom this document, the Form of Acceptance, the Form of Instruction, the Information Memorandum and any related documents may not be despatched, or who may not receive such documents, and such persons may collect copies of those documents from Lloyds TSB Registrars at the addresses set out in paragraph 3(A) above.

(I) All powers of attorney, appointments as agents and authorities on the terms conferred by or referred to in this Appendix I or in the Form of Acceptance are given by way of security for the performance of the obligations of the Egg Shareholder concerned and are irrevocable (in respect of powers of attorney, in accordance with section 4 of the Powers of Attorney Act 1971), except in the circumstances where the donor of such power of attorney, appointment or authority is entitled to withdraw his acceptance in accordance with paragraph 3 above and duly does so.

(J) No acknowledgement of receipt of any Form of Acceptance, Form of Instruction, Electronic Acceptance, transfer by means of CREST, communication, notice, share certificate and/or other document of title will be given by or on behalf of Prudential. All communications, notices, certificates, documents of title and remittances to be delivered by or sent to or from Egg Shareholders (or their designated agent(s)) will be delivered by or sent to or from such Egg Shareholders (or their designated agent(s)) at their risk.

(K) If the Offer does not become unconditional:

(i) it will not be capable of further acceptance;

(ii) accepting Egg Shareholders and Prudential will cease to be bound by Forms of Acceptance or Electronic Acceptances submitted on or before the time when the Offer lapses;

(iii) neither Prudential nor any person acting, or deemed to be acting, in concert with Prudential for the purposes of the Offer may, pursuant to the City Code, make an offer (whether inside or outside the United Kingdom) for Egg Shares for a period of one year following the date of such lapse, except with the permission of the Panel;

(iv) in respect of Egg Shares held in certificated form, the Form of Acceptance and any share certificate(s) and/or other document(s) of title will be returned by post (or by such other method as may be approved by the Panel) within 14 days of the Offer lapsing, at the risk of the person entitled thereto, to the person or agent whose name and address outside the United States of America, Canada, Japan or Australia is set out above or in the relevant box on the Form of Acceptance or, if none is set out, to the first-named holder at his/her registered address outside the United States of America, Canada, Japan or Australia. No such documents will be sent to an address in the United States of America, Canada, Japan or Australia; and

(v) in respect of Egg Shares held in uncertificated form, Lloyds TSB Registrars will, immediately after the lapsing of the Offer (or within such longer period as the Panel may permit, not exceeding 14 days of the lapsing of the Offer), give instructions to CRESTCo to transfer all Egg Shares held in escrow balances and in relation to which it is the Escrow Agent for the purposes of the Offer to the original available balances of the Egg Shareholders concerned.

(L) For the purposes of this document, the time of receipt of a TTE instruction, an ESA instruction or an Electronic Acceptance shall be the time at which the relevant instruction settles in CREST.

(M) The Offer is made by means of this document on 19 December 2005 and is capable of acceptance from and after that time. Copies of this document, the Form of Acceptance, the Form of Instruction, the Information Memorandum and any related documents are available from Lloyds TSB Registrars at the address set out in paragraph 3(A) above from that time. The Offer is made by means of this document and by means of an advertisement dated 19 December 2005 inserted in the *Financial Times* newspaper (UK circulation only).

(N) If sufficient acceptances are received and/or sufficient Egg Shares are otherwise acquired, Prudential intends, following the Offer becoming unconditional to apply the provisions of sections 428 to 430F of the Companies Act to acquire compulsorily any outstanding Egg Shares. Prudential also intends, following the Offer becoming unconditional, to procure the making of an application to the London Stock Exchange for the Egg Shares to cease trading and to the UK Listing Authority to remove the Egg Shares from the Official List.

(O) Prudential and Lexicon Partners each reserve the right to notify any matter (including the making of the Offer) to all or any Egg Shareholder(s) with (i) registered address(es) outside the UK; or (ii) whom Prudential or Lexicon Partners know to be nominees, trustees or custodians for such persons by announcement or paid advertisement in any daily newspaper published and circulated in the UK, in which case such notice shall be deemed to have been sufficiently given, notwithstanding any failure by any such shareholders to receive or see such notice, and all references in this document to notice in writing (other than in paragraph 3 above) shall be construed accordingly.

(P) Due completion of a Form of Acceptance or the making of a valid Electronic Acceptance will constitute an instruction to Prudential that, on the Offer becoming unconditional, all mandates and other instructions or notices recorded in Egg's records immediately prior to the Offer becoming unconditional will, unless and until revoked or varied, continue in full force in relation to the New Prudential Shares allotted or issued to the relevant Egg Shareholders pursuant to the Offer. If an Egg Shareholder has existing Prudential Shares, the mandates and instructions in force for those existing Prudential Shares will remain.

(Q) All references in this Appendix I to any statute or statutory provision shall include a statute or statutory provision which amends, consolidates or replaces the same (whether before or after the date hereof).

(R) In relation to any acceptance of the Offer in respect of Egg Shares which are in uncertificated form, Prudential reserves the right to make such alterations, additions or modifications to the terms of the Offer as may be necessary or desirable to give effect to any purported acceptance of the Offer, whether in order to comply with the facilities or requirements of CREST or otherwise, provided such alterations, additions or modifications are consistent with the requirements of the Code or are otherwise made with the consent of the Panel.

(S) Fractions of New Prudential Shares will not be allotted or issued pursuant to the Offer but will be aggregated and sold in the market and the net proceeds of any such sale distributed pro rata to Egg Shareholders entitled thereto, save that amounts of less than £3 will not be so distributed but retained by Prudential and passed to ShareGift, the share donation charity (registered charity no. 1052686), which uses its funds to support a wide range of other UK charities. Further information about ShareGift may be obtained by writing to 46 Grosvenor Street, London W1K 3HN or from www.sharegift.org.

(T) The New Prudential Shares will be issued free from all liens, equities, charges, encumbrances and other interests. The New Prudential Shares will be issued credited as fully paid and will rank equally in all respects with existing Prudential Shares.

(U) The Egg Shares will be acquired by Prudential fully paid and free from all liens, equities, charges, encumbrances and other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including, without limitation, the right to receive and retain all dividends and other distributions (if any) declared, made or paid on or after the date of this document.

(V) The Offer is not made to, and is not capable of acceptance by, Egg Share Account Shareholders. Any Egg Share Account Shareholder who wishes the Offer to be accepted in respect of all or part of his holding of Egg Shares, or any of them, must instruct the Corporate Nominee to accept the Offer (and, if desired, to elect to use the Share Dealing Facility) in respect of such Egg Shares by completing, signing and returning the Form of Instruction as soon as possible and, in any event so as to be received by Lloyds TSB Registrars at Princess House, 1 Suffolk Lane, London, EC4R 0AX no later than 1.00 p.m. on 20 January 2006. The Offer is capable of acceptance in respect of such Egg Shares by the Corporate Nominee only, however, settlement of the consideration in respect of any Egg Shares held in the Egg Share Account in respect of which the Offer is accepted will be sent directly to the Egg Share Account Shareholder. Further details on the procedures for Egg Share Account Shareholders to instruct acceptance of the Offer and use of the Share Dealing Facility are set out in paragraph 16 of Part I(B) of this document and in the accompanying Form of Instruction.

(W) The free Share Dealing Facility arranged by Prudential does not form part of the Offer. The Share Dealing Facility is provided by Lloyds TSB Registrars and none of Prudential, Egg or Lexicon Partners accept any liability in respect of the Share Dealing Facility.

(X) If Prudential receives acceptances under the Offer in respect of, or acquires by virtue of exercising its rights pursuant to the provisions of sections 428 to 430F (inclusive) of the Companies Act, Egg Shares from any subsidiary of Prudential it shall not allot or issue any New Prudential Shares to such subsidiary. The New Prudential Shares to which such subsidiary shall be entitled to pursuant to the Offer shall be issued to any such person(s) as the subsidiary in question shall nominate (but not to hold as nominee on behalf of such subsidiary).

5. Overseas shareholders

(A) The making and availability of the Offer outside, or to citizens, residents or nationals of jurisdictions outside, the United Kingdom ("overseas shareholders"), may be affected by the laws of the relevant jurisdictions. Overseas shareholders should fully acquaint themselves with and observe any applicable legal requirements. It is the responsibility of any overseas shareholder wishing to accept the Offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes or other requisite payments due in such jurisdiction. Any such overseas shareholder will be responsible for any such issue, transfer or other taxes or other requisite payments by whomsoever payable and Prudential and Lexicon Partners and any person acting on behalf of either of them shall be fully indemnified and held harmless by such overseas shareholder for any such issue, transfer or other taxes as Prudential and Lexicon Partners (and any person acting on behalf of either of them) may be required to pay. If you are an overseas shareholder and you are in doubt about your position, you should consult your professional adviser in the relevant jurisdiction.

(B) Unless Prudential otherwise determines, the Offer is not being, and will not be, made, directly or indirectly, in or into or by the use of the mails of, or by any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone or e-mail) of interstate or foreign commerce of, or by any facilities of a national securities exchange of, the United States of America, Canada, Australia or Japan and will not be capable of acceptance by any such use, means, instrumentality or facility or from within the United States of America, Canada, Australia or Japan. Neither this document, nor any other accompanying document is being mailed, and must not be mailed, or otherwise forwarded, distributed or sent in, into or from the United States of America, Canada, Australia or Japan (including to Egg Shareholders with registered addresses in the United States of America, Canada, Australia or Japan or to persons whom Prudential or its agent knows to be custodians, nominees or trustees holding Egg Shares for such persons) and persons receiving such documents (including, without limitation, custodians, nominees and trustees) must not distribute or send any of them in, into or from the United States of America, Canada, Australia or Japan or use the United States of America, Canadian, Australian or Japanese mails or any such means or instrumentality for any purpose directly or indirectly in connection with the Offer. Doing so may render invalid any purported acceptance of the Offer.

(C) Envelopes containing Forms of Acceptance, evidence of title or other documents should not be postmarked in the United States of America, Canada, Australia or Japan or otherwise despatched from the United States of America, Canada, Australia or Japan and all acceptors must provide addresses outside the United States of America, Canada, Australia or Japan for the receipt or the remittance of share certificates or for the return of Form(s) of Acceptance, certificate(s) for Egg Shares and/or other document(s) of title.

(D) Subject as provided below, an Egg Shareholder will be deemed not to have validly accepted the Offer if:

(i) he puts "No" in Box 4 of the Form of Acceptance and thereby does not give the representations and warranties set out in paragraph (C) of Part C of this Appendix I;

(ii) he has a registered address in the United States of America, Canada, Australia or Japan and he does not insert in Box 6 of the Form of Acceptance the name and address of a person or agent outside the United States of America, Canada, Australia or Japan;

(iii) he inserts in Box 6 of the Form of Acceptance the name and address of a person or agent in the United States of America, Canada, Australia or Japan;

(iv) in any case, the Form of Acceptance received from him is received in an envelope postmarked in, or which otherwise appears to Prudential or its agents to have been sent from or otherwise evidences use of any means or instrumentality of interstate or foreign commerce of, the United States of America, Canada, Australia or Japan or from a US person or resident of Canada, Australia or Japan; or

(v) he makes a Restricted Escrow Transfer pursuant to paragraph (F) below unless he also makes a related Restricted ESA instruction which is accepted by Lloyds TSB Registrars.

Prudential reserves the right, in its sole discretion, to investigate, in relation to any acceptance, whether the representations and warranties set out in paragraph (C) of Part C or (as the case may be) Part D of this Appendix I have been truthfully given by the relevant Egg Shareholder and are correct and, if such investigation is made and, as a result, Prudential cannot satisfy itself that such representations and warranties are true and correct, such acceptance shall not be valid.

(E) If, in connection with the making of the Offer, any person (including, without limitation, any custodian, nominee and/or trustee), notwithstanding the restrictions set out in paragraph (B) above and whether pursuant to a contractual or legal obligation or otherwise, sends, forwards or otherwise distributes this document or any other accompanying document or any related documents, in, into or from the United States of America, Canada, Australia or Japan or uses the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone or e-mail) of interstate or foreign commerce of, or any facility of a national securities exchange of, the United States of America, Canada, Australia or Japan in connection with such forwarding, such person should: (i) inform the recipient of such fact; (ii) explain to the recipient that such action may invalidate any purported acceptance or election by the recipient; and (iii) draw the attention of the recipient to this paragraph (E).

(F) If an Egg Shareholder holding Egg Shares in uncertificated form is unable to give the representations and warranties set out in paragraph (C) of Part D of this Appendix I but nevertheless can provide evidence satisfactory to Prudential that he is able to accept the Offer in compliance with all relevant legal and regulatory requirements, he may only purport to accept the Offer by sending (or if a CREST personal member, procuring that his CREST sponsor sends) both (1) a valid TTE instruction to a designated escrow balance detailed below (a "Restricted Escrow Transfer") and (2) one or more valid ESA instructions (a "Restricted ESA Instruction"). Such purported acceptance will not be treated as a valid acceptance unless both the Restricted Escrow Transfer and the Restricted ESA instruction(s) settle in CREST and Prudential decides, in its absolute discretion, to exercise its right described in paragraph 5(a) of this Part B of Appendix I to waive, vary or modify the terms of the Offer relating to overseas shareholders, to the extent required to permit such acceptance to be made, in each case during the acceptance period set out in paragraph 1 of this Part B of Appendix I. If Prudential accordingly decides to permit such acceptance to be made, Lloyds TSB Registrars will on behalf of Prudential accept the purported acceptance as an Electronic Acceptance on the terms of this document (as so waived, varied or modified) by transmitting in CREST a receiving agent accept (AEAN) message. Otherwise, Lloyds TSB Registrars will on behalf of Prudential reject the purported acceptance by transmitting in CREST a receiving agent reject (AEAD) message. Each Restricted Escrow Transfer must, in order for it to be valid and settle, include the following details:

(i) the ISIN number for the Egg Shares (this is: GB0006105281);

(ii) the number of Egg Shares in respect of which the Offer is to be accepted;

(iii) the member account ID and participant ID of the Egg Shareholder;

(iv) the participant ID of the Escrow Agent (this is 6RA33) and its member account ID specific to a Restricted Escrow Transfer (this is RESTRICT); and

(v) the intended settlement date.

Each Restricted ESA instruction must, in order for it to be valid and settle, include the following details:

(i) the ISIN number for the Egg Shares;

(ii) the number of Egg Shares relevant to that Restricted ESA instruction;

(iii) the member account ID and participant ID of the accepting Egg Shareholder;

(iv) the member account ID and participant ID of the Escrow Agent set out in the Restricted Escrow Transfer;

(v) the participant ID and the member account ID of the Escrow Agent (details of which are set out in the letter from Lexicon Partners contained in this document);

(vi) the transaction reference number of the Restricted Escrow Transfer to which the Restricted ESA instruction relates;

(vii) the intended settlement date; and

(viii) the corporate action number of the Offer.

(G) The provisions of this paragraph 5 and/or any other terms of the Offer relating to overseas shareholders may be waived, varied or modified as regards specific Egg Shareholder(s) or on a general basis by Prudential in its absolute discretion. In particular, without limitation, Prudential reserves the right in its sole discretion to:

(i) permit the Offer to be accepted by, and to issue or deliver any share certificates and/or documents of title to, an overseas shareholder (otherwise unable to accept the Offer in accordance with the above) in circumstances in which Prudential is satisfied that acceptance by such shareholder and the issue or delivery of any documents of title to such shareholder will not constitute a breach of any securities or other relevant legislation or impose obligations of Prudential not contemplated by the Offer (and, in any such case, Prudential may impose reasonable additional requirements and restrictions on such acceptance and the share certificates and/or the documents of title issued)

(ii) treat as valid an acceptance received from (a) person(s) who is/are unable to give the representations and warranties set out in paragraph (C) of Part C (or paragraph (C) of Part D) as the case may be of this Appendix I and (b) either itself or through its or their respective agents, as agent for such acceptor(s):

(1) to sell the New Prudential Shares to which they are otherwise entitled under the Offer on behalf of such acceptor(s) on the London Stock Exchange within 21 days of such shares being allotted;

(2) to receive the certificate(s) and/or other document(s) of title in respect of such New Prudential Shares and to execute instrument(s) of transfer in respect of such New Prudential Shares; and

(3) to remit the net proceeds of such sale (after deducting therefrom the expenses of sale) as soon as reasonably practicable to the person or agent whose name and address outside the United States of America, Canada, Australia and Japan is set out in Box 1 of the Form of Acceptance or if none is set out to the first named holder at his or her registered address outside the United States of America, Canada, Australia and Japan. Prudential reserves the right also to arrange for the sale of New Prudential Shares to which overseas shareholders whose names and registered addresses is outside the United States of America, Canada, Australia and Japan may otherwise be entitled pursuant to Part XIIIA of the Act and remit the proceeds of such sale, net of expenses, to such overseas shareholders instead. No consideration will be sent (or otherwise transmitted) to an address in the United States of America, Canada, Australia or Japan. Neither Prudential nor Lexicon Partners nor any person acting on behalf of either of them shall have any liability to any person for any loss or alleged loss arising from the price, timing or manner of any sale made pursuant to the provisions of this paragraph 5(G) or otherwise in connection therewith.

(H) The provisions of this paragraph 5 override any terms of the Offer inconsistent therewith.

(I) References in this paragraph 5 to an Egg Shareholder shall include the person or persons executing a Form of Acceptance or making an Electronic Acceptance and, in the event of more than one person executing a Form of Acceptance or making an Electronic Acceptance, as the case may be, the provisions of this paragraph shall apply to them jointly and to each of them.

(J) Neither Prudential nor Lexicon Partners nor any agent or director of Prudential or Lexicon Partners nor any person on behalf of any of them shall have any liability to any person for any loss or alleged loss arising from any decision as to the treatment of acceptances of the Offer on any of the bases set out above or otherwise in connection therewith.

Part C: Form of Acceptance

Each Egg Shareholder by whom, or on whose behalf, a Form of Acceptance is executed irrevocably undertakes, represents, warrants and agrees to and with Prudential, Lexicon Partners and Lloyds TSB Registrars (so as to bind him, his personal representatives, heirs, successors and assigns) that:

(A) the execution of the Form of Acceptance shall constitute:

(i) an acceptance of the Offer in respect of the number of Egg Shares in certificated form inserted or deemed to be inserted in Box 3A of the Form of Acceptance; and

(ii) an undertaking to execute any further documents and give any further assurances which may be required to enable Prudential to obtain the full benefit of this Part C of Appendix I and/or to perfect any of the authorities expressed to be given hereunder,

in each case, on and subject to the Condition and Further Terms set out or referred to in this document and the Form of Acceptance and that, subject only to the rights of withdrawal set out in paragraph 3 of Part B of this Appendix I, each such acceptance shall be irrevocable, provided that if (a) no number is inserted in Box 3A; or (b) the total number inserted in Box 3A is greater than the relevant registered holding of Egg Shares; or (c) the Form of Acceptance is otherwise completed incorrectly, but the Form of Acceptance is signed, it will be deemed to be an acceptance of the Offer in respect of all the Egg Shares comprised in the relevant registered holding;

(B) the Egg Shares in certificated form in respect of which the Offer is accepted or deemed to be accepted are sold fully paid up and free from all liens, equities, charges, encumbrances and any other third party rights of any kind whatsoever, and together with all rights attaching thereto after 1 December 2005 including voting rights and the right to all dividends and other distributions declared, made or paid after 1 December 2005 (if any);

(C) unless "No" is put in Box 4 of the Form of Acceptance, such Egg Shareholder:

(i) has not received or sent copies or originals of this document, the Information Memorandum, the Form of Acceptance, the Form of Instruction or any related documents in, into or from the United States of America, Canada, Australia or Japan or any other jurisdiction where such actions may constitute (or result in the Offer constituting) a breach of any legal or regulatory requirements and has not otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone or e-mail) of interstate or foreign commerce of, or any facility of a national securities exchange of, the United States of America, Canada, Australia or Japan or such other jurisdiction;

(ii) was outside the United States of America, Canada, Australia or Japan when the Form of Acceptance was delivered and at the time it was executed;

(iii) in respect of the Egg Shares in certificated form to which the Form of Acceptance relates, is not an agent or a fiduciary acting on a non-discretionary basis for a principal who has given any instructions with respect to the Offer from within the United States of America, Canada, Australia or Japan; and

(iv) if such Egg Shareholder is a citizen, resident or national of a jurisdiction outside the United Kingdom, he has observed the laws of the relevant jurisdiction, obtained all requisite governmental, exchange control and other required consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or other requisite payments due in any such jurisdiction in connection with such acceptance and that he has not taken or omitted to take any action that will or may result in Prudential, Lexicon Partners or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Offer or his acceptance thereof;

(D) the execution of the Form of Acceptance and its delivery constitutes, subject to the Offer becoming unconditional and the accepting Egg Shareholder not having validly withdrawn his acceptance, the irrevocable appointment of each of Prudential, Lexicon Partners and their respective Directors and agents as such Egg Shareholder's attorney and/or agent (the "attorney"), and an irrevocable instruction and authorisation to the attorney:

(i) to complete and execute all or any form(s) of transfer and/or other document(s) at the discretion of the attorney in relation to the Egg Shares in certificated form in respect of which the Offer has been accepted or deemed to have been accepted in favour of Prudential or such other person or persons as Prudential or its agents may direct;

(ii) to deliver such form(s) of transfer and/or other document(s) at the discretion of the attorney with the share certificate(s) and/or other document(s) of title relating to such Egg Shares for registration within six months of the Offer becoming wholly unconditional; and

(iii) to do all such other acts and things as may in the opinion of the attorney be necessary or expedient for the purposes of, or in connection with, the acceptance of the Offer pursuant to the Form of Acceptance and to vest in Prudential or its nominee(s) the Egg Shares in certificated form as aforesaid;

(E) in relation to Egg Shares in certificated form, the execution of the Form of Acceptance and its delivery constitutes, subject to the Offer becoming unconditional and to the accepting Egg Shareholder not having validly withdrawn his acceptance, separate irrevocable authorities and requests:

(i) to Egg or its agents to procure the registration of the transfer of those Egg Shares referred to in paragraph (A)(i) above pursuant to the Offer and the delivery of the share certificate(s) and/or other document(s) of title in respect thereof to Prudential or as it may direct; and

(ii) to Prudential or its agents to procure the despatch by post (or by such other method as may be approved by the Panel) of the share certificates representing New Prudential Shares to which an accepting Egg Shareholder is entitled at the risk of such Egg Shareholder to the person whose name and address (outside the United States of America, Canada, Australia or Japan) is set out in Box 6 of the Form of Acceptance or, if none is set out, to the first-named holder at his registered address set out in Box 1 (outside the United States of America, Canada, Australia and Japan);

(F) the execution of the relevant Form of Acceptance and its delivery constitutes the irrevocable appointment of Prudential and/or Lexicon Partners and their respective Directors and agents as such shareholder's attorney and/or agent;

(G) subject to the Offer becoming unconditional (or if the Offer would become unconditional or lapse immediately upon the outcome of the resolution in question or if the Panel otherwise gives its consent) and pending registration:

(i) Prudential shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general or separate class meeting of Egg) attaching to any Egg Shares in certificated form in respect of which the Offer has been accepted or is deemed to have been accepted and in respect of which such acceptance has not been validly withdrawn; and

(ii) the execution of the Form of Acceptance constitutes, with regard to the Egg Shares in certificated form comprised in such acceptance and in respect of which such acceptance has not been validly withdrawn:

(a) an authority to Egg and/or its agents from such Egg Shareholder to send any notice, circular, warrant, document or other communication which may be required to be sent to him as a member of Egg in respect of such Egg Shares (including any share certificate(s) or other document(s) of title issued as a result of conversion of such Egg Shares into certificated form) to Prudential at its registered office;

(b) the irrevocable appointment of Prudential or any of its Directors or agents to sign on such Egg Shareholder's behalf such documents and do such things as may in the opinion of such person seem necessary or desirable in connection with the exercise of any votes or other rights or privileges attaching to such Egg Shares (including, without limitation, an authority to sign any consent to short notice of a general or separate class meeting as his attorney and/or agent and on his behalf and/or to execute a form of proxy in respect of such Egg Shares and/or, where appropriate, any appointment pursuant to section 375 of the Companies Act, appointing any person nominated by Prudential to attend general and separate class meetings of Egg and to exercise or refrain from exercising the votes attaching to such Egg Shares on such Egg Shareholders' behalf), such votes (where relevant) to be cast so far as possible to satisfy any outstanding conditions of the Offer; and

(c) the agreement of such Egg Shareholder not to exercise any such rights without the consent of Prudential and the irrevocable undertaking of such Egg Shareholder not to appoint a proxy or representative for or to attend any such meetings;

(H) he will deliver, or procure the delivery of, to Lloyds TSB Registrars at the addresses and in the manner referred to in paragraph 3(A) of Part B of this Appendix I, his share certificate(s) and/or other document(s) of title in respect of the Egg Shares in certificated form in respect of which the Offer has been accepted and in respect of which such acceptance has not been validly withdrawn, or an indemnity acceptable to Prudential in lieu thereof, as soon as possible and in any event within six months of the Offer becoming unconditional;

(I) he agrees to ratify each and every act or thing which may be done or effected by Prudential or Lexicon Partners or Lloyds TSB Registrars or any of their respective Directors or agents or Egg or its agents, as the case may be, in the proper exercise of any of its or his powers and/or authorities conferred by or referred to in Part B of this Appendix I or in this Part C and to indemnify each such person against any losses arising therefrom;

(J) he shall do all such acts and things as shall be necessary or expedient to vest in Prudential or its nominee(s) or such other persons as it may decide the aforesaid Egg Shares in certificated form;

(K) if any provision of Part B of this Appendix I or this Part C shall be unenforceable or invalid or shall not operate so as to afford Prudential or Lexicon Partners or Lloyds TSB Registrars or any of their respective Directors or agents the benefit or authority expressed to be given therein, he shall with all practicable speed do all such acts and things and execute all such documents that may be required or desirable to enable Prudential and/or Lexicon Partners and/or Lloyds TSB Registrars and/or any of their respective Directors or agents to secure the full benefits of Part B of this Appendix I and this Part C;

(L) the deemed acceptances, elections and authorities referred to in paragraph 4 of Part B of this Appendix I shall, subject to the right of withdrawal set out in paragraph 3 of Part B of Appendix I, be irrevocable;

(M) the execution of the Form of Acceptance constitutes his submission, in relation to all matters arising out of the Offer, the Information Memorandum and the Form of Acceptance, to the jurisdiction of the courts of England and Wales; and

(N) the terms of the Offer contained in this document shall be deemed to be incorporated in, and form part of, the Form of Acceptance which shall be construed accordingly.

References in this Part C to an Egg Shareholder shall include references to the person or persons executing a Form of Acceptance and, in the event of more than one person executing a Form of Acceptance, the provisions of this Part C shall apply to them jointly and to each of them.

Part D: Electronic acceptances

Each Egg Shareholder by whom, or on whose behalf, an Electronic Acceptance is made, irrevocably undertakes, represents, warrants and agrees to and with Prudential, Lexicon Partners and Lloyds TSB Registrars (so as to bind him, his personal representatives, heirs, successors and assigns) that:

(A) the Electronic Acceptance shall constitute an acceptance of the Offer in respect of the number of Egg Shares in uncertificated form to which an Offer TTE instruction relates in each case, on and subject to the Conditions and Further Terms set out or referred to in this document and that, subject only to the rights of withdrawal set out in paragraph 3 of Part B of this Appendix I, each such acceptance shall be irrevocable;

(B) the Egg Shares in uncertificated form in respect of which the Offer is accepted or deemed to be accepted are sold fully paid up and free from all liens, equities, charges, encumbrances and any other third party rights of any kind whatsoever and together with all rights attaching thereto after 1 December 2005 including voting rights and the right to all dividends and other distributions declared, made or paid after 1 December 2005 (if any);

(C) such Egg Shareholder:

(i) has not received or sent copies or originals of this document, the Information Memorandum, the Form of Acceptance, the Form of Instruction or any related documents in, into or from the United States of America, Canada, Australia or Japan or any other jurisdiction where such actions may constitute (or result in the Offer constituting) a breach of any legal or regulatory requirements and has not otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone or e-mail) of interstate or foreign commerce of, or any facility of a national securities exchange of, the United States of America, Canada, Australia or Japan or such other jurisdiction;

(ii) was outside the United States of America, Canada, Australia or Japan at the time of the input and settlement of the relevant TTE instruction(s);

(iii) in respect of the Egg Shares in uncertificated form to which the Electronic Acceptance relates, is not an agent or a fiduciary acting on a non-discretionary basis for a principal who has given any instructions with respect to the Offer from within the United States of America, Canada, Australia or Japan; and

(iv) if such Egg Shareholder is a citizen, resident or national of a jurisdiction outside the United Kingdom, he has observed the laws of the relevant jurisdiction, obtained all requisite governmental, exchange control and other required consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or other requisite payments due in any such jurisdiction in connection with such acceptance and that he has not taken or omitted to take any action that will or may result in Prudential, Lexicon Partners or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Offer or his acceptance thereof;

(D) the Electronic Acceptance constitutes, subject to the Offer becoming unconditional and to an accepting Egg Shareholder not having validly withdrawn his acceptance, the irrevocable appointment of each of Prudential, Lexicon Partners and their respective Directors as such shareholder's attorney and/or agent (the "attorney") and an irrevocable instruction and authorisation to the attorney to do all such acts and things as may in the opinion of the attorney be necessary or expedient for the purposes of, or in connection with, the acceptance of the Offer and to vest in Prudential or its nominee(s) the Egg Shares as aforesaid or in Lexicon Partners or such persons as it may direct the New Prudential Shares in respect of which the Offer is accepted;

(E) the Electronic Acceptance constitutes the irrevocable appointment of the Escrow Agent as such shareholder's attorney and/or agent and an irrevocable instruction and authority to the Escrow Agent:

(i) subject to the Offer becoming unconditional and to the relevant Egg Shareholder not having validly withdrawn his acceptance, to transfer to itself (or to such other person or persons as Prudential or its agents may direct) by means of CREST all or any of the Egg Shares in uncertificated form to which such Electronic Acceptance relates (but not exceeding the number of Egg Shares in uncertificated form in respect of which the Offer is accepted or deemed to be accepted); and

(ii) if the Offer does not become unconditional, to give instructions to CRESTCo, immediately after the lapsing of the Offer (or within such longer period as the Panel may permit, not exceeding 14 days of the lapsing of the Offer), to transfer all such Egg Shares to the original available balance of the accepting Egg Shareholder;

(F) the Electronic Acceptance constitutes, subject to the Offer becoming unconditional and to an accepting Egg Shareholder not having validly withdrawn his acceptance, irrevocable authorities and requests:

(i) to Prudential or its agents to allot and issue any New Prudential Shares to which such Egg Shareholder is entitled in uncertificated form, provided that:

(a) Prudential may (if, for any reason, it wishes to do so) determine that all or any of such New Prudential Shares shall be issued in certificated form; and

(b) if the Egg Shareholder concerned is a CREST member whose registered address is in the United States of America, Canada, Australia or Japan, all or any such New Prudential Shares to which such shareholder is entitled shall be issued in certificated form,

in either of such cases, at the risk of such shareholder, any relevant certificates shall be despatched to the first-named holder at an address outside the United States of America, Canada, Australia or Japan stipulated by such holder or as otherwise determined by Prudential;

(G) subject to the Offer becoming unconditional (or if the Offer would become unconditional or lapse immediately upon the outcome of the resolution in question or if the Panel otherwise gives its consent) and pending registration:

(i) Prudential shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general or separate class meeting of Egg) attaching to any Egg Shares in uncertificated form in respect of which the Offer has been accepted or is deemed to have been accepted and in respect of which such acceptance has not been validly withdrawn; and

(ii) the making of an Electronic Acceptance constitutes, with regard to the Egg Shares in uncertificated form comprised in such acceptance and in respect of which such acceptance has not been validly withdrawn:

(a) an authority to Egg and/or its agents from such Egg Shareholder to send any notice, circular, warrant, document or other communication which may be required to be sent to him as a member of Egg in respect of such Egg Shares (including any share certificate(s) or other document(s) of title issued as a result of conversion of such Egg Shares into certificated form) to Prudential at its registered office;

(b) the irrevocable appointment of Prudential or any of its Directors or agents to sign on such Egg Shareholder's behalf such documents and do such things as may in the opinion of such person seem necessary or desirable in connection with the exercise of any votes or other rights or privileges attaching to such Egg Shares (including, without limitation, an authority to sign any consent to short notice of a general or separate class meeting as his attorney and/or agent and on his behalf and/or to execute a form of proxy in respect of such Egg Shares and/or, where appropriate, any appointment pursuant to section 375 of the Companies Act, appointing any person nominated by Prudential to attend general and separate class meetings of Egg and to exercise or refrain from exercising the votes attaching to such Egg Shares on such Egg Shareholder's behalf), such votes (where relevant) to be cast so far as possible to satisfy any outstanding conditions of the Offer; and

(c) the agreement of such Egg Shareholder not to exercise any such rights without the consent of Prudential and the irrevocable undertaking of such Egg Shareholder not to appoint a proxy or representative for or to attend any such meeting;

(H) if, for any reason, any Egg Shares in respect of which a transfer to an escrow balance has been effected in accordance with paragraph 16 of the letter from Lexicon Partners contained in this document are converted to certificated form, he will (without prejudice to paragraph (H) of this

Part D) immediately deliver or procure the immediate delivery of the share certificate(s) or other document(s) of title in respect of all such Egg Shares so converted to Lloyds TSB Registrars at either of the addresses and in the manner referred to in paragraph 3(A) of Part B of this Appendix I or to Prudential at its registered office or as Prudential or its agents may direct and he shall be deemed upon conversion to undertake, represent, warrant and agree in the terms set out in Part C of this Appendix I in relation to such Egg Shares;

(I) he will take (or procure to be taken) the action set out in paragraph 16 of the letter from Lexicon Partners set out in Part I(B) of this document and to transfer all of the Egg Shares held by him in uncertificated form and in respect of which the Offer has been accepted or deemed to have been accepted and in respect of which such acceptance has not been validly withdrawn to an escrow balance as soon as possible and in any event so that the transfer to escrow settles within six months of the Offer becoming unconditional in all respects;

(J) if he accepts the Offer, he will do all such acts and things as shall be necessary or expedient to vest in Prudential or its nominee(s) or such other persons as it may decide the aforesaid Egg Shares in uncertificated form and all such acts and things as may be necessary or expedient to enable Lloyds TSB Registrars to perform its functions as Escrow Agent for the purposes of the Offer;

(K) he agrees to ratify each and every act or thing which may be done or effected by Prudential or Lexicon Partners or Lloyds TSB Registrars or any of their respective Directors or agents or Egg or its agents, as the case may be, in the proper exercise of any of its or his powers and/or authorities conferred by or referred to in Part B of this Appendix I or in this Part D and to indemnify each such person against any losses arising therefrom;

(L) by virtue of the Regulations, the making of an Electronic Acceptance constitutes an irrevocable power of attorney by the relevant holder of Egg Shares in the terms of all the powers and authorities expressed to be given by Part B, this Part D and (where applicable by virtue of paragraph (I) above) Part C of this Appendix I to Prudential, Lloyds TSB Registrars and Lexicon Partners and any of their respective agents;

(M) if any provision of Part B of this Appendix I or this Part D shall be unenforceable or invalid or shall not operate so as to afford Prudential or Lexicon Partners or Lloyds TSB Registrars or any of their respective directors or agents the benefit or authority expressed to be given therein, he shall with all practicable speed do all such acts and things and execute all such documents that may be required or desirable to enable Prudential and/or Lexicon Partners and/or Lloyds TSB Registrars and/or any of their respective directors or agents to secure the full benefits of Part B of this Appendix I and this Part D; and

(N) the deemed acceptances, elections and authorities referred to in paragraph 4 of Part B of this Appendix I shall, subject to the right of withdrawal set out in paragraph 3 of Part B of Appendix I, be irrevocable.

References in this Part D to an Egg Shareholder shall include references to the person or persons making an Electronic Acceptance.

APPENDIX II

FINANCIAL INFORMATION RELATING TO EGG PLC

The financial information set out in Section A of this Appendix II for the year ended 31 December 2004 has been extracted, without material adjustment, from the audited Annual Report and Accounts of Egg plc for the year ended 31 December 2004 (the “2004 accounts”). The financial information for the year ended 31 December 2003 has been extracted, without material adjustment, from the comparatives set out in the 2004 accounts. The financial information for the year ended 31 December 2002 has been extracted, without material adjustment, from the comparatives set out in the audited Annual Report and Accounts of Egg for the year ended 31 December 2003 (the “2003 accounts.”)

The financial information for the six months ended 30 June 2005 set out in Section B of this Appendix II has been extracted without material adjustment from the unaudited interim 2005 results of Egg plc for the six months to 30 June 2005, which were published on 27 July 2005.

The financial information for the nine months ended 30 September 2005 set out in Section C of this Appendix II has been extracted without material adjustment from the unaudited Quarter 3 2005 results of Egg plc for the nine months to 30 September 2005, which were published on 26 October 2005.

The financial information in this Appendix II does not constitute full statutory accounts within the meaning of section 240 of the Companies Act. Statutory financial statements for 2004, 2003 and 2002 have been delivered to the Registrar of Companies. The accounts of Egg plc for all three full years have been audited by KPMG Audit Plc, and the auditor’s report on each was unqualified within the meaning of section 235 and did not contain a statement under section 237 (2) or (3) of the Companies Act.

References in this Appendix II to the “Group” are to the Egg Group only.

A. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Continuing Operations £million	Discontinued Operations £million	Year ended 31 December 2004 £million	Continuing Operations £million	Discontinued Operations £million	Year ended 31 December 2003 £million	2002 £million
Interest receivable	2	902.9	15.4	**918.3**	821.8	9.0	**830.8**	**664.7**
Interest payable	3	(615.7)	(8.8)	**(624.5)**	(558.6)	(3.4)	**(562.0)**	**(440.8)**
Net interest income		287.2	6.6	**293.8**	263.2	5.6	**268.8**	**223.9**
Fees and commissions receivable		220.7	4.5	**225.2**	177.1	3.2	**180.3**	**116.0**
Fees and commissions payable		(25.2)	(4.0)	**(29.2)**	(30.7)	(4.9)	**(35.6)**	**(27.1)**
Other operating income		14.9	—	**14.9**	9.7	0.8	**10.5**	**14.5**
Operating income		497.6	7.1	**504.7**	419.3	4.7	**424.0**	**327.3**
Administrative expenses								
— operational expenses	4	(168.0)	(39.7)	**(207.7)**	(157.2)	(45.4)	**(202.6)**	**(158.9)**
— brand and marketing costs	4	(41.6)	(2.4)	**(44.0)**	(34.0)	(26.0)	**(60.0)**	**(48.6)**
— development costs	4	(22.0)	(0.6)	**(22.6)**	(22.1)	(3.6)	**(25.7)**	**(26.1)**
Total administrative expenses	4	(231.6)	(42.7)	**(274.3)**	(213.3)	(75.0)	**(288.3)**	**(233.6)**
Depreciation and amortisation								**(21.7)**
— non-exceptional		(22.5)	(7.3)	**(29.8)**	(18.4)	(8.5)	**(26.9)**	**—**
— exceptional		(16.6)	—	**(16.6)**	—	—	**—**	**—**
		(39.1)	(7.3)	**(46.4)**	(18.4)	(8.5)	**(26.9)**	**—**
Provisions for bad and doubtful debts	9	(182.4)	(20.1)	**(202.5)**	(126.7)	(10.3)	**(137.0)**	**(85.4)**
Amounts written off fixed asset investment		—	—	**—**	(4.3)	—	**(4.3)**	**(3.1)**
Utilisation of provision for loss on termination of discontinued operation	5	—	25.9	**25.9**	—	—	**—**	**—**
Operating profit/(loss)		44.5	(37.1)	**7.4**	56.6	(89.1)	**(32.5)**	**(16.5)**
Provision for loss on termination of discontinued operation	5	—	(112.8)	**(112.8)**	—	—	**—**	**—**
Share of operating profit of joint ventures		0.3	—	**0.3**	0.1	—	**0.1**	**(0.1)**
Share of operating loss and amortisation of goodwill of associated undertaking		(1.6)	—	**(1.6)**	(2.0)	—	**(2.0)**	**(3.5)**
Profit on partial disposal of continuing operation		—	—	**—**	—	—	**—**	**3.5**
Profit/(loss) on ordinary activities before tax		43.2	(149.9)	**(106.7)**	54.7	(89.1)	**(34.4)**	**(16.6)**
Tax credit on loss on ordinary activities	6			**13.9**			**1.4**	**(2.2)**
Loss on ordinary activities after tax				**(92.8)**			**(33.0)**	**(18.8)**
Minority interests (equity)				**1.4**			**0.2**	**—**
Retained loss for the financial year				**(91.4)**			**(32.8)**	**(18.8)**
Basic and diluted loss per share (pence per share)	7			**(11.1p)**			**(4.0p)**	**(2.3p)**

CONSOLIDATED BALANCE SHEET

	Notes	Year ended 31 December 2004 £million
Assets		
Cash and balances at central banks		14.0
Loans and advances to banks		615.9
Securities purchased under agreement to resell		319.4
Loans and advances to customers	8	7,642.0
Debt securities		3,119.7
Share of joint venture net assets		1.2
Interests in associated undertakings		3.8
Intangible fixed assets		—
Tangible fixed assets		96.5
Other assets		129.1
Deferred tax		28.2
Prepayments and accrued income		58.3
Total assets		12,028.1
Liabilities		
Deposits by banks		2,352.0
Securities sold under agreements to repurchase		130.5
Customer accounts	10	6,607.4
Debt securities issued	11	1,806.5
Other liabilities		110.5
Accruals and deferred income		215.0
Provisions for liabilities and charges	12	16.8
Subordinated liabilities — dated loan capital	13	450.8
		11,689.5
Shareholders' funds		
Called up share capital	14	412.2
Share premium account	14	111.0
Capital reserve	14	359.7
Profit and loss account	14	(544.2)
Shareholders' funds (all attributable to equity interests)	14	338.7
Minority interests (equity)		(0.1)
Total liabilities		12,028.1
Memorandum items		
Commitments and Contingent Liabilities		
Credit lines and other commitments to lend		8,700.0
Other commitments		4.7
Contingent liabilities		3.7

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2004 £million
Net cash outflow from operating activities	**(817.1)**
Return on investments and servicing of finance	**(32.6)**
Taxation:	
Group relief received/ (Tax paid)	**15.0**
Capital expenditure and financial investment:	
Sale proceeds re sale of France unsecured loan book	**96.5**
Purchase of tangible fixed assets	**(59.6)**
Proceeds on sale of France tangible fixed assets	**3.1**
Purchase of shares for Restricted Share Plan	**—**
Purchase of investments	**(6,447.7)**
Sale of investments	**7,435.3**
Net cash inflow/(outflow) from capital expenditure and investment	**1,027.6**
Financing:	
Issue of dated loan capital	**—**
Issue of share capital	**5.4**
Net cash inflow from financing	**5.4**
Increase/(decrease) in net cash	**198.3**

SELECTED NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies 2004 (UK GAAP)

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 relating to banking groups. They are prepared in accordance with applicable accounting standards issued by the Accounting Standards Board, the Statements of Recommended Accounting Practice issued by the British Bankers' Association and applicable pronouncements issued by the Urgent Issues Task Force ("UITF"). The consolidated financial statements of the Group are prepared under Schedule 9 of the Companies Act 1985. The balance sheet of the Company is prepared under Schedule 4 of the Companies Act 1985.

The Group has adopted accounting policies which, in the opinion of the Directors, are the most appropriate to its circumstances during the year. In particular it has UITF Abstract 17 (Revised) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts" during the year to reflect new guidance on the accounting for Employee Share Option Plan trusts. The impact of this was to classify own shares of £2.2m to the profit and loss reserves in shareholders funds. There has been no impact on the profit for the year or prior year.

Basis of consolidation

The financial statements of the Group incorporate the assets, liabilities, and results of the Company and its subsidiary undertakings up to 31 December 2004. The Company has taken advantage of the exemption from presenting its own profit and loss account under Section 230 of the Companies Act 1985.

Associated undertakings and joint ventures

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Bad and doubtful debts

Provisions are applied to reduce the carrying value of loans and advances to their realisable amount, in whole or in part, when they are considered wholly or partly irrecoverable.

Specific provision is established to cover all identified bad and doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan or credit agreement. Amounts provided for are determined by specific identification on mortgage lending. In the case of loans, in certain circumstances management also assess the required level of provision on a case-by-case basis when accounts become seriously delinquent.

The level of specific provisions required for the majority of impaired debt, however, is calculated at a portfolio level from the movement of balances between risk states from month to month, and the extrapolation of these movements to estimate the level of impairment of currently delinquent debt. The method is standard across the Finance industry for the calculation of provision for bad and doubtful debts on a portfolio basis. Using this method the key determinants of the bad debt charge are the relative levels of arrears, the rate of change of these arrears and the level of loss from defaults.

The aggregate provisions that are made during the period (less amounts released and recoveries of bad debts previously written off) are charged against operating profit.

General provisions are raised in respect of losses, which although not specifically identified, are known from experience to be present in any such portfolios. The level of general provision is determined by the application of a number of basis points to the aspects of the portfolio which are not currently identified as delinquent but which experience suggests contains lending which is currently impaired and will ultimately lead to losses. The number of basis points applied to the portfolios are regularly assessed against recent experience and adjusted if appropriate.

Interest on loans and advances is accrued to income until such time as reasonable doubt exists about its collectability; thereafter, and until all or part of the loan is written off, interest continues to accrue on customers' accounts, but is not included in income. Such suspended interest is deducted from loans and advances on the balance sheet.

Goodwill

Purchased goodwill is capitalised and amortised to nil, on a straight-line basis, over the investment's estimated useful life, assessed on an individual basis. Impairment reviews are carried out as appropriate.

Tangible fixed assets

Leasehold improvements, computer equipment, computer software, fixtures, furniture and other tangible assets are stated at cost. These costs are capitalised and depreciated to their estimated residual values in equal annual instalments over their estimated useful lives, as follows:

Buildings	25 to 50 years
Leasehold improvements	10 years
Fixtures and fittings	10 years
Plant and equipment	3 to 10 years
Software costs and licences (see below)	3 to 5 years

Land is stated at cost and is not depreciated. Assets under construction are not depreciated until they are brought into commercial use.

Certain key financial systems software was implemented during 2004. The directors estimate that the estimated useful life of this software is 5 years and hence the estimated useful lives of software have been extended from 3 years to 3 – 5 years. There is no impact on the comparative depreciation charge.

Software

Costs incurred in acquiring and developing computer software for internal use that are directly attributable to the functioning of computer hardware are capitalised as tangible fixed assets where the software supports a significant business system and the expenditure leads to the creation of an identifiable durable asset. Software under development is not depreciated until it is operational.

Website design and content development costs have been capitalised where they deliver identifiable benefits greater than their capitalised costs, otherwise they are expensed to the profit and loss account.

Leased assets

Assets held under finance leases are capitalised at their fair market values and included within fixed assets. Commitments under these leases are included within other liabilities. Interest cost is amortised over the life of the underlying asset in proportion to the net cash investment. Operating lease rentals are expensed to the profit and loss account as incurred.

Foreign currencies

Assets and liabilities are translated at the rates of exchange ruling on the balance sheet date or at the forward exchange rate, as appropriate. Exchange differences are dealt with in the profit and loss account.

The balance sheets of overseas operations are translated into sterling at the rates of exchange ruling at 31 December and their profit and loss accounts are translated at the average rates of exchange for the year to 31 December. Exchange differences relating to revenue/expense items are included within the profit and loss account; those arising from the application of closing rates of exchange to the opening net assets are taken to profit and loss account reserves.

Debt securities

Debt securities intended to be held for continuing use are disclosed as investment securities and are included in the balance sheet at cost less any provision for permanent diminution in value. Where dated investment securities have been purchased at a discount or premium, these discounts and premiums are amortised through the profit and loss account over the period from date of purchase to date of maturity. The cost of investment securities is adjusted for unamortised discounts and premiums. The amortisation of discounts and premiums is performed on a straight-line basis and is included in 'Interest receivable'.

Debt securities which do not meet the Group's investment policy criteria are held for resale and are stated at their net realisable value.

Derivatives and off-balance sheet instruments

Transactions are undertaken in derivative financial instruments, which include currency swaps, interest rate swaps, interest rate caps, forward rate agreements, options, credit derivatives and similar instruments, for non-trading purposes.

Derivatives are all classified as non-trading and are entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Group's assets, liabilities and positions or for the purpose of reducing credit risk inherent in the Group's balance sheet. All derivative transactions (including foreign exchange and credit) are for hedging purposes and so therefore it is decided at the outset which position the derivative will be hedging. Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate.

Non-trading derivatives are accounted for in a manner consistent with the assets, liabilities, or positions being hedged. Profits and losses and interest on these instruments are recognised in accordance with the accounting treatment of the underlying transaction as an adjustment to 'Interest receivable' or 'Interest payable'. Notional amounts of the contracts are not recorded on the balance sheet. Where off balance sheet instruments are terminated prior to the underlying hedged transaction terminating, any profits or losses realised on early termination are deferred and matched against the income or expenditure arising from the underlying hedged transaction. If the underlying instrument is sold, extinguished or terminated, the remaining unamortised gains or losses, fees and commissions on the hedge are recognised immediately in the profit and loss account.

Fees and commissions payable on derivatives are deferred and amortised over the life of the derivatives contract.

Debt securities sold and repurchased

As a form of funding, certain investment securities are sold under repurchase agreements. Those securities sold are retained on the balance sheet and a liability recorded in bank deposits equal to the cash consideration of the sale. The cost of the repo is calculated as being the difference between the sale and repurchase price of the security and is accrued as interest payable over the life of the transaction on a yield basis.

Securitisation of assets

The Group has issued debt securities in order to finance certain portfolios of loan and investment assets. These obligations are secured on the assets of the Group. The securitised assets and the related liabilities are presented gross within the relevant headings in the Group balance sheet under the 'gross presentation' method.

Pensions

The Group's main pension scheme, which covers 94% of the Group's employees who have taken up their right to contribute to a pension scheme, is a defined contribution scheme. For this scheme the cost is charged to the profit and loss account as contributions become due. The assets of the Scheme are held in a separately administered fund.

A small number of employees are members of the Prudential Group defined benefit scheme. In line with paragraph 9b of FRS 17, even though this scheme is a defined benefit scheme the contributions have been disclosed as 'defined contributions' on the grounds that this scheme is part of the Prudential plc ('Group Scheme'), and it is not possible to identify the Egg share of the underlying assets and liabilities. It should be noted that Egg's share of the underlying assets and liabilities of the Prudential Group Scheme (which are not believed to be a material part of the scheme) cannot be identified on a consistent and reasonable basis. Therefore, in accordance with the treatment prescribed by FRS 17, the contributions payable to the group scheme are charged to the profit and loss account as determined by independent qualified actuaries performing formal actuarial valuations to spread the cost of the pension over the service lives of the employees on the basis of contributions payable to the Prudential Scheme.

Further details of the Prudential plc Group defined benefit scheme are shown in the group financial statements of Prudential plc.

Taxation

Tax is charged on all taxable profits arising in the accounting period. Deferred taxation is recognised on the relevant timing differences that have originated but not reversed by the balance sheet date. Deferred taxation is not recognised where there might be some doubt about the recovery of a deferred tax asset.

Income recognition

Interest income is recognised in the profit and loss account as it accrues except where interest is suspended.

Arrangement fees and commissions receivable (in respect of payment protection insurance and other insurance products), are recognised on the basis of work done and an appropriate provision is calculated to reflect potential rebates to customers.

Profit share from creditor insurance policies

These earnings are recognised as advised by the underwriter based on surplus profit above the return agreed.

Mortgage incentives and commissions

Cashbacks and discounts, which are recoverable from the customer in the event of an early redemption, are deferred and amortised to the profit and loss account over the early redemption penalty period of the product.

Brand development costs

Brand development costs are written off as incurred.

Employee share option plans

Shares held in the Egg Employee Trust in respect of the Company's ESOP scheme are treated as a deduction from shareholders funds.

2. Interest receivable

	2004 £million	2003 £million	2002 £million
Interest receivable and similar income arising from debt securities	**180.3**	177.0	188.4
Other interest receivable and similar income:			
Loans and advances to banks	**17.0**	10.2	5.9
Loans and advances to customers	**568.7**	469.5	376.2
Hedging	**152.3**	174.1	94.2
	738.0	653.8	476.3
	918.3	830.8	664.7

The amounts included within "hedging" represent interest receivable on interest rate and currency swaps used to hedge exposures to interest rate and currency movements on the group's assets and liabilities.

3. Interest payable

	2004 £million	2003 £million	2002 £million
Customer accounts	**245.5**	239.2	268.3
Deposits by banks	**103.7**	40.8	4.6
Debt securities	**61.1**	44.7	43.3
Securities sold under agreements to repurchase	**23.9**	9.8	11.6
Subordinated loan capital	**32.7**	25.9	11.2
Hedging	**157.6**	201.6	101.8
	624.5	562.0	440.8

The amounts included within "hedging" represent interest payable on interest rate and currency swaps used to hedge exposures to interest rate and currency movements on the group's assets and liabilities.

4. Administrative expenses

	2004 £million	2003 £million	2002 £million
Staff costs:			
Salaries and accrued incentive payments	**80.5**	73.1	64.1
Social security costs	**10.4**	10.1	5.1
Pension costs:			
Defined contribution scheme	**4.4**	3.6	3.0
Other staff costs	**7.8**	10.8	10.8
Total staff costs	**103.1**	97.6	83.0
Premises	**11.3**	10.9	8.5
Systems	**15.5**	14.8	10.9
Restructuring	**5.1**	10.3	—
Other operational	**72.7**	69.0	56.5
Operational and administration costs	**207.7**	202.6	158.9
Brand and marketing costs	**44.0**	60.0	48.6
Development costs	**22.6**	25.7	26.1
Total	**274.3**	288.3	233.6

In accordance with FRS 17, the defined benefit pension scheme contributions of £0.5 million (2003: £0.3 million; 2002: £0.2 million) have been treated as 'defined contribution' scheme costs on the grounds that this scheme is part of a Prudential plc Group scheme, and it is not possible to identify our share of the underlying assets and liabilities. Details of the deficit on the Group Scheme can be found in the Prudential plc financial statements.

The defined benefit pension scheme is non-contributory and provides members with a maximum pension of 38/60 of Final Pensionable Earnings at the normal retirement age of 60. Final Pensionable Earnings are the sum of the pensionable salary for the twelve months immediately preceding retirement or termination of employment and, for entrants since 31 May 1989, are restricted to salary up to the Inland Revenue earnings cap, which is currently £99,000.

The scheme also provides on death, whether in service, in deferment or following retirement, pensions for spouse and eligible children. The spouse's pension on death in service is the higher of 54% of the member's prospective pension at age 60 or 25% of salary in the twelve months preceding death subject to the earnings cap. The spouse's pension on death in deferment is 50% of the member's deferred pension at the date of death. On death after retirement, the spouse's pension is 50% of the member's pension in payment ignoring any pension commuted for a lump sum at retirement. A lump sum death in service benefit of four times Final Pensionable Earnings is also provided. Pension increases after retirement is wholly discretionary but in recent years annual increases have been awarded broadly in line with inflation. Discretionary increases are taken into account in calculating transfer values payable in lieu of deferred pension benefits.

Other staff costs include temporary staff costs, training, recruitment, medical health insurance, social welfare costs and other sundry staff costs.

Other operational costs include:

	2004 £million	2003 £million	2002 £million
Auditors' remuneration and expenses:			
Audit Services:			
— statutory audit services	**415**	384	295
— performed by virtue of being auditor/regulatory reporting account(1)	**201**	134	131
Tax Services:			
— advisory services	**—**	41	—
Other assurance services(2)	**159**	59	389
Other non audit fees(3)	**53**	—	688
Operating lease costs	**5,880**	5,726	5,424

(1) This principally relates to reviews performed of the interim financial information produced by the Group and reporting accountants' reports

(2) In the year ended 31 December 2004 this principally related to accounting advice in respect of IFRS implementation and work on debt issues

(3) Other non audit fees relate to advisory services in connection with Funds Direct.

The Company's audit fee, which is included in the statutory audit fee for the Group, amounted to £35,000 (2003: £32,000; 2002: £30,000). Auditors' remuneration includes value added tax.

Average number of employees

The average number of persons employed by the Group during the year, excluding temporary staff, was as follows:

Other operational costs include:

		2004 £million	2003 £million	2002 £million
UK	— Operations	**1,842**	1,849	1,786
	— Administrative and Support	**434**	365	309
France	— Operations	**273**	310	277
	— Administrative and Support	**153**	156	103
		2,702	2,680	2,475

5. Provision for loss on termination of discontinued operation

	Group	
	2004 £million	2003 & 2002 £million
Provision for closure of French branch operation, which comprises;		
Loss on disposal of banking portfolios	**39.3**	—
Redundancy and restructuring costs	**25.0**	—
Write off of tangible fixed assets and goodwill	**8.3**	—
Provision for operating losses between closure announcement and anticipated closure date	**32.1**	—
Other	**8.1**	—
	112.8	—

The provision for the costs of exiting Egg France was raised in July 2004. Between that time and 31 December 2004 £99.8 million of the provision has been utilised of which £25.9 million is in respect of items charged to operating losses and £73.9 million is in respect of other closure costs which are treated below operating loss. The movement of the provision is shown in note 12. As at 31 December 2004 the lending, savings and brokerage businesses had been sold and the one remaining business line, current accounts, was closed in February 2005.

6. Taxation

The tax credit assumes a UK corporation tax rate of 30% (2003 & 2002: 30%) and comprises:

		2004 £million		2003 £million		2002 £million
Corporation tax:						
Current year		**8.3**		(3.7)		(8.5)
Prior years: group relief receivable		**0.7**		0.3		2.6
		9.0		(3.4)		(5.9)
Deferred tax:						
Current year	**7.7**		3.0		1.9	
Prior years	**(2.8)**		1.8		1.8	
		4.9		4.8		3.7
Tax credit on loss on ordinary activities		**13.9**		1.4		(2.2)

Included in the tax credit is a credit of £32.3 million (2003 & 2002: £nil) in respect of the provision for loss on the termination of discontinued operations, and a credit of £9.6m (2003 £nil) in connection with the exceptional depreciation and amortisation charge.

The Group currently has a tax sharing arrangement with Prudential plc, whereby the Group's losses are surrendered to other Prudential group companies, and in return the Group receives relief payments in respect of the surrendered losses. The ability of the Group to transfer losses to Prudential plc and Prudential group companies is based on Prudential plc holding at least 75% of the Group's ordinary shares. At the year end Prudential plc held 78.97% of the issued share capital.

The tax credit assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences for the current year are explained below:

	2004 £million	2003 £million	2002 £million
Loss on ordinary activities before tax	**(106.7)**	(34.4)	(16.6)
Loss on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 30% (2003: 30%)	**32.0**	10.3	5.0
Effects of:			
Depreciation in excess of capital allowances for the year	**(2.8)**	1.6	0.6
Short-term timing differences	**(4.9)**	(4.6)	(2.5)
Expenses not deductible for tax purposes	**(4.3)**	(0.3)	(0.6)
Share of losses on associate undertakings	**0.1**	(0.2)	(0.5)
Inter-company gains on transfer of assets	**—**	(0.9)	—
Goodwill amortisation	**(2.2)**	(0.5)	(0.7)
Overseas tax at less than UK standard rate	**(9.6)**	(5.8)	—
Overseas losses not allowable for tax purposes	**—**	(3.3)	(10.8)
Gain on dilution of share in Investment Funds Direct Holdings Limited	**—**	—	1.0
Adjustments for prior years	**0.7**	0.3	2.6
Current tax (charge)/credit	**9.0**	(3.4)	(5.9)

7. Loss per ordinary share

The loss per share figure has been calculated in accordance with FRS 14 (Earnings per share) and is based on the following:

	2004 £million	2003 £million	2002 £million
Loss attributable to ordinary shareholders	**(91.4)**	(32.8)	(18.8)
Number of ordinary shares:			
Actual weighted average number of ordinary shares in issue during the year (used for basic loss per share calculation)	**820.0**	814.8	814.3
Adjustment for weighted average number of options which have been granted but not yet exercised	**0.6**	0.2	1.3
Potential weighted average number of ordinary shares in issue (used for fully diluted loss per share calculation)	**820.6**	815.0	815.6
Basic and diluted loss per share (pence per share)	**(11.1p)**	(4.0p)	(2.3p)

The weighted average number of ordinary shares in issue has been determined after excluding shares held in trust for employee share schemes.

8. Loans and advances to customers

	2004 £million
Repayable	
In not more than three months	**3,583.2**
In more than three months but not more than one year	**39.6**
In more than one year but not more than five years	**1,483.7**
In more than five years	**2,785.8**
Gross loans and advances	**7,892.3**
Of which;	
Credit Cards	**3,578.1**
Mortgages	**1,693.6**
Personal Loans	**2,618.9**
Overdrafts	**1.7**
	7,892.3
Provision for bad and doubtful debts (note 9)	**(250.3)**
Net loans and advances	**7,642.0**

9. Provision for bad and doubtful debts

	2004 General £million	2004 Specific £million	2004 Total £million
Balance at the beginning of year	**51.2**	**142.2**	**193.4**
Amounts written off	**—**	**(124.4)**	**(124.4)**
New and additional provisions	**7.5**	**195.0**	**202.5**
Exchange adjustments	**—**	**0.4**	**0.4**
Other movements(1)	**(2.2)**	**(19.4)**	**(21.6)**
Balance at the end of year	**56.5**	**193.8**	**250.3**

(1) The other movements reflect a release of provisions for bad and doubtful debts following the sale of the Egg France unsecured lending portfolio in December 2004 as part of the withdrawal from the French market.

	2003 General £million	2003 Specific £million	2003 Total £million
Balance at the beginning of year	36.1	92.6	128.7
Amounts written off	—	(72.7)	(72.7)
New and additional provisions	15.1	121.9	137.0
Exchange adjustments	—	0.4	0.4
Balance at the end of year	51.2	142.2	193.4

	2002 General £million	2002 Specific £million	2002 Total £million
Balance at the beginning of year	27.4	53.4	80.8
Amounts written off	—	(40.2)	(40.2)
New and additional provisions	8.5	76.9	85.4
Net charge against profit and loss	8.5	76.9	85.4
Other movements	0.2	2.5	2.7
Balance at the end of year	36.1	92.6	128.7

The other movements amount of £2.7 million for 2002 relates to the fair value of the opening bad debt provision for the French subsidiary.

Non-performing loans and advances are as follows:

	2004 £million	2003 £million	2002 £million
Loans and advances on which interest is suspended	**210.9**	139.0	84.1
Specific provisions for bad and doubtful debts	**(143.7)**	(102.2)	(71.0)
Interest in suspense	**(7.8)**	(5.7)	(1.3)
	59.4	31.1	11.8

Credit card and loan balances become non-performing when the card/loan balance becomes 3 months or more delinquent. A mortgage balance becomes non-performing following a review by our Credit department and if it is identified that we are in a potential loss situation.

10. Customer accounts

	2004 £million
Repayable:	
On demand	**5,931.7**
In not more than three months	**228.0**
Over three months but not more than one year	**323.3**
Over one year but not more than five years	**124.4**
Over five years	**—**
	6,607.4

11. Debt securities issued

	2004 £million
Repayable:	
Under one year	**432.6**
Over one year but not more than two years	**791.5**
Over two years but not more than three years	**561.1**
Over three years but not more than four years	**6.0**
Over four years but not more than five years	**15.3**
Greater than five years	**—**
	1,806.5

12. Provision for liabilities and charges

	2004 £million
Provision for closure of French branch operation:	
Balance at beginning of year	**—**
Charged in year	**112.8**
Utilised in year	**(99.8)**
Exchange movement	**3.8**
Balance at end of year	**16.8**

13. Subordinated liabilities

	2004 £million
Balance at the beginning of year	**450.8**
Issue of dated loan capital	**—**
Balance at the end of year	**450.8**
Dated:	
Sterling subordinated notes due 2021	**200.0**
Sterling perpetual subordinated notes due 2013	**250.0**
	450.0
Unamortised discount	**0.8**
	450.8

The sterling subordinated notes due 2021 pay interest at a fixed rate of 6.875% per annum until their maturity. The first call date of these notes is in December 2016, when they are callable at par. Interest is payable half yearly in arrears.

The sterling perpetual subordinated notes pay interest at a fixed rate of 7.5% per annum until December 2013, when the company may either redeem them (with the prior consent of the Financial Services Authority) or pay interest fixed at 4.05% above the relevant 5 year gilt rate. Thereafter the interest rate is reset at 5 year intervals. Interest is payable half yearly in arrears.

The right of repayment of the holders of subordinated debt, are subordinated to the claims of all depositors and creditors as regards the principal and interest thereon.

Interest incurred in the year in respect of subordinated liabilities was £32.7m

14. Analysis of changes in reserves

	2004				
	Share capital £million	Share premium £million	Capital reserve £million	Profit and loss account £million	Total shareholders' funds £million
At the beginning of year — as previously stated	**410.3**	**107.5**	**359.7**	**(442.8)**	**434.7**
Prior year adjustment for UITF 38 (note 1 (a))	**—**	**—**	**—**	**(2.2)**	**(2.2)**
At the beginning of year as restated	**410.3**	**107.5**	**359.7**	**(445.0)**	**432.5**
Exchange and other adjustments	**—**	**—**	**—**	**(6.7)**	**(6.7)**
Net proceeds of issue of shares	**1.9**	**—**	**—**	**—**	**1.9**
Premium arising on the issue of shares	**—**	**3.5**	**—**	**—**	**3.5**
Loss for the financial year	**—**	**—**	**—**	**(91.4)**	**(91.4)**
Awards under incentive schemes	**—**	**—**	**—**	**(1.1)**	**(1.1)**
Balance at end of year	**412.2**	**111.0**	**359.7**	**(544.2)**	**338.7**

15. Segmental analysis

The table below analyses the Group results and assets by the geographical area in which business is generated. The geographical analysis is prepared in accordance with the location of the relevant company with certain costs incurred in the UK on behalf of France included in the results of France.

	UK £million	2004 France £million	Group £million
Interest receivable	**902.9**	**15.4**	**918.3**
Fees and commission receivable	**220.7**	**4.5**	**225.2**
Profit on disposal of securities	**7.5**	**—**	**7.5**
Other operating income	**7.4**	**—**	**7.4**
Gross Income	**1,138.5**	**19.9**	**1,158.4**
Operating profit/(loss)	**44.5**	**(37.1)**	**7.4**
Share of operating profit of joint venture	**0.3**	**—**	**0.3**
Share of operating loss of associates and amortisation of goodwill	**(1.6)**	**—**	**(1.6)**
Provision for loss on termination of discontinued operations	**—**	**(112.8)**	**(112.8)**
Profit/(loss) before taxation	**43.2**	**(149.9)**	**(106.7)**
Total assets			
Joint Ventures	**1.3**	**—**	**1.3**
Associate undertakings	**3.8**	**—**	**3.8**
Group total assets	**11,774.1**	**252.3**	**12,026.4**
Net assets (excluding minority interests)	**512.7**	**(174.0)**	**338.7**

	UK £million	2003 France £million	Group £million
Interest receivable	823.8	7.0	830.8
Fees and commission receivable	176.3	4.0	180.3
Dealing profits	5.3	—	5.3
Other operating income	4.4	0.8	5.2
Gross Income	1,009.8	11.8	1,021.6
Operating profit/(loss)	56.6	(89.1)	(32.5)
Share of operating profit of joint venture	0.1	—	0.1
Share of operating loss of associates and amortisation of goodwill	(2.0)	—	(2.0)
Profit/(loss) before taxation	54.7	(89.1)	(34.4)

	UK £million	2002 France £million	Group £million
Interest receivable	662.4	2.3	664.7
Fees and commission receivable	114.9	1.1	116.0
Dealing profits	9.1	—	9.1
Other operating income	3.5	1.9	5.4
Gross Income	789.9	5.3	795.2
Operating loss before exceptional items	30.2	(46.7)	(16.5)
Share of operating loss of joint venture	(0.1)	—	(0.1)
Share of operating loss of associates and amortisation of goodwill	(3.5)	—	(3.5)
Exceptional (gain on sale of investment)	3.5	—	3.5
Profit/(loss) before taxation	30.1	(46.7)	(16.6)

B. FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2005

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Six months ended 30 June 2005 £m	Three months ended 30 June 2005 £m	Six months ended 30 June 2004 (Restated)[1] £m	Three months ended 30 June 2004 (Restated)[1] £m	Year ended 31 December 2004 (Restated)[1] £m
Continuing operations:						
Interest income		**494.4**	**242.2**	433.1	221.3	902.8
Interest expense		**(348.3)**	**(166.9)**	(288.6)	(150.8)	(615.4)
Net interest income		**146.1**	**75.3**	144.5	70.5	287.4
Fee and commission income		**104.0**	**49.6**	105.8	53.7	220.7
Fee and commission expense		**(9.4)**	**(5.2)**	(14.8)	(4.9)	(25.2)
Net fee and commission income		**94.6**	**44.4**	91.0	48.8	195.5
Net trading income		**9.3**	**6.4**	—	—	—
Other operating income		**1.0**	**0.3**	3.4	0.9	14.7
Operating income		**251.0**	**126.4**	238.9	120.2	497.6
— personnel expenses		**(46.4)**	**(22.1)**	(44.2)	(21.8)	(92.7)
— depreciation and amortisation		**(13.8)**	**(6.9)**	(11.9)	(6.0)	(22.2)
— other administrative expenses		**(60.6)**	**(29.7)**	(67.6)	(31.9)	(139.3)
		(120.8)	**(58.7)**	(123.7)	(59.7)	(254.2)
Impairment losses on loans and advances to customers	**2**	**(117.2)**	**(58.3)**	(82.4)	(41.4)	(182.4)
Operating profit		**13.0**	**9.4**	32.8	19.1	61.0
Share of operating (loss)/profit of joint venture		**(0.1)**	**—**	0.3	—	0.3
Share of associate losses		**—**	**—**	(0.2)	(0.1)	(0.4)
Profit on continuing ordinary activities before tax		**12.9**	**9.4**	32.9	19.0	60.9
Tax charge on profit on continuing ordinary activities	**3**	**(3.7)**	**(3.4)**	(11.5)	(5.8)	(24.7)
Profit on continuing ordinary activities after tax		**9.2**	**6.0**	21.4	13.2	36.2
Discontinued operations:						
Profit/(loss) on discontinued ordinary activities after tax	**4**	**1.5**	**(3.5)**	(21.7)	(8.8)	(137.2)
Retained profit/(loss) for the period		**10.7**	**2.5**	(0.3)	4.4	(101.0)
Attributable to:						
Equity holders of the parent		**11.4**	**2.4**	(0.1)	4.7	(99.7)
Minority interests		**(0.7)**	**0.1**	(0.2)	(0.3)	(1.3)
		Pence per share	**Pence per share**	Pence per share	Pence per share	Pence per share
Consolidated earnings/(loss) per share						
Basic	**5**	**1.3**	**0.2**	—	0.5	(11.3)
Diluted	**5**	**1.3**	**0.2**	—	0.5	(11.3)
Continuing earnings per share						
Basic	**5**	**1.1**	**0.7**	2.6	1.5	4.6
Diluted	**5**	**1.1**	**0.7**	2.6	1.5	4.6

1 The comparative results for the six months ended 30 June 2004, the three months ended 30 June 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

1. 2005 Accounting policies: Interim period ended 30 June 2005

Significant accounting policies

The following is a list of the Group's key accounting policies under IFRS. As a result of the Group's decision to adopt the IFRS 1 exemption and not restate comparatives for IAS 32 and IAS 39, certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives. These policies have been denoted with an asterisk.

Basis of consolidation

The financial information of the Group incorporates the assets, liabilities, and results of the Company and its subsidiary undertakings (including Special Purpose Entities) to 30 June 2005. Subsidiary undertakings are all entities over which the Group has the power to govern its financial and operating policies so as to obtain benefits from their activities. Inter-company transactions and balances are eliminated upon consolidation.

Associated undertakings and joint ventures

An associate is an entity that is neither a subsidiary nor a joint venture, in which the Group has the power to exercise significant influence regarding the financial and operating policy decisions of the investee. A joint venture is a long-term contractual arrangement between the Group and one or more other parties to undertake an economic activity in which the investing parties exercise joint control. The Group's share of the profits net of losses of associates and of joint ventures are included in the consolidated income statement on an equity accounting basis and its interest in their net assets is included in investments in the consolidated balance sheet by reference to its equity holdings. When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued.

Financial instruments*

The Group classifies its financial assets (excluding derivatives) as either loans and receivables or available-for-sale. Other than derivatives, the Group does not classify any of its financial assets as fair value through profit or loss or held-to-maturity. The Group measures all of its financial liabilities at amortised cost, other than those derivative financial instruments which have been designated as part of a hedging relationship (see below).

a) Loans and receivables and financial liabilities at amortised cost

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and whose recoverability is based solely on the credit risk of the issuer. The Group measures both its loans and receivables and financial liabilities (other than derivatives designated as part of a hedging relationship) at amortised cost, whereby the principal balance is the amount at initial recognition, less any principal repayments and impairment and adjusted for the cumulative amortisation calculated using the effective interest method. The effective interest method is a method whereby estimated future cash payments or receipts are discounted through the expected life of the financial instrument.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets, principally but not exclusively investment securities, intended to be held for an indefinite period of time. The Group measures these assets at fair value, with subsequent changes in fair value being recognised in equity except for interest income, impairment losses and foreign exchange gains and losses which are recognised in the income statement. Upon derecognition of the asset, or where there is objective evidence that the investment security is impaired, the cumulative gains and losses recognised in equity are removed from equity and recycled to the income statement.

Impairment losses on loans and advances to customers*

The Group assesses its financial assets or groups of financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and has a reliably measurable impact on the estimated future cash flows of the financial assets or groups of financial assets.

a) Assets held at amortised cost

Where the financial asset(s) is carried at amortised cost, the Group measures the amount of the impairment loss by comparing the carrying amount of the asset with the present value of its estimated future cash flows. In estimating the future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks which have been adjusted for conditions in the historical loss experience which no longer exist. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred. The amount of the impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

b) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The rate used to discount the cash flows is the original effective interest rate on the available-for-sale financial asset(s). The amount of the impairment loss is recognised in the income statement. This includes cumulative gains and losses previously recognised in equity which are now recycled from equity to the income statement.

Derivative financial instruments and hedge accounting*

a) Derivative financial instruments

The Group undertakes transactions in derivative financial instruments, which include currency swaps, interest rate swaps, interest rate caps, forward rate agreements, options, credit derivatives and similar instruments, for non-trading purposes. The Group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Group's assets, liabilities and positions or for the purpose of reducing credit risk inherent in the Group's balance sheet. All derivative transactions (including foreign exchange and credit) are for economic hedging purposes and so it is therefore decided at the outset which position the derivative will be hedging. Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Where the derivative has not been designated as a hedge or does not qualify for a hedging relationship in accordance with IAS 39, the derivative is initially measured at fair value, and remeasured at fair value at each balance sheet date, with the changes in the fair value of the derivative being recognised through the income statement. Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models. Where the fair value of the derivative is positive, the derivative is recognised on balance sheet as a financial asset. Conversely, where its fair value is negative, the derivative is recognised on balance sheet as a financial liability.

b) Cash flow hedges

Where relevant, the Group has elected to designate its derivatives as hedges against the exposure to variability in cash flows of its recognised assets and liabilities, with the effective part of any gain or loss on the derivative financial instrument recognised directly in equity. At inception, the Group formally designates the hedge, documenting the nature of the hedging relationship, the risk management objective and the strategy for undertaking the hedge. Derivatives designated as hedges are tested for effectiveness on inception of the hedge relationship and on an ongoing basis. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative is excluded from the measurement of the hedge effectiveness and is recognised in the income statement. Cumulative amounts recognised through equity are taken to the income statement in the period in which the underlying hedged item matures and its associated gain or loss affects the income statement. Cumulative amounts recognised through equity are also taken to the income statement in the period in which the hedging relationship is broken or the hedge becomes ineffective. The Group has not designated its derivatives as any other type of hedge in accordance with IAS 39.

c) Embedded derivatives

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, and where the hybrid instrument is not measured at fair value, the Group separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in the income statement. Depending on the classification of the host instrument, the host is then measured in accordance with the relevant requirements of IAS 39.

Offsetting financial instruments*

Financial assets and their related liabilities are presented gross within the relevant headings in the Group balance sheet, unless there is a legally enforceable right to offset and there is an intention to settle net in which case the assets and liabilities are presented net.

Derecognition of financial assets and liabilities*

The Group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expire. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset. Where the transfer does not result in the Group transferring the right to receive the cash flows of the financial assets, but it does result in the Group assuming a corresponding obligation to pay the cash flows to another recipient, the financial assets are also accordingly derecognised. Based on an analysis of risks, rewards and where necessary, consideration of control of the assets, such assets would either be derecognised or retained. The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

Investment securities*

On initial recognition, debt issued is measured at its fair value net of transaction costs directly attributable to the debt issued, in accordance with IAS 39. Subsequent measurement is at amortised cost using the effective interest rate method to amortise incremental attributable issue and transaction costs over the life of the instrument.

Interest income and expense recognition*

Interest income and interest expense on loans and receivables and liabilities held at amortised cost are recognised on an effective yield basis, inclusive of transactions costs and fees, and discounts and premiums where appropriate. As previously described, the effective interest method is a method whereby estimated future cash payments or receipts are discounted over the expected life of the financial instrument.

Share-based payments

Share-based payments are accounted for on a fair value basis. The Group measures the fair values of the Save-As-You-Earn schemes using the Black-Scholes model and the fair value of all other share-based payment schemes including the Restricted Share Plans (RSPs) using a Present Economic Value (binomial) model. The fair value is then recognised in the income statement over the relevant vesting period and adjusted for lapses, with the number of shares expected to lapse estimated at each balance sheet prior to the vesting date, with the corresponding increase recognised in equity. The only exception is where the share-based payment has vesting outcomes attached to market based performance conditions such as in the case of some of the RSPs. Under these circumstances, additional modelling is required to take into account these market based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is then made to the fair value charge for shares that do not vest in the event that these performance conditions are not met. In accordance with the transitional provisions of IFRS 2 "Share-based Payments", the Group has only applied the requirements of the standard to share-based payments granted after 7 November 2002, and had not yet vested as at 1 January 2004.

Property, plant and equipment

Buildings, leasehold improvements, fixtures and fittings, plant and equipment, computer equipment and other tangible assets are stated at cost, less any accumulated depreciation. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred. Costs capitalised are depreciated to their estimated residual values in equal annual instalments over their estimated useful lives, as follows:

Buildings	25 to 50 years
Leasehold improvements	10 years
Fixtures and fittings	10 years
Plant and equipment	3 to 10 years
Computer equipment	3 to 5 years

Land is stated at cost and is not depreciated. Assets under construction are not depreciated until they are brought into commercial use.

Intangible assets

a) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. On acquisition of a business, goodwill arises where the consideration given exceeds the fair values attributed to the net assets acquired. The goodwill is capitalised and is subject to an annual impairment review and also when there are indications of impairment. Prior to 31 December 2003, purchased goodwill was capitalised and amortised on a straight-line basis, over the investment's estimated useful life, assessed on an individual basis. Impairment reviews were carried out only as was appropriate. Amortisation of goodwill ceased from 1 January 2004.

b) Computer software

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the software leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. The software is classified as an intangible asset where it is not an integral part of the related hardware and amortised over its estimated useful life which is generally three to five years.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks.

Provisions

The Group recognises a provision when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount has been reliably estimated.

Taxation

Income tax payable is charged on all taxable profits arising in the accounting period. Deferred tax is calculated on all taxable temporary differences arising on the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are recognised at gross on the balance sheet and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred taxes are determined using the rates enacted or substantively enacted at the balance sheet date. The deferred tax charge or credit is recognised in the income statement unless the deferred tax relates to fair value adjustments for available-for-sale investments, effective elements of cash flow hedges and other amounts taken directly to equity. In these circumstances the deferred tax charge or credit will also be recognised in equity and recycled to the income statement at the same time as when the originating entry is recycled from equity to the income statement. Group relief receivable from the parent company is included in other assets.

Foreign currency translation

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and foreign currency non-monetary items measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Exchange differences on monetary items are dealt with in the income statement. Exchange differences on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the income statement or in equity. The balance sheets of overseas branches are translated into sterling at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates of exchange for the period from 1 January to the balance sheet date. All exchange differences relating to the translation of an overseas branch are recognised through a separate component of other reserves. Upon the disposal of a foreign operation, the cumulative foreign currency translation reserves which relate to the operation being disposed of is taken to the income statement when the gain or loss on disposal is recognised. From 1 January 2005, foreign exchange gains or losses on available-for-sale debt securities will be recognised in the income statement.

Employee benefits

The Group accounts for its pension schemes and other non share-based employee benefits under IAS 19 “Employee Benefits”. The Group’s main pension scheme, which covers 81% of the Group’s employees who have taken up their right to contribute to a pension scheme, is a defined contribution scheme. For this scheme the cost is charged to the income statement as contributions become due. The assets of the Scheme are held in a separately administered fund. Certain employees are members of the Prudential plc’s defined benefit scheme (“Prudential Scheme”). In line with paragraph 34A of the amendment to IAS 19 “Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures”, even though the Prudential Scheme is a defined benefit scheme, as there is no contractual agreement or stated policy for charging the net defined benefit cost of the plan as a whole measured in accordance with IAS 19 to individual group entities, the net defined benefit cost of the plan has only been recognised in the financial statements of Prudential plc as it is the legal sponsor employer of the plan. Therefore, in accordance with IAS 19, the Group recognises a cost on the basis of its contributions payable to the plan for the period. Further details of the Prudential Scheme are shown in the group financial statements of Prudential plc. Other employee benefits are recognised in the income statement as incurred.

Leased assets

Leases are classified as operating leases where the risks and rewards of ownership are retained by the lessor. Operating lease rentals are expensed to the income statement on a straight line basis. The Group does not undertake any material financing leases as either lessee or lessor.

Profit share from creditor insurance policies

Profit share from creditor insurance policies are recognised on an accruals basis.

Brand development costs

Brand development costs are written off as incurred.

Treasury shares

Share capital in the Company purchased by the Group is recognised as a reduction in shareholders’ equity.

2. Impairment losses on loans and advances to customers

Group operating profit is stated after charging impairment losses on loans and advances to customers of £117.5 million (30 June 2004 on a UK GAAP basis: £92.9 million). The impairment losses on loans and advances to customers at 30 June 2005 have been calculated on the basis of IAS 39. The balances at 30 June 2004 and 31 December 2004 were calculated on the basis of UK GAAP as explained in the principal accounting policies in the 2004 annual report.

	Continuing £m	Discontinued £m	**Total £m**
Balance at 31 December 2004 under UK GAAP	249.4	0.9	**250.3**
IAS 39 transition adjustments	(3.3)	—	**(3.3)**
IFRS reclassification	7.7	—	**7.7**
Revised balance at 1 January 2005 under IFRS	253.8	0.9	**254.7**
Amounts written off	(82.9)	(1.2)	**(84.1)**
New and additional allowances	117.2	0.3	**117.5**
Net charge against allowances	34.3	(0.9)	**33.4**
Balance at 30 June 2005	288.1	—	**288.1**

Allowances at 30 June 2005 were 3.5% of advances to customers (30 June 2004: 3.1%).

3. Tax

The taxation charge assumes a UK corporation tax rate of 30% (2004: 30%) and comprises:

	Six months ended 30 June 2005 £m	Six months ended 30 June 2004 (Restated)* £m	Year ended 31 December 2004 (Restated)* £m
Tax charge on profit on continuing ordinary activities	**3.7**	11.5	24.7

* The comparative results for the six months ended 30 June 2004, the three months ended 30 June 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

4. Discontinued operations

The following is an analysis of the profit/(loss) on ordinary activities after tax for discontinued operations (represented by Egg France and Funds Direct).

	Six months ended 30 June 2005 £m	**Three months ended 30 June 2005 £m**	Six months ended 30 June 2004 (Restated) £m	Three months ended 30 June 2004 (Restated) £m	Year ended 31 December 2004 (Restated) £m
Net interest (expense)/income	**(0.2)**	**0.3**	3.3	1.7	6.4
Other operating income/(expense)	**1.0**	**(0.4)**	0.1	0.1	(6.0)
Operating income	**0.8**	**(0.1)**	3.4	1.8	0.4
Administrative expenses	**(12.6)**	**(3.7)**	(25.3)	(12.0)	(45.6)
Depreciation and amortisation	**1.0**	**1.0**	(2.2)	(1.2)	(7.1)
Impairment of goodwill and fixed assets re Funds Direct	**—**	**—**	—	—	(16.6)
Impairment losses on loans and advances to customers	**(0.3)**	**—**	(10.5)	(5.4)	(20.1)
Utilisation of provision for loss on termination of discontinued operations	**13.0**	**3.4**	—	—	25.9
Operating profit/(loss)	**1.9**	**0.6**	(34.6)	(16.8)	(63.1)
Release/(provision) for loss on termination of discontinued operations	**0.2**	**—**	—	—	(112.8)
Profit/(loss) on discontinued ordinary activities before tax	**2.1**	**0.6**	(34.6)	(16.8)	(175.9)
Tax (charge)/credit on profit/(loss) on ordinary activities	**(0.6)**	**(4.1)**	12.9	8.0	38.7
Retained profit/(loss) attributable to discontinued operations	**1.5**	**(3.5)**	(21.7)	(8.8)	(137.2)

* The comparative results for the six months ended 30 June 2004, the three months ended 30 June 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

5. Earnings per share

The consolidated earnings/(loss) per share is calculated by dividing the retained profit/(loss) attributable to the Group for the financial period by the weighted average of ordinary shares in issue during the period. The continuing earnings per share was calculated by dividing the profit after tax attributable to continuing operations for the financial period by the weighted average of ordinary shares in issue during the period.

The discontinued earnings/(loss) per share for the six months and three months ended 30 June 2005 is as follows:

	Six months ended 30 June 2005	**Three months ended 30 June 2005**	Six months ended 30 June 2004 (Restated)*	Three months ended 30 June 2004 (Restated)*	Year ended 31 December 2004 (Restated)*
Discontinued operations:					
Basic earnings/(loss) per share (pence)	**0.2**	**(0.5)**	(2.6)	(1.0)	(15.9)
Diluted earnings/(loss) per share (pence)	**0.2**	**(0.5)**	(2.6)	(1.0)	(15.9)

* The comparative results for the six months ended 30 June 2004, the three months ended 30 June 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

The discontinued earnings/(loss) per share was calculated by dividing the retained profit or loss attributable to discontinued operations for the financial period by the weighted average of ordinary shares in issue during the period.

6. Segmental information

The Group is organised into two main business segments:

(i) Retail Financial Services ("Retail") — is responsible for all customer focused products and services. It includes credit cards, consumer loans, mortgages, savings and insurance products.

(ii) Treasury and Balance Sheet Management ("Wholesale") — is responsible for asset and liability management across the Group's overall balance sheet. In particular it manages the Group's capital and liquidity positions as well as managing market and currency risks.

In determining how to allocate income and costs between these two segments, the Group uses a transfer pricing methodology.

Given its responsibility for management of the overall balance sheet, capital and liquidity the Wholesale segment effectively charges or pays a net transfer price depending on whether it is funding or investing the net balance transferred from the Retail balance sheet each day. This net transfer price is market based and adjusted firstly to take account of liquidity requirements and secondly for derivatives used to manage the interest rate risk within the Retail balance sheet.

The cost of the debt capital held by the Group is split between Retail and Wholesale according to the proportion of risk weighted assets held within each segment. The balance of the risk weighted assets is currently calculated according to the Basel 1 definitions.

The net return on investing the equity capital including the costs of the various capital management techniques currently in use by the Group including credit card securitisation and credit default swaps is earned by Treasury and for segmental reporting purposes is also split between Retail and Wholesale according to the proportion of risk weighted assets held within each segment.

All external customer revenues and expenses are allocated to Retail as are the majority of the Group's operating costs and the investment in brand and marketing. The costs allocated to the Wholesale segment are directly attributable to its lines of business.

As the Group has disposed of its French business, it no longer considers disclosure along geographical segmentation lines to be appropriate. The results, cash flows, assets and liabilities relating to the French business are included within discontinued operations.

	Retail £m	Wholesale £m	Total £m
Six months ended 30 June 2005			
Continuing operations:			
Net interest income	**143.8**	**2.3**	**146.1**
Operating profit	**10.3**	**2.7**	**13.0**
Discontinued operations:			
Net interest expense	**(0.2)**	**—**	**(0.2)**
Operating profit	**1.9**	**—**	**1.9**
Three months ended 30 June 2005			
Continuing operations:			
Net interest income	**74.5**	**0.8**	**75.3**
Operating profit	**8.3**	**1.1**	**9.4**
Discontinued operations:			
Net interest income	**0.3**	**—**	**0.3**
Operating profit	**0.6**	**—**	**0.6**
Year ended 31 December 2004			
Continuing operations:			
Net interest income	280.3	7.1	287.4
Operating profit	55.6	5.4	61.0
Discontinued operations:			
Net interest income	6.4	—	6.4
Operating loss	(63.1)	—	(63.1)

	Retail £m	Wholesale £m	Total £m
Six months ended 30 June 2004			
Continuing operations:			
Net interest income	141.0	3.5	144.5
Operating profit	30.8	2.0	32.8
Discontinued operations:			
Net interest income	3.3	—	3.3
Operating loss	(34.6)	—	(34.6)
Three months ended 30 June 2004			
Continuing operations:			
Net interest income	68.9	1.6	70.5
Operating profit	18.3	0.8	19.1
Discontinued operations:			
Net interest income	1.7	—	1.7
Operating loss	(16.8)	—	(16.8)

C. FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	**Nine months ended 30 Sept 2005 £m**	**Three months ended 30 Sept 2005 £m**	Nine months ended 30 Sept 2004 (Restated)[1] £m	Three months ended 30 Sept 2004 (Restated)[1] £m	Year ended 31 Dec 2004 (Restated)[1] £m
Continuing operations:						
Interest income		**693.9**	**207.9**	664.3	231.2	902.8
Interest expense		**(471.5)**	**(123.2)**	(450.0)	(161.4)	(615.4)
Net interest income		**222.4**	**84.7**	214.3	69.8	287.4
Fee and commission income		**170.3**	**57.9**	156.8	51.0	220.7
Fee and commission expense		**(15.2)**	**(5.8)**	(18.9)	(4.1)	(25.2)
Net fee and commission income		**155.1**	**52.1**	137.9	46.9	195.5
Net trading income		**9.2**	**(0.1)**	—	—	—
Other operating income		**2.4**	**1.4**	4.9	1.5	14.7
Operating income		**389.1**	**138.1**	357.1	118.2	497.6
Administrative expenses						
— personnel expenses		(66.2)	(19.8)	(66.6)	(22.4)	(92.7)
— depreciation and amortisation		(22.4)	(8.6)	(15.0)	(3.1)	(22.2)
— other administrative expenses		(92.4)	(31.8)	(99.7)	(32.1)	(139.3)
		(181.0)	**(60.2)**	(181.3)	(57.6)	(254.2)
Impairment losses on loans and advances to customers	2	**(177.2)**	**(60.0)**	(129.6)	(47.2)	(182.4)
Operating profit		**30.9**	**17.9**	46.2	13.4	61.0
Share of operating profit of joint venture		**0.1**	**0.2**	0.4	0.1	0.3
Share of associate profits/(losses)		**0.2**	**0.2**	(0.2)	—	(0.4)
Profit on continuing ordinary activities before tax		**31.2**	**18.3**	46.4	13.5	60.9
Tax charge on profit on continuing ordinary activities	3	**(10.5)**	**(6.8)**	(12.4)	(0.9)	(24.7)
Profit on continuing ordinary activities after tax		**20.7**	**11.5**	34.0	12.6	36.2
Discontinued operations:						
Profit/(loss) on discontinued ordinary activities after tax	4	**1.1**	**(0.4)**	(106.2)	(84.5)	(137.2)
Retained profit/(loss) for the period		**21.8**	**11.1**	(72.2)	(71.9)	(101.0)
Attributable to:						
Equity holders of the parent		**22.6**	**11.2**	(71.9)	(71.8)	(99.7)
Minority interests		**(0.8)**	**(0.1)**	(0.3)	(0.1)	(1.3)
		Pence per share	**Pence per share**	Pence per share	Pence per share	Pence per share
Consolidated earnings/(loss) per share						
Basic	5	**2.7**	**1.4**	(8.7)	(8.7)	(11.3)
Diluted	5	**2.7**	**1.4**	(8.7)	(8.7)	(11.3)
Continuing earnings per share						
Basic	5	**2.5**	**1.4**	4.2	1.6	4.6
Diluted	5	**2.5**	**1.4**	4.2	1.6	4.6

(1) The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	**30 Sept 2005 £m**	30 Sept 2004 (Restated)* £m	31 Dec 2004 (Restated)* £m
Assets				
Cash and balances with central banks		**7.3**	14.2	14.0
Loans and advances to banks		**689.2**	416.4	615.9
Securities purchased under agreement to resell		**200.6**	1.4	319.4
Investment securities		**2,237.4**	3,909.1	3,119.7
Derivative financial instruments		**42.6**	10.7	16.0
Loans and advances to customers		**7,667.5**	7,353.5	7,642.0
Prepayments and accrued income		**7.9**	80.7	58.3
Investments in joint venture and associate		**10.5**	6.5	6.3
Property, plant and equipment		**45.1**	51.2	48.0
Intangible assets		**40.7**	59.1	49.0
Deferred tax		**35.6**	23.8	28.9
Other assets		**95.3**	127.0	130.6
Total assets		**11,079.7**	12,053.6	12,048.1

	Notes	**30 Sept 2005 £m**	30 Sept 2004 (Restated)* £m	31 Dec 2004 (Restated)* £m
Liabilities				
Deposits by banks		**2,682.1**	2,481.2	2,352.0
Securities sold under agreements to repurchase		**—**	531.1	130.5
Customer accounts		**5,958.0**	6,570.3	6,607.4
Investment securities in issue		**1,399.8**	1,127.5	1,806.5
Derivative financial instruments		**69.5**	13.0	17.5
Other liabilities		**67.7**	219.2	110.5
Accruals and deferred income		**75.1**	197.7	215.0
Provisions for liabilities and charges		**1.8**	96.5	16.8
Subordinated liabilities				
— Dated loan capital		**476.3**	450.8	450.8
Total liabilities		**10,730.3**	11,687.3	11,707.0
Shareholders' equity				
Called up share capital	**6**	**412.2**	412.2	412.2
Share premium account	**6**	**—**	111.0	111.0
Capital reserve	**6**	**—**	359.7	359.7
Other reserves	**6**	**(2.4)**	(3.3)	(0.5)
Accumulated losses	**6**	**(59.5)**	(514.2)	(541.2)
Total equity attributable to the equity holders of the parent		**350.3**	365.4	341.2
Minority interests (equity)		**(0.9)**	0.9	(0.1)
Total equity		**349.4**	366.3	341.1
Total equity and liabilities		**11,079.7**	12,053.6	12,048.1

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Notes	**Nine months ended 30 Sept 2005 £m**	Nine months ended 30 Sept 2004 (Restated)* £m	Year ended 31 Dec 2004 (Restated)* £m
Cash flows from operating activities				
Continuing operations:				
Operating profit before taxation		**30.9**	46.2	61.0
Adjusted for:				
Depreciation, impairment and amortisation		**22.4**	42.1	25.1
Impairment losses on loans and advances to customers		**65.3**	52.3	70.1
Gain on sale of investment securities		**—**	(1.6)	(7.5)
Share schemes adjustment in reserves		**2.8**	3.4	3.3
Net (increase)/decrease in operating assets:				
Loans and advances to banks		**18.8**	(201.1)	54.8
Derivative financial instruments		**(11.9)**	—	—
Loans and advances to customers		**(66.7)**	(583.2)	(1,115.6)
Securities purchased under agreement to resell		**119.5**	(1.4)	(319.4)
Accrued income and prepayments		**0.4**	35.5	16.9
Other assets		**162.9**	41.2	99.4
Net increase/(decrease) in operating liabilities:				
Deposits by banks		**148.0**	988.7	772.3
Securities sold under agreements to repurchase		**(131.0)**	(298.1)	(698.7)
Customer accounts		**(462.7)**	118.6	(53.0)
Investment securities in issue		**(434.0)**	(295.5)	383.6
Accruals and deferred income		**(9.0)**	0.8	29.6
Derivative financial instruments		**19.5**	—	—
Other liabilities		**(310.1)**	(12.8)	(133.6)
Subordinated liabilities		**24.4**	—	—
(Taxation paid)/tax refund received		**(0.7)**	(8.5)	14.1
Net cash outflow from continuing operating activities		**(811.2)**	(73.4)	(797.6)
Discontinued operations:				
Net cash (outflow)/inflow from discontinued operating activities		**(5.6)**	(53.8)	76.2
Total net cash outflow from operating activities		**(816.8)**	(127.2)	(721.4)
Cash flows from investing activities				
Continuing operations:				
Purchase of property, plant and equipment		**(6.7)**	(25.7)	(13.1)
Disposal of property, plant and equipment		**1.0**	1.9	—
Purchase of software intangibles		**(14.2)**	(34.1)	(37.7)
Disposal of software intangibles		**4.7**	—	—
Purchase of investment securities		**(5,751.7)**	(4,202.7)	(6,447.5)
Disposal of investment securities		**6,651.2**	4,472.8	7,435.3
Net cash inflow/(outflow) from continuing investing activities		**884.3**	212.2	937.0
Discontinued operations:				
Net cash inflow from discontinued investing activities		**0.2**	34.1	90.6
Total net cash inflow/(outflow)inflow from investing activities		**884.5**	246.3	1,027.6
Cash flows from financing activities				
Continuing operations:				
Proceeds from issue of share capital		**—**	5.4	5.4
Net cash inflow from continuing financing activities		**—**	5.4	5.4
Discontinued operations:				
Net cash inflow from discontinued financing activities		**—**	—	—
Total net cash inflow from financing activities		**—**	5.4	5.4
Increase/(decrease) in cash and cash equivalents in the period		**67.7**	124.5	311.6
Cash and cash equivalents at the beginning of the period	7	**627.6**	322.9	322.9
Exchange adjustments		**1.2**	(2.1)	(6.9)
Cash and cash equivalents at the end of the period	7	**696.5**	455.3	627.6

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

NOTES TO THE FINANCIAL INFORMATION

1. 2005 Accounting policies: Quarter 3 2005 (period ended 30 September 2005)

Significant accounting policies

The following is a list of the Group's key accounting policies under IFRS. As a result of the Group's decision to adopt the IFRS 1 exemption and not restate comparatives for IAS 32 and IAS 39, certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives. These policies have been denoted with an asterisk.

Basis of consolidation

The financial information of the Group incorporates the assets, liabilities, and results of the Company and its subsidiary undertakings (including Special Purpose Entities) to 30th September 2005. Subsidiary undertakings are all entities over which the Group has the power to govern its financial and operating policies so as to obtain benefits from their activities. Inter-company transactions and balances are eliminated upon consolidation.

Associated undertakings and joint ventures

An associate is an entity that is neither a subsidiary nor a joint venture, in which the Group has the power to exercise significant influence regarding the financial and operating policy decisions of the investee. A joint venture is a long term contractual arrangement between the Group and one or more other parties to undertake an economic activity in which the investing parties exercise joint control.

The Group's share of the profits net of losses of associates and of joint ventures are included in the consolidated income statement on an equity accounting basis and its interest in their net assets is included in investments in the consolidated balance sheet by reference to its equity holdings. When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued.

Financial instruments *

The Group classifies its financial assets (excluding derivatives) as either loans and receivables or available-for-sale. Other than derivatives, the Group does not classify any of its financial assets as fair value through profit or loss or held-to-maturity.

The Group measures all of its financial liabilities at amortised cost, other than those derivative financial instruments which have been designated as part of a hedging relationship (see below).

a) Loans and receivables and financial liabilities at amortised cost

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and whose recoverability is based solely on the credit risk of the issuer. The Group measures both its loans and receivables and financial liabilities (other than derivatives designated as part of a hedging relationship) at amortised cost, whereby the principal balance is the amount at initial recognition, less any principal repayments and impairment and adjusted for the cumulative amortisation calculated using the effective interest method. The effective interest method is a method whereby estimated future cash payments or receipts are discounted through the expected life of the financial instrument.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets, principally but not exclusively investment securities, intended to be held for an indefinite period of time. The Group measures these assets at fair value, with subsequent changes in fair value being recognised in equity except for interest income, impairment losses and foreign exchange gains and losses which are recognised in the income statement. Upon derecognition of the asset, or where there is objective evidence that the investment security is impaired, the cumulative gains and losses recognised in equity are removed from equity and recycled to the income statement.

Impairment losses on loans and advances to customers *

The Group assesses its financial assets or groups of financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and has a reliably measurable impact on the estimated future cash flows of the financial assets or groups of financial assets.

a) Assets held at amortised cost

Where the financial asset(s) is carried at amortised cost, the Group measures the amount of the impairment loss by comparing the carrying amount of the asset with the present value of its estimated future cash flows.

In estimating the future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks which have been adjusted for conditions in the historical loss experience which no longer exist. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

The amount of the impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

b) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The rate used to discount the cash flows is the original effective interest rate on the available-for-sale financial asset(s). The amount of the impairment loss is recognised in the income statement. This includes cumulative gains and losses previously recognised in equity which are now recycled from equity to the income statement.

Derivative financial instruments and hedge accounting *

a) Derivative financial instruments

The Group undertakes transactions in derivative financial instruments, which include currency swaps, interest rate swaps, interest rate caps, forward rate agreements, options, credit derivatives and similar instruments, for non-trading purposes.

The Group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Group's assets, liabilities and positions or for the purpose of reducing credit risk inherent in the Group's balance sheet. All derivative transactions (including foreign exchange and credit) are for economic hedging purposes and so it is therefore decided at the outset which position the derivative will be hedging. Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate.

Where the derivative has not been designated as a hedge or does not qualify for a hedging relationship in accordance with IAS 39, the derivative is initially measured at fair value, and re-measured at fair value at each balance sheet date, with the changes in the fair value of the derivative being recognised through the income statement. Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models.

Where the fair value of the derivative is positive, the derivative is recognised on balance sheet as a financial asset. Conversely, where its fair value is negative, the derivative is recognised on balance sheet as a financial liability.

b) Cash flow hedges

Where relevant, the Group has elected to designate its derivatives as hedges against the exposure to variability in cash flows of its recognised assets and liabilities, with the effective part of any gain or loss on the derivative financial instrument recognised directly in equity. At inception, the Group formally designates the hedge, documenting the nature of the hedging relationship, the risk management objective and the strategy for undertaking the hedge.

Derivatives designated as hedges are tested for effectiveness on inception of the hedge relationship and on an ongoing basis. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative is excluded from the measurement of the hedge effectiveness and is recognised in the income statement.

Cumulative amounts recognised through equity are taken to the income statement in the period in which the underlying hedged item matures and its associated gain or loss affects the income statement. Cumulative amounts recognised through equity are also taken to the income statement in the period in which the hedging relationship is broken or the hedge becomes ineffective.

The Group has not designated its derivatives as any other type of hedge in accordance with IAS 39.

c) Embedded derivatives

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, and where the hybrid instrument is not measured at fair value, the Group separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in the income statement. Depending on the classification of the host instrument, the host is then measured in accordance with the relevant requirements of IAS 39.

Offsetting financial instruments *

Financial assets and their related liabilities are presented gross within the relevant headings in the Group balance sheet, unless there is a legally enforceable right to offset and there is an intention to settle net in which case the assets and liabilities are presented net.

Derecognition of financial assets and liabilities *

The Group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expire. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset. Where the transfer does not result in the Group transferring the right to receive the cash flows of the financial assets, but it does result in the Group assuming a corresponding obligation to pay the cash flows to another recipient, the financial assets are also accordingly derecognised. Based on an analysis of risks, rewards and where necessary, consideration of control of the assets, such assets would either be derecognised or retained.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

Investment securities *

On initial recognition, debt issued is measured at its fair value net of transaction costs directly attributable to the debt issued, in accordance with IAS 39. Subsequent measurement is at amortised cost using the effective interest rate method to amortise incremental attributable issue and transaction costs over the life of the instrument.

Interest income and expense recognition *

Interest income and interest expense on loans and receivables and liabilities held at amortised cost are recognised on an effective yield basis, inclusive of transactions costs and fees, and discounts and premiums where appropriate. As previously described, the effective interest method is a method whereby estimated future cash payments or receipts are discounted over the expected life of the financial instrument.

Share-based payments

Share-based payments are accounted for on a fair value basis. The Group measures the fair values of the Save-As-You-Earn schemes using the Black-Scholes model and the fair value of all other share-based payment schemes including the Restricted Share Plans (RSPs) using a Present Economic

Value (binomial) model. The fair value is then recognised in the income statement over the relevant vesting period and adjusted for lapses, with the number of shares expected to lapse estimated at each balance sheet prior to the vesting date, with the corresponding increase recognised in equity. The only exception is where the share-based payment has vesting outcomes attached to market based performance conditions such as in the case of some of the RSPs. Under these circumstances, additional modelling is required to take into account these market based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is then made to the fair value charge for shares that do not vest in the event that these performance conditions are not met.

In accordance with the transitional provisions of IFRS 2 'Share-based Payments', the Group has only applied the requirements of the standard to share-based payments granted after 7 November 2002, and had not yet vested as at 1 January 2004.

Property, plant and equipment

Buildings, leasehold improvements, fixtures and fittings, plant and equipment, computer equipment and other tangible assets are stated at cost, less any accumulated depreciation. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Costs capitalised are depreciated to their estimated residual values in equal annual instalments over their estimated useful lives, as follows:

Buildings	25 to 50 years
Leasehold improvements	10 years
Fixtures and fittings	10 years
Plant and equipment	3 - 10 years
Computer equipment	3 to 5 years

Land is stated at cost and is not depreciated. Assets under construction are not depreciated until they are brought into commercial use.

Intangible assets

a) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. On acquisition of a business, goodwill arises where the consideration given exceeds the fair values attributed to the net assets acquired. The goodwill is capitalised and is subject to an annual impairment review and also when there are indications of impairment.

Prior to 31 December 2003, purchased goodwill was capitalised and amortised on a straight-line basis, over the investment's estimated useful life, assessed on an individual basis. Impairment reviews were carried out only as was appropriate. Amortisation of goodwill ceased from 1 January 2004.

b) Computer software

Costs incurred in the development of computer software for internal use are capitalised as intangible assets where the software leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. The software is classified as an intangible asset where it is not an integral part of the related hardware and amortised over its estimated useful life which is generally 3 to 5 years.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks.

Provisions

The Group recognises a provision when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount has been reliably estimated.

Taxation

Income tax payable is charged on all taxable profits arising in the accounting period.

Deferred tax is calculated on all taxable temporary differences arising on the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets and liabilities are recognised at gross on the balance sheet and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred taxes are determined using the rates enacted or substantively enacted at the balance sheet date.

The deferred tax charge or credit is recognised in the income statement unless the deferred tax relates to fair value adjustments for available-for-sale investments, effective elements of cash flow hedges and other amounts taken directly to equity. In these circumstances the deferred tax charge or credit will also be recognised in equity and recycled to the income statement at the same time as when the originating entry is recycled from equity to the income statement. Group relief receivable from the parent company is included in other assets.

Foreign currency translation

Foreign currency monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and foreign currency non-monetary items measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Exchange differences on monetary items are dealt with in the income statement. Exchange differences on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the income statement or in equity.

The balance sheets of overseas branches are translated into sterling at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates of exchange for the period from 1 January to the balance sheet date. All exchange differences relating to the translation of an overseas branch are recognised through a separate component of other reserves.

Upon the disposal of a foreign operation, the cumulative foreign currency translation reserves which relate to the operation being disposed of is taken to the income statement when the gain or loss on disposal is recognised.

From 1 January 2005, foreign exchange gains or losses on available-for-sale debt securities will be recognised in the income statement.

Employee benefits

The Group accounts for its pension schemes and other non share-based employee benefits under IAS 19 ‘Employee Benefits’.

The Group’s main pension scheme, which covers 81% of the Group’s employees who have taken up their right to contribute to a pension scheme, is a defined contribution scheme. For this scheme the cost is charged to the income statement as contributions become due. The assets of the Scheme are held in a separately administered fund.

Certain employees are members of the Prudential plc’s defined benefit scheme (‘Prudential Scheme’). In line with paragraph 34A of the amendment to IAS 19 ‘Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures’, even though the Prudential Scheme is a defined benefit scheme, as there is no contractual agreement or stated policy for charging the net defined benefit cost of the plan as a whole measured in accordance with IAS 19 to individual group entities, the net defined benefit cost of the plan has only been recognised in the financial statements of Prudential plc as it is the legal sponsor employer of the plan. Therefore, in accordance with IAS 19, the Group recognises a cost on the basis of its contributions payable to the plan for the period.

Further details of the Prudential Scheme are shown in the group financial statements of Prudential plc.

Other employee benefits are recognised in the income statement as incurred.

Leased assets

Leases are classified as operating leases where the risks and rewards of ownership are retained by the lessor. Operating lease rentals are expensed to the income statement on a straight line basis.

The Group does not undertake any material financing leases as either lessee or lessor.

Profit share from creditor insurance policies

Profit share from creditor insurance policies are recognised on an accruals basis.

Brand development costs

Brand development costs are written off as incurred.

Treasury shares

Share capital in the Company purchased by the Group is recognised as a reduction in shareholders' equity.

2. Impairment losses on loans and advances to customers

Group operating profit is stated after charging impairment losses on loans and advances to customers of £177.5 million (30 September 2004 on a UK GAAP basis: £143.9 million). The impairment losses on loans and advances to customers at 30 September 2005 have been calculated on the basis of IAS 39. The balances at 30 September 2004 and 31 December 2004 were calculated on the basis of UK GAAP as explained in the principal accounting policies in the 2004 annual report.

	Continuing £m	Discontinued £m	**Total £m**
Balance at 31 December 2004 under UK GAAP	249.4	0.9	**250.3**
IAS 39 transition adjustments	(3.3)	—	**(3.3)**
IFRS reclassification	7.7	—	**7.7**
Revised balance at 1 January 2005 under IFRS	253.8	0.9	**254.7**
Amounts written off	(111.9)	(1.2)	**(113.1)**
New and additional allowances	177.2	0.3	**177.5**
Net charge against allowances	65.3	(0.9)	**64.4**
Balance at 30 September 2005	319.1	—	**319.1**

Allowances at 30 September 2005 were 4.0% of advances to customers (30 September 2004: 3.3%).

3. Tax

The taxation charge assumes a UK corporation tax rate of 30% (2004: 30%) and comprises:

	Nine months ended 30 Sept 2005 £m	Nine months ended 30 Sept 2004 (Restated)* £m	Year ended 31 Dec 2004 (Restated)* £m
Tax charge on profit on continuing ordinary activities	**10.5**	12.4	24.7

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

4. Discontinued operations

The following is an analysis of the profit/(loss) on ordinary activities after tax for discontinued operations (represented by Egg France and Funds Direct).

	Nine months ended 30 Sept 2005 £m	**Three months ended 30 Sept 2005 £m**	Nine months ended 30 Sept 2004 (Restated)* £m	Three months ended 30 Sept 2004 (Restated)* £m	Year ended 31 Dec 2004 (Restated)* £m
Net interest (expense)/income	**(0.1)**	**0.1**	5.6	2.3	6.4
Other operating income/(expense)	**0.8**	**(0.2)**	1.2	1.1	(6.0)
Operating income	**0.7**	**(0.1)**	6.8	3.4	0.4
Administrative expenses	**(13.4)**	**(0.8)**	(34.9)	(9.6)	(45.6)
Depreciation and amortisation	**1.0**	**—**	(16.4)	(14.2)	(7.1)
Impairment of goodwill and fixed assets re Funds Direct	**—**	**—**	—	—	(16.6)
Impairment losses on loans and advances to customers	**(0.3)**	**—**	(14.3)	(3.8)	(20.1)
Utilisation of provision for loss on termination of discontinued operations	**13.4**	**0.4**	19.7	19.7	25.9
Operating profit/(loss)	**1.4**	**(0.5)**	(39.1)	(4.5)	(63.1)
Release/(provision) for loss on termination of discontinued operations	**0.2**	**—**	(112.8)	(112.8)	(112.8)
Profit/(loss) on discontinued ordinary activities before tax	**1.6**	**(0.5)**	(151.9)	(117.3)	(175.9)
Tax (charge)/credit on profit/(loss) on ordinary activities	**(0.5)**	**0.1**	45.7	32.8	38.7
Retained profit/(loss) attributable to discontinued operations	**1.1**	**(0.4)**	(106.2)	(84.5)	(137.2)

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

5. Earnings per share

The consolidated earnings/(loss) per share is calculated by dividing the retained profit/(loss) attributable to the Group for the financial period by the weighted average of ordinary shares in issue during the period. The continuing earnings per share was calculated by dividing the profit after tax attributable to continuing operations for the financial period by the weighted average of ordinary shares in issue during the period.

The discontinued earnings/(loss) per share for the nine months and three months ended 30 September 2005 is as follows:

	Nine months ended 30 Sept 2005	**Three months ended 30 Sept 2005**	Nine months ended 30 Sept 2004 (Restated)*	Three months ended 30 Sept 2004 (Restated)*	Year ended 31 Dec 2004 (Restated)*
Discontinued operations:					
Basic earnings/(loss) per share (pence)	**0.2**	**0**	(12.9)	(10.3)	(15.9)
Diluted earnings/(loss) per share (pence)	**0.2**	**0**	(12.9)	(10.3)	(15.9)

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

The discontinued earnings/(loss) per share was calculated by dividing the retained profit or loss attributable to discontinued operations for the financial period by the weighted average of ordinary shares in issue during the period.

6. Capital reconstruction

In accordance with the resolution agreed by the Annual General Meeting on 16 May 2005, Egg plc applied to the High Court to undertake a capital reconstruction eliminating the Share Premium account and Capital Reserve to reduce accumulated losses. This capital reconstruction was complete at 30 September 2005 and accordingly the capital situation of the Group as at 31 December 2004 and as at 30 September 2005 is as follows:

	30 Sept 2005 £m	31 Dec 2004 (Restated)* £m
Shareholders' equity		
Called up share capital	**412.2**	412.2
Share premium account	**—**	111.0
Capital reserve	**—**	359.7
Other reserves	**(2.4)**	(0.5)
Accumulated losses	**(59.5)**	(541.2)
Shareholders' equity	**350.3**	341.2

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

7. Cash and cash equivalents

	As at 1 January 2005 (Restated)* £m	**Cash flow[1] £m**	**As at 30 Sept 2005 £m**
Cash	**14.0**	**(6.7)**	**7.3**
Loans and advances to other banks payable on demand	**344.2**	**102.0**	**446.2**
Cash equivalents	**269.4**	**(26.4)**	**243.0**
	627.6	**68.9**	**696.5**

	As at 1 January 2004 (Restated)* £m	Cash flow (Restated)* £m	As at 30 Sept 2004 (Restated)* £m
Cash	13.3	0.9	14.2
Loans and advances to other banks payable on demand	146.6	(55.6)	91.0
Cash equivalents	163.0	177.1	340.1
	322.9	122.4	445.3

	As at 1 January 2004 (Restated)* £m	Cash flow (Restated)* £m	As at 31 December 2004 (Restated)* £m
Cash	13.3	0.7	14.0
Loans and advances to other banks payable on demand	146.6	197.6	344.2
Cash equivalents	163.0	106.4	269.4
	322.9	304.7	627.6

* The comparative results for the nine months ended 30 September 2004, the three months ended 30 September 2004 and the year ended 31 December 2004 have been restated to reflect the adoption of International Financial Reporting Standards.

The cash balance at 30 September 2005, 31 December 2004 and 30 September 2004 relates solely to a cash ratio deposit, held with the Bank of England.

1 The movement in cash flow includes FX movements.

8. Segmental information

The Group is organised into two main business segments:

(i) Retail Financial Services ("Retail") — is responsible for all customer focused products and services. It includes credit cards, consumer loans, mortgages, savings and insurance products.

(ii) Treasury and Balance Sheet Management ("Wholesale") — is responsible for asset and liability management across the Group's overall balance sheet. In particular it manages the Group's capital and liquidity positions as well as managing market and currency risks.

In determining how to allocate income and costs between these two segments, the Group uses a transfer pricing methodology.

Given its responsibility for management of the overall balance sheet, capital and liquidity the Wholesale segment effectively charges or pays a net transfer price depending on whether it is funding or investing the net balance transferred from the Retail balance sheet each day. This net transfer price is market based and adjusted firstly to take account of liquidity requirements and secondly for derivatives used to manage the interest rate risk within the Retail balance sheet.

The cost of the debt capital held by the Group is split between Retail and Wholesale according to the proportion of risk weighted assets held within each segment. The balance of the risk weighted assets is currently calculated according to the Basel 1 definitions.

The net return on investing the equity capital including the costs of the various capital management techniques currently in use by the Group including credit card securitisation and credit default swaps is earned by Treasury and for segmental reporting purposes is also split between Retail and Wholesale according to the proportion of risk weighted assets held within each segment.

All external customer revenues and expenses are allocated to Retail as are the majority of the Group's operating costs and the investment in brand and marketing. The costs allocated to the Wholesale segment are directly attributable to its lines of business.

As the Group has disposed of its French business, it no longer considers disclosure along geographical segmentation lines to be appropriate. The results, cash flows, assets and liabilities relating to the French business are included within discontinued operations.

	Retail £m	Wholesale £m	Total £m
Nine months ended 30 Sept 2005			
Continuing operations:			
Net interest income	**218.7**	**3.7**	**222.4**
Operating profit	**27.8**	**3.1**	**30.9**
Discontinued operations:			
Net interest expense	**(0.1)**	**—**	**(0.1)**
Operating profit	**1.4**	**—**	**1.4**
Three months ended 30 Sept 2005			
Continuing operations:			
Net interest income	**83.3**	**1.4**	**84.7**
Operating profit	**17.5**	**0.4**	**17.9**
Discontinued operations:			
Net interest income	**0.1**	**—**	**0.1**
Operating loss	**(0.5)**	**—**	**(0.5)**
Year ended 31 December 2004			
Continuing operations:			
Net interest income	280.3	7.1	287.4
Operating profit	55.6	5.4	61.0
Discontinued operations:			
Net interest income	6.4	—	6.4
Operating loss	(63.1)	—	(63.1)

	Retail £m	Wholesale £m	Total £m
Nine months ended 30 Sept 2004			
Continuing operations:			
Net interest income	209.3	5.0	214.3
Operating profit	43.6	2.6	46.2
Discontinued operations:			
Net interest income	5.6	—	5.6
Operating loss	(39.1)	—	(39.1)
Three months ended 30 Sept 2004			
Continuing operations:			
Net interest income	68.3	1.5	69.8
Operating profit	12.8	0.6	13.4
Discontinued operations:			
Net interest income	2.3	—	2.3
Operating loss	(4.5)	—	(4.5)

APPENDIX III

FINANCIAL INFORMATION RELATING TO PRUDENTIAL PLC

The financial information set out in Section A of this Appendix III for the year ended 31 December 2004 has been extracted, without material adjustment, from the audited Annual Report and Accounts of Prudential plc for the year ended 31 December 2004 (the "2004 accounts"). The financial information for the year ended 31 December 2003 has been extracted, without material adjustment, from the comparatives set out in the 2004 accounts. These comparatives were restated in the 2004 accounts following the adoption of "UITF 38 — Accounting for ESOP Trusts". The financial information for the year ended 31 December 2002 has been extracted, without material adjustment, from the comparatives set out in the audited financial statements included in Prudential plc's annual report on Form 20-F for the year ended 31 December 2004. Note 5 of Section A: Segment Analysis, has been extracted without material adjustment from the audited financial statements included in Prudential plc's annual report on Form 20-F for the year ended 31 December 2004.

The financial information for the six months ended 30 June 2005 set out in Section B of this Appendix III has been extracted without material adjustment from the unaudited Interim 2005 results of Prudential plc for six months to 30 June 2005, which was published on 26 July 2005.

The financial information in this Appendix does not constitute full statutory accounts within the meaning of section 240 of the Companies Act. Statutory financial statements for 2004, 2003 and 2002 have been delivered to the Registrar of Companies. The accounts of Prudential plc for all three full years have been audited by KPMG Audit Plc, and the auditor's report on each was unqualified within the meaning of section 235 and did not contain a statement under section 237 (2) or (3) of the Companies Act.

A. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2004

Consolidated Profit and loss account

	Notes	Year Ended December 31, 2004	2003	2002
		(£ millions, except per share data)		
Gross premiums from:				
Continuing operations		16,355	13,781	16,669
Discontinued UK personal lines, property and casualty insurance business		—	—	329
Reinsurance premiums ceded		(256)	(290)	(545)
Total earned premiums, net of reinsurance		**16,099**	**13,491**	**16,453**
Claims incurred, net of reinsurance	5	(13,117)	(11,739)	(13,689)
Change in long-term business provision, net of reinsurance		(5,134)	(3,950)	(4,045)
Change in technical provisions for linked liabilities, net of reinsurance		(4,322)	(4,728)	1,346
Total change in long-term technical provisions, net of reinsurance	**5**	**(9,456)**	**(8,678)**	**(2,699)**
Investment returns				
Continuing operations		14,665	15,617	(3,664)
Discontinued operations		17	22	22
Investment expenses and charges		(748)	(715)	(733)
Net Operating expenses		(2,069)	(1,914)	(1,870)
Shareholder and policyholder tax attributable to long-term business	6	(896)	(824)	662
Add back: Shareholder tax attributable to long-term business		195	150	171
Transfer (to) from the fund for future appropriations		(4,025)	(5,021)	5,520
Result of UK fund management operation		136	83	71
Result of US broker-dealer and fund management operation		(14)	(3)	14
Result of Asia fund management operation		19	13	6
Result of UK banking operation:				
Continuing operations		43	55	27
Discontinued operations		(37)	(89)	(47)
Amortisation of goodwill		(97)	(98)	(98)
Profit or loss on the sale or termination of discontinued operations:				
Profit on business disposals		48	—	355
Egg France closure cost		(113)	—	
Total profit on ordinary activities before Shareholder tax	**4**	**650**	**350**	**501**
Shareholder tax on profit on ordinary activities	6	(232)	(144)	(42)
Profit for the financial year before minority interests		418	206	459
Minority interests		10	2	9
Profit for the financial year		**428**	**208**	**468**
Dividends — (Note a)				
Interim at 5.19p, 5.09p and 8.56p per share, respectively		(109)	(106)	(178)
Final at 10.65p, 10.29p and 16.44p per share, respectively		(253)	(214)	(341)
Total dividends at 15.84p, 15.38p and 25.00p per share, respectively		**(362)**	**(320)**	**(519)**
Retained profit for the year		**66**	**(112)**	**(51)**
Earnings per share — (Note a)				
Basic (based on 2,219 million, 2,076 million and 2,068 million shares, respectively)		20.1p	10.0p	22.6p
Diluted (based on 2,132 million, 2,078 million and 2,071 million shares, respectively)		20.1p	10.0p	22.6p

Note a — Comparative figures for these lines have been restated to take account of Prudential's rights offering in 2004. The restatement factor is 0.9614 based on a theoretical ex-rights price of 405.71 pence divided by the closing share price on the final day Prudential's shares traded cum-rights of 422.00 pence.

Consolidated Balance Sheet

	Notes	Year Ended December 31, 2004 (£ millions)
ASSETS		
Intangible Assets		
Goodwill		1,367
Investments		
Land and Buildings		12,367
Investments in participating interests		26
Other financial investments		117,262
		129,655
Assets held to cover linked liabilities		23,830
Reinsurers' share of technical provisions		
Long-term business provision		612
Claims outstanding		99
Technical provisions for linked liabilities		307
		1,018
Debtors		
Debtors arising out of direct insurance operations:		
Policyholders		106
Intermediaries		8
Debtors arising out of reinsurance operations		20
Other debtors:		
Tax recoverable		159
Other		373
		666
Other assets		
Banking business assets:		
Egg		11,995
Tangible assets		155
Cash at bank and in hand		1,415
Present value of acquired in-force long-term business		86
		13,651
Prepayments and accrued income		
Accrued interest and rent		1,195
Deferred acquisition costs		2,908
Other prepayments and accrued income		250
		4,353
Total assets	**5**	**174,540**

Consolidated Balance Sheet

	Notes	Year Ended December 31, 2004 (£ millions)
ASSETS		
LIABILITIES		
Capital and reserves		
Share capital	10	119
Share Premium	10	1,558
Profit and loss account		2,646
Cost of shares held in trust for employee incentive plans		(42)
Shareholders' capital and reserves		**4,281**
Minority interests		71
Subordinated Liabilities	8	1,429
Fund for future appropriations		16,686
Technical provisions in respect of non-linked business		
Long-term business provision		104,138
Claims outstanding		826
		104,964
Technical provisions for linked liabilities		24,137
Provision for other risks and charges		
Deferred tax	6	1,522
Deposits received from reinsurers		51
Creditors		
Creditors arising out of direct insurance operations		340
Creditors arising out of reinsurance operations		10
Debenture loans	8	1,761
Amounts owed to credit institutions	8	191
Other borrowings	8	1,292
Obligations of Jackson National Life under funding and stocklending arrangements		3,308
Other creditors including taxation and social security:		
Banking business liabilities		
Egg		11,217
Tax		1,017
Final dividend		253
Other creditors		1,367
		20,756
Accruals and deferred income		643
Total liabilities		**174,540**

Consolidated Cash Flow Statement

	Notes	Year Ended December 31, 2004
		(£ millions)
Operations		
Net cash inflow from operating activities	**12**	93
Servicing of finance		
Interest paid		(207)
Tax		
Tax received		72
Acquisitions and disposals		
Net cash inflow from disposal of European businesses		—
Equity dividends		
Equity dividends paid		(323)
Net cash outflow before financing		**(365)**
Financing		
Issue of borrowings		111
Reduction of credit facility utilised by investment subsidiaries managed by PPM America		(31)
Issue of ordinary share capital, net of expenses of £23m		1,140
Net cash inflow from financing		1,220
Net cash inflow for the year		**855**
The net cash inflow was invested as follows:		
Portfolio investments		
Purchases:		
Ordinary shares		36
Fixed income securities		2,204
		2,240
Sales:		
Ordinary shares		(24)
Fixed income securities		(1,373)
		(1,397)
Net purchases of portfolio investments		843
Increase in cash and short-term deposits, net of overdrafts		12
		855

1 Nature of Operations

Prudential plc (the "Company") together with its subsidiaries (collectively, the "Group" or "Prudential") is an international financial services group with its principal operations in the United Kingdom ("UK"), the United States ("US") and Asia. The Group operates in the UK through its subsidiaries, primarily The Prudential Assurance Company Limited ("PAC"), Prudential Annuities Limited ("PAL"), Prudential Retirement Income Limited ("PRIL"), M&G Group plc ("M&G"), and Egg plc ("Egg"). In the US, the Group's principal subsidiary is Jackson National Life Insurance Company ("Jackson National Life"). In Asia, the Group's main operations are in Hong Kong, Japan, Malaysia, Singapore, and Taiwan. Prudential offers a wide range of retail financial products and services and fund management services throughout these territories. The retail financial products and services principally include life insurance, pensions and annuities as well as collective investments and deposit and mortgage banking services.

Long-term business products written in the UK and Asia are principally with-profits deposit administration, other conventional and unitized with-profits policies and non-participating pension annuities in the course of payment. Long-term business also includes linked business written in the UK and Asia. The principal products written by Jackson National Life are interest sensitive deferred annuities and whole-life policies, variable annuities, guaranteed investment contracts, equity linked indexed deferred annuities and term life insurance.

2 Basis of Preparation

The consolidated financial statements are prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985 which cover the disclosures applicable to insurance companies and groups.

The consolidated financial statements are prepared in accordance with applicable accounting standards under UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standards (FRS) and Statements of Standard Accounting Practice (SSAP) and also in accordance with the revised Statement of Recommended Practice, 'Accounting for Insurance Business', issued in November 2003 by the Association of British Insurers (the revised SORP). The results of US operations and certain Asian operations are prepared on the basis of US GAAP, with non-insurance balances adjusted where necessary to comply with UK GAAP.

FRS 17, 'Retirement benefits' was issued in November 2000. This standard specifies how costs of providing retirement benefits, in particular for defined benefit schemes, should be recognised and disclosed in the financial statements. Under FRS 17 none of the requirements need be recognised in the primary financial statements for the years ended 31 December 2004 and 2003. However, disclosure is required of the impact of FRS 17 on the opening and closing balance sheet positions, profit and loss account, and statement of total recognised gains and losses to illustrate the effect if the standard had been recognised in these primary financial statements, and details are disclosed in note 9.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Prudential has a controlling interest, using accounts drawn up to 31 December 2004. The results of subsidiaries are included in the financial statements from the date acquired to the effective date of disposal. All intercompany transactions are eliminated on consolidation except for investment management fees of £253m (£217m) charged by M&G and the Group's US and Asia fund management operations to long-term business funds.

The consolidated profit and loss account comprises a general business technical account (property and casualty insurance business), a long-term business technical account (life insurance, pension, disability and sickness insurance and annuity business), and a non-technical account. The insurance operations are presented by category of income and expenditure in each respective technical account. The balances (profits on insurance activities for the year) from the general and long-term business technical accounts are then included in the non-technical account and combined with the Group's non-insurance businesses (principally banking and fund management) to determine the consolidated profit for the financial year.

In accordance with FRS 1, 'Cash flow statements', the statement of cash flows reflects only the cash flows of the Group's non-insurance businesses included in the non-technical account and amounts transferred to shareholders' funds from the Group's long-term businesses.

The balance sheet of the Company is prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985, which apply to companies generally. The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

3 Accounting policies for the year ended 31 December 2004

Long-term business

The results are prepared in accordance with the modified statutory basis of reporting as set out in the revised Statement of Recommended Practice issued by the Association of British Insurers in November 2003.

Premiums and claims

Premium and annuity considerations for conventional with-profits policies and other protection-type life insurance policies are recognised when due. Premium and annuity considerations for linked policies, unitised with-profits policies and other investment-type policies are recognised when received or, in the case of unitised or unit-linked policies, when units are issued. Premiums exclude any taxes or duties assessed based on premiums.

Policy fees are charged to the linked, unitised with-profits and other investment-type policyholders' account balances for mortality, asset management and policy administration. These fees are recognised as revenue when charged against the policyholders' account balances.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded on the policy maturity date. Annuity claims are recorded when the annuity becomes due for payment. Surrenders are recorded when paid, and death claims are recorded when notified.

Deferred acquisition costs

Costs of acquiring new business, principally commissions, marketing and advertising costs and certain other costs associated with policy issuance and underwriting that are not reimbursed by policy charges are specifically identified and capitalised as deferred acquisition costs (DAC), which are included as an asset in the balance sheet. The DAC asset is amortised against margins in future revenues on the related insurance policies, to the extent that the amounts are recoverable out of the margins. Recoverability of the unamortised DAC asset is assessed at the time of policy issue, and reviewed if profit margins have declined.

For with-profits business, the amortisation of the DAC asset is taken into account in determining the transfer from or to the fund for future appropriations. Movements on the DAC asset and amortisation for with-profits business have no direct impact on the profit attributable to shareholders.

For the business of Jackson National Life the determination of the expected emergence of margins, against which the amortisation profile of the DAC asset is established, is dependent on certain key assumptions. For single premium deferred annuity business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders. For variable annuity business, the key assumption is the expected long-term level of equity market returns which, for 2004 and 2003, was 8.4% per annum implemented using a mean reversion methodology. These returns affect the level of future expected profits through their effects on fee income and the required level of provision for guaranteed minimum death benefit claims.

Long-term Business Provision

UK Insurance Operations

Prudential's long-term business written in the UK comprises predominantly life insurance policies under which the policyholders are entitled to participate in the profits of the long-term business supporting these policies. This business is also written in parts of Asia. Such policies are called 'with-profits' policies. Prudential maintains with-profits funds within the Group's long-term business funds, which segregate the assets and liabilities and accumulate the profit and loss activity related to that with-profits business. The amounts accumulated in these with-profits funds are available to provide for future policyholder benefit provisions and for bonuses to be distributed to with-profits policyholders. The bonuses, both annual and final, reflect the right of the with-profits policyholders to participate in the financial performance of the with-profits funds. Shareholders' profits with respect to bonuses declared on with-profits business correspond to the shareholders' share of the cost of bonuses as declared by the Board of directors. The shareholders' share currently represents one-ninth of the cost of bonuses declared for with-profits policies.

Annual bonuses are declared and credited each year to all with-profits policies. The annual bonuses increase policy benefits and, once credited, become guaranteed. Annual bonuses are charged to the profit and loss account as a change in the long-term business provision in the year declared. Final bonuses are declared each year and accrued for all policies scheduled to mature and death benefits expected to be paid during the next financial year. Final bonuses are not guaranteed and are only paid on policies that result from claims through the death of the policyholder or maturity of the policy within the period of declaration or by concession on surrender. No policyholder benefit provisions are recorded for future annual or final bonus declarations.

The overwhelming majority of the liabilities for business in force of UK insurance operations are held by The Prudential Assurance Company Limited (PAC) and its subsidiaries Prudential Annuities Limited (PAL) and Prudential Retirement Income Limited (PRIL). The key features of the liabilities of these companies are as follows:

Conventional with-profits and other protection-type policies

The future policyholder benefit provisions on conventional with-profits and other protection-type policies are calculated using the net premium method. The net premium is calculated such that it would be sufficient at the outset of the policy to provide only for the discounted value of the original guaranteed death and maturity benefits on the chosen valuation assumptions. The provision is then calculated by subtracting the present value of future net premiums from the present value of future benefits (including vested bonuses) using a prudent discount rate.

Under the net premium valuation method, vested bonuses are included in the cash flows assessed but future allocations of bonuses are not included explicitly, although they are implicitly taken into account in the discount rate used, which is based on the return available on suitable investments. The detailed methodology for UK companies is included in regulations contained in the FSA rules. In particular, the returns available from equity and property assets are based on expected income and/or earnings and no allowance is made for potential future capital growth.

The assumptions to which the estimation of the long-term business provision for these contracts is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders. The net premium reserves are calculated using assumptions for interest, mortality, morbidity and expense, but without assumptions for withdrawals. These assumptions are determined as prudent best estimates at the date of valuation. Interest rates used in establishing policyholder benefit provisions for conventional with-profits policies in the consolidated financial statements range from 3.0% to 5.0% at 31 December 2004 and 31 December 2003. There have been no significant changes to other key assumptions.

Pension annuities

The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each year and range from 1.5% to 5.0% at 31 December 2004 and 2.0% to 5.1% at 31 December 2003. Mortality rates used in establishing policyholder benefit provisions are based on published mortality tables adjusted to reflect actual experience. The only other noteworthy change to assumptions in 2004 was with respect to mortality, where the shape of the set of assumptions has been changed as part of the regular monitoring of mortality developments.

Accumulating with-profits business

For accumulating with-profits business, the calculation of the long-term business provision is based on a gross premium bonus reserve valuation. In general terms, a gross premium valuation basis is one in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims, future regular bonuses, costs of maintaining contracts and future renewal expenses. Cash flows are discounted at the valuation rate of interest. The methodology for UK companies is included in the FSA rules. The discount rate is based on the expected return on the assets deemed to back the liabilities as prescribed by the FSA rules.

For PAC business the calculation is based on a valuation under which future reversionary bonuses are added to the guaranteed liabilities existing at the valuation date. The provision is then calculated as the present value of future policyholder benefits plus the present value of future expenses, without assumption for withdrawals.

An addition is made in respect of future premiums if this produces a higher provision. The assumptions to which the estimation of the long-term business provision is particularly sensitive are the assumed future reversionary bonuses, the interest rate used to discount the provision, the assumed future per policy expenses and the assumed future mortality experience of policyholders.

For PAC business, the provision has been taken as the lower of:

- the accumulated fund or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding final bonus; and
- the surrender or transfer value which, having regard to policyholders' reasonable expectations, would be payable at the valuation date, or, if greater, the value of the guaranteed liabilities excluding final bonus calculated on a gross premium bonus reserve method.

For the purpose of calculating the liability using the bonus reserve method, the assumed interest rates range from 2.5% to 5.0% at 31 December 2004 and from 3.0% to 5.0% at 31 December 2003, while future reversionary bonuses are assumed to fall immediately from current levels to zero. There have been no significant changes of assumption for accumulating with-profits business.

Additional details for PAC, PAL and PRIL are given in the statutory accounts of those companies.

Jackson National Life

The future policyholder benefit provisions for Jackson National Life's conventional protection-type policies are determined using the net level premium method under US GAAP principles and assumptions as of the issue date as to mortality, interest, policy lapsation and expenses plus provisions for adverse deviations. Rates of interest used in establishing the policyholder benefit provisions range from 4.0% to 8.0%. Mortality assumptions range from 50% to 90% of the 1975-1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. For investment-type products sold by Jackson National Life, the policyholder benefit provision included within technical provisions in the consolidated balance sheet is the policyholder account balance.

Asian Operations

The future policyholder benefit provisions for Asian businesses are determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. For the Hong Kong business, which is a branch of PAC, and the Singapore and Malaysian operations the valuation principles and sensitivities to changes of assumptions of conventional with-profits and other protection type policies are similar to those described above for equivalent products written by the UK operations. For Hong Kong business the interest rate has reduced to 3.4% at 31 December 2004 from 3.6% at 31 December 2003 for traditional business and to between 2.5% and 2.9% at 31 December 2004 from 3.25% at 31 December 2003 for accumulating with-profits assurances. For Singapore and Malaysia there have been no significant changes of assumption. Interest rates of 3.5% to 4.0% in Singapore and 4.0% in Malaysia at both 31 December 2004 and 31 December 2003 have been used in accordance with local regulations.

For Asian operations in countries where local GAAP is not well established and in which the business written is primarily non-participating and linked business, US GAAP is used as the most appropriate proxy to local GAAP. The future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claim expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business. As with the other Asian operations mentioned above, the assumptions to which the future policyholder benefit provisions are most sensitive are the interest rate used to discount the liabilities and the future mortality and morbidity experience of policyholders. In Taiwan, interest rates ranged from 1.4% to 7.0% at 31 December 2004 and from 1.5% to 6.5% at 31 December 2003. In Japan, they ranged from 0.9% to 1.3% at 31 December 2004 and from 0.9% to 1.6% at 31 December 2003.

Although the basis of valuation of Prudential's overseas operations is in accordance with the requirements of the Companies Act 1985 and ABI SORP, the valuation of policyholder benefit provisions for these businesses may differ from that determined on a UK modified statutory basis for UK operations with the same features.

Linked business

For all insurance operations, segregated accounts are established for policyholder business for which policyholder benefits are wholly or partly determined by reference to specific investments or to an investment-related index. The assets and liabilities of this linked business are reported as summary totals in the consolidated balance sheet.

Fund for future appropriations

The fund for future appropriations (FFA) represents the excess of assets over policyholder liabilities for the Group's with-profits funds. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the FFA each year through a charge (credit) to the profit and loss account. The balance retained in the FFA represents cumulative retained earnings arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance retained in the FFA is determined after full provision for deferred tax on unrealised appreciation on investments. The FFA in respect of the Scottish Amicable Insurance Fund is wholly attributable, but not yet allocated, to policyholders of that fund.

Overseas subsidiaries

Results of overseas subsidiaries are determined initially using local GAAP bases of accounting with subsequent adjustments where necessary to comply with the Group's accounting policies.

In the case of Jackson National Life, US GAAP results are adjusted to comply with UK GAAP in respect of the valuation basis for fixed income securities and certain financial derivative instruments.

General insurance

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

Revenue recognition

Premiums are recognised when risks are assumed. The proportion of premiums written relating to periods of risk beyond any year end is recorded as an unearned premium provision and subsequently recognised in earnings proportional to the period of the risk. Premiums are presented gross of commission and exclude any taxes or duties assessed based on premium.

Claims

Claims incurred include 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 include claims incurred up to, but not paid at, the end of the accounting period, whether or not reported.

Investment returns

Investment returns comprise investment income, realised gains and losses and changes in unrealised gains and losses, except for changes in unrealised gains and losses on debt securities held by Jackson National Life. Subject to provisions for permanent diminutions in value, debt securities held by Jackson National Life are carried at amortised cost.

Realised investment gains and losses represent the difference between the net sale proceeds and the cost of acquisition. Unrealised investment gains and losses represent the difference between the carrying value at the previous year-end (or purchase value during the year) and the carrying value at the current year-end.

Investment returns in respect of long-term business, including those on assets matching solvency capital, are included in the long-term business technical account. Other investment returns are included in the non-technical account.

Investment returns on assets covering general business liabilities are allocated from the non-technical account to the general business technical account. Investment returns are also allocated between the long-term business technical account and the non-technical account for the difference between the actual investment rate of return of the long-term business technical account and the long-term rate of return on the assets backing shareholder financed long-term business (primarily Jackson National Life and certain Asian operations).

Reinsurance

In the normal course of business, the Group seeks to reduce loss exposure arising primarily from catastrophes or other significant adverse events by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. An asset or liability is recorded in the consolidated balance sheet representing premiums due to or payments due from reinsurers, and the share of losses recoverable from reinsurers.

Tax

The Group's UK subsidiaries each file separate tax returns. Jackson National Life and other foreign subsidiaries, where permitted, file consolidated income tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75% owned subsidiary of another UK company or both are 75% owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for purposes of determining current and deferred taxes.

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19. The Company has chosen not to apply the option available of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account. The deferred tax liability in respect of revaluation of investments is reflected in shareholders' funds and the fund for future appropriations. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The tax charge for long-term business included in the long-term business technical account includes tax expense on with-profits funds attributable to both the policyholders and the shareholders. Different tax rules apply under UK law depending upon whether the business is life insurance or pension business. Tax on the life insurance business is based on investment returns less expenses attributable to that business. Tax on the pension business is based on the shareholders' profits or losses attributable to that business. The shareholders' portion of the long-term business is taxed at the shareholders' rate with the remaining portion taxed at rates applicable to the policyholders.

The balance on the long-term business technical account is net of the total tax attributable to the long-term business. In order to present the profit on long-term insurance activities in the non-technical account on a pre-tax basis, a tax credit attributable to the shareholders' portion of the tax provision for long-term business, calculated at the effective tax rate (where appropriate on a long-term basis) of the underlying business, is added. This shareholder tax add-back is then included in the tax expense on the profit on ordinary activities within the non-technical account.

Stock-based compensation

The Group offers share award and option plans for certain key employees and a Save As You Earn plan (SAYE plan) for all UK and certain overseas employees. The arrangements for distribution to employees of shares held in trust relating to share award plans and for entitlement to dividends depend upon the particular terms of each plan. Shares held in trust relating to these plans are conditionally gifted to employees. Compensation costs for non-SAYE plans are recorded over the periods during which share awards or options are earned. Compensation costs are based on the quoted market prices of the shares at the grant date less any amounts paid or payable by employees in respect of the awards. In addition, shares are issued to a qualifying share ownership trust with the excess of the market price subscribed at the date of transfer by the trust over nominal value recorded by the Company in its share premium account.

In December 2003, Urgent Issues Task Force Abstract 38 'Accounting for Employee Share Ownership Trusts' (UITF 38) was issued. The main effect of UITF 38 is that the Company must present the cost of acquiring the shares held in such trusts as a deduction in determining shareholders' funds. The Company has adopted the provisions of UITF 38 in its 2004 results.

Pension costs

These financial statements have been prepared in accordance with the provisions of SSAP 24, 'Pension costs'. Disclosures of the movements in the financial position of the Company's defined benefit schemes, applying the methodology prescribed by FRS 17, are shown in note 17 in the Annual Report 2004. Contributions to the Group's defined benefit plans are calculated and expensed on a basis that spreads the costs over the service lives of participants. Contributions in respect of defined contribution plans are accrued by the Group when incurred.

Land and buildings

Investments in tenant and Group occupied leasehold and freehold (directly owned) properties are carried at estimated fair value, with changes in estimated fair value included in investment returns. Properties are valued annually either by the Group's qualified surveyors or professional external valuers using The Royal Institution of Chartered Surveyors (RICS) guidelines. The RICS guidelines apply separate assumptions to the value of the land, buildings and tenancy associated with each property. Each property is externally valued at least once every three years. The cost of additions and renovations is capitalised and considered when estimating fair value.

In accordance with SSAP 19, 'Investment properties', no depreciation is provided on investment properties (other than Group occupied) as the directors consider that these properties are held for investment purposes.

Investments in participating interests

A participating interest is a beneficial equity investment where the Group exercises influence over the investee's operating and financial policies. A participating interest where the Group exercises significant influence over the investee, generally through ownership of 20% or more of the entity's voting rights, is considered to be an investment in associate. The Group's investments in associates are recorded at the Group's share of net assets. The carrying value of investments in associates is adjusted each year for the Group's share of the entities' profit or loss.

The Group's investments in joint ventures are also recorded at the Group's share of net assets. Other participating interests, where significant influence is not exercised, are carried as investments on the consolidated balance sheet at fair value.

Other financial investments

Other financial investments include equity securities, debt and other fixed income securities, mortgages and other loans, loans to policyholders (excluding unpaid interest) and deposits with credit institutions.

Equity securities and debt and other fixed income securities

Equity securities are carried at fair value. Debt and other fixed income securities are carried at fair value, except for those held by Jackson National Life, which, subject to provision for permanent diminutions in value, are carried at amortised cost. Fair value is based on quoted market prices for listed securities, and on quotations provided by external fund managers, brokers, independent pricing services or values as determined by the directors for unlisted securities. Changes in fair value are recognised in investment returns during the year of the change. Debt and other fixed income securities held by Jackson National Life are carried at amortised cost as permitted by paragraph 24 of Schedule 9A to the Companies Act 1985. The amortised cost basis of valuation is appropriate under the provisions of the ABI SORP for Jackson National Life's redeemable fixed income securities as they are held as part of a portfolio of such securities intended to be held to maturity.

Mortgage and other loans

Loans collateralised by mortgages and other unsecured loans are carried at unpaid principal balances, net of unamortised discounts and premiums and an allowance for loan losses, except for loans held by UK insurance operations which are carried at fair value. The allowance for loan losses is maintained at a level considered adequate to absorb losses inherent in the mortgage loan portfolio.

Loans to policyholders

Loans to policyholders are carried at unpaid principal balances and are fully collateralised by the cash value of policies.

Deposits with credit institutions

Deposits with credit institutions comprise items, the withdrawal of which are subject to time constraints, and are carried at fair value. Changes in fair value are included in investment returns for the year.

Shares in subsidiary undertakings

Shares in subsidiary undertakings in the balance sheet of the Company are shown at the lower of cost and estimated realisable value.

Derivatives

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes. The Group's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. Derivative financial instruments are used to facilitate efficient portfolio management and for investment purposes. With the exception of derivatives held by Jackson National Life, these instruments are carried at fair value with changes in fair value included in investment returns.

As part of the efficient portfolio management of the Life Fund of The Prudential Assurance Company Limited, the fund may, from time to time, invest in cash settled forward contracts over Prudential plc shares. This is in order to avoid a mismatch of the Life Fund's investment portfolio with the investment benchmarks set for its equity based investment funds. The contracts will form part of the long-term investments of the Life Fund. These contracts are subject to a number of limitations for legal and regulatory reasons.

Securities lending

The Group is party to various securities lending agreements under which securities are loaned to third parties on a short-term basis. The loaned securities are not removed from the Group's consolidated balance sheet; rather, they are retained within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, the collateral is included in other financial investments in the consolidated balance sheet with a corresponding liability being recorded to recognise the obligation to return such collateral. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Linked business funds

Certain long-term business policies are linked to specific portfolios of assets or to an investment-related index. Such policies provide benefits to policyholders that are wholly or partly determined by reference to the value of or income from specific investments or by reference to fluctuations in the value of an index of investments. The assets supporting the linked policies are maintained in segregated accounts in conformity with applicable laws and regulations. The segregated assets are reported at fair value within assets held to cover linked liabilities on the consolidated balance sheet. The technical provisions for linked liabilities on the consolidated balance sheet are determined based on the fair value of the underlying assets supporting the policies.

Tangible assets

Tangible assets, principally computer equipment, software development expenditure, and furniture and fixtures, are capitalised and depreciated on a straight-line basis over their estimated useful lives, generally three to ten years. Leasehold improvements are depreciated over the life of the lease. Assets held under finance leases are capitalised at their fair value.

Banking business assets and liabilities

Banking business assets consist primarily of certificates of deposit and short-term deposits with credit institutions carried at fair value and mortgage loans carried at recoverable amount, being outstanding principal balances, net of allowances for loan losses. Loan provisions are recorded for the overall loan portfolio to cover bad debts which have not been separately identified but which are known from experience to be present in the portfolio. For loans in default, specific loan provisions are recorded. General provisions are raised in respect of losses, which although not specifically identified, are known from experience to be present in any such portfolios. The level of general provision is determined by the application of a number of basis points to the aspects of the portfolio which are not currently identified as delinquent but which experience suggests contains lending which will ultimately lead to losses. The number of basis points applied to the portfolios are regularly assessed against recent experience and adjusted if appropriate. Changes in loan provisions during the year are included in the consolidated profit and loss account.

Liabilities relating to the Group's banking business consist primarily of customer short-term or demand deposits, including interest accrued on the deposits.

Business acquisitions and disposals

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The difference between the fair value of the net assets of the acquired company and the fair value of the consideration given represents goodwill. Revenues and expenses of acquired entities are included in the consolidated profit and loss account from the date of acquisition in the year acquired. Revenues and expenses of entities sold during the period are included in the consolidated profit and loss account up to the date of disposal. The profit or loss on disposal is calculated as the difference between sale proceeds net of expenses less net assets of the entity at the date of disposal. Gross premiums of acquired or sold insurance entities are separately presented in the consolidated profit and loss account.

With effect from 1 January 1998, goodwill arising from acquisitions is reflected as an asset on the consolidated balance sheet and is amortised through the consolidated profit and loss account on a straight-line basis over its estimated useful life, not exceeding 20 years. Prior to 1 January 1998, goodwill relating to acquisitions was charged directly to shareholders' funds. As permitted under the transitional arrangements of FRS 10, 'Goodwill and intangible assets', amounts previously charged to shareholders' funds have not been reinstated as assets. Upon disposal of a business acquired prior to 1 January 1998 to which goodwill relates, the original goodwill balance is charged to the consolidated profit and loss account in determining the gain or loss on the sale.

For life insurance company acquisitions, the adjusted net assets include an identifiable intangible asset recorded for the present value of in-force business which represents the profits that are expected to emerge from the acquired insurance business. The present value of in-force business is calculated using best estimate actuarial assumptions for interest, mortality, persistency and expenses and is amortised over the anticipated lives of the related contracts in the portfolio.

Shareholders' dividends

Shareholders' dividends are accrued in the period to which they relate regardless of when they are declared. Where scrip dividends are issued, the value of such shares, measured as the amount of the cash dividend alternative, is credited to reserves and then the amount in excess of the nominal value of the shares issued is transferred from the share premium account to retained profit.

Share premium

The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

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

Other assets and liabilities denominated in foreign currencies are also converted at year-end exchange rates with the related foreign currency exchange gains or losses reflected in the profit and loss account for the year.

4 Supplemental Earnings Information

The Group uses operating profit based on long-term investment returns before amortization of goodwill as a supplemental measure of its results. For the purposes of measuring operating profit, investment returns on shareholder financed businesses are based on the expected long-term rates of return. The expected long-term rates of return are intended to reflect historical real rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The significant operations that require adjustment for the difference between actual and long-term investment returns are Jackson National Life and certain businesses in Asia.

For the Group's continuing operations with investment portfolios that are both attributable to shareholders and subject to short-term volatility, and the UK personal lines property and casualty insurance business that was sold in January 2002, a comparison of actual and long-term gains is as follows:

	1993 to 2004	2004	1993 to 2003	2003	1993 to 2002	2002	1993 to 2001
				(£ millions)			
Actual gains attributable to shareholders:							
Jackson National Life	**(429)**	**88**	(517)	6	(523)	(342)	(181)
Other operations	**486**	**46**	440	15	425	66	359
	57	**134**	(77)	21	(98)	(276)	178
Long-term gains credited to operating results:							
Jackson National Life	**(46)**	**(71)**	25	(87)	112	(84)	196
Other operations	**274**	**(15)**	289	21	268	8	260
	228	**(86)**	314	(66)	380	(76)	456
(Shortfall) excess of actual gains over long-term gains	**(171)**	**220**	(391)	87	(478)	(200)	(278)

The table shown above compares actual and long-term investment gains from 1993 to 2004. 1993 is the earliest practicable year for preparing this information, which was implemented in 1998 on the publication of the previous ABI SORP.

For the purposes of determining the long-term investment returns of Jackson National Life, from 2001 realized gains and losses arising on debt securities (including losses arising on the recognition of permanent diminutions in value) have been averaged over five years for inclusion in operating profit. For equity-related investments of Jackson National Life, a long-term rate of return of 8.0% has been assumed and this rate has been applied to the monthly average carrying value of such investments after excluding the estimated effect of short-term market movements.

In years prior to 2001 long-term investment returns for Jackson National Life included within UK basis operating profit were estimated as the aggregate of investment income and averaged realized gains and losses for both debt securities and other types of security. Comparatives for the aggregate long-term gains credited to operating results for the years 1993 to 2000 in the table shown above have not been restated for refinement in policy, as the effect is not material.

From 2002, the other principal component of actual gains attributable to shareholders has been the revaluation gains of fixed income securities of certain Asian operations. For 2001 and earlier years the principal other component that required calculation of the expected long-term rate of return was UK equity securities that were held as portfolio investments backing UK general business liabilities and related solvency capital. This business was disposed of in January 2002. For these investments the long-term rate of return applied in 2001 was 7.5%. The long-term dividend yield was assumed to be 2.6%.

The overwhelming majority of long-term gains and losses, and the difference between actual and long-term gains, arises from the accounting treatment of averaging realized gains and losses of Jackson National Life's fixed income securities over a five-year period within operating results. The only significant part of the investment portfolio for shareholder backed business where an assumed rate has been applied in the calculation of long-term gains to be included in operating profits is the aforementioned 8.0% for equity-related investments of Jackson National Life. For this part of the portfolio, a 1% change would alter operating results by approximately £4m.

In addition to the adjustments made for investment returns, as described above, operating profit excludes amortization of goodwill and gains on business disposals and similar items.

In accordance with FRS 3, "Reporting Financial Performance", the presentation of additional supplemental earnings per share information is permitted provided the earnings basis used is applied consistently over time and is reconciled to consolidated profit for the financial year. In determining operating profit, the Group has used the expected long-term investment return and excluded amortization of goodwill and exceptional items as the directors believe that such presentation better reflects the Group's underlying financial performance, on a statutory basis of measurement.

The Group's supplemental measure of its results and reconciliation of operating profit based on long-term investment returns before amortization of goodwill and exceptional items to profit on ordinary activities, including the related basic earnings per share amounts, are as follows:

	Before Tax	Tax	Minority Interests	Net	Basic Earnings Per Share (In Pence)
		(£ millions)			
2004					
Operating profit based on long-term investment returns before amortization of goodwill	**583**	**(177)**	**2**	**408**	**19.2p**
Amortization of goodwill	**(97)**			**(97)**	**(4.6)p**
Short-term fluctuations in investment returns					
Jackson National Life	**159**	**(56)**		**103**	**4.8p**
Other(1)	**70**	**(12)**	**(9)**	**49**	**2.3p**
Profit or loss on the sale or termination of discontinued operations:					
Profit on business disposals	**48**	**(19)**		**29**	**1.4p**
Egg France closure cost	**(113)**	**32**	**17**	**(64)**	**(3.0)p**
Profit on ordinary activities	**650**	**(232)**	**10**	**428**	**20.1p**
2003 (restated)*					
Operating profit based on long-term investment returns before amortization of goodwill	357	(106)	6	257	12.4p
Amortization of goodwill	(98)			(98)	(4.7)p
Short term fluctuations in investment returns					
Jackson National Life	93	(32)		61	2.9p
Other(1)	(2)	(6)	(4)	(12)	(0.6)p
Profit on ordinary activities	350	(144)	2	208	10.0p
2002 (restated)*					
Operating profit based on long-term investment returns before amortization of goodwill	449	(120)	4	333	16.1p
Amortization of goodwill	(98)			(98)	(4.7)p
Short term fluctuations in investment returns					
Jackson National Life	(258)	100		(158)	(7.6)p
Other (principally Asia)(1)	53	(9)	5	49	2.3p
Profit on sale of UK personal lines property and casualty insurance business	355	(13)	—	342	16.5p
Profit on ordinary activities	501	(42)	9	468	22.6p

* The 2003 and 2002 figures for earnings per share have been restated to take account of the rights offering in 2004.

(1) The adjustment from post-tax long-term investment returns to post-tax actual investment returns includes investment returns that are attributable to external equity investors in two investment funds managed by PPM America. These two funds are consolidated as quasi-subsidiaries but, except to the extent of Prudential Group participation in the funds, they have no net impact on pre-tax or post-tax operating profit. Total profit, before and after tax, incorporating the adjustment from long-term to actual investment returns, includes gains of £9 million, £4 million and loss of £5 million in the years ended December 31, 2004, 2003 and 2002 respectively, attributable to the minority interests in these funds.

A reconciliation of the weighted average number of ordinary shares used for calculating basic and diluted earnings per share is set out below. The numbers for 2003 and 2002 have been restated to take account of the rights offering in 2004.

Number of shares	2004	December 31 2003 (millions)	2002
Weighted average shares for basic earnings per share	**2,129**	2,076	2,068
Shares under option at end of year	**13**	16	14
Assumed treasury share purchases at average fair value from proceeds of assumed option exercise	**(10)**	(14)	(11)
Weighted average shares for diluted earnings per share	**2,132**	2,078	2,071

5 Segment Analysis

The Group's reportable business segments are based on the organizational structure used by the directors for making operating and investment decisions and for assessing performance. The Group has five business segments: UK and Europe Insurance Operations, M&G and Egg, which are all located in the UK (collectively, "UK and Europe Operations"), US Operations and Asian Operations. The business segments are determined by the territories in which the Group conducts business, which are the United Kingdom and Europe, the United States and Asia. UK and Europe Operations include long-term life insurance business, banking and fund management activities. The US and Asian operations mainly include life insurance business and fund management activities.

The accounting policies of the segments are the same as those used in the Group's consolidated accounts, applied on a consistent basis for all periods presented, except that revenue reported by reportable segments includes deposits to unit trusts and other similar products, and also revenue from banking, broker-dealer and fund management activities, which are excluded from earned premiums in the consolidated profit and loss accounts.

The performance measure of reportable segments utilized by the directors is operating profit (based on long-term investment returns on investments attributable to shareholders) before amortization of goodwill and before tax.

Analysis of Operating Profit before amortisation of goodwill and before tax

The following table presents operating profit (based on long-term investment returns) before amortization of goodwill and before tax by segment:

	2004	2003	2002
	(£ millions)		
UK and Europe Insurance Operations	**305**	256	372
M&G	**136**	83	71
Egg	**43**	55	27
Total UK and Europe Operations	**484**	394	470
US Operations			
Jackson National Life	**196**	143	117
Broker-dealer and fund management	**(14)**	(3)	14
Total US Operations	**182**	140	131
Asian Operations			
Long-term business	**126**	85	82
Fund management	**19**	13	6
Development expenses	**(15)**	(27)	(26)
Total Asian Operations	**130**	71	62
Operating profit of reportable segments	**796**	605	663
Group activities	**(193)**	(181)	(189)
Total continuing operations	**603**	424	474
Discontinued operations:			
Egg France	**(37)**	(89)	(47)
Jackson Federal Bank	**17**	22	22
Total discontinued operations	**(20)**	(67)	(25)
Operating profit (based on long-term investment returns) before amortization of goodwill and before tax	**583**	357	449

Analysis of Revenue and investment inflows

The following table presents revenue and investment inflows by segment:

	2004	2003	2002
		(£ millions)	
UK and Europe Insurance Operations			
Long-term business gross premiums	**9,186**	7,264	8,675
Reinsurance premiums ceded	**(91)**	(150)	(76)
Investment returns	**12,468**	13,437	(5,198)
M&G			
Investment products gross inflows	**5,845**	3,797	3,731
Revenue from fund management operations	**295**	222	210
Egg			
Revenue from continuing banking operations	**496**	417	319
Total UK and Europe Operations	**28,199**	24,987	7,661
US Operations			
Long-term business gross premiums	**4,717**	4,369	6,098
Reinsurance premiums ceded	**(70)**	(75)	(81)
Investment returns	**1,429**	1,429	1,303
Investment products gross inflows	**418**	159	—
Revenue from broker-dealer and fund management operations	**237**	220	200
Total US Operations	**6,731**	6,102	7,520
Asian Operations			
Long-term business gross premiums	**2,452**	2,148	1,896
Reinsurance premiums ceded	**(95)**	(65)	(59)
Investment returns	**691**	696	200
Investment products gross inflows	**18,845**	18,157	13,661
Revenue from fund management operations	**41**	29	23
Total Asian Operations	**21,934**	20,965	15,721
Total revenue for reportable segments	**56,864**	52,054	30,902
Discontinued Operations			
Gross premiums	**—**	—	329
Reinsurance premiums ceded	**—**	—	(329)
Revenue from banking operations — Egg France	**7**	5	2
— US Operations	**23**	27	27
Investment returns — US Operations	**17**	22	22
Total Discontinued Operations	**47**	54	51
Other Operations			
Investment returns	**77**	55	31
Total Revenue and investment flows	**56,988**	52,163	30,984
Represented by:			
Earned premiums	**16,099**	13,491	16,453
Investment returns	**14,682**	15,639	(3,642)
Investment products gross inflows	**25,108**	22,113	17,392
Revenue from banking, broker-dealer and fund management operations	**1,099**	920	781
Total Revenue and investment flows	**56,988**	52,163	30,984

Certain minor reclassifications and presentational changes have been made to the amounts presented for prior periods to conform these periods to the current presentation.

Other Segment Information

Selected other information is provided below by segment:

	2004	2003	2002
		(£ millions)	
Claims incurred, net of reinsurance			
UK and Europe Insurance Operations	**9,480**	8,480	8,701
US Operations	**2,964**	2,698	4,483
Asian Operations	**673**	561	505
Total claims incurred, net of reinsurance	**13,117**	11,739	13,689
Change in long-term technical provision, net of reinsurance			
UK and Europe Insurance Operations	**5,475**	4,741	(784)
US Operations	**2,375**	2,454	2,567
Asian Operations	**1,606**	1,483	916
Total change in long-term technical provisions, net of reinsurance	**9,456**	8,678	2,699
Investment expenses and charges and net operating expenses			
UK and Europe Operations:			
UK and Europe Insurance Operations	**1,635**	1,491	1,472
Egg	**46**	71	54
US Operations	**372**	330	416
Asian Operations	**513**	522	443
Corporate expenditure not allocated to segments	**83**	67	62
Shareholders' interest payable not allocated to segments	**168**	148	156
Total investment expenses and charges and net operating expenses	**2,817**	2,629	2,603

Assets

An analysis of assets by geographical region is presented below. Except for banking business assets, the assets of the UK and Europe Operations are managed and analyzed as a whole.

	UK and Europe	US	Asia	Total
		(£ millions)		
December 31, 2004				
Insurance and investment operations:				
Investments	**98,275**	**23,968**	**7,412**	**129,655**
Deferred acquisition costs	**847**	**1,528**	**533**	**2,908**
Linked assets	**16,725**	**5,392**	**1,713**	**23,830**
Other	**4,777**	**932**	**443**	**6,152**
	120,624	**31,820**	**10,101**	**162,545**
Banking business assets	**11,995**	**—**	**—**	**11,995**
Total assets	**132,619**	**31,820**	**10,101**	**174,540**
December 31, 2003 (restated)				
Insurance and investment operations:				
Investments	89,857	24,781	5,602	120,240
Deferred acquisition costs	973	1,543	436	2,952
Linked assets	14,688	3,937	1,296	19,921
Other*	4,631	943	393	5,967
	110,149	31,204	7,727	149,080
Banking business assets	11,654	975	—	12,629
Total assets*	121,803	32,179	7,727	161,709

* The figures for these lines have been restated.

Fund for Future Appropriations (“FFA”) and Net Technical Provisions

A segment analysis of the FFA and technical provisions (net of reinsurers’ share) is set out below:

	December 31 2004	Restated 2003
	(£ Millions)	
Fund for future appropriations:		
Group Companies, excluding Scottish Amicable Insurance Fund (SAIF)(1)*	**14,850**	11,253
SAIF(2)	**1,836**	1,404
	16,686	12,657
Technical provisions (net of reinsurers’ share)	**128,083**	120,449
	144,769	133,106
Comprising:		
UK and Europe Operations*	**111,846**	102,565
US Operations	**24,682**	23,854
Asian Operations	**8,241**	6,687
Total*	**144,769**	133,106

* The 2003 figures for these lines have been restated (see note 4).

(1) Balance relates mainly to the with-profits fund of The Prudential Assurance Company Limited.

(2) SAIF is closed to new business and the balance is wholly attributable, but not allocated, to SAIF policyholders.

Shareholders’ Funds

An analysis of shareholders’ funds by segment is set out below:

	December 31 2004	Restated 2003
	(£ millions)	
UK and Europe Insurance Operations	**889**	612
M&G	**312**	336
Egg	**269**	348
US Operations (principally Jackson National Life)	**2,362**	2,329
Asian Operations	**819**	627
Other Operations*(1)	**(370)**	(1,012)
Total shareholders’ funds*	**4,281**	3,240

* The 2003 figures for these lines have been restated.

(1) Other Operations represent operations managed centrally and not allocated to a business segment.

6 Tax

The tax expense for certain long-term business operations is attributable to shareholders and to policyholders. The shareholders’ portion of tax is determined using the long-term effective tax rate of the underlying business applied to the profits transferred to the non-technical account.

A summary of the tax expense attributable to shareholders’ profits and to long-term funds in the consolidated profit and loss accounts is shown below:

	Attributable to Shareholders’ Profits			Attributable to Long-Term Funds		
	2004	2003	2002	2004	2003	2002
	(£ millions)					
Current tax expense (benefit):						
UK	**55**	49	103	**464**	279	320
Foreign	**199**	126	(17)	**76**	102	247
	254	175	86	**540**	381	567
Deferred tax expense (benefit):						
UK	**(29)**	(27)	(34)	**262**	436	(1,081)
Foreign	**7**	(4)	(10)	**94**	7	(148)
	(22)	(31)	(44)	**356**	443	(1,229)
Total	**232**	144	42	**896**	824	(662)

An analysis of the tax expense (benefit) by the nature of the expense (benefit) attributable to shareholders' profits and to long-term funds is as follows:

	Attributable to Shareholders' Profits			Attributable to Long-Term Funds		
	2004	2003	2002	**2004**	2003	2002
	(£ millions)					
UK corporation tax	**(43)**	(38)	44	**447**	318	334
Double tax relief	**—**	(3)	(4)	**(18)**	(15)	(18)
Overseas tax	**87**	61	(89)	**75**	102	247
Adjustments in respect of prior years — UK	**1**	(13)	(3)	**35**	(24)	4
— Overseas	**—**	—	—	**1**	—	—
	45	7	(52)	**540**	381	567
Deferred tax	**(8)**	(13)	(77)	**356**	443	(1,229)
	37	(6)	(129)	**896**	824	(662)
Shareholder tax attributable to balance on the long-term business technical account						
Current	**209**	168	138			
Deferred tax	**(14)**	(18)	33			
	195	150	171			
Total shareholders' tax expense (benefit)	**232**	144	42	**896**	824	(662)

An analysis of shareholders' tax expense allocated to the various sources of profit giving rise to the taxes is as follows:

	2004	2003	2002
	(£ millions)		
Long-term business:			
UK and Europe Insurance Operations	**85**	78	105
Jackson National Life	**72**	58	48
Asian Operations	**38**	14	18
Total long-term business	**195**	150	171
Other operations	**(18)**	(44)	(51)
Total tax on operating profit	**177**	106	120
Tax on short-term fluctuations in investment returns	**68**	38	(91)
Tax on profit on business disposals	**19**	—	13
Tax on Egg France closure cost	**(32)**	—	—
Total	**232**	144	42

The following table reconciles the Group's statutory tax rate:

	2004	2003	2002
	(£ millions, except percentages)		
Profit on ordinary activities before shareholder tax			
UK	**228**	41	490
Foreign	**422**	309	11
	650	350	501
UK statutory tax rate	**30%**	30%	30%
Tax expense at statutory rate	**195**	105	150
Utilization of capital losses against profit on sale of UK personal lines property and casualty insurance business	**—**	—	(97)
Other differences in basis between taxable gains and book gains	**(8)**	3	(15)
Different tax rates on overseas earnings	**6**	13	(15)
Deferred tax not recognized on tax losses carried forward	**19**	21	28
Different tax basis of long-term insurance	**(15)**	(12)	(29)
Taxable foreign exchange losses not recognized in accounts	—	—	(12)
Non-taxable amortization of goodwill	**29**	30	29
Adjustments in relation to prior years	**(13)**	(10)	(3)
Capital allowances for period in excess of depreciation for period	—	(4)	(2)
Short-term timing differences	**11**	11	13
Unrealised gains on general business and shareholder investments	—	—	57
Other	**30**	18	(18)
Tax expense	**254**	175	86

The low effective tax rate on total profit for 2002 arose principally due to tax payable on the profit on sale of UK personal lines property and casualty insurance business being relieved against capital losses available to the Group.

The possible tax benefit of approximately £430 million, which may arise from capital losses valued at approximately £1.7 billion, is sufficiently uncertain that it has not been recognized. The circumstances in which the amount would be recoverable are a combination of the following: the agreement of the value of the losses with the UK Inland Revenue, the availability of future capital profits that are within the charge to capital gains tax and the agreement of the UK Inland Revenue to the utilization of the losses against certain capital gains arising in the UK long-term business operations.

Deferred income tax

The components of the net deferred income tax liability by category at December 31, 2004 and 2003 respectively are as follows. The balances have not been discounted.

	Liability Provided (Asset Recognized) 2004	2003
	(£ millions)	
Unrealized gains on investments	**1,489**	1,205
Deferred acquisition costs	**403**	408
Short-term timing differences	**(560)**	(626)
Long-term business technical provisions and other insurance items	**213**	204
Capital allowances	**(23)**	(37)
Total	**1,522**	1,154

The components of the net deferred income tax liability by fund are as follows:

	Liability Provided (Asset Recognized) 2004	2003
	(£ millions)	
Scottish Amicable Insurance Fund	**125**	87
PAC with-profits funds(1)	**1,448**	1,225
Jackson National Life	**(85)**	(172)
Other long-term business operations	**88**	50
Other operations	**(54)**	(36)
Total	**1,522**	1,154

(1) Includes deferred tax charges in respect of non-participating annuity business written by a subsidiary, Prudential Annuities Limited, financed by the PAC with-profits fund.

A potential deferred tax asset of £114 million and £115 million at December 31, 2004 and 2003 respectively, which may arise from trading losses of approximately £408 million and £378 million, is sufficiently uncertain that it has not been recognized. With regard to £100 million and £104 million of the asset at December 31, 2004 and 2003 respectively, the trading losses would be recoverable only if there were sufficient trading profits in the jurisdictions where the losses have arisen. The balance is dependent upon the outcome of a case before the European Court of Justice regarding Group relief claims in connection with European subsidiaries.

A reconciliation of the movement in the net deferred income tax liability is set out below:

	2004	2003
	(£ millions)	
Deferred tax liability at beginning of year	**1,154**	696
Exchange movements	**20**	28
Deferred tax charged in profit and loss account for the year	**348**	430
Deferred tax liability at the end of year	**1,522**	1,154

7 Other Financial Investments

	Cost 2004 £m	Current value 2004 £m
Shares and other variable yield securities and units in unit trusts	**25,017**	**38,426**
Debt securities and other fixed income securities — carried at market value	**45,373**	**47,319**
Debt securities and other fixed income securities — carried at amortised cost	**19,529**	**19,431**
Loans secured by mortgages	**2,742**	**2,802**
Loans to policyholders secured by insurance policies	**707**	**707**
Other loans	**67**	**83**
Deposits with credit institutions	**6,125**	**6,125**
Other investments	**2,174**	**2,369**
Total	**101,734**	**117,262**

Amounts included in the above relating to listed investments were:	
Shares and other variable yield securities and units in unit trusts	**37,429**
Debt securities and other fixed income securities — carried at market value	**39,046**
Debt securities and other fixed income securities — carried at amortised cost	**15,022**
Total	**91,497**

Consistent with the Group's accounting policy, amortised cost has been applied as current value for certain fixed income securities. Where appropriate, the current value of such investments has been reduced to impaired value.

The market value of debt securities and other fixed income securities carried at amortised cost was £20,426m (£21,202m). All debt securities carried at amortised cost are held by long-term business operations.

For those debt securities and other fixed income securities carried at amortised cost where the maturity value exceeded purchase price, the unamortised difference at the year end was £134m (£199m). For securities carried at amortised cost where the purchase price exceeded maturity value, the unamortised difference at the year end was £388m (£360m).

8 Borrowings

	Long-term loans 2004 £m	Amounts owed to credit institutions 2004 £m	Other borrowings 2004 £m	Total 2004 £m
Core structural borrowings of shareholder financed operations:				
Holding company and finance subsidiaries:				
US$250m 7.125% Bonds 2005^	**130**			**130**
£150m 9.375% Guaranteed Bonds 2007	**150**			**150**
£250m 5.5% Bonds 2009^	**250**			**250**
€500m 5.75% Subordinated Notes 2021^† (note (i))	**351**			**351**
£300m 6.875% Bonds 2023^	**300**			**300**
£250m 5.875% Bonds 2029^	**250**			**250**
£435m 6.125% Subordinated Notes 2031^†	**426**			**426**
US$1,000m 6.5% Perpetual Subordinated Capital Securities^† (note (ii))	**512**			**512**
US$250m 6.75% Perpetual Subordinated Capital Securities^†	**126**			**126**
Floating Rate Guaranteed Unsecured Notes 2004			**—**	**—**
€20m Medium Term Subordinated Notes 2023^ (note (iii))	**14**			**14**
Commercial paper 2005^			**171**	**171**
Jackson National Life:				
US$250m 8.15% Surplus Notes 2027	**130**			**130**
Currency translation net asset on swap transactions			**(13)**	**(13)**
Total core structural borrowings of shareholder financed operations	**2,639**		**158**	**2,797**

	Long-term loans 2004 £m	Amounts owed to credit institutions 2004 £m	Other borrowings 2004 £m	Total 2004 £m
Other borrowings of shareholders' funds:				
Bank loans and overdrafts		**17**		**17**
Obligations under finance leases		**2**		**2**
Commercial paper 2005^ (note (iv))			**1,057**	**1,057**
Medium Term Notes (note (iv))			**9**	**9**
Currency translation net liability on swap transactions (note (iv))			**13**	**13**
Non-recourse borrowings of investment subsidiaries managed by PPM America (note (v))		**128**	**55**	**183**
Egg debenture loans (note (vi)):				
£250m 7.5% Subordinated Notes 2013	**249**			**249**
£200m 6.875% Subordinated Notes 2021	**202**			**202**
Other borrowings of long-term business operations:				
Scottish Amicable Finance plc (note (vii)):				
£100m 8.5% Undated Subordinated Guaranteed Bonds	**100**			**100**
Bank loans and overdrafts		**44**		**44**
Total borrowings	**3,190**	**191**	**1,292**	**4,673**

^ Borrowings issued by the holding company. The interests of the holders of the Subordinated Notes and the Subordinated Capital Securities are subordinate to the entitlements of other creditors of the holding company.

† Net of issue costs.

	Long-term loans 2004 £m	Amounts owed to credit institutions 2004 £m	Other borrowings 2004 £m	Total 2004 £m
Borrowings are repayable as follows:				
Within one year or on demand	**130**	**55**	**1,248**	**1,433**
Between one and two years	**—**	**8**	**—**	**8**
Between two and five years	**400**	**—**	**—**	**400**
After five years	**2,660**	**128**	**44**	**2,832**
Total borrowings	**3,190**	**191**	**1,292**	**4,673**
Reconciliation to cash flow statement disclosures:				
Shareholders' funds	**2,960**	**147**	**1,292**	**4,399**
Long-term business operations	**230**	**44**	**—**	**274**
Total borrowings	**3,190**	**191**	**1,292**	**4,673**
Recorded in the consolidated balance sheet as:				
Subordinated liabilities	**1,429**			
Debenture loans	**1,761**			
	3,190			

(i) The €500m 5.75% borrowings have been swapped into borrowings of £333m with interest payable at 6 month £Libor plus 0.962%.

(ii) Interest on the US$1,000m 6.5% borrowings has been swapped into floating rate payments at 3 month US$Libor plus 0.80%.

(iii) The €20m Medium Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5%).

At 31 December 2004 these had been swapped into borrowings of £14m with interest payable at 3 month £Libor plus 1.2%.

(iv) These borrowings support a short-term fixed income securities reinvestment programme.

(v) Non-recourse borrowings issued by investment subsidiaries managed by PPM America include secured senior and subordinated debt. The senior debt is secured on the investments held by the relevant subsidiaries. Interest rates on the senior debt are variable based on a market rate and mostly ranged from 1.57% to 2.38% (1.57% to 2.16%). The interests of the holders of the subordinated debt issued by these subsidiaries are subordinate to the entitlements of the holders of the senior debt. In addition to the debt of these subsidiaries, PPM America manages investment companies with liabilities of £753m (£943m) pertaining to debt instruments issued to external parties. In all instances the holders of the debt instruments issued by these subsidiaries and other companies do not have recourse beyond the assets of those subsidiaries.

(vi) The interests of the holders of the Notes issued by Egg plc as structured debt capital are subordinate to the entitlements of other creditors of that operation. At 31 December 2004, Egg had also issued unsubordinated debt securities totalling £1,807m (£1,423m) and sold securities under agreements to repurchase totalling £131m (£829m) as part of its trading activities.

(vii) The interests of the holders of the Bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund of The Prudential Assurance Company Limited, are subordinate to the entitlements of the policyholders of that fund.

(viii) Jackson National Life has entered into a programme of funding arrangements under contracts which, in substance, are almost identical to Guaranteed Investment Contracts. The liabilities under these funding arrangements totalled £2,862m (£3,247m). In addition, Jackson National Life has entered into stocklending arrangements. Obligations under these arrangements totalled £446m (£515m). These amounts are shown on the consolidated balance sheet within creditors.

(ix) Under the terms of the Group's arrangements with its main UK 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.

9 Pension Plans and Information on Staff

Pension Costs

The Group has chosen not to fully implement FRS 17 'Retirement benefits' for the 2004 financial statements. Pension costs shown above have been determined applying the principles of SSAP 24 'Pension costs'. £31m (£32m) of the costs related to defined benefit schemes and £18m (£16m) to defined contribution schemes. In addition, £15m (£12m) of the costs related to overseas defined contribution schemes.

Actuarial valuation and funding

The Group operates a number of pension schemes around the world. The largest scheme is the Prudential Staff Pension Scheme (PSPS). This Scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the Scheme. On the FRS 17 basis of valuation described below, 90% of the liabilities of Group defined benefit schemes are accounted for within PSPS.

This Scheme has assets held in separate trustee administered funds and was last subject to a full triennial actuarial valuation as at 5 April 2002 by P N Thornton, a qualified actuary and a partner in the firm of Watson Wyatt Partners. The principal actuarial assumptions adopted were investment return 6.6% per annum, pensionable earnings growth 4.5% per annum, increases to pensions in payment 2.5% per annum and dividend growth 3.5% per annum.

The market value of Scheme assets as at that date was £4,034m and the actuarial value of the assets was sufficient to cover 110% 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 has continued at the minimum rate prescribed under the Scheme rules, which is 12.5% of salaries.

The employers' contribution is required to be paid as a minimum in future years irrespective of the excess of assets in the Scheme and, under the current Scheme rules, access to the surplus through refunds from the Scheme is not available. Accordingly the surplus is not recognised as an asset in the Group's financial statements and the pension cost charge has been determined on an accrued payable basis without regard to the spreading of the surplus in the fund that would normally be appropriate under the requirements of SSAP 24.

The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G activities, whose aggregate pension costs on a SSAP 24 basis are materially the same as the funding cost. For all three schemes the projected unit method was used for the most recent full actuarial valuations.

FRS 17 Basis Disclosure

Using external actuarial advice provided by Watson Wyatt Partners for the valuation of PSPS and by Aon Limited for the M&G scheme, and internal advice for the Scottish Amicable scheme, the most recent full valuations have been updated to December 31, 2004, applying the principles prescribed by FRS 17.

The key assumptions adopted for the FRS 17 basis valuations were:

	December 31 2004	2003	2002
Price inflation	**2.80%**	2.70%	2.25%
Rate of increase in salaries	**4.80%**	4.70%	4.25%
Rate of increase in present and future pensions	**2.80%**	2.70%	2.25%
Rate used to discount scheme liabilities	**5.30%**	5.40%	5.50%

The assets in the schemes and the expected rates of return were:

	December 31, 2004		December 31, 2003		December 31, 2002	
	Assets	Long-term expected rate of return	Assets	Long-term expected rate of return	Assets	Long-term expected rate of return
	(£ millions)		(£ millions)		(£ millions)	
Equities	**2,568**	**7.50%**	2,671	7.75%	2,501	8.00%
Bonds	**1,057**	**4.75%**	639	5.00%	473	5.00%
Properties	**533**	**6.80%**	564	7.00%	536	7.75%
Other assets	**62**	**4.80%**	116	4.00%	60	4.00%
Total value of assets	**4,220**	**6.68%**	3,990	7.10%	3,570	7.50%

The long-term expected rates of return have been determined after applying due consideration to the requirements of paragraph 54 of FRS 17, in particular, taking account of the values of the assets and equity market levels at the balance sheet dates.

The present value of the liabilities of the three schemes at December 31, 2004, was £4,869 million (December 31, 2003 £4,592 million). The resulting scheme deficit arising from the excess of liabilities over assets at December 31, 2004, comprised £494 million attributable to the with-profits funds of The Prudential Assurance Company Limited (PAC) and £155 million attributable to shareholder operations. At December 31, 2003, the resulting scheme deficit comprised £457 million attributable to the PAC with-profits fund and £145 million attributable to shareholder operations.

The movements in the difference between scheme assets and liabilities were:

	December 31, 2004	2003
	(£ millions)	
Current service cost	**(66)**	(62)
Contributions	**31**	32
Other finance income	**33**	39
Actuarial losses	**(45)**	(64)
Net reduction	**(47)**	(55)

Movements on the pension scheme liability attributable to shareholder operations that would have been recognized in the Group's primary statements, had FRS 17 been implemented, are as follows:

	Net pension liability attributable to shareholders January 1, 2004	Profit and loss account charge attributable to shareholders (note a)	Actuarial losses Attributable to Shareholders (note b) (£ millions)	Contributions paid by shareholder operations	Net pension liability attributable to shareholders December 31, 2004
Gross of tax liability	(145)	(14)	(8)	12	(155)
Related deferred tax	44	4	2	(4)	46
Net of tax liability	(101)	(10)	(6)	8	(109)

(a) Profit and loss charge attributable to shareholders

This comprises:

	2004	2003	2002
	(£ millions)		
Operating charge (all current service cost)	**(66)**	(62)	(65)
Finance income (expense):			
Interest on pension scheme liabilities	**(243)**	(222)	(212)
Expected return on pension scheme assets	**276**	261	300
	33	39	88
Total profit and loss account (charge) credit	**(33)**	(23)	23
Less: amount attributable to PAC with-profits fund(1)	**19**	11	(24)
Profit and loss account charge attributable to shareholders	**(14)**	(12)	(1)

(1) Since shareholder profits in respect of the PAC with-profits fund are a function of the actuarially determined surplus for distribution, the overall profit and loss account result is not directly affected by the level of pension cost or other expenses.

(b) Actuarial losses attributable to shareholders

This comprises the losses charged to the statement of total recognized gains and losses, after adjustment for the amounts attributable to the PAC with-profit funds, as follows:

	2004	2003	2002
	(£ millions)		
Actual less expected return on pension scheme assets (3%, (8%) and ((26)%) of pension scheme assets)	**115**	311	(932)
Experience losses on scheme liabilities (0%,(0%) and (1%) of the present value of scheme liabilities)	**(18)**	(3)	(38)
Changes in assumptions underlying the present value of scheme liabilities	**(142)**	(372)	(219)
Total actuarial loss (1%,(1%) and (29%) of the present value of scheme liabilities)	**(45)**	(64)	(1,189)
Less: amounts attributable to the PAC with-profits fund	**37**	41	914
Pre-tax impact on the statement of total recognized gains and losses attributable to shareholders	**(8)**	(23)	(275)
Related deferred tax	**2**	7	82
Net amount attributable to shareholders' funds	**(6)**	(16)	(193)

Movements on the pension scheme liability attributable to the PAC with-profits fund that would have been recognized in the Group's primary statements, had FRS 17 been implemented, are as follows:

	Net pension liability attributable to PAC with-profits fund January 1, 2004	Charge to long-term technical account attributable to PAC with-profits fund	Actuarial losses attributable to PAC with-profits fund (£ millions)	Contributions paid by PAC with-profits fund	Net pension liability attributable to PAC with-profits fund December 31, 2004
Gross of tax liability	(457)	(19)	(37)	19	(494)
Related deferred tax	46	2	4	(2)	50
Net of tax liability	(411)	(17)	(33)	17	(444)

The apportionment of the deficit between the estimated amounts attributable to the PAC with-profits fund and shareholders' operations reflect the activities of the retired and active members of the schemes.

Comparison of FRS 17 basis results with results on SSAP 24 basis

Balance sheet	December 31, 2004 SSAP 24 basis As published	December 31, 2004 FRS 17 basis Memorandum information	December 31, 2003 SSAP 24 basis As primary financial statements	December 31, 2003 FRS 17 basis Memorandum information
		(£ millions)		
Pension scheme liability attributable to shareholders and PAC with-profits fund (net of related deferred tax)	**Nil(1)**	**(553)**	Nil(1)	(512)
Fund for future appropriations	**16,686**	**16,242**	12,657	12,246
Shareholders' funds	**4,281**	**4,172**	3,240	3,139

(1) Surplus on actuarial basis of valuation not recognized due to minimum contribution requirement under Scheme rules.

Profit and loss account	2004 SSAP 24 basis As primary financial statements	2004 FRS 17 basis Memorandum information
	(£ millions)	
Pension costs charged to technical accounts and non-technical account for defined benefit and defined contribution schemes	**(49)**	(51)
Tax charge attributable to long-term business charged to the long-term technical account	**(896)**	(896)
Transfer to fund for future appropriations charged to the long-term technical account	**(4,025)**	(4,025)
Operating profit before amortization of goodwill	**583**	581

10 Share Capital and Share Premium

The authorised share capital of the Company is £170m (divided into 3,000,000,000 ordinary shares of 5 pence each and 2,000,000,000 sterling preference shares of 1 pence each) and US$20m (divided into 2,000,000,000 US dollar preference shares of 1 cent each) and €20m (divided into 2,000,000,000 Euro preference shares of 1 cent each). None of the preference shares has been issued. A summary of the ordinary shares in issue is set out below:

Issued shares of 5 pence each fully paid	Number of shares	Share capital 2004 £m	Share premium 2004 £m
At beginning of year	**2,009,176,830**	**100**	**553**
Shares issued under Rights Issue, net of expenses	**339,011,347**	**17**	**1,004**
Shares issued under share option schemes	**567,121**	**—**	**1**
Shares issued in lieu of cash dividends	**26,637,722**	**2**	**116**
Transfer to retained profit in respect of shares issued in lieu of cash dividends			**(116)**
At end of year	**2,375,393,020**	**119**	**1,558**

In October 2004, the Company announced a 1 for 6 Rights Issue at 308 pence per new share. The Rights Issue raised £1,044m and issue expenses were £23m.

At 31 December 2004 there were options subsisting under share option schemes to subscribe for 13,254,966 (15,788,315) shares at prices ranging from 266 pence to 723 pence (266 pence to 723 pence, as restated to take account of the 2004 Rights Issue) and exercisable by the year 2011 (2010).

The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. In 2004 the Company purchased 1.0m shares in respect of employee incentive plans at a cost of £4m. At 31 December 2004, 10.6m Prudential plc shares with a market value of £48m were held in such trusts. This was also the maximum number held at any time during the year. Of this total, 5.4m shares were held by trusts under employee incentive plans. The cost of acquiring Prudential plc shares held in these trusts of £42m (£38m) has been shown as a deduction from shareholders' funds.

In addition, 5.2m shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes at a weighted average exercise price of 277 pence.

11 Contingencies and Related Obligations

Consistent with FRS 12, 'Provisions, contingent liabilities and contingent assets', appropriate provision has been made in the financial statements where the Group has an obligation arising from the events or activities described below where a realistic estimate of the obligation can be made, but not for contingent liabilities.

Litigation

Jackson National Life has been named in civil proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. At this time, it is not possible to make a meaningful estimate of the amount or range of loss, if any, that could result from an unfavourable outcome in such actions. In addition, Jackson National Life is a defendant in individual actions that involve similar issues.

The Group is involved in other litigation and regulatory issues arising in the ordinary course of business. Whilst the outcome of such matters cannot be predicted with certainty, the directors believe that the ultimate outcome of such litigation will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

Pension Mis-Selling Review

In 1988, the UK government introduced new pensions legislation intended to encourage more individuals to make their own arrangements for their pensions. During the period from April 1988 to June 1994, many individuals were advised by insurance companies, Independent Financial Advisers and other intermediaries to not join, to transfer from or to opt out of their occupational pension schemes in favour of private pension products introduced under the UK Income and Corporation Taxes Act 1988. The UK insurance regulator (previously the Personal Investment Authority, now the Financial Services Authority, (FSA)) subsequently determined that many individuals were incorrectly advised and would have been better off not purchasing the private pension products sold to them. Industry participants are responsible for compensating the persons to whom private pensions were mis-sold. As a result, the FSA required that all UK life insurance companies review their potential cases of pension mis-selling and pay compensation to policyholders where necessary and, as a consequence, record a provision for the estimated costs. The Group met the requirement of the FSA to issue offers to all cases by 30 June 2002.

Provisions in respect of the costs associated with the review have been included in the change in the long-term business provision in the Group's profit and loss account and the transfer to or from the fund for future appropriations has been determined accordingly. The following is a summary of the changes in the pension mis-selling provision for the years ended 31 December 2004 and 31 December 2003:

	2004 £m
Balance at beginning of year	**530**
Changes to actuarial assumptions and method of calculation	**(32)**
Discount unwind	**22**
Redress to policyholders	**(26)**
Payment of administrative costs	**(7)**
Balance at end of year	**487**

Every year the FSA updates the actuarial assumptions to be used in calculating the provision, including interest rates and mortality assumptions. The pension mis-selling provision represents the discounted value of future expected payments, including benefit payments and all internal and external legal and administrative costs of adjudicating, processing and settling those claims. To the extent that amounts have not been paid, the provision increases each year reflecting the shorter period of discount.

The directors believe that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of the Group's pension review unit established to identify and settle such cases. Such provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The costs associated with the mis-selling review have been met from the inherited estate. Accordingly, these costs have not been charged to the asset shares used in the determination of policyholder bonus rates. Hence policyholders' pay-out values have been unaffected by pension mis-selling.

In 1998, Prudential stated that deducting mis-selling costs from the inherited estate would not impact its bonus or investment policy and it gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged. The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing.

This review was completed on 30 June 2002 and consequently the assurance has not applied to new business issued since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The assurance will continue to apply to any policy in force as at 31 December 2003, both for premiums paid before 1 January 2004 and for subsequent regular premiums (including future fixed, retail price index or salary related increases and Department of Work and Pensions rebate business). The maximum amount of capital support available under the terms of the assurance will reduce over time as claims are paid on the policies covered by it.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns and this is expected to continue for the foreseeable future.

Free Standing Additional Voluntary Contribution Business Review

In February 2000, the FSA ordered a review of Free Standing Additional Voluntary Contribution business, which constitutes sales of personal pensions to members of company pension schemes. Individuals who purchased these pensions instead of the Additional Voluntary Contributions (AVC) scheme connected to their company's pension scheme may have been in a better financial position investing their money, and any matching contributions from their employers, in their company's AVC scheme. The FSA's review was to ensure that any employees disadvantaged due to not being properly informed of the benefits foregone from not investing in their AVC scheme were compensated.

The review required companies to identify relevant investors and to contact them with an offer to review their individual case. The Group met the deadline set by the FSA to issue offers to all cases by 31 December 2002. As a result of the review, the Group held a provision of £2m at 31 December 2004.

Mortgage Endowment Products Review

In common with several other UK insurance companies, the Group used to sell low-cost endowment products related to repayment of residential mortgages. At sale, the initial sum assured is set at a level such that the projected benefits, including an estimate of the annual bonus receivable over the life of the policy, will equal or exceed the mortgage debt. Because of a decrease in expected future investment returns since these products were sold, the FSA is concerned that the maturity value of some of these products will be less than the mortgage debt. The FSA has worked with insurance companies to devise a programme whereby the companies write to customers indicating whether they may have a possible shortfall and outline the actions that the customers can take to prevent this possibility.

The Group is exposed to mortgage endowment products in respect of policies issued by Scottish Amicable Life plc (SAL) and policies issued by Scottish Amicable Life Assurance Society (SALAS) and transferred into the Scottish Amicable Insurance Fund (SAIF). Provisions of £7m in SAL and £47m in SAIF were held at 31 December 2004 to cover potential compensation in respect of mortgage endowment product mis-selling claims. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, this provision has no impact on shareholders. In addition, Prudential Assurance's main with-profits fund paid compensation of £16m in respect of mortgage endowment products mis-selling claims and held a provision of £61m at 31 December 2004 to cover further claims. This provision has no impact on the Group's profit before tax.

Guaranteed Annuities

Prudential Assurance used to sell guaranteed annuity products in the UK and held a provision of £49m at 31 December 2004 within the main with-profits fund to honour guarantees on these products. The Group's main exposure to guaranteed annuities in the UK is through the Scottish Amicable Insurance Fund (SAIF) and a provision of £648m was held in SAIF at 31 December 2004 to honour the guarantees. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, this provision has no impact on shareholders.

Guarantees and Commitments

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies. These guarantee funds are financed by payments assessed on solvent insurance companies based on location, volume, and types of business. The Group estimated its reserve for future guarantee fund assessments for Jackson National Life to be £10m at 31 December 2004. Similar assessments for the UK businesses were not significant. The directors believe that the reserve is adequate for all anticipated payments for known insolvencies.

Jackson National Life has commitments for future payments related to equity index call options totalling £8m at 31 December 2004. These commitments are accounted for on a deferred basis and therefore are off-balance sheet. The commitments were entered into in the normal course of business to hedge obligations associated with the issuance of equity index-linked immediate and deferred annuities and fall due for payment over the next three years.

Jackson National Life has unfunded commitments related to its investments in limited partnerships totalling £157m at 31 December 2004. These commitments were entered into in the normal course of business and the directors do not expect a material adverse impact on the operations to arise from them.

The Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. At 31 December 2004, the aggregate amount of commitments and guarantees in respect of land and buildings was approximately £42m.

The Group has provided, from time to time, other guarantees and commitments to third parties entered into in the normal course of business but the directors do not consider that the amounts involved are significant.

Other Matters

Prudential Assurance's inherited estate

The assets of the main with-profits fund within the long-term fund of Prudential Assurance comprise the amounts that the Company expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of Prudential Assurance's long-term fund which enables the Company to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year-to-year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

The Group believes that it would be beneficial if there were greater clarity as to the status of the inherited estate and therefore it has discussed with the Financial Services Authority the principles that would apply to any re-attribution of the inherited estate. No conclusions have been reached. Furthermore, the Group expects that the entire inherited estate will need to be retained within the long-term fund for the foreseeable future to provide working capital and so it has not considered any distribution of the inherited estate to policyholders and shareholders.

Support of long-term business funds by shareholders' funds

As a proprietary insurance company, the Group is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the Fund for Future Appropriations, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds could be materially depleted over time, by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change, or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1997, the business of Scottish Amicable Life Assurance Society, a mutual society, was transferred to Prudential Assurance. In effecting the transfer, a separate sub-fund, the Scottish Amicable Insurance Fund (SAIF), was established within Prudential Assurance's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund and the sub-fund is managed to ensure that all the invested assets are distributed to SAIF policyholders over the lifetime of the SAIF policies. With the exception of certain amounts in respect of the unitised with-profits life business, all future earnings arising in SAIF are retained for SAIF policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is offset by a transfer to (from) the SAIF fund for future appropriations. Shareholders have no interest in the profits of SAIF but are entitled to the investment management fees paid on this business. With the exception of certain guaranteed annuity products mentioned earlier in this note, the majority of SAIF with-profits policies do not guarantee minimum rates of return to policyholders.

Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations to the policyholders of SAIF, the Prudential Assurance long-term fund would be liable to cover any such deficiency. At 31 December 2004, the excess of SAIF assets over guaranteed benefits was £1,836m. Due to the quality and diversity of the assets in SAIF, the excess of assets stated above and the ability of SAIF to revise guaranteed benefits in the event of an asset shortfall, the directors believe that the probability of either the Prudential Assurance long-term fund or the Group's shareholders' funds having to contribute to SAIF is remote.

12 Cashflow

	2004 £m
Reconciliation of Operating Profit to Net Cash Inflow from Operations	
Operating profit before amortisation of goodwill	**583**
Add back interest charged to operating profit	**213**
Adjustments for non-cash items:	
Tax on long-term business profits	**(195)**
Amounts retained and invested in long-term business operations	**(579)**
Increase in net banking business assets	**(24)**
Other items	**95**
Net cash inflow from operating activities	**93**

	2004 £m
Changes in Investments Net of Financing	
Increase in cash and short-term deposits, net of overdrafts	12
Net purchases (sales) of portfolio investments	843
Increase in loans	(111)
Reduction in credit facility utilised by investment subsidiaries managed by PPM America	31
Share capital issued, net of expenses of £23m (£nil)	(1,140)
Movements arising from cash flow	(365)
Investment appreciation, exchange translation and other items	163
Transfer to retained profit in respect of shares issued in lieu of cash dividends	116
Portfolio investments net of financing at beginning of year	(1,998)
Portfolio investments net of financing at end of year	(2,084)
Represented by:	
Investments (including short-term deposits)	3,402
Cash at bank and in hand	431
Borrowings	(4,399)
Share capital and share premium	(1,677)
Cumulative charge to Group profit and loss account reserve in respect of shares issued to qualifying employee share ownership trust	159
	(2,084)

	2004 £m
Reconciliation of Investments	
Shareholders' funds (as above)	3,402
Long-term business operations	126,227
Investments in participating interests	26
Total investments (per consolidated balance sheet)	129,655
Reconciliation of Cash	
Shareholders' funds (as above)	431
Long-term business operations	984
Total cash at bank and in hand (per consolidated balance sheet)	1,415
Reconciliation of Borrowings	
Shareholders' funds (as above)	4,399
Long-term business operations	274
Total borrowings	4,673

B. FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2005

Summary Income Statement	Notes	Half Year ended 30 June 2005 (£ millions, except per share amount)	Half Year ended 30 June 2004 (£ millions, except per share amount)	Full Year ended 31 December 2004 (£ millions, except per share amount)
Insurance contract revenues		8,159	7,397	16,099
Investment income (including realised gains and losses, and unrealised appreciation of investments categorised under IAS39 as 'fair value through profit and loss')		9,560	3,245	15,742
Other Income		982	886	2,026
Total Revenue	D	**18,701**	**11,528**	**33,867**
Benefits and claims for insurance contracts, and movement in unallocated surplus of with-profits funds determined after charging taxes borne by policy holders and unallocated surplus of with-profits funds and unit-linked policies		(14,919)	(8,582)	(26,584)
Acquisition costs and other operating expenditure		(3,036)	(2,208)	(5,526)
Interest on structural borrowings of shareholder-financed operations (including Egg) and with-profits operations		(104)	(94)	(196)
Total charges	D	**(18,059)**	**(10,884)**	**(32,306)**
IFRS basis income before tax (representing income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders)	D	642	644	1,561
Income tax expense attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies	D	(182)	(249)	(711)
Profit from continuing operations (including actual investment returns) before tax attributable to shareholders	D,E	460	395	850
Income tax (expense) benefit attributable to shareholders				
Total income tax expense	M	(338)	(387)	(951)
Less: income tax attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies		182	249	711
Income tax expense attributable to shareholders		**(156)**	**(138)**	**(240)**
Profit from continuing operations after tax		304	257	610
Discontinued operations (net of tax)		1	(17)	(94)
Profit for the period	C	305	240	516
Attributable to:				
Equity holders of the parent company		300	233	517
Minority interest		5	7	(1)
Profit for the period		305	240	516
Dividends				
Interim dividend (2005 and 2004)		5.30p	5.19p	5.19p
Final dividend (2004)				10.65p
Total dividend		**5.30p**	**5.19p**	**15.84p**
Earnings per share				
Basic (based on 2,361 million, 2,075 million and 2,121 million shares, respectively)		12.7p	11.8p	27.5p
Diluted (based on 2,364 million, 2,078 million and 2,124 million shares, respectively)		12.7p	11.8p	27.5p

NOTES ON THE UNAUDITED STATUTORY BASIS RESULTS

A Basis of preparation and audit status

EU law (IAS Regulation EC 1606 / 2002) requires that the next annual consolidated financial statements of the Group, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU.

This interim financial information has been prepared on the basis of the recognition and measurement requirements of those standards in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first IFRS annual reporting date.

Compared to the UK GAAP basis of presentation, the statutory IFRS basis results reflect the application of:

(i) Measurement and recognition changes arising from policies the Group expects to apply on the adoption of all IFRS standards, other than IAS32 ("Financial Instruments: Disclosure and Presentation"), IAS39 ("Financial Instruments: Recognition and Measurement"), and IFRS4 ("Insurance Contracts"), from 1 January 2004. The half year 2005 results include the expected effect of these three standards from 1 January 2005.

(ii) Changes to the format of the results and other presentational changes that the Group expects to apply in its full year 2005 financial statements in so far as they affect the summary results included in this interim report.

In addition, compared to the basis of preparing supplementary results and earnings per share basis information previously provided under UK GAAP, a discretionary change of policy for the basis of determining longer-term investment returns included in operating profit based on longer-term investment returns has been applied in respect of the policy for determining longer-term investment returns included in operating profits. Details of the change are described in note B.

The statutory IFRS basis results for the 2005 and 2004 half years are unaudited. References to UK GAAP results throughout the statutory basis financial statements contained in this report reflect the Group's previously published results for the 2004 half year and full year. The UK GAAP basis results for the 2004 half year are unaudited. The 2004 full year UK GAAP results have been derived from the 2004 statutory accounts. The auditors have reported on the 2004 statutory accounts and they have been delivered to the Registrar of Companies. The auditors' report was not qualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

B Significant changes of basis of preparation and accounting policy

The changes of accounting policy that arise on the conversion to IFRS basis reporting are numerous and extend to many items of income, expenditure, assets and liabilities. Comprehensive details of the changes were included with the announcement of restated 2004 comparative results on 2 June 2005 and are available at the Group's web-site at www.prudential.co.uk or on request. The policy changes from the 2004 UK GAAP audited financial statements which are of significance to reported results are as follows:-

2004 and 2005 results

Basis of preparation

Under UK GAAP, the Group's consolidated financial statements were previously prepared in accordance with applicable accounting standards under UK GAAP including being in accordance with the Statement of Recommended Practice issued in November 2003 by the Association of British Insurers.

The statutory basis financial statements included in this report have been prepared on the basis of policies expected to be applied under IFRS for the year ending 31 December 2005. The 2004 full year results included in the IFRS financial information within this report establish the comparative financial information in summary format that the Group expects to be included in the Group's first set of IFRS financial statements for the year ending 31 December 2005. However, due to the continuing work of the IASB and possible amendments to the interpretative guidance, the Group's accounting policies and consequently the information presented may change for the Group's full year 2005 results.

The date of adoption of IFRS is 1 January 2004. As at that date the Group has applied all IASB standards on a basis prescribed or permitted by those standards in the preparation of its consolidated financial statements.

In general, a Group is required to determine its IFRS accounting policies and apply those retrospectively to determine its opening balance sheet under IFRS. However, in accordance with IFRS1 ("First-time Adoption of International Financial Reporting Standards"), the Group has applied the mandatory exceptions and certain optional exemptions from full retrospective application of IFRS.

Significant exemptions from full retrospective application elected by the Group are as follows:

Business combinations

The Group has elected not to apply retrospectively the provisions of IFRS3 ("Business Combinations") to business combinations that occurred prior to 1 January 2004. At the date of adoption, therefore, no adjustment was made between UK GAAP and IFRS shareholders' funds for any historical business combination. Consistent with this approach, goodwill recognised in the opening balance sheet at 1 January 2004 for acquired businesses that have previously been consolidated is the same as previously shown under UK GAAP. Goodwill on newly consolidated entities, for example on venture fund investments, is determined by reference to net assets at transition date.

Comparatives

The Group has taken advantage of the exemption within IFRS that allows comparative information presented in the first year of adoption of IFRS not to comply with the standards IAS32, IAS39 and IFRS4.

Consolidation principles

Inter-company transactions

Previously, under UK GAAP, all inter-company transactions were eliminated on consolidation except for investment management fees charged by M&G and the Group's US and Asia fund management operations to long-term business funds.

Under IFRS, all inter-company transactions are eliminated on consolidation. Investment management fees charged by M&G, and the Group's US and Asia fund management operations to long-term business funds are recorded within inter-segment revenue and expenditure as set out in note D but eliminated on consolidation in the summary income statement.

Entities subject to consolidation

Previously, under UK GAAP, the assets and liabilities and results of entities were consolidated where Prudential had a controlling interest under the terms of Companies Act legislation, FRS2 ("Accounting for subsidiary undertakings") and other relevant UK GAAP interpretations.

Entities are consolidated under IFRS if they fall within the scope of IAS27 ("Consolidated and Separate Financial Statements") and the IFRIC interpretation, SIC12 ("Consolidation — Special Purpose Entities"), of the IASB. Under IFRS, certain investment vehicles are newly consolidated due to the requirements differing from UK GAAP.

Basis of presentation of tax charges

Under Companies Act requirements, previously, tax charges attributable to policyholders and unallocated surplus of with-profits funds and unit linked policies were charged, together with tax charges attributable to the long-term business result attributable to shareholders, as an expense in the long-term business technical account of the Company's Act format of the profit and loss account. In the non-technical section (i.e. the summary profit and loss section attributable to shareholders) the post-tax balance transferred from the long-term business technical account was grossed up by attributable shareholder tax to derive the pre-shareholder tax long-term business result. Tax charges in the non-technical account reflected the aggregate of the shareholder tax on the long-term business result and on the Group's other results.

Under UK Listing Authority rules, profit before tax is required to be presented. This requirement, coupled with the fact that IFRS does not contemplate tax charges which are attributable to policyholders and unallocated surplus of with-profits funds and unit linked policies, necessitates the reporting of total tax charges within the presented results. The result before all taxes i.e. 'profit before tax' is shown in the income statement as "IFRS basis income (representing income, net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit linked policies and shareholders)". Separately, within the income statement "Profit from continuing operations (including actual investment returns) before tax attributable to shareholders" is shown after deduction of taxes attributable to policyholders and unallocated surplus of with-profits funds and unit linked policies. Tax charges on this measure of profit reflect the tax charges attributable to shareholders. In determining the tax charges attributable to shareholders, the Group has applied a methodology consistent with that previously applied under UK GAAP reflecting the broad principles underlying the tax legislation on life assurance companies.

Pension costs

Under UK GAAP, the Group applied the provisions of SSAP24 ("Pension Costs"). Consistent with the surplus financial position of the Prudential Staff Pension Scheme (PSPS) (which accounts for 90 per cent of the liabilities of the Group's defined benefit pension schemes) at 5 April 2002, when the scheme was last subject to a full triennial actuarial valuation, and the scheme rules over minimum levels of funding, no SSAP24 basis prepayment or provision has been reported in the Group's UK GAAP balance sheet. Additional disclosures were made in the notes to the Group's financial statements concerning the Group's UK defined benefit schemes, applying the methodology prescribed by FRS17 ("Retirement Benefits").

Under IAS19 ("Employee Benefits") the impact of the surplus or deficit of defined benefit pension schemes on the consolidated net assets of the Group is determined by the difference between the market value of assets held within the schemes and the net present value of projected future cash flows based on accrued liabilities. The net present value is determined by applying a discount rate based on the yield at the balance sheet date on high quality corporate bonds.

The deficits on the Group's defined benefit pension schemes are apportioned between shareholders' equity and unallocated surplus of the PAC with-profits fund based on the weighted cumulative activity attaching to the contributions paid into the schemes in the past. For the PSPS scheme it is currently estimated that 80 per cent of the deficit is attributable to the PAC with-profits fund and 20 per cent to shareholder backed operations.

The IAS income statement charge for pension costs comprises two items, namely

(a) The aggregate of the actuarially determined service cost of the currently employed personnel, the unwind of discount on liabilities at the start of the period, less the expected investment return on the scheme assets at the start of the reporting period, and

(b) Actuarial gains and losses. These gains and losses arise from changes in assumptions, the difference between actual and expected investment return on the scheme assets, and experience gains and losses on liabilities.

Goodwill

Under UK GAAP, with effect from 1 January 1998, goodwill arising from acquisitions was reflected as an asset on the balance sheet and amortised through the consolidated profit and loss account on a straight line basis over its estimated useful life, not exceeding 20 years. Prior to 1 January 1998, goodwill relating to acquisitions was charged directly to shareholders' funds. As permitted under the transitional arrangements of FRS10, ("Goodwill and Intangible Assets"), amounts previously charged to shareholders' funds were not reinstated as assets in the UK GAAP balance sheet.

Under IFRS, the goodwill balance at 1 January 2004 reflects the carrying value of UK GAAP goodwill for previously consolidated entities at that date on the basis described above, as well as goodwill on certain newly consolidated entities. Under IFRS, goodwill is no longer amortised. However, impairment testing is required annually and on adoption. In addition, as prescribed by IFRS1 ("First-time Adoption of International Financial Reporting Standards"), goodwill previously charged to shareholders' funds on transition is not transferred to the income statement upon disposal of the relevant entity. For half year 2005 an impairment charge in respect of goodwill attaching to the Japan Life Insurance business was appropriate.

Share based payments

The Group offers share awards and option plans for certain key employees and a Save As You Earn (SAYE) plan for all UK and certain overseas employees. The arrangements for distribution to employees of shares held in trusts relating to share award plans and for entitlement to dividends depend upon the particular terms of each plan. Shares held in trusts relating to non-SAYE plans are conditionally gifted to employees. Previously, under UK GAAP, compensation for non-SAYE plans was recorded over the periods to which share awards or options were earned based on intrinsic value. No costs were required to be recorded for SAYE plans.

Under IFRS, share based payments are accounted for on a fair value basis. The fair value is recognised in the income statement over the relevant vesting period and adjusted for lapses and forfeitures with the number of shares expected to lapse or be forfeited estimated at each balance sheet date prior to the vesting date. The only exception is where the share based payment depends upon vesting outcomes attaching to market based performance conditions such as in the case of the Restricted Share Plan. Under these circumstances additional modelling is required to take into account these market based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is then made to the fair value charge for shares that do not vest on account of these performance conditions not being met.

Shareholders' dividends

Previously, under UK GAAP, shareholders' dividends were accrued in the period to which they related regardless of when they were declared. Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the movement on capital and reserves for a half year period therefore reflects the final dividend in respect of the prior year.

Additional significant changes for the 2005 results

Adoption of IAS32, IAS39 and IFRS4

The Group has chosen to apply the exemption within IFRS that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS32 ("Financial Instruments: Disclosure and Presentation"), IAS39 ("Financial Instruments: Recognition and Measurement") and IFRS4 ("Insurance Contracts"). These standards have been formally adopted on 1 January 2005. The principal effects of adopting these standards arises in the Group' UK and Europe long-term business contracts, JNL's fixed income securities and derivative instruments, and Egg's banking assets, liabilities and derivatives positions.

Long-term business

On adoption of these standards, the measurement basis of assets and liabilities of long-term business contracts is dependent upon the classification of the contracts under IFRS4 as either "insurance" contracts, if the level of insurance risk in the contracts is significant, or "investment" contracts, if the risk is insignificant. Insurance contracts are permitted to be accounted for under previously applied GAAP. The Group has chosen to apply this approach. However, as an improvement to accounting policy, permitted by IFRS, the Group has applied the requirements of the UK standard FRS27 ("Life Assurance") to its UK with-profits funds as explained in note I. For those "investment" contracts with discretionary participating features, IFRS4 also permits the continued application of previously applied GAAP. The Group has chosen to apply this approach.

For those "investment" contracts that do not contain discretionary participating features, IAS39 and, where the contract includes an investment management element, IAS18 ("Revenue") apply measurement principles to the assets and liabilities attaching to the contract that may diverge from those previously applied under UK GAAP. The changes primarily arise in respect of deferred acquisition costs, deferred income reserves and provisions for future expenses commonly called "sterling reserves".

Under UK GAAP, acquisition expenses are deferred with amortisation on a basis commensurate with the anticipated emergence of margins under the contract. Under IFRS, acquisition costs for investment contracts are deferred to the extent that is appropriate to recognise an asset that represents the entity's contractual right to benefit from providing investment management services and is amortised as the entity recognises the related revenue. IAS18 further reduces the costs potentially capable of deferral to incremental costs only. Deferred acquisition costs are amortised to the income statement in line with service provision.

Deferred income provisions for front end fees and similar arrangements are required to be established for investment management contracts under IAS18 with amortisation over the expected life of the contract in line with service provision. In contrast to UK GAAP, sterling reserves are not permitted to be recognised under IFRS. An additional feature is that investment contracts are closer in nature to a deposit style arrangement between the policyholder and the company. Under IFRS premiums and withdrawals for these contracts are recorded within the balance sheet directly as a movement on the policyholder liability. After making these and other consequential changes, the IFRS income statement reflects fee income on the contracts, expenses and taxation rather than the UK GAAP basis revenue account.

The investment contract classification applies primarily to certain unit linked and similar contracts in the UK Insurance Operations and Guaranteed Investment Contracts of Jackson National Life (JNL). However, significant differences between the timing of recognising profitability under UK GAAP and IFRS bases are confined to the UK contracts only.

JNL fixed income securities and derivative instruments

Under IAS39, except for loans and receivables, and unless designated under the very restrictive held to maturity classification on an asset by asset basis, most financial assets, including derivatives, are carried in the balance sheet at fair value. To this extent IAS39 is consistent with the basis of valuation applied under UK GAAP for most financial assets of the Group's UK and Asian insurance operations. On application of IAS39, movements in the fair value of investments are recorded either in the income statement or directly to shareholders' reserves in the balance sheet, depending upon the designation and the impact of hedge accounting rules. Derivative instruments are carried at fair value with value movements being recorded in the income statement. Hedge accounting, whereby value movements on derivatives and hedged items are recorded together in the performance statements, is permissible only if certain criteria are met regarding the establishment of documentation and continued measurement of hedge effectiveness.

The changes from UK GAAP to the basis applied from 1 January 2005 arising from these valuation requirements are concentrated on the accounting for the investments and derivatives of JNL. Previously the fixed income securities of JNL, unless impaired, were accounted for at amortised cost with derivatives similarly treated. On adoption of IAS39, the Group has decided to account for JNL's fixed income securities on an "available-for-sale" (AFS) basis whereby the fixed income securities are accounted for at fair value with movements in fair value being recorded in the Statement of Recognised Income and Expense i.e. directly to shareholders' reserves rather than the income statement. Value movements for JNL's derivatives are however booked in the income statement as required by IAS39.

The Group has decided not to seek to hedge account for the majority of JNL's derivatives under IAS39. To do so would require a wholesale re-configuration of JNL's derivative book into much smaller components than currently applied by JNL through its economic hedge programme, and accompanied by an extra layer of hedging instruments, beyond what is economically rational.

Additional significant changes for the 2005 results (continued)

Egg

The changes of policy for Egg arising from the adoption of IAS39 arise primarily in respect of determination of effective interest rates, impairment losses on loans and advances to customers, carrying values of wholesale financial instruments and equity savings products.

For credit card receivables, under UK GAAP, the carrying amount of credit card receivables with low or zero rate interest on balance transfers are carried at cost with interest being accrued at 0% during the incentive period and then at the standard rate thereafter. Under IAS39, these receivables are measured on an amortised cost basis.

For loans and advances to customers, specific and formulated provisions are raised against non-performing loans and a general provision against the balance. Under IAS39, an impairment loss is only recognised when there is objective evidence that a debt is impaired.

Wholesale instruments, under UK GAAP, were previously accounted for on an accruals cost basis. Under IAS39, certain wholesale financial instruments are required to be measured at fair value, and depending on whether they have been classified as fair value through the profit and loss or available-for-sale, the changes in fair value are recognised in the income statement or in equity respectively. The adjustments for wholesale financial instruments also include the impact of designating some of Egg's derivatives as cash flow hedges.

Certain equity savings products contain embedded derivatives. Previously these derivatives have been accounted for on an amortised cost basis. Under IAS39, they are required to be fair valued.

Supplemental earnings information and discretionary non-IFRS change of policy for longer-term investment returns

Previously, under UK GAAP, the Group used operating profit based on longer-term investment returns before amortisation of goodwill as a supplemental measure of its results. For the purposes of measuring operating profit, investment returns on shareholder financed business were based on the expected longer-term rates of return. For fixed income securities, the longer-term returns (including losses arising on the recognition of permanent diminutions in value) were averaged over five years for inclusion in operating profit.

Under IFRS, the Group continues to use operating profit based on longer-term investment returns as a supplemental measure of its results, as disclosed in note E. For the purposes of measuring operating profit, investment returns on shareholder financed business continue to be based on the expected longer-term rate of return. However, for fixed income securities, the five year averaging approach described above has been replaced with a basis that more closely reflects longer-term experience. The amount included in operating results for longer-term capital returns comprises two components. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest related realised gains and losses to operating results to the date when sold bonds would have otherwise matured. This change has been applied following a comprehensive review of the Group's accounting policies and is unrelated to the requirements of IFRS.

Items excluded from operating profit, but included in total pre-tax profit of continuing operations, include goodwill impairment charges, short-term fluctuations in investment returns (i.e. actual less longer-term returns) and actuarial gains and losses on defined benefit pension schemes. For the purposes of distinguishing actuarial gains and losses on defined benefit pension schemes, the component for short-term fluctuations in investment returns is determined by reference to plan assets plus any Prudential policies held by the scheme. Total profits are unaffected by the change of basis of determining longer-term investment returns.

The supplemental earnings information in the statutory basis financial statements is presented for 2005 but not for 2004 comparative results. This is because the comparative 2004 results do not incorporate the effects of adoption of IAS32, IAS39 and IFRS4 and are thus inconsistent with the basis of preparation for the 2005 results. A comparison of supplemental earnings information based on the statutory IFRS basis results for 2005 and proforma IFRS results for 2004, which reflect the estimated effects of adoption of these three standards on the 2004 results of the Group's insurance operations is included in the supplementary IFRS results within this report.

C Reconciliations of summary income statements

	Half Year 2004				Full Year 2004			
		IFRS adjustments				IFRS adjustments		
	UK GAAP (note C (i)) £m	Presentation of UK GAAP in IFRS format (note C (i)) £m	Recognition, measurement and other changes (note C (ii)) £m	**Statutory IFRS basis £m**	UK GAAP (note C (i)) £m	Presentation of UK GAAP in IFRS format (note C (i)) £m	Recognition, measurement and other changes (note C (ii)) £m	**Statutory IFRS basis £m**
Insurance contract revenues	7,397	0	0	**7,397**	16,099	0	0	**16,099**
Investment income	2,380	987	(122)	**3,245**	13,917	2,074	(249)	**15,742**
UK fund management result	79	(79)	0	**0**	136	(136)	0	**0**
US broker dealer and fund management result	(2)	2	0	**0**	(14)	14	0	**0**
Asia fund management result	10	(10)	0	**0**	19	(19)	0	**0**
UK banking result (continuing operations)	30	(30)	0	**0**	63	(63)	0	**0**
Other income	0	350	536	**886**	0	760	1,266	**2,026**
Total revenue	9,894	1,220	414	**11,528**	30,220	2,630	1,017	**33,867**
Benefits and claims for insurance contracts, and movement in unallocated surplus of with-profits funds determined after charging taxes borne by policyholders and unallocated surplus of with-profits funds and unit linked policies	(8,410)	(7)	(165)	**(8,582)**	(26,598)	(37)	51	**(26,584)**
Acquisition costs and other operating expenditure	(901)	(1,119)	(188)	**(2,208)**	(2,069)	(2,397)	(1,060)	**(5,526)**
Interest on structural borrowings		(94)		**(94)**		(196)		**(196)**
Amortisation of goodwill (continuing operations)	(48)	0	48	**0**	(94)	0	94	**0**
Total charges	(9,359)	(1,220)	(305)	**(10,884)**	(28,761)	(2,630)	(915)	**(32,306)**
IFRS basis income, net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit linked policies and shareholders	535		109	**644**	1,459		102	**1,561**

	Half Year 2004 UK GAAP (note C (i)) £m	Half Year 2004 IFRS adjustments Presentation of UK GAAP in IFRS format (note C (i)) £m	Half Year 2004 IFRS adjustments Recognition, measurement and other changes (note C (ii)) £m	**Half Year 2004 Statutory IFRS basis £m**	Full Year 2004 UK GAAP (note C (i)) £m	Full Year 2004 IFRS adjustments Presentation of UK GAAP in IFRS format (note C (i)) £m	Full Year 2004 IFRS adjustments Recognition, measurement and other changes (note C (ii)) £m	**Full Year 2004 Statutory IFRS basis £m**
Income tax attributable to policyholders and unallocated surplus of with-profits funds and unit linked policies	(226)		(23)	**(249)**	(701)		(10)	**(711)**
Profit from continuing operations (including actual investment returns) before tax attributable to shareholders	309		86	**395**	758		92	**850**
Income tax (expense) benefit attributable to shareholders:								
Total tax attributable to policyholders and unallocated surplus of with-profits funds, unit linked policies and shareholders	(354)		(33)	**(387)**	(947)		(4)	**(951)**
Less: Income tax attributable to policyholders and unallocated surplus of with-profits funds and unit linked policies	226		23	**249**	701		10	**711**
Income tax attributable to shareholders	(128)		(10)	**(138)**	(246)		6	**(240)**
Profit from continuing operations after tax	181		76	**257**	512		98	**610**
Discontinued operations (net of tax)	(18)		1	**(17)**	(94)			**(94)**
Profit for the period	163		77	**240**	418		98	**516**
Attributable to:								
Equity holders of the parent company	156		77	**233**	428		89	**517**
Minority interest	7		0	**7**	(10)		9	**(1)**
Profit for the period	163		77	**240**	418		98	**516**

Notes

C (i) UK GAAP results

The UK GAAP basis results shown above reflect those previously recorded in the technical accounts and non-technical account of the Group's profit and loss account under Companies Act requirements. These results are then reconfigured to be consistent with the format expected to be applied for reporting in the Group's 2005 full year financial statements under IFRS.

C (ii) Recognition, measurement and other changes

Changes to profit from continuing operations (including actual investment returns) before and after tax attributable to shareholders, for Half Year 2004 and Full Year 2004 reflect the expected effects of IFRS adoption. In summary the effects are for:

	Half Year 2004 £m	Full Year 2004 £m
Egg — primarily relates to charges for share based payments in respect of Egg shares	1	(2)
Additional pension costs and share based payments costs in respect of Prudential plc shares not allocated by business unit	(2)	(4)
Amortisation of goodwill not permitted under IFRS	48	94
Actuarial gains and losses of defined benefit schemes recognised under IFRS	48	(7)
Value movements of US investment funds newly consolidated under IFRS	(9)	2
Share of profits of venture investment companies and property partnerships of the PAC with-profits fund, newly consolidated under IFRS, that is attributable to external investors.	0	9
Total changes before tax	86	92
Related tax	(10)	6
Total changes after tax	76	98

Changes to revenue, charges, and related tax of the Group's with-profits funds principally relate to measurement differences on investments, consolidation criteria for venture and subsidiaries, and pension cost accounting. The total change to IFRS basis income for these changes for Half Year 2004 and Full Year 2004 after related tax adjustments was £160m and £(22)m respectively. These amounts have been reflected by changes of an equal and opposite amount to transfers to unallocated surplus with no net effect on shareholder results. For Half Year 2004, £126m of that £160m change relates to pension costs due to actuarial gains on the Group's UK defined benefit pension schemes.

A summarised explanation of the changes of accounting policies that give rise to these adjustments is contained in note B.

D Segment disclosure

	Half Year 2005 £m	Half Year 2004 £m
Revenue		
Long-term business, including revenue of PAC venture fund and other investment subsidiaries	**17,679**	10,661
Banking	**682**	591
Broker dealer and fund management	**420**	384
Unallocated corporate	**67**	35
Intragroup revenue eliminated on consolidation	**(147)**	(143)
Total revenue per income statement	**18,701**	11,528
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)		
Long-term business, including expenditure of PAC venture fund and other investment subsidiaries and post-tax transfers to unallocated surplus of with-profits funds	**(16,964)**	(10,082)
Banking	**(669)**	(558)
Broker dealer and fund management	**(329)**	(291)
Unallocated corporate	**(244)**	(96)
Intragroup charges eliminated on consolidation	**147**	143
Total charges per income statement	**(18,059)**	(10,884)
Segment results — Revenue less charges		
Long-term business	**715**	579
Banking	**13**	33
Broker dealer and fund management	**91**	93
Unallocated corporate	**(177)**	(61)
IFRS basis income, net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit linked policies, and shareholders	**642**	644
Income tax attributable to policyholders and unallocated surplus of with-profits funds and unit linked policies	**(182)**	(249)
Profit from continuing operations (including actual investment returns) before tax attributable to shareholders	**460**	395

E Supplementary analysis of profit from continuing operations (including actual investment returns) before tax attributable to shareholders and related earnings per share

	Half Year 2005 £m	Half Year 2004 £m	Full year 2004 £m
Profit from continuing operations before tax			
Operating profit from continuing operations based on longer-term investment returns before exceptional items	**469**		
Goodwill impairment charge	**(95)**	Not	Not
Short-term fluctuations in investment returns on shareholder backed business	**94**	applicable	applicable
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	**(8)**	(see note E (i))	(see note E (i))
Profit from continuing operations (including actual investment returns) before tax attributable to shareholders	**460**		
Earnings per share from continuing operations			
From operating profit based on longer-term investment returns after tax and related minority interest of £331m	**14.0p**		
Adjustment for goodwill impairment charge	**(4.0)p**	Not	Not
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interest)	**3.0p**	applicable	applicable
Adjustment for post-tax shareholders' share of actuarial gains and losses on defined benefit pension schemes	**(0.3)p**	(see note E (i))	(see note E (i))
Based on profit from continuing operations after minority interest of £299m	**12.7p**		

Note

E (i) The supplementary analysis of statutory IFRS basis results shown above has been presented only for half year 2005. Details have not been provided for 2004 as the results would not be comparable. This is due to IAS32, IAS39 and IFRS4 being only adopted from 1 January 2005.

Additional analysis of the 2005 result, and proforma basis comparative results for 2004 as if these standards had been applied by the Group's insurance operations from 1 January 2004, is provided as supplementary information to these financial statements. The analysis on those pages does not form part of the financial statements.

F Reconciliations of equity and balance sheets

At 1 January 2004	Shareholders' equity £m	Minority interest £m	Total equity £m
Changes on adoption of statutory IFRS basis			
Treasury shares adjustment for Prudential plc shares held by unit trusts newly consolidated under IFRS (note F(i))	(40)		(40)
Minority share of equity of consolidated venture investments companies and property partnerships of the PAC with-profits fund (note F(i))		32	32
Shareholders' share of deficits (net of tax) of UK defined benefit pension schemes (note F(ii))	(110)		(110)
Timing difference on recognition of dividend declared after balance sheet date (note F(iii))	214		214
Other items	(8)	(2)	(10)
Total	56	30	86
Equity at 1 January 2004			
As previously published under UK GAAP	3,240	107	3,347
As restated under statutory IFRS	3,296	137	3,433

At 30 June 2004

	UK GAAP £m	Newly consolidated entities (note F(i)) £m	Defined benefit pension schemes accounting (note F(ii)) £m	Other recognition and measurement changes (note F(iii)) £m	Grossing-up and other format changes £m	Total IFRS changes £m	**Statutory IFRS basis £m**
		Effect of changes on implementation of IFRS: Recognition and measurement changes					
Assets							
Goodwill:							
Attributable to PAC with-profits fund		565				565	**565**
Attributable to shareholders	1,456			48		48	**1,504**
Investments: per IFRS balance sheet		2,124		(21)	153,046	155,149	**155,149**
Investments: per UK GAAP analysis (non-linked, linked and banking business assets)	120,061				(120,061)	(120,061)	**0**
Other items	42,717	1,366	56	122	(32,163)	(30,619)	**12,098**
Total assets	164,234	4,055	56	149	822	5,082	**169,316**
Equity and liabilities							
Equity							
Attributable to shareholders of the parent company	3,320	(51)	(78)	161		32	**3,352**
Minority interest	103	70		(2)		68	**171**
Total equity	3,423	19	(78)	159		100	**3,523**
Liabilities							
Banking customer accounts: per IFRS balance sheet					6,699	6,699	**6,699**
Banking business liabilities: per UK GAAP balance sheet	12,245				(12,245)	(12,245)	**0**
Insurance liabilities:							
Contract liabilities (non-linked and linked business)	123,091		(115)	5		(110)	**122,981**
Unallocated surplus of with-profits funds	12,110	28	(312)	(8)		(292)	**11,818**
Borrowings: per IFRS balance sheet							
Core structural borrowings of shareholder financed operations (excluding Egg)					2,596	2,596	**2,596**
Other borrowings attributable to shareholder financed operations		1,086		9	6,156	7,251	**7,251**
Borrowings attributable to with-profits funds		1,642		98	109	1,849	**1,849**
Borrowings: per UK GAAP balance sheet (subordinated liabilities, debenture loans and other borrowings)	4,589				(4,589)	(4,589)	**0**
Dividend payable	109			(109)		(109)	**0**
Other non-insurance liabilities	8,667	1,280	561	(5)	2,096	3,932	**12,599**
Total liabilities	160,811	4,036	134	(10)	822	4,982	**165,793**
Total equity and liabilities	164,234	4,055	56	149	822	5,082	**169,316**

At 31 December 2004

	UK GAAP £m	Effect of changes on implementation of IFRS: Recognition and measurement changes: Newly consolidated entities (note F(i)) £m	Defined benefit pension schemes accounting (note F(ii)) £m	Other recognition and measurement changes (note F(iii)) £m	Grossing-up and other format changes £m	Total IFRS changes £m	**Statutory IFRS basis £m**
Assets							
Goodwill:							
Attributable to PAC with-profits fund		754				754	**754**
Attributable to shareholders	1,367			94		94	**1,461**
Investments: per IFRS balance sheet		1,978		35	162,459	164,472	**164,472**
Investments: per UK GAAP analysis (non-linked, linked and banking business assets)	129,468				(129,468)	(129,468)	**0**
Other items	43,741	1,477	102	50	(32,155)	(30,526)	**13,215**
Total assets	174,576	4,209	102	179	836	5,326	**179,902**
Equity and liabilities							
Equity							
Attributable to shareholders of the parent company	4,281	(30)	(117)	356		209	**4,490**
Minority interest	71	76		(2)		74	**145**
Total equity	4,352	46	(117)	354		283	**4,635**
Liabilities							
Banking customer accounts: per IFRS balance sheet					6,607	6,607	**6,607**
Banking business liabilities: per UK GAAP balance sheet	11,216				(11,216)	(11,216)	**0**
Insurance liabilities:							
Contract liabilities (non-linked and linked business)	129,101		(125)	4	1	(120)	**128,981**
Unallocated surplus of with-profits funds	16,686	6	(472)	(34)		(500)	**16,186**
Borrowings: per IFRS balance sheet							
Core structural borrowings of shareholder financed operations (excluding Egg)					2,797	2,797	**2,797**
Other borrowings attributable to shareholder financed operations		972		9	5,891	6,872	**6,872**
Borrowings attributable to with-profits funds		1,828		105	144	2,077	**2,077**
Borrowings: per UK GAAP balance sheet (subordinated liabilities, debenture loans and other borrowings)	4,673				(4,673)	(4,673)	**0**
Dividend payable	253			(253)		(253)	**0**
Other non-insurance liabilities	8,295	1,357	816	(6)	1,285	3,452	**11,747**
Total liabilities	170,224	4,163	219	(175)	836	5,043	**175,267**
Total equity and liabilities	174,576	4,209	102	179	836	5,326	**179,902**

Notes

F(i) Newly consolidated entities

Under IAS27 and SIC12, the Group is required to consolidate the assets and liabilities of certain entities which have previously not been consolidated. The principal change to shareholders' equity arises from an adjustment in respect of Prudential plc shares held by unit trusts that are newly consolidated. These shares are accounted for as treasury stock and the cost of purchase of £44m, £44m and £29m is deducted from shareholders' equity at 1 January 2004, 30 June 2004 and 31 December 2004 respectively. The change to the minority share of equity reflects external parties' interest in consolidated venture investment companies and property partnerships of the PAC with-profits fund. Measurement changes to the carrying value of these companies that are attributable to the PAC with-profits fund share are reflected in unallocated surplus.

F(ii) Defined benefit pension schemes accounting

Provisions for deficits on the Group's defined benefit pension schemes are absorbed by the unallocated surplus of the PAC with-profits fund and shareholders' funds on a basis that reflects the weighted cumulative activity attaching to the contributions paid in the past, and after deduction of deferred tax. The M&G scheme held Prudential Group's Insurance policies as scheme assets of £115m at 30 June 2004 and £125m at 31 December 2004. The asset and liability are eliminated on consolidation.

F(iii) Other recognition and measurement changes

Under IFRS, dividends declared after the balance sheet date are not recognised as a liability. In addition, goodwill under IFRS represents the balance sheet carrying value at adoption date as discussed in note B. Adjustments in the table are to write-back amortisation previously charged under UK GAAP from 1 January 2004.

G Effect of adoption of IAS32, IAS39, and IFRS4 at 1 January 2005

	Statutory IFRS basis at 31 Dec 2004 (note F) £m	Effect of adoption of IAS32, IAS39 and IFRS4 Recognition and measurement changes: UK and Europe insurance operations (note G(i)) £m	Jackson National Life (note G(ii)) £m	Banking and non-insurance operations (note G(iii)) £m	Grossing-up and other format changes £m	Total effect £m	**Statutory IFRS basis at 1 Jan 2005 £m**
Assets							
Goodwill:							
Attributable to PAC with-profits fund	754						**754**
Attributable to shareholders	1,461						**1,461**
Deferred acquisition costs:							
PAC with-profits fund (note I)	798	(798)				(798)	**0**
Other operations	2,122	43	(456)			(413)	**1,709**
Investments	164,472	(145)	1,262	145	55	1,317	**165,789**
Other assets (excluding deferred acquisition costs and goodwill)	10,295	26	66	(118)	—	(26)	**10,269**
Total assets	179,902	(874)	872	27	55	80	**179,982**
Equity and liabilities							
Equity							
Attributable to shareholders of the parent company	4,490	(12)	273	(25)		236	**4,726**
Minority interest	145			(3)	—	(3)	**142**
Total equity	4,635	(12)	273	(28)	—	233	**4,868**
Liabilities							
Banking customer accounts	6,607			84		84	**6,691**
Insurance liabilities:							
Contract liabilities (non-linked and linked business)	128,981	7,020	(51)			6,969	**135,950**
Unallocated surplus of with-profits funds	16,186	(7,840)				(7,840)	**8,346**
Borrowings:							
Core structural borrowings of shareholder financed operations (excluding Egg)	2,797						**2,797**
Other borrowings attributable to shareholder financed operations	6,872		207	62		269	**7,141**
Borrowings attributable to with-profits funds	2,077						**2,077**
Other non-insurance liabilities:							
Deferred tax liabilities	2,244	(91)	218	(6)		121	**2,365**
Other	9,503	49	225	(85)	55	244	**9,747**
Total liabilities	175,267	(862)	599	55	55	(153)	**175,114**
Total equity and liabilities	179,902	(874)	872	27	55	80	**179,982**

Notes

A summary explanation of the requirements of IAS32, IAS39 and IFRS4 and basis of application by the Group is contained in note B. The changes shown above reflect the impact of re-measurement for:

G (i) UK and Europe Insurance Operations

(a) Certain unit linked and similar contracts that do not contain significant insurance risk and are thus categorised as investment contracts under IFRS4. The net of tax shareholder impact is to reduce shareholders' equity at 1 January 2005 by £8m

(b) Changes to insurance assets and liabilities of the PAC with-profits fund following the improvement of accounting policy applied on adoption of IFRS4. The changes correspond to those applicable if the Group had adopted FRS27 under UK GAAP. As a result of the policy improvement, liabilities, deferred acquisition costs, deferred tax and unallocated surplus of UK regulated with-profits fund are remeasured as described in Note I. At 1 January 2005, the unallocated surplus is subject to a transition adjustment of £(7.8)bn. Shareholders' equity is not affected by this change.

The unallocated surplus of £8.3bn at 1 January 2005 post IAS39 and IFRS4 adoption, comprises £8.0bn for the PAC with-profits fund and £0.3bn for Asian subsidiaries. The £8.0bn for the PAC with-profits fund represents:

	£bn
Regulatory basis realistic surplus of with-profits sub fund and SAIF	6.0
Add back: Regulatory basis provision for future shareholder transfers	2.9
	8.9
Value of non-participating business not explicitly allocated to asset shares	(0.9)
Accounts Basis	8.0

Other reconciling items for the differences between regulatory and accounts basis carrying values of assets and liabilities net to less than £0.05 billion

G (ii) Jackson National Life

Under IAS39, JNL's fixed income securities and derivative financial instruments are re-measured to fair value from the lower of amortised cost and, if relevant, impairment value. Fair value movements on fixed income securities, net of "shadow" changes to deferred acquisition costs and related deferred tax are recorded directly to equity. Fair value movements on derivatives are recorded in the income statement.

G (iii) Banking and non-insurance operations

Under IAS39, for Egg, changes to opening equity at 1 January 2005 arise from altered policies for effective interest rate on credit card receivables, impairment losses on loans and advances, fair value adjustments on wholesale financial instruments and embedded derivatives in equity savings products. The net effect on shareholders' equity of these changes, after tax, is a deduction of £15m. A further £10m reduction in equity arises on certain centrally held financial instruments and derivatives.

H Jackson National Life — Fixed income securities

Statement of Recognised Income and Expense

IAS32 and IAS39 have been adopted from 1 January 2005. Accordingly, for 2004 under IFRS, financial instruments continue to be accounted for under previous GAAP. For Jackson National Life fixed income securities have been accounted for at amortised cost, unless impaired. From 1 January 2005, these assets have been classified as available-for-sale under IAS39 with valuation at fair value. Unrealised gains and losses and reclassification adjustments for gains and losses included in net income are recorded from 1 January 2005 within the Statement of Recognised Income and Expense.

Balance sheet

Due to the change in the valuation basis referred to above, the carrying values of the fixed income securities of Jackson National Life in the Group balance sheet that have been included are not comparable. The fair value of the fixed income securities at 31 December 2004 was £22.5bn. After deduction of related changes to deferred acquisition costs and deferred tax, there was a consequential impact on shareholders' equity at 1 January 2005, on adoption of IAS32 and IAS39, of £397m for the changed basis of valuation of Jackson's securities, as shown in note G.

I Unallocated surplus of with-profits funds

The unallocated surplus of with-profits funds reflects the excess of assets over technical provisions and other liabilities and represents amounts that have yet to be allocated to policyholders and shareholders. For the Group's 2004 financial statements, and as applied for IFRS purposes for 2004 in these financial statements, the technical provisions in respect of insurance and investment contracts of

UK regulated with-profits funds have been determined in accordance with the modified statutory basis of accounting that applied under UK GAAP. With the exception of minor accounting adjustments, the technical provisions reflect the UK regulatory basis of reporting which effectively constitutes the Peak 1 basis under the new FSA regime.

On this basis the unallocated surplus of the PAC with-profits fund for 30 June 2004 and 31 December 2004 was £11,858m and £16,301m respectively. After inclusion of the unallocated surplus of with-profits funds of Asian subsidiaries the unallocated surplus in the consolidated Group balance sheet at 30 June 2004 and 31 December 2004 was £12,110m and £16,686m. Following changes arising from the application of IFRS requirements applicable for 2004, the IFRS basis unallocated surplus for the Group is altered as described in Note F.

The FSA's Peak 2 calculation under the new realistic regime which came fully into effect for the first time for 2004 regulatory reporting requires the value of liabilities for UK regulated with-profits funds to be calculated as:

— a with-profits benefits reserve (WPBR); plus

— future policy related liabilities (FPRL); plus

— the realistic current liabilities of the fund.

The WPBR is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future expected policyholder benefits and other outgoings. By contrast, the Peak 1 basis addresses, at least explicitly, only declared bonuses.

The FPRL must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charge, and this amount must be determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities. Under the Peak 1 basis there is an allowance on a deterministic basis for the intrinsic value of these costs. The cost of guarantees, options and smoothing is very sensitive to the bonus, Market Value Reduction and investment policy the Company employs and therefore the stochastic modelling incorporates a range of management actions that would help to protect the fund in adverse investment scenarios. The management actions assumed are consistent with the management policy for with-profits funds and the disclosures in the publicly available Principles and Practices of Financial Management.

On adoption of IFRS 4 at 1 January 2005, the Group has chosen to improve its accounting policy in respect of the insurance assets and liabilities of UK regulated with-profits funds. The improvement is consistent with the requirements of FRS27 that apply for life assurers reporting under UK GAAP in 2005.

The Peak 2 approach underpins the requirements of FRS27. The main changes that are required for UK regulated with-profits funds are:

— De-recognition of deferred acquisition costs and related deferred tax

— Inclusion of the FSA Peak 2 basis of the value of in-force non-participating business written by the PAC with profits sub-fund, and the Scottish Amicable Insurance Fund; and

— Replacement of modified statutory basis liabilities for with-profits business with adjusted realistic basis liabilities.

Adjusted realistic liabilities represent the Peak 2 realistic liabilities for with-profits business included in Form 19 of the FSA regulatory returns, but after excluding the element for shareholders' share of future bonuses. This latter item is recognised as a liability for the purposes of regulatory returns but for accounting purposes shareholder transfers are recognised only on declaration.

For accounting purposes, to the extent that the value of non-participating business has been taken into account in determining projected policyholder benefits, deduction is made from the gross regulatory value of realistic liabilities. The balance is deducted from the accounting balance of unallocated surplus.

In determining accounting basis liabilities and unallocated surplus an adjustment is also required where the regulatory and accounting carrying values of assets and liabilities differ for altered measurement or recognition criteria. For the Group's UK with-profits funds the main additional item for which adjustment is necessary is the attributable share of deficit of the Group's UK defined benefit pension schemes, net of related tax.

The impact of the changes at 1 January 2005, on adoption of IFRS4, are shown in note G. At 30 June 2005, the unallocated surplus of £8.9 bn comprises £8.8 bn for the PAC with-profits funds and £0.1 bn for Asian subsidiaries. The £8.8 bn for the PAC with-profits fund represents:

	£bn
Estimated regulatory basis realistic surplus of the PAC with-profits sub-fund and SAIF	7.1
Add back: Provision for future shareholder transfers	3.0
	10.1
Estimated value of non-participating business not explicitly allocated to asset shares	(0.8)
Provision for share of deficit of UK defined benefit pension schemes	(0.5)
	8.8

The £0.1bn of unallocated surplus for Asia subsidiaries almost wholly relates to the Malaysian life business. Following local regulatory changes which affect the presentation of the balance sheet, unallocated surplus of the Singapore with-profits business is now amalgamated with policyholder liabilities.

J Dividend

The interim dividend of 5.3p per share will be paid on 28 October 2005 to shareholders on the register at the close of business on 19 August 2005. A scrip dividend alternative will be offered to Shareholders.

K Shareholders' equity

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
Share capital	**119**	101	119
Share premium	**1,561**	553	1,558
Other reserves	**3,309**	2,698	2,813
Total	**4,989**	3,352	4,490

L Other borrowings

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
Operational borrowings attributable to shareholder financed operations:			
Borrowings in respect of short-term fixed income securities programmes	**1,131**	1,203	1,079
Non-recourse borrowings of investment subsidiaries managed by PPM America	**1,195**	1,602	1,155
Borrowings in respect of banking operations	**3,888**	3,967	4,159
Other borrowings	**30**	28	28
Total	**6,244**	6,800	6,421
Borrowings attributable to with-profits funds			
Non-recourse borrowings of venture fund investment subsidiaries of the with-profits sub-fund of the PAC long-term fund	**695**	950	1,107
Structural borrowings (subordinated debt of the Scottish Amicable Insurance Fund)	**100**	100	100
Other borrowings (predominantly external funding of consolidated investment vehicles)	**870**	799	870
Total	**1,665**	1,849	2,077

M Tax charge

The total tax charge of £338m for the 2005 half year (2004 half year £387m) comprises £217m (£308m) UK tax and £121m (£79m) overseas tax. This tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit linked policies and shareholders. The tax charge attributable to shareholders of £156m for the 2005 half year (2004 half year £138m) comprises £52m (£63m) UK tax and £104m (£75m) overseas tax.

N Acquisitions

In May 2005, Jackson National Life completed the purchase of Life Insurance Company of Georgia from ING Groep NV for £142m, subject to post-completion adjustments. There was no goodwill arising on the transaction.

SUPPLEMENTARY IFRS BASIS RESULTS

Additional IFRS basis information to enable consistent comparison of results for Prudential's insurance operations

This information does not form part of the interim statutory IFRS basis financial statements.

The information shown for Half Year 2005 is based on the statutory IFRS basis results as shown in the Group's interim financial statements, and the basis of preparation and significant changes of accounting policies from those previously applied under UK GAAP, described therein. In particular, the Half Year 2005 results include the effects of adoption of the standards IAS32, IAS39 and IFRS4 for the Group's insurance and other operations from 1 January 2005. The 2004 comparative results in those statements are therefore prepared on an inconsistent basis.

The "Proforma IFRS basis" comparative results shown below for 2004, reflect the estimated effect on the Group's 2004 results if IAS32, IAS39, and IFRS4 had been applied from 1 January 2004 to the Group's insurance operations.

The main purpose of providing this proforma information is to present the operating results for the UK and Europe insurance business and short-term fluctuations in investment returns for Jackson National Life on a consistent basis. Under IAS39 and IFRS4, the assets and liabilities of certain unit linked and similar contracts of the UK and Europe insurance business are subject to re-measurement. For Jackson National Life (JNL) derivatives held for economic hedging purposes are fair valued under IAS39 with value movements recorded in the income statement giving rise to significant levels of volatility. In addition fixed income securities of JNL are fair valued with value movements taken directly to shareholder reserves through the Statement of Recognised Income and Expense.

Summary results	**Based on statutory IFRS basis results Half Year 2005 £m**	Proforma IFRS basis results Half Year 2004 £m	Proforma IFRS basis results Full Year 2004 £m
Operating profit from continuing operations based on longer-term investment returns before exceptional items	**469**	375	699
Goodwill impairment charge	**(95)**	—	—
Short-term fluctuations in investment returns	**94**	65	293
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	**(8)**	48	(7)
Profit from continuing operations before tax attributable to shareholders (including actual investment returns)	**460**	488	985
Tax attributable to shareholders	**(156)**	(170)	(290)
Net income from continuing operations	**304**	318	695
Discontinued operations (net of tax)	**1**	(17)	(94)
Profit for the period	**305**	301	601
Attributable to:			
Equity holders of the parent company	**300**	294	602
Minority interest	**5**	7	(1)
Profit for the period	**305**	301	601
Earnings per share			
Continuing operations			
From operating profit, based on longer-term investment returns after tax and related minority interest of £331m (£254m, £481m)	**14.0p**	12.2p	22.7p
Adjustment for goodwill impairment charge	**(4.0)p**	—	—
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interest)	**3.0p**	1.0p	9.0p
Adjustment for post-tax shareholders' share of actuarial gains and losses on defined benefit pension schemes	**(0.3)p**	1.6p	(0.2)p
Based on profit from continuing operations after minority interest of £299m (£307m, £669m)	**12.7p**	14.8p	31.5p
Discontinued operations			
Based on post-tax profit (loss) from discontinued operations (after minority interest)	**0.0p**	(0.6)p	(3.1)p
Based on profit for the period after minority interest	**12.7p**	14.2p	28.4p

SUPPLEMENTARY IFRS BASIS RESULTS

Additional IFRS basis information to enable consistent comparison of results for Prudential's insurance operations

This information does not form part of the interim statutory IFRS basis financial statements

Statement of Recognised Income and Expense	**Based on statutory IFRS basis results Half Year 2005 £m**	Proforma IFRS basis results Half Year 2004 £m	Proforma IFRS basis results Full Year 2004 £m
Net income for the period after minority interest	**300**	294	602
Items taken directly to equity:			
Exchange movements	**183**	(37)	(191)
Movement on cash flow hedges	**(7)**	—	—
Unrealised valuation movements on securities classified as available for sale:			
Gross change	**(63)**	(562)	(106)
Related change to amortisation of deferred acquisition costs	**14**	265	74
Related tax	**48**	113	23
Total recognised income for the period	**475**	73	402
Cumulative effect of change in accounting principles on adoption of IAS32, IAS39 and IFRS4, net of applicable taxes, at 1 January 2005			
Statutory IFRS basis	**236**	—	—
less: Proforma adjustment reflected in adjusted shareholders' equity at 1 January 2005 (as reflected in statement of movement on shareholders' equity — see below) for impact of adoption of IAS32, IAS39 and IFRS4 for insurance operations	**(261)**	—	—
Proforma IFRS basis (i.e. transitional adjustment in respect of banking and other non-insurance operations)	**(25)**	—	—
Total recognised income and expenses	**450**	73	402
Reconciliation of movement on consolidated shareholders' equity (excluding minority interest)			
Total recognised income for the period (as above)	**450**	73	402
Proceeds from rights issue, net of expenses	**—**	—	1,021
Other new share capital subscribed	**40**	61	119
Dividends	**(253)**	(214)	(323)
Reserve movements in respect of share based payments	**6**	3	10
Consideration paid for own shares:			
Consideration paid for own shares purchased in respect of share based payment plans	**0**	0	(4)
Prudential plc shares purchased by unit trusts newly consolidated under IFRS	**(5)**	0	14
Net increase in shareholders' equity	**238**	(77)	1,239
Shareholders' equity at beginning of period			
UK GAAP — as previously published	**4,281**	3,240	3,240
Changes arising from adoption of statutory IFRS	**209**	56	56
Statutory IFRS basis	**4,490**	3,296	3,296
Proforma basis adjustments for estimated impact if IAS32, IAS39, and IFRS4 had been adopted from 1 January 2004 for insurance operations	**261**	216	216
Proforma IFRS basis	**4,751**	3,512	3,512
Shareholders' equity at end of period	**4,989**	3,435	4,751

SUPPLEMENTARY IFRS BASIS RESULTS

Additional IFRS basis information to enable consistent comparison of results for Prudential's insurance operations

This information does not form part of the interim statutory IFRS basis financial statements

NOTES ON THE SUPPLEMENTARY IFRS BASIS RESULTS

1 Operating profit from continuing operations based on longer-term investment returns before exceptional items

Results analysis by business area	**Based on statutory IFRS basis results Half Year 2005 £m**	Proforma IFRS basis results Half Year 2004 £m	Proforma IFRS basis results Full Year 2004 £m
UK and Europe Operations			
UK and Europe Insurance Operations	**187**	153	296
M&G	**83**	79	136
Egg	**13**	33	61
Total	**283**	265	493
US Operations			
Jackson National Life	**157**	157	296
Broker dealer and fund management	**18**	9	15
Curian	**(6)**	(11)	(29)
Total	**169**	155	282
Asian Operations			
Long-term business	**116**	58	117
Fund management	**2**	10	19
Development expenses	**(8)**	(10)	(15)
Total	**110**	58	121
Other income and expenditure			
Investment return and other income	**45**	16	44
Interest payable on core structural borrowings	**(84)**	(74)	(154)
Corporate expenditure:			
Group Head Office	**(36)**	(23)	(51)
Asia Regional Head Office	**(14)**	(18)	(29)
Charge for share based payments for Prudential schemes	**(4)**	(4)	(7)
Total	**(93)**	(103)	(197)
Operating profit from continuing operations based on longer-term investment returns before exceptional items	**469**	375	699

2 Short-term fluctuations in investment returns

	Based on statutory IFRS basis results Half Year 2005 £m	Proforma IFRS basis results Half Year 2004 £m	Proforma IFRS basis results Full Year 2004 £m
US Operations:			
Movement in market value of derivatives used for economic hedging purposes	**36**	92	144
Actual less longer-term investment returns for other items	**24**	13	61
Asian Operations	**17**	(42)	37
Other Operations	**17**	2	51
	94	65	293

APPENDIX IV

Additional information

1. Responsibility

(a) The Directors of Prudential, whose names are set out in paragraph 2(a) below, accept responsibility for the information contained in this document, other than the information contained in this document relating to the Egg Group, the Directors of Egg and their immediate families, related trusts and persons connected with the Directors of Egg, for which the Directors of Egg accept responsibility as set out below. To the best of the knowledge and belief of the Directors of Prudential (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

(b) The Directors of Egg, whose names are set out in paragraph 2(b) below, accept responsibility for the information contained in this document relating to the Egg Group, themselves and their immediate families, related trusts and persons connected with them. To the best of the knowledge and belief of the Directors of Egg (who have taken all reasonable care to ensure that this is the case) the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors

(a) Prudential

The following table sets out the names and respective functions of the Directors of Prudential as at the date of this document:

Name	Position
Sir David Clementi	Chairman
Executive Directors:	
Mark Tucker	Group Chief Executive
Philip Broadley	Group Finance Director
Clark Manning	Executive Director
Michael McLintock	Executive Director
Mark Norbom	Executive Director
Non-executive Directors:	
Keki Dadiseth	Non-executive Director
Michael Garrett	Non-executive Director
Bridget Macaskill	Non-executive Director
Roberto Mendoza	Non-executive Director
Kathleen O'Donovan	Non-executive Director
James Ross	Non-executive Director
Rob Rowley	Non-executive Director, Senior Independent Director

Nick Prettejohn will join the Board of Directors as an executive director from 1 January 2006.

The business address of each of the Directors of Prudential is c/o Prudential plc, Laurence Pountney Hill, London EC4R 0HH, which is also the registered office and principal place of business of Prudential.

(b) Egg

The following table sets out the names and respective functions of the Directors of Egg as at the date of this document:

Name	Position
Executive Directors:	
Paul Gratton	Chief Executive Officer
Mark Nancarrow	Chief Financial Officer
Non-executive Directors:	
Roberto Mendoza	Chairman
Ronnie Baird	Non-executive Director, Senior Independent Director
Pascal Cagni	Non-executive Director
Leslie Priestley	Non-executive Director
Juan Rada	Non-executive Director
Philip Broadley	Non-executive Director

The business address of each of the Directors of Egg is c/o Egg plc, 1 Waterhouse Square, 138-142 Holborn, London EC1N 2NA, which is also the registered office and principal place of business of Egg.

3. Market quotations

(a) Prudential Shares

The following table shows the closing middle market prices for Prudential Shares, as derived from the London Stock Exchange Daily Official List, (i) on the first dealing day in each of the six months immediately before the date of this document, (ii) on 25 October 2005, being the last Business Day prior to the commencement of the Offer Period on 30 November 2005, being the last Business Day prior to the Announcement and on 16 December 2005, being the latest practicable date prior to the posting of this document:

Date	Prudential Share price (pence)
1 June 2005	490
1 July 2005	498.25
1 August 2005	538.5
1 September 2005	509.5
3 October 2005	516
25 October 2005	485.5
1 November 2005	491.5
30 November 2005	527.5
1 December 2005	525
16 December 2005	521

(b) Egg Shares

The following table shows the closing middle market prices for Egg Shares, as derived from the London Stock Exchange Daily Official List, (i) on the first dealing day in each of the six months immediately before the date of this document, (ii) on 25 October 2005 being the last Business Day prior to the commencement of the Offer Period, (iii) on 30 November 2005, being the last Business Day prior to the Announcement and (iv) on 16 December 2005 (being the latest practicable date prior to the posting of this document):

Date	Egg Share price (pence)
1 June 2005	114.75
1 July 2005	103
1 August 2005	112.25
1 September 2005	107
3 October 2005	103.5
25 October 2005	100.25
1 November 2005	99
30 November 2005	102.5
1 December 2005	116.75
16 December 2005	117.5

4. Shareholdings and Dealings

(a) For the purposes of this Appendix IV:

(i) references to "acting in concert" means any such person acting or deemed to be acting in concert with the relevant party for the purposes of the City Code and/or the Offer;

(ii) references to an "arrangement" include indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing;

(iii) references to an "associate" mean:

(a) Prudential's or Egg's parent, subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status);

(b) banks, financial and other professional advisers (including stockbrokers) to Prudential, Egg or any company covered in (a) above, including persons controlling, controlled by or under the same control as, such banks, financial or other professional advisers;

(c) the Directors of Prudential, Egg and the directors of any company covered in (a) above (together, in each case, with their close relatives and related trusts);

(d) pension funds of Prudential, Egg or any company covered in (a) above; and

(e) any investment company, unit trust or other person whose investments an associate manages on a discretionary basis, in respect of the relevant investment accounts;

(f) a person who owns or controls five per cent. or more of any class of relevant securities issued by Prudential or Egg, including a person who as a result of any transaction owns or controls five per cent. or more. When two or more persons act pursuant to an agreement or understanding (formal or informal) to acquire or control such securities, they will be deemed to be a single person for the purpose of this paragraph. Such securities managed on a discretionary basis by an investment management group will, unless otherwise agreed by the Panel, also be deemed to be those of a single person; and

(g) a company having a material trading arrangement with Prudential or Egg;

(iv) references to a "bank" do not apply to a bank whose sole relationship with Prudential or Egg or a company covered in (a) above is the provision of normal commercial banking services or such activities in connection with the Offer as confirming that cash is available, handling acceptances and other registration work;

(v) ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status and "control" means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights attributable to the share capital of the company which are currently exercisable at a general meeting, irrespective of whether the holding gives de facto control;

(vi) "connected" means controlled by, controlling or under common control with Prudential or Egg (with "control" and all derivative words having the meaning given in sub-paragraph (v) above);

(vii) "dealing" or "dealt" includes the following:

(1) the acquisition or disposal of securities;

(2) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any securities;

(3) subscribing or agreeing to subscribe for securities;

(4) the exercise or conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights;

(5) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities;

(6) entering into, terminating or varying the terms of any agreement to purchase or sell securities; and

(7) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he has a short position;

(viii) "disclosure period" means, in respect of those parties listed in Code Rule 25.3(a)(i) and 25.(a)(ii)(b) to (g), the period commencing on 26 October 2005 and ending on 15 December 2005 (being the latest practicable date prior to the posting of this document); and in respect of all other persons, the period commencing on 26 October 2004 (being the date 12 months prior to the commencement of the Offer Period) and ending on 15 December 2005 (being the latest practicable date prior to posting this document).

(ix) "relevant securities" means:

(a) securities of Egg which are being offered for or which carry voting rights;

(b) equity share capital of Egg and Prudential;

(c) securities of Prudential which carry substantially the same rights as any to be issued as consideration of the Offer;

(d) securities of Egg and Prudential carrying conversion or subscription rights into any of the foregoing; and

(e) options in respect of the foregoing and derivatives referenced to any of the foregoing;

(xii) "derivative" includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security but which does not include the possibility of delivery of such underlying securities.

(xii) a person is treated as "interested" in securities if he has long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person who only has a short position in securities is not treated as interested in those securities). In particular, a person is treated as "interested" in securities if:

(1) he owns them;

(2) he has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;

(3) by virtue of any agreement to purchase, option or derivative, he:

(a) has the right or option to acquire them or call for their delivery; or

(b) is under an obligation to take delivery of them,

whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or

(4) he is party to any derivative:

(a) whose value is determined by reference to their price; and

(b) which results, or may result, in his having a long position in them.

(b) ***Interests in Shares***

Interests in Egg Shares

(i) As at the close of business on 15 December (being the latest practicable date prior to the posting of this document), Prudential owned 645,955,847 Egg Shares.

(ii) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), the following Directors of Prudential and their immediate families, their related trusts and connected persons (within the meaning of section 346 of the Companies Act) had the following beneficial interests in Egg Shares:

Director	Number of Egg Shares
Philip Broadley	2,610
Roberto Mendoza	300,000
Rob Rowley	940

The figures above include the holdings of family members.

(iii) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), the following persons deemed to be acting in concert with Prudential for the purposes of the Offer, had an interest in the relevant securities of Egg:

Concert Party	Nature of Interest	Number of Egg Shares
Prudential Assurance Company Funds	Life fund assets	4,789,698
JPMorgan	Short position	-35,000

(iv) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), the following associates of Prudential (other than in their capacity as exempt market makers) had an interest in, rights to subscribe for, or held any short positions relating to, the relevant securities of Egg:

Associate	Nature of Interest	Number of Egg Shares
Scottish Amicable Staff Pension Scheme	Beneficial	363,526
Prudential's UK Life Funds	Investment assets held for 3rd parties	4,789,698
M&G	Investment assets held for 3rd parties	322,782

(v) As at the close of business on 15 December 2005 (being the last practicable date prior to the posting of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors of Egg and their immediate families and related trusts and connected persons (within the meaning of section 346 of the Companies Act), in the share capital of Egg (excluding share options) which have been notified to Egg pursuant to section 324 or 328 of the Companies Act or which are otherwise required to be entered in the register maintained under section 325 of the Companies Act or in the case of any connected person which would have to be so notified and registered if such a person were a Director of Egg as at 15 December 2005 (being the last practicable date prior to the posting of this document) were as follows:

Director	Number of Egg Shares
Roberto Mendoza	300,000
Ronnie Baird	10,000
Philip Broadley	2,610
Pascal Cagni	3,700
Paul Gratton	602,840
Mark Nancarrow	343,282
Leslie Priestley	10,940
Juan Rada	4,000

Holding of shares include those held by family members.

(vi) As at the close of business on 15 December 2005 (being the last practicable date prior to the posting of this document), the following options over Egg Shares had been granted to Directors of Egg under the Egg Share Option Schemes and remain outstanding:

Egg Employee Share Option Plan

Director	Number of Shares under Option	Date Option Exercisable	Option Exercise Price £
Paul Gratton	475,000	12 June 03 to 11 June 2010	1.60
	1,126*	12 June 2003 to 11 June 2010	1.65
	399,443	26 February 2004 to 25 February 2011	1.278
	45,494*	26 February 2004 to 25 February 2011	1.278
	583,101	28 February 2005 to 27 February 2012	1.4617
	1,504,164		
Mark Nancarrow	312,500	12 June 2003 to 11 June 2010	1.60
	563*	12 June 2003 to 11 June 2010	1.65
	227,644	26 February 2004 to 25 February 2011	1.278
	22,747*	26 February 2004 to 25 February 2011	1.278
	355,750	28 February 2005 to 27 February 2012	1.4617
	919,204		

* Egg Employee Share Option Plan (approved part)

Egg Savings-Related Share Option Scheme

Director	Number of Shares under Option	Date Option Exercisable	Option Exercise Price £
Paul Gratton	3,298	1 December 2005 to 31 May 2006	1.146
	11,843	1 December 2007 to 31 May 2008	0.80
	15,141		

Options holdings include those held by immediate family

(vii) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), neither Prudential nor any person acting or presumed to be acting in concert with the Directors of Prudential has borrowed or lent (save for any borrowed shares which have been either on-lent or sold) any relevant securities of Egg.

(viii) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), neither Egg nor any person acting in concert with the Directors of Egg, had borrowed or lent (save for any borrowed shares which have either on-lent or sold) any relevant securities of Egg.

(ix) Save as disclosed in this document as at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), no person who is party to an arrangement of the kind referred to in Note 6(b) to Rule 8 of the City Code with Egg or any associate of Egg was interested in any relevant securities of Egg.

(x) Save as disclosed in this document, as at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), no person, who is party to an arrangement of the kind referred to in Note 6(b) to Rule 8 of the City Code with Prudential or any person deemed to be acting in concert with Prudential for the purposes of the Offer, was interested in any relevant securities of Egg.

Dealings in Egg securities

(i) As at 15 December 2005, the following parties deemed to be acting in concert with Prudential have dealt for value in the shares of Egg as follows:

M&G

Date	Transaction	Number of Egg Shares	Price (pence)
14 January 2005	Sale	177,902	100.25
14 January 2005	Sale	32,400	100.25

(ii) No dealings in relevant securities of Egg have taken place during the disclosure period by Egg or by the Directors of Egg.

(iii) No relevant securities of Egg have been redeemed or purchased by Egg during the period commencing on 26 October 2004 (being the date falling 12 months prior to the commencement of the Offer Period) and ending on 15 December 2005 (being the latest practicable date prior to the posting of this document).

Interests in Prudential Shares

(i) As at the close of business on 15 December 2005 (being the last practicable date prior to the posting of this document), Egg did not own or control any Prudential Shares.

(ii) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), the following Directors of Egg and their immediate families and their related trusts and connected persons (within the meaning of section 346 of the Companies Act 1985) had an interest in the relevant securities of Prudential:

Director/Connected Person	Nature of Interest	Number of Prudential Shares
Roberto Mendoza	Beneficial	139,840
Philip Broadley	Beneficial	32,758
Paul Gratton	Beneficial	21,785

(iii) The shareholdings (all of which are beneficial unless the contrary is stated) of the Directors of Prudential and their immediate families or their related trusts and connected persons (within the meaning of section 346 of the Companies Act) in the share capital of Prudential (excluding share options) which have been notified to Prudential pursuant to sections 324 and 328 of the Companies Act or which are otherwise required pursuant to section 325 of the Companies Act to be entered in the register maintained under the provisions of that section of the Act or in the case of any connected person, which would have to be so notified and registered if such person were a director as at 15 December 2005 (being the latest practicable date prior to the posting of this document), were as follows:

Director	No. of Prudential Shares held beneficially
Philip Broadley	32,758
Sir David Clementi	23,849
Keki Dadiseth	3,459
Michael Garrett	14,997
Bridget Macaskill	11,904
Clark Manning	24,953
Michael McLintock	202,809
Roberto Mendoza	139,840
Mark Norbom	618,026
Kathleen O'Donovan	9,632
James Ross	7,434
Rob Rowley	43,862
Mark Tucker	134,353

Note: Interests in shares included deferred annual incentive awards, Mark Norbom's shares awarded on appointment and 2,612 shares held by Mark Norbom in the form of ADRs (1 ADR represents 2 ordinary shares) and shares held under the Prudential Services Limited Share Incentive Plan (SIP).

Prudential Directors' Restricted Share Plan Awards

Director	Nature of Interest	Number of shares	Year of award	Date of end of performance period
Philip Broadley	Held in trust	133,919	2003	31 Dec 2005
		210,713	2004	31 Dec 2006
		182,983	2005	31 Dec 2007
Clark Manning	Held in trust	148,838	2003	31 Dec 2005
		196,174	2004	31 Dec 2006
		163,352	2005	31 Dec 2007
Michael McLintock	Held in trust	45,620	2003	31 Dec 2005
		67,429	2004	31 Dec 2006
		58,555	2005	31 Dec 2007
Mark Norbom	Held in trust	200,177	2004	31 Dec 2006
		182,983	2005	31 Dec 2007
Mark Tucker	Held in trust	356,817	2005	31 Dec 2007

These shares are held in trust and represent the conditional awards out of which rights may be granted, at the end of the relevant performance period, dependent on the performance conditions.

Prudential Directors share awards that have been deferred from annual incentive play payouts

Director	Type of award	Conditional share awards outstanding at 15 Dec 2005	Year of initial grant	Date of end of restricted period
Philip Broadley	Deferred 2003 annual incentive award	6,229	2004	31 Dec 06
Michael McLintock	Deferred 2003 annual incentive award	55,702	2004	31 Dec 06
	Deferred 2004 annual incentive award	91,420	2005	31 Dec 07
Mark Norbom	Award under appointment terms	15,339	2004	1 Jan 06
Mark Norbom	Award under appointment terms	89,353	2004	1 Jan 07
Mark Norbom	Award under appointment terms	31,596	2004	1 Jan 08
Mark Norbom	Award under appointment terms	15,339	2004	1 Jan 09
Mark Norbom	Award under appointment terms	414,826	2004	20 Feb 13
	Deferred 2004 annual incentive award	33,121	2005	31 Dec 27

(iv) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), the following options over Prudential Shares had been granted to the Directors of Prudential under the Prudential Share Option Plans and remain outstanding:

Director	No. of Securities under option	Scheme of Plan	Date of Grant	Exercise/ Award price (pence)	Exercise period
Philip Broadley	2,716	Savings Related Share Option Scheme	15 Apr 04	346.968	1 June 07 - 30 Nov 07
Michael McLintock	6,153	Savings Related Share Option Scheme	17 Apr 03	266.899	1 June 08 - 30 Nov 08
Mark Tucker	2,297	Savings Related Share Option Scheme	29 Sep 05	407	1 Dec 08 - 31 May 09

(v) As at the close of business on 9 December 2005 (being the latest practicable date prior to the posting of this document), the following parties deemed to be acting in concert with Prudential had the following interests in the securities of Prudential:

Concert Party	Nature of Interest	Number of Shares
Prudential QUEST Limited	Holding of ordinary shares (on behalf of Prudential's share option schemes)	5,027,831
UBS Global Asset Management (Japan) Limited	Holding of ordinary shares	6,582,394
DSI International Management Inc	Holding of ordinary shares	242,986
UBS Securities LLC	ADR	1,619
UBS Private Clients Australia Nominees Pty Ltd	Holding of ordinary shares	232,380

(vi) Save as disclosed in this document, as at the close of business on 9 December 2005 (being the latest practicable date prior to the posting of this document), no person, who is party to an arrangement of the kind referred to in Note 6(b) to Rule 8 of the City Code with Prudential or any person deemed to be acting in concert with Prudential for the purposes of the Offer, owned or controlled any relevant securities of Prudential.

(vii) As at the close of business on 9 December 2005 (being the latest practicable date prior to the posting of this document), neither Prudential nor any person acting in concert with the directors of Prudential, had borrowed or lent (save for any borrowed shares which have been either on-lent or sold) any relevant securities of Prudential.

(viii) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), the following associates of Egg (other than in their capacity as exempt market makers) had an interest in the relevant securities of Prudential as follows:

Name	Nature of Interest	No. of Prudential Shares
Goldman, Sachs & Co	ADR	-600
Goldman, Sachs & Co. Bank	Ordinary Shares	3,500
Goldman, Sachs & Co	Convertible Bonds	-268

(ix) Neither Egg nor any person acting in concert with the Directors of Egg has borrowed or lent any Prudential Shares as at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document):

(x) As at the close of business on 15 December 2005 (being the latest practicable date prior to the posting of this document), no person, who is party to an arrangement of the kind referred to in Note 6(b) to Rule 8 of the City Code with Egg or any associate of Egg was interested in any Prudential Shares.

Dealings in Prudential Securities

(i) During the disclosure period, the Directors of Prudential dealt for value in Prudential shares as follows:

Dealings in Prudential Shares by Directors

Director	Date	Transaction	Number of Egg Shares	Price (pence)
Philip Broadley	29 Oct 04	Scrip Dividend	200	428.55
	11 Nov 04	Rights Issue	2,436	308
	08 Dec 04	Additional Scrip Dividend presumed to Rights Issue	24	308
	10 May 05	Purchase through SIP	32	4.8035
	25 May 05	Scrip Dividend	654	4.817
	8 June 05	Purchase through SIP	31	4.8799
	8 July 05	Purchase through SIP	30	5.1449
	27 July 05	Purchase	2,000	5.34
	8 Aug 05	Purchase through SIP	30	5.385
	8 Sept 05	Purchase through SIP	30	5.1916
	10 Oct 05	Purchase through SIP	32	4.9433
	28 Oct 05	Scrip Dividend	333	5.108
	8 Nov 05	Purchase through SIP	32	5.0794
	08 Dec 05	Purchase through SIP	30	5.2094
David Clementi	11 Nov 04	Rights Issue	2,373	3.08
	13 May 05	Purchase	4,000	4.77
	27 July 05	Purchase	3,000	5.37
	28 Oct 05	Scrip Dividend	234	5.108
Keki Dadiseth	30 June 05	Quarterly Share Purchase	250	4.9425
	30 Sept 05	Quarterly Share Purchase	709	5.185
Michael Garrett	30 Sept 04	Quarterly Share Purchase	269	4.605
	11 Nov 04	Rights Issue	1,666	3.08
	31 Dec 04	Quarterly Share Purchase	822	4.52
	31 March 05	Quarterly Share Purchase	729	5.105
	25 May 05	Scrip Dividend	18	4.817
	30 June 05	Quarterly Share Purchase	752	4.9425
	30 Sept 05	Quarterly Share Purchase	717	5.185
	28 Oct 05	Scrip Dividend	24	5.108

Director	Date	Transaction	Number of Egg Shares	Price (pence)
Bridget Macaskill	30 Sept 04	Quarterly Share Purchase	808	4.605
	29 Oct 04	Scrip Dividend	14	4.2855
	11 Nov 04	Rights Issue	1,109	3.08
	31 Dec 04	Quarterly Share Purchase	823	4.52
	31 Mar 05	Quarterly Share Purchase	728	5.105
	30 June 05	Quarterly Share Purchase	752	4.9425
	30 Sept 05	Quarterly Share Purchase	717	5.185
Clark Manning	29 Oct 04	Scrip Dividend	301	4.2855
	25 May 05	Scrip Dividend	534	4.817
	28 Oct 05	Scrip Dividend	256	5.108
Michael McLintock	29 Oct 04	Scrip Dividend	639	4.2855
	11 Nov 04	Rights Issue	10,447	3.08
	08 Dec 04	Additional Scrip Dividend presumed to Rights Issue	31	3.08
	13 May 05	Award under Annual Incentive Award	88,525	4.92
	25 May 05	Scrip Dividend	3,149	4.817
	28 Oct 05	Scrip Dividend	1,510	5.108
Roberto Mendoza	29 Oct 04	Scrip Dividend	1,271	4.2855
	11 Nov 04	Rights Issue	1,427	3.08
	15 Nov 04	Purchase	20,000	4.275
	31 Dec 04	Quarterly Share Purchase	823	4.52
	31 Mar 05	Quarterly Share Purchase	728	5.105
	25 May 05	Scrip Dividend	2,701	4.817
	30 June 05	Quarterly Share Purchase	753	4.9425
	30 Sept 05	Quarterly Share Purchase	717	5.185
	28 Oct 05	Scrip Dividend	1,314	5.108
Mark Norbom	29 Oct 04	Scrip Dividend	31	4.2855
	2 Mar 05	Release of Shares from Trust for On Appointment Share Award	15,339	
	13 May 05	Award under Annual Incentive Plan	32,072	4.92
	25 May 05	Scrip Dividend	1,103	4.817
	28 Oct 05	Scrip Dividend	528	5.108
Kathleen O'Donovan	11 Nov 05	Rights Issue	416	3.08
	31 Dec 05	Quarterly Share Purchase	671	4.52
	31 Mar 05	Quarterly Share Purchase	595	5.1050
	25 May 05	Scrip Dividend	102	4.817
	30 June 05	Quarterly Share Purchase	723	4.9425
	30 Sept 05	Quarterly Share Purchase	585	5.185
	28 Oct 05	Scrip Dividend	63	5.108
James Ross	11 Nov 04	Rights Issue	630	3.08
	31 Dec 04	Quarterly Share Purchase	822	4.52
	31 Mar 05	Quarterly Share Purchase	729	5.105
	30 Jun 05	Quarterly Share Purchase	752	4.9425
	30 Sept 05	Quarterly Share Purchase	717	5.185
Rob Rowley	29 Oct 04	Scrip Dividend	303	4.2855
	11 Nov 04	Rights Issue	5,705	3.08
	08 Dec 04	Additional Scrip Dividend presumed to Rights Issue	50	3.08
	31 Dec 04	Quarterly Share Purchase	671	4.52
	31 Mar 05	Quarterly Share Purchase	595	5.105
	25 May 05	Scrip Dividend	660	4.817
	30 Jun 05	Quarterly Share Purchase	723	4.9425
	30 Sept 05	Quarterly Share Purchase	585	5.185
	28 Oct 05	Scrip Dividend	330	5.108
	4 Nov 05	Sale	3018	4.9611
	4 Nov 05	Sale	3017	4.9756

Director	Date	Transaction	Number of Egg Shares	Price (pence)
	4 Nov 05	Sale	5088	4.9761
	9 Nov 05	Purchase	11,123	5.065
Mark Tucker	16 May 05	Purchase	45,000	4.755
	25 May 05	Scrip Dividend	1,913	4.817
	28 Oct 05	Scrip Dividend	917	5.108

(ii) During the disclosure period, the following persons deemed to be acting in concert with Prudential dealt for value in Prudential shares as follows:

Dealings in Prudential Shares by M&G

Date	Transaction	Number of Prudential Shares	Maximum price per share (pence)	Minimum price per share (pence)
26.10.04 - 25.01.05	Purchase	4,152,649	454.25	308.00
	Sale	1,899,288	454.50	419.42
26.01.04 - 25.04.05	Purchase	1,381,725	511.50	468.50
	Sale	564,323	511.25	460.25
26.04.04 - 25.07.05	Purchase	1,237,249	527.23	481.705
	Sale	330,914	529.46	474.00
26.07.05 - 25.08.05	Purchase	55,271	525.98	505.5
	Sale	142,000	543.50	529.15
26.08.05 - 25.09.05	Purchase	380,703	511.50	509.00
	Sale	21,556	513.75	510.25
26.09.05 - 25.10.05	Purchase	—	—	—
	Sale	1,720,133	515.00	471.93
26.10.05 - 09.12.05	Purchase	21,164	517.61	510.87
	Sale	786,255	534.5	460.5

Dealings in Prudential Shares by Prudential QUEST Limited

Date	Transaction	Number of Prudential Shares	Minimum exercise price per share (pence)	Maximum exercise price per share (pence)
26.10.04 - 25.01.05	Release of shares after exercise of options	37,455	266.9	505.0
26.01.05 - 25.04.05	Release of shares after exercise of options	30,861	266.9	505.0
26.04.05 - 25.07.05	Release of shares after exercise of options	47,856	266.9	505.0
26.07.05 - 25.08.05	Release of shares after exercise of options	2,675	266.9	505.0
26.08.05 - 25.09.05	Release of shares after exercise of options	9,063	266.9	505.0
26.09.05 - 25.10.05	Release of shares after exercise of options	2,779	266.9	505.0
	Purchase of shares by Prudential Quest Limited	643,286	476.5	476.5
26.10.05 - 15.12.05	Release of shares after exercise of options	681,563	266.9	505.0

Dealings in Prudential ADRs by UBS Capital Markets LLP

Date	Transaction	Number of Prudential Shares	Maximum price per share ($)	Minimum price per share ($)
26.10.04 – 25.01.05	Purchase	11,747	17.56	15.11
	Sale	12,212	17.56	15.31
26.01.04 – 25.04.05	Purchase	16,058	19.64	16.71
	Sale	15,860	19.64	16.71
26.04.04 – 25.07.05	Purchase	24,970	18.82	17.57
	Sale	26,021	18.80	17.70
26.07.05 – 25.08.05	Purchase	7,928	19.47	18.43
	Sale	8,095	19.49	18.43
26.08.05 – 25.09.05	Purchase	9,859	19.34	18.22
	Sale	7,501	19.37	18.31
26.09.05 – 25.10.05	Purchase	1,085	18.46	16.98
	Sale	1,457	18.41	16.91
26.10.05 – 09.12.05	Purchase	4,815	17.94	16.67
	Sale	5,899	17.94	16.67

Dealings in Prudential Ordinary shares by DSI International Management Inc.

Date	Transaction	Number of Prudential Shares	Maximum price per share (pence)	Minimum price per share (pence)
26.10.04 – 25.01.05	Purchase	52,386	456	406
	Sale	12,067	457	457
26.01.04 – 25.04.05	Purchase	50,187	504	474
	Sale	42,072	493	473
26.04.04 – 25.07.05	Purchase	54,012	490	482
	Sale	77,112	496	488
26.07.05 – 25.08.05	Purchase	18,151	540	523
	Sale	12,219	540	508
26.08.05 – 25.09.05	Purchase	78,684	520	496
	Sale	0	—	—
26.09.05 – 25.10.05	Purchase	14,381	493	493
	Sale	22,409	513	513
26.10.05 – 09.12.05	Purchase	45,189	528	528
	Sale	74,762	528	497

Dealings in Prudential shares by UBS Private Clients Australia Nominees Pty Ltd

Date	Transaction	Number of Prudential Shares	Price
21.11.05	Buy	229,350	5.25
24.11.05	Buy	1,230	5.34
12.12.05	Buy	1,800	5.18

Dealings in Prudential Ordinary shares by UBS Global Asset Management (Japan) Ltd

Date	Transaction	Number of Prudential Shares	Maximum price per share (pence)	Minimum price per share (pence)
26.10.04 – 25.01.05	Purchase	2,450,535	455	308
	Sale	9,910	432	423
26.01.04 – 25.04.05	Purchase	330,887	501	468
	Sale	108,441	502	479
26.04.04 – 25.07.05	Purchase	28,020	523	492
	Sale	38,960	488	485
26.07.05 – 25.08.05	Purchase	5,000	508	508
	Sale	0	—	—
26.08.05 – 25.09.05	Purchase	0	—	—
	Sale	67,063	520	516
26.09.05 – 25.10.05	Purchase	26,981	515	515
	Sale	20,449	490	490
26.10.05 – 09.12.05	Purchase	16,809	490	490
	Sale	0	—	—

Dealings in Prudential ADRs by UBS Securities LLC

Date	Transaction	Number of Prudential Shares	Price per share ($)
31.01.05	Purchase	101	17.47
31.01.05	Sale	101	17.47
31.01.05	Purchase	101	17.47
04.02.05	Sale	101	17.88
23.02.05	Purchase	595	17.57
25.02.05	Sale	595	18.18
15.04.05	Purchase	400	19.13
15.04.05	Sale	400	19.13

(iii) As at 15 December 2005, the following adviser deemed to be connected with Egg dealt for value in the relevant securities of Prudential as follows:

Dealings in Prudential convertible bonds by Goldman, Sachs & Co

Date	Transaction	Number of relevant securities	Price per share ($)
05.12.05	Sale	268	24.79

Dealings in Prudential ADRs by Goldman, Sachs & Co

Date	Transaction	Number of relevant securities	Price per share ($)
09.12.05	Sale	100	18.29
09.12.05	Buy	19	18.1752
13.12.05	Sale	19	18.1900
14.12.05	Sale	200	18.5400
15.12.05	Sale	100	18.5400

(iv) No dealings during the offer period (and ending on the day prior to posting of the Offer document) in relevant securities of Prudential by the Directors of Egg have taken place.

(v) Prudential has redeemed or purchased the following relevant securities during the period commencing on 26 October 2005 (being the date falling 12 months prior to the commencement of the Offer Period) and ending on 15 December 2005 (being the latest practicable date prior to the posting of this document:

Date of purchase	Price	Number of Prudential Shares	Place of holding
10 Oct 2005	£4.9444	128	Shares held in Employee Benefit Trust)
10 Oct 2005	£4.9433	1,303	Shares held in Employee Benefit Trust)
10 Oct 2005	£4.9444	14,511	Shares held in Employee Benefit Trust)
24 Oct 2005	£4.765	643,286	Shares held in Prudential QUEST Limited on behalf of UK share option schemes
31 Oct	£4.7194	8	Shares held in Employee Benefit Trust)
31 Oct 2005	£4.7094	39	Shares held in Employee Benefit Trust)
31 Oct 2005	£4.7032	870	Shares held in Employee Benefit Trust)
8 Nov 2005	£5.0794	120	Shares held in Employee Benefit Trust)
8 Nov 2005	£5.0794	1,242	Shares held in Employee Benefit Trust)
8 Nov 2005	£5.0794	13,427	Shares held in Employee Benefit Trust)
1 Dec 2005	£3.29811	424,165	Shares released from Prudential QUEST Limited on behalf of UK share option schemes
5 Dec 2005	£3.29811	132,280	Shares released from Prudential QUEST Limited on behalf of UK share option schemes
9 Dec 2005	£3.29811	64,548	Shares released from Prudential QUEST Limited on behalf of UK share option schemes
15 Dec 2005	£3.29811	45,067	Shares released from Prudential QUEST Limited on behalf of UK share option schemes
8 Dec 2005	£5.2048	13,388	Shares held in Employee Benefit Trust)
8 Dec 2005	£5.2094	1,296	Shares held in Employee Benefit Trust)

5. Irrevocable undertakings

Save for the irrevocable undertakings referred to below, no arrangement exists between any person and Prudential or any person acting in concert with Prudential or between any person and Egg or any associate of Egg in relation to relevant securities including, in addition to indemnity and option arrangements, any agreement or understanding, formal or informal, of whatever nature, which may be an inducement to deal or refrain from dealing.

Prudential has received undertakings to accept (or procure the acceptance of) the Offer from the Independent Committee of Egg in respect of an aggregate of Egg Shares as set out below:

Directors of Egg

Executive Directors	Number of Egg Shares
Paul Gratton	485,284
Mark Nancarrow	343,282
Non-executive Directors	
Ronnie Baird	10,000
Pascal Cagni	3,700
Leslie Priestley	10,470
Juan Rada	4,000

The undertakings provide that each of the directors names above shall accept or procure the acceptance of the Offer within seven days of the posting of the Offer Document.

6. General

(i) Save as disclosed above, as at the close of business on 9 December 2005 (being the latest practicable date prior to the posting of this document), neither Prudential, nor any of the Directors of Prudential nor any member of their immediate families or related trusts, nor any person acting in concert with Prudential, nor any person with whom Prudential or any person acting or deemed to be acting in concert with Prudential has an arrangement of the kind referred to in Note 6 to Rule 8, owned or controlled or (in the case of the Directors of Prudential, their immediate families and related trusts) was interested, directly or indirectly, or held any short positions (whether conditional or absolute or in the money or otherwise), including any short positions under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase of take delivery, in any relevant securities (of Prudential or Egg), nor has any such person dealt for value therein during the disclosure period.

(ii) Save as disclosed above, as at the close of business on 15 December 2005 (being the last practicable date prior to the posting of this document) no subsidiary of Egg, nor any associate of Egg, nor any pension fund of Egg or of any associate of Egg, nor any employee benefit trust of Egg or of any associate of Egg, nor any banks, financial or other professional advisers, including stockbrokers, but excluding exempt market makers) to Egg, nor any person controlling, controlled by, or under the same control as any of those banks, financial or other professional advisers nor any person whose investments are managed on a discretionary basis by a fund manager (other than an exempt fund manger) connected to Egg, was interested, directly or indirectly, or had a right to subscribe for, or held any short positions (whether conditional or absolute or in the money or otherwise), including any short positions under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase of take delivery, in any relevant securities (of Prudential or Egg), nor has any such person dealt for value therein or held any short positions in relation to such relevant securities during the disclosure period.

7. Material contracts

(a) *Prudential*

The following contracts, not being contracts entered into in the ordinary course of business, which are or may be material, have been entered into by members of the Prudential Group within the two years immediately preceding the commencement of the Offer Period:

(i) pursuant to an Underwriting Agreement dated 30 July 2004 and a Pricing Agreement of even date made between the Company and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Inc. the Company issued US $250,000,000 6.75% Perpetual Subordinated Capital Securities. The Capital Securities were issued at a 100 per cent. of their principal amount. The Company paid the underwriters commission in respect of their underwriting services of 3.15 per cent. of the principal amount of the Capital Securities and also agreed to reimburse the underwriters for certain of their expenses. The Underwriting Agreement contained representations and warranties given by the Company (and indemnities in respect of breaches thereof);

(ii) pursuant to an Underwriting Agreement dated 19 October 2004 and Rights Issue Prospectus made between the Company and UBS, Cazenove & Co. Ltd. and Goldman Sachs International the Company issued 337,215,697 ordinary shares of 5 pence each in the capital of the Company. The Company paid the underwriters certain commission in respect of their underwriting services and also agreed to reimburse the underwriters for certain of their expenses. The Underwriting Agreement contained representations and warranties given by the Company (and indemnities in respect of breaches thereof);

(iii) pursuant to an Underwriting Agreement dated 30 July 2004 and a Pricing Agreement dated 12 July 2005 made between the Company and Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated the Company issued US $300,000,000 6.50% Perpetual Subordinated Capital Securities. The Capital Securities were issued at a 100 per cent. of their principal amount. The Company paid the underwriters commission in respect of their underwriting services of 3.15 per cent. of the principal amount of the Capital Securities and also agreed to reimburse the underwriters for certain of their expenses. The Underwriting Agreement contained representations and warranties given by the Company (and indemnities in respect of breaches thereof); and

(iv) pursuant to a Dealer Agreement dated 10 November 2005 made between the Company, Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Goldman Sachs International and UBS the Company agreed with the said dealers to renew its £5,000,000,000 MTN Programme. No debt instruments have been issued under the renewed programme and commissions and expenses payable to the dealers will be agreed at the time of issue. The Dealer Agreement contains representations and warranties given by the Company (and indemnities in respect of breaches thereof).

(b) Egg

The following contract, not being a contract entered into in the ordinary course of business, which is or may be material, has been entered into by members of the Egg Group within the two years immediately preceding the commencement of the Offer Period:

(A) pursuant to a Business Transfer Agreement dated 21 October 2004 made between Egg Banking plc (as seller), Egg EURL and Banque Accord (as purchaser), Egg Banking plc transferred the Egg France credit card and personal loan business and assets, including client receivables, to Banque Accord. Egg Banking plc and Egg EURL also licensed certain related intellectual property rights to Banque Accord and undertook not to compete with the transferred business in France for a period of two years. The Business Transfer Agreement also contained representations and warranties given by Egg Banking plc. On completion of the transfer of the business and assets on 1 December 2004, Banque Accord paid initial consideration (after post-completion adjustment) of a net amount of €135,251,016.58 to Egg Banking plc.

8. Egg Directors' service contracts

(a) Except as disclosed in paragraph (b) below, there are no service contracts between any of the Directors or proposed directors of Egg or any member of the Egg Group which have been entered into or amended within six months of the date of this document.

(b) A summary of the terms of appointment of the directors of Egg is as follows:

Executive Directors

Paul Gratton

Paul Gratton has a service contract with Egg dated 22 May 2000. The contract is terminable on 12 months' notice and his current annual base salary is £430,000. Mr Gratton participates in a discretionary annual bonus scheme, an additional short-term retention bonus scheme and in long-term incentive arrangements. In accordance with Egg policy, the principle of mitigation would be applied in the event of a termination of his contract. Egg's Remuneration Committee has discretion over any compensation for any unvested long-term incentives. Details of the options held by Mr Gratton under the Egg Share Option Schemes are set out in paragraph 4(b)(iii) above.

The annual bonus scheme is focused on the key strategic aims of the Group for the period. It provides an incentive based on meeting annual quantitative and qualitative financial and business targets. These include profit, sales and revenue targets. The achievement of qualitative targets is decided by Egg's Remuneration Committee. Mr Gratton participates at a level of up to 100 per cent. of base salary, based on both Group and individual achievement. For the relevant year, 80 per cent. of the bonus will be based on corporate targets and 20 per cent. on individual targets. The bonus payment is receivable in the form of a taxable, non-pensionable cash payment following the announcement of the annual results for the relevant year. Mr Gratton received a bonus of £270,000 in respect of the 2004 financial year. In addition, Mr Gratton participates in a retention bonus scheme implemented in 2004 in the period of uncertainty concerning a possible sale by Prudential of its stake in Egg. This scheme provides for an additional year's bonus opportunity between 2004 and 2005; Mr Gratton received a retention bonus of £200,000 in respect of the 2004 financial year. A minimum retention payment of 37.5 per cent. of salary will be paid for 2005.

The long-term-incentive plan allows awards of shares to be made to executive directors under Egg's Restricted Share Plan. Egg's Remuneration Committee may grant awards on the basis of performance conditions relating to the delivery of Egg's business plan for each year and to individuals' responsibilities for that delivery. The maximum basic award each year is shares with an actuarially calculated present economic value 175% of annual base salary. Awards vest on their third anniversary in a proportion (between 0 and 400%) based on a comparison of Egg's total shareholder return with that of the FTSE 350. In 2004, Mr Gratton received an award with a present economic value of £514,500.

Mr Gratton participates in an individual defined benefit pension scheme to which Egg makes contributions. His normal retirement age is 60 years.

Mark Nancarrow

Mark Nancarrow has a service contract with Egg dated 26 September 2003. The contract is terminable on 12 months' notice and his current annual base salary is £300,000. Mr Nancarrow participates in a discretionary annual bonus scheme and an additional retention bonus scheme and in long-term incentive arrangements (all as described for Mr Gratton above). Details of the options held by Mr Nancarrow under the Egg Share Option Schemes are set out in paragraph 4(b)(iii) above. Mr Nancarrow received a bonus of £230,000 and an additional retention bonus of £150,000 in respect of the 2004 financial year, and in 2004 he received an award with a present economic value of £431,375 under Egg's Restricted Share Plan. The principles of mitigation and compensation payable for any unvested long-term incentives are identical to those set out above for Mr Gratton.

Mr Nancarrow has an individual defined contribution scheme to which Egg makes contributions. His normal retirement age is 60 years.

Non-executive Directors

The non-executive Directors do not have service contracts but instead each has a letter of appointment setting out the terms and conditions of appointment. Each of Egg's non-executive directors is appointed for a three-year term, extendable for a further three years. There is no liability for compensation arising under these letters of appointment.

Name of Director	Date of Letter of Appointment	Current Basic Annual Fee
Roberto Mendoza	9 May 2000 and updated on 19 February 2004	£75,000
Ronnie Baird	12 September 2003	£35,000
Pascal Cagni	2 October 2002	£30,000
Leslie Priestley	25 August 2000 and updated on 3 June 2003 and 8 February 2005	£32,500
Juan Rada	7 August 2002	£32,500
Philip Broadley*	5 May 2005	—

* Mr Broadley, who is an Executive Director of Prudential, does not receive fees in respect of his directorship of Egg.

9. Other information

(a) Save as disclosed herein, no agreement, arrangement or understanding (including any compensation arrangement) exists between Prudential or any person acting in concert with Prudential for the purposes of the Offer and any of the Directors, recent Directors, shareholders or recent shareholders of Egg having any connection with or dependence upon or which is conditional upon the outcome of the Offer.

(b) Save as disclosed in Appendix II to this document, in Egg's unaudited interim results for the six months ended 30 June 2005 and in Egg's unaudited Quarter 3 2005 results for the nine months ended 30 September 2005, the Directors of Egg are not aware of any material change in the financial or trading position of Egg since 31 December 2004, the date to which Egg's last audited accounts were published.

(c) Save as disclosed in Appendix III to this document and in Prudential's unaudited interim results for the six months ended 30 June 2005, the Directors of Prudential are not aware of any material change in the financial or trading position of Prudential since 31 December 2004, the date to which Prudential's last audited accounts were published.

(d) No proposal exists in connection with the Offer for any payment or other benefit to be made or given to any director of Egg as compensation for loss of office or as consideration for, or in connection with, his retirement from office.

(e) Save as disclosed in this document, there is no agreement, arrangement or understanding whereby the beneficial ownership of any of the Egg Shares to be acquired by Prudential pursuant to the Offer will be transferred to any other person, save that Prudential reserves the right to transfer any Egg Shares to any other member of the Prudential Group or to a nominee.

(f) Lexicon Partners, UBS, Goldman Sachs International and JPMorgan Cazenove have each given and not withdrawn their written consents to the issue of this document with the inclusion of the references to their name in the form and context in which they appear.

(g) Prudential does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of Egg.

(h) Save as disclosed below, the emoluments receivable by the current Directors of Prudential will not be varied as a consequence of the Offer.

10. Bases of calculations and sources of information

(a) Unless otherwise stated:

(i) information relating to Egg has been extracted without material adjustment from the audited financial statements of Egg for the relevant financial year or from Egg's unaudited interim results and trading statements; and

(ii) information relating to Prudential has been extracted without material adjustment from the audited financial statements of Prudential for the relevant financial year or from Prudential's unaudited interim results and trading statements; and

(b) Unless otherwise stated, all prices quoted for Shares are closing mid-market prices and are derived from the Daily Official List of the London Stock Exchange.

(c) The value of the whole of the issued share capital of Egg of approximately £973 million is based upon 824,463,722 shares, being the number of existing issued shares of Egg as at 16 December 2005 and an offer value of 118 pence per Share, based on the closing middle market price of 527.5 pence per Prudential Share on 30 November 2005, being the last Business Day prior to the announcement of Prudential's intention to acquire the Minority.

(d) The value of the whole of the issued share capital of Egg of approximately £961 million is based upon 824,463,722 shares, being the number of existing issued shares of Egg as at 16 December 2005 and an offer value of 116.5 pence per share, based on the closing middle market price of 521 pence per Prudential Share on 16 December 2005, being the last Business Day prior to the posting of this document.

(e) The number of New Prudential Shares to be issued pursuant to the Offer, being 40,989,678 (assuming full acceptance of the Offer and full exercise of in the money existing Egg options) is based on 824,463,722 Egg Shares in issue as at 16 December 2005 and 4,727,162 in the money Egg options outstanding as at 15 December 2005.

(f) All share prices expressed in pence and all percentages have been rounded to one decimal place.

(g) In the money options are those Egg options with an exercise price below the offer value of 116.5 pence per Share as at 16 December 2005.

(h) References to Egg Shares owned by the Prudential Group do not include Egg Shares held as investment assets in Prudential's UK life funds or other investment funds managed by M&G.

(i) All references to customer numbers of Prudential UK or the Prudential Group include individuals with Prudential branded general insurance policies to whom Prudential is entitled to market products.

(j) The marketable customers of Prudential UK, Egg and M&G are approximately 2.5 million, 2 million and 0.25 million respectively.

11. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) whilst the Offer remains open for acceptance:

(a) the memorandum and articles of association of Prudential and the memorandum and articles of association of Egg;

(b) the published audited consolidated accounts of Egg for each of the two years ended 31 December 2003 and 31 December 2004;

(c) the published audited consolidated accounts of Prudential for each of the two years ended 31 December 2003 and 31 December 2004;

(d) the irrevocable undertakings referred to in paragraph 5 and paragraph 13 of the letter from Lexicon Partners;

(e) the material contracts referred to in paragraph 7 above;

(f) the service contracts of the Directors of Egg referred to in paragraph 8 above;

(g) the written consents of the financial advisers referred to in paragraph 9;

(h) this document, the Form of Acceptance and the Form of Instruction; and

(i) a full list of all dealings.

Dated: 19 December 2005

APPENDIX V
Definitions

The following definitions apply throughout this document unless the context otherwise requires:

"Acquisition"	the proposed acquisition by Prudential pursuant to the Offer of the whole of the issued and to be issued ordinary share capital of Egg that Prudential does not already own;
"ADR"	American depositary receipts;
"Admission"	the admission of New Prudential Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange market for listed securities in accordance with the Admission and Disclosure Standards;
"Admission and Disclosure Standards"	the requirements contained in the publication "Admission and Disclosure Standards" dated July 2005 (as amended from time to time) containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's market for listed securities;
"Announcement"	the announcement made on 1 December 2005 by the Boards of Prudential and Egg of a recommended offer to be made by Lexicon Partners on behalf of Prudential for the entire issued and to be issued share capital of Egg;
"Australia"	the Commonwealth of Australia, its territories and possessions and all areas subject to its jurisdiction and any political sub-division thereof;
"Board" or "Directors"	the board of directors of Prudential or Egg (as appropriate);
"Business Day"	any day (other than a Saturday or Sunday) on which banks are generally open for business in the City of London (other than solely for settlement and trading in euro);
"Canada"	Canada, its territories and possessions and all areas subject to its jurisdiction and any political sub-division thereof;
"certificated" or "in certificated form"	the description of a share or other security which is not in uncertificated form (that is, not in CREST);
"Code" or "City Code"	the City Code on Takeovers and Mergers;
"Companies Act" or the "Act"	the Companies Act 1985 (as amended);
"Condition"	the condition of the Offer as set out in Part A of Appendix 1;
"Corporate Nominee"	Lloyds TSB Corporate Nominee Limited who holds the legal title to the Egg Shares in the Egg Share Account on behalf of Egg Share Account Shareholders;
"CREST"	the relevant system (as defined in the Regulations) in respect of which CRESTCo is the Operator (as defined in the Regulations);
"CRESTCo"	CRESTCo Limited;
"CREST member"	a person who has been admitted by CRESTCo as a system member (as defined in the Regulations);
"CREST participant"	a person who is, in relation to CREST, a system-participant (as defined in the Regulations);
"CREST payment"	shall have the meaning given in the CREST manual issued by CRESTCo;
"CREST personal member"	a CREST member admitted to CREST as a personal member under the sponsorship of a CREST sponsor;
"CREST sponsor"	a CREST participant admitted to CREST as a CREST sponsor;

"Disclosure Rules"	the disclosure rules of the United Kingdom Listing Authority;
"Egg"	Egg plc;
"Egg Group"	Egg and its subsidiary undertakings;
"Egg Shareholders"	the holders of Egg Shares;
"Egg Share Account"	the account in which Egg Shares are held on behalf of Egg Share Account Shareholders by the Corporate Nominee;
"Egg Share Account Shareholder"	a person who has a beneficial interest in a certain number of Egg Shares which are legally held on their behalf by the Corporate Nominee;
"Egg Share Account Shareholding"	a holding of a certain number Egg Shares held on behalf of the Egg Share Account Shareholder by the Corporate Nominee;
"Egg Shares"	the existing unconditionally allotted or issued and fully paid (or credited as fully paid) ordinary shares of 50 pence each in the capital of Egg and any further such shares which are unconditionally allotted or issued on or prior to the date on which the Offer closes or, subject to the provisions of the Code, such earlier date or dates as Prudential may decide;
"Egg Share Schemes"	the Egg Employee Share Option Plan and the Egg Savings Related Share Option Scheme and the Egg Restricted Share Plan;
"Egg's Interim Results"	the unaudited interim consolidated financial statements relating to Egg for the six months ended 30 June 2005;
"Electronic Acceptance"	the inputting and settling of a TTE instruction which constitutes or is deemed to constitute an acceptance of the Offer on the terms set out in this document;
"ESA instruction"	an Escrow Account Adjustment Input (AESN), transaction type ("ESA") (as described in the CREST manual issued by CRESTCo);
"Escrow Agent"	Lloyds TSB Registrars (in its capacity as an Escrow Agent as described in the CREST manual issued by CRESTCo);
"First Closing Date"	the date falling 21 days following the date of this document;
"Form of Acceptance"	the form of acceptance and authority to be used by holders of certificated Egg Shares to accept the Offer;
"Form of Instruction"	the form of instruction and authority to be used by Egg Shareholders who hold their Egg Shares through the Egg Share Account to accept the Offer;
"Further Terms"	the further terms of the Offer as set out in Part B of Appendix I to this document;
"Information Memorandum"	the document equivalent to a prospectus sent to Egg Shareholders in connection with the issue of New Prudential Shares and application for admission to the Official List of the UK Listing Authority and trading on the London Stock Exchange's market for listed securities pursuant to the Offer;
"IFRS"	International Financial Reporting Standards;
"Japan"	Japan, its cities, prefectures, territories and possessions;
"JPMorgan Cazenove"	JPMorgan Cazenove Limited;
"Lexicon Partners"	Lexicon Partners Limited;
"Listing Rules"	the listing rules of the UK Listing Authority;
"London Stock Exchange"	the London Stock Exchange plc;
"member account ID"	the identification code or number attached to any member account in CREST;
"Minority"	the issued and to be issued share capital of Egg other than that already owned by the Prudential Group;

"M&G"	Prudential's UK and European fund management business;
"New Prudential Shares"	Prudential Shares proposed to be issued fully paid pursuant to the Offer;
"New Prudential Shareholders"	Egg Shareholders who have accepted the Offer and been issued with their entitlement of New Prudential Shares in place of their Egg Shares;
"Offer"	the offer as set out in this document being made by Lexicon on behalf of Prudential to acquire the whole of the issued and to be issued share capital of Egg not already owned by the Prudential Group and, where the context so requires, any subsequent revision, variation, extension or renewal thereof;
"Offer Document"	this offer document in which the Offer for the issued and to be issued share capital of Egg not already owned by the Prudential Group is made by Lexicon Partners on behalf of Prudential;
"Offer Period"	has the meaning given in Part B of Appendix I of this document;
"Offer TTE Instruction"	a Transfer to Escrow instruction (as described in the CREST manual issued by CRESTCo) in relation to Egg Shares in uncertificated form meeting the requirements set out in paragraph 16 of the letter from Lexicon Partners contained in this document;
"Official List"	the official list maintained by the UK Listing Authority;
"Panel"	the United Kingdom Panel on Takeovers and Mergers;
"participant ID"	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant;
"Prudential"	Prudential PLC;
"Prudential Group" or the "Group"	Prudential and its subsidiary undertakings excluding Egg and the Egg Group;
"Prudential Interim Results"	the unaudited consolidated financial statements relating to Prudential for the six months ended 30 June 2005;
"Prudential Shareholders"	the holders of Prudential Shares as appearing on the register of members of Prudential from time to time;
"Prudential Share(s)"	the ordinary shares of five pence each in the capital of Prudential;
"Prudential Share Schemes"	Prudential's restricted share plan, savings-related share option scheme, Prudential UK share incentive plan, Prudential International savings-related share option scheme, Prudential International incentive plan, JNL long-term incentive plan and the annual incentive plan;
"Prudential Website"	the website found at the URL: http://www.prudential.co.uk;
"Register of Members"	the register of members of Egg, from time to time;
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755);
"Regulatory Information Service"	the Company Announcements Office and/or RNS and/or any other channel recognised from time to time as a channel for the dissemination of regulatory information by listed companies under the Listing Rules;
"Securities Act"	the United States Securities Act of 1933, as amended;
"Share Dealing Facility"	the facility for eligible Egg Shareholders who accept the Offer to sell if they are entitled to 300 or fewer New Prudential Shares under the Offer, all (but not some only) of these New Prudential Shares; or if they are entitled to more than 300 New prudential Shares under the Offer, 300 New Prudential Shares (but not more or less), as more particularly described in the Share Dealing Facility Booklet;

"Share Dealing Facility Booklet"	the booklet giving details of the Share Dealing Facility which, in the case of Egg Shareholders resident in the UK, accompanies this Offer Document;
"TTE instruction"	a Transfer to Escrow instruction (as described in the CREST manual issued by CRESTCo) in relation to Egg Shares in uncertificated form meeting the requirements set out in paragraph 16 of the letter from Lexicon Partners contained in this document;
"UBS"	UBS Limited;
"uncertificated" or "in uncertificated form"	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST;
"UK Listing Authority"	the United Kingdom Financial Services Authority acting in its capacity as the competent authority for listing under Part VI of the Financial Services and Markets Act 2000;
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland; and
"United States of America" or "US"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia, and all other areas subject to its jurisdiction.

In this document, the singular includes the plural and vice versa, unless the context otherwise requires.

For the purposes of this document "subsidiary", "subsidiary undertaking", "undertaking" and "associated undertaking" have the meanings given by the Companies Act (but for this purpose ignoring 20(1)(b) of Schedule 4A of the Companies Act).

GLOSSARY OF TECHNICAL TERMS

"APE" or "Annual Premium Equivalent"	means results calculated as the aggregate of regular new business premiums and one tenth of single new business premiums;
"Achieved Profits Basis Supplemental Information" or " Achieved Profits Basis"	means results prepared in accordance with the guidance issued in December 2001 by the Association of British Insurers entitled 'Supplementary Reporting for Long-Term Insurance Business (the Achieved Profits Method);
"EV" or "Embedded Value"	means the closing Achieved Profits Basis shareholders' funds prepared in accordance with the guidance issued by the Association of British Insurers in December 2001 'Supplemental Reporting for Long-Term Insurance Business (the Achieved Profits Method)'; and
"EEV" or "European Embedded Value"	means results prepared in accordance with the 'European Embedded Value Principles' issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the addition of 'Additional Guidance on EEV Disclosures' published in October 2005.

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