PRUDENTIAL

EMBARGO: 07.00 hours, Thursday 2 June 2005

Prudential plc

Economic Capital, Developments in Regulatory and Financial Reporting, and Restatement of 2004 Full Year Results under International Financial Reporting Standards and European Embedded Value

Prudential plc publishes today selected 2004 financial information restated under European Embedded Value (EEV) and International Financial Reporting Standards (IFRS). The Group's underlying capital strength, cashflow and dividend policy are not affected by the adoption of either EEV or IFRS.

In addition, we are also explaining the Group's regulatory capital position under the Financial Groups Directive (FGD) and the Group's economic capital position as at 31 December 2004.

Prudential's Group Finance Director, Philip Broadley, said: "We are publishing today a comprehensive picture of the Group's economic and regulatory capital positions as at 31 December 2004 and the impact of adopting IFRS and EEV on our 2004 financial results. We believe that the presentation of this information will enable investors to obtain a better understanding of the Group's capital position and profitability."

European Embedded Value

Prudential believes that the EEV methodology represents an improvement over existing embedded value reporting methods used across Europe and supports its introduction. Prudential re-iterates its belief that embedded value reporting provides investors with a truer measure of the underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

As a signatory to the European CFO (Chief Financial Officers) Forum on European Embedded Value (EEV) principles, Prudential will adopt EEV methodology for its 2005 year-end results. This will replace the Achieved Profit basis, the current supplementary basis of reporting. The adoption of the EEV methodology by Prudential results in a 1% reduction in the Group's total shareholders' funds to £8.5bn and an uplift of 8% in the value of new business for the year ending 31 December 2004 to £741m.

The main impact on the results arises from the effect of changes to the assumed level of locked-in capital allocated to each business, the adoption of product-specific risk discount rates, and an explicit valuation of the time value of options and guarantees. The EEV results also include the value of future profits from service companies (including fund management operations) that support the Group's long-term businesses and the UK defined benefit pensions scheme deficit.

International Financial Reporting Standards

From 1 January 2005, all listed European Groups must prepare their financial statements in accordance with EU approved International Financial Reporting Standards (IFRS). The IFRS basis replaces the current Modified Statutory Basis.

The Financial Review section of Prudential's 2004 Annual Report gave extensive explanation of the likely changes, which are confirmed in this announcement. Restatement under IFRS Phase 1 gives rise to a £15m reduction in operating profit for 2004 and an increase in shareholders funds of £470m.

News release

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In conjunction with the adoption of IFRS, Prudential has reviewed all its accounting policies and is changing the method used to determine longer term returns included within operating profits. This change, which is not required under IFRS, increases operating profit by £91m, offset by a corresponding reduction in short-term fluctuations in investment returns, leaving total profit unchanged.

Groups Directive

Under the Insurance Groups Directive (IGD), introduced in January 2001, Group solvency is calculated by aggregating the surplus capital held in the regulated subsidiaries, then deducting group borrowings, other than those subordinated debt issues that qualify as capital.

The Financial Groups Directive (FGD), which has applied to Prudential since 1 January 2005, involves a similar calculation of Group solvency as for the IGD, but the solvency test under the FGD is a continuous requirement and a regulatory obligation. Prudential has put in place a regulatory capital projection model for all business units to ensure that the Group meets, at all times, the continuous solvency requirements.

As at 31 December 2004, Prudential had a surplus of £845m on the IGD basis.

Economic Capital

Prudential has determined its economic capital requirement as the amount of capital required to ensure that the Group can meet its existing contractual and discretionary policyholder obligations and remain solvent at all times over a 25-year time horizon, within a strict target solvency level. Economic capital methodology is different from the regulatory capital model used under IGD and FGD in that it allows the Group to take account of its geographic spread and its ability to diversify its risks across its businesses.

Prudential's economic capital model, which it has been developing over the past three years, is integral to its capital and financial management at both Group and business unit level. It provides Prudential with a measure of the impact of taking on different risks in different parts of the world, both in terms of the extreme events that have the potential to deplete its capital base, and the more day-to-day volatility to which it is exposed.

As at 31 December 2004, Prudential had available capital of £3.4bn. This represents a surplus of £1.6bn over required economic capital of £1.8bn.

Further details on each of these developments can be found in the attached appendices:

-ENDS-

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1. A presentation to analysts and investors will take place at 9:30am at Governor's House, Laurence Pountney Hill, London, EC4R 0HH. A webcast of the presentation and the presentation slides will be available on the Group's website, www.prudential.co.uk.

2. An interview with Philip Broadley (in video/audio/text) will be available on www.cantos.com and www.prudential.co.uk from 7.00am on 2 June 2005.

Prudential plc, a company incorporated and with its principal place of business in the United Kingdom, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services directly and through its subsidiaries and affiliates throughout the world. It has been in existence for over 150 years and has £187bn in assets under management, as at 31 December 2004. Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

Forward-Looking Statements

This statement may contain certain "forward-looking statements" with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make.

Appendix A
European Embedded Value (EEV) Principles

- Prudential releases today restated 2004 supplementary results on an EEV basis. Key results are shown ahead of full adoption of the EEV principles at the 2005 year end. Highlights of the results on an EEV basis are shown below.

	EEV basis 2004 £m	AP basis 2004 £m
New Business Profits	741	688
New Business Margin (1)	40%	37%
Long–term Business Operating Profit Before Tax (2)	1,238	1,148
Total EEV Shareholder Funds (3)	8,481	8,596

(1) Profits are expressed as a percentage of annual premium equivalent (APE) of insurance sales.
(2) Excluding increase of £101m arising from the discretionary change of accounting policy for longer term returns as explained in the IFRS section.
(3) Excluding increase of £166m brought about by changes described in the IFRS section.

- The adoption of the EEV principles results in a small change to the embedded value of the Group's business and an uplift in the value of new business.

- The Group's underlying capital strength, cashflow, and dividend paying ability are unaffected by the adoption of the EEV principles.

- The time value of options and guarantees granted to policyholders included within the Group's embedded value as at 31 December 2004 is £209m.

Prudential believes that EEV reporting represents an evolution from the current achieved profits (AP) basis used for supplementary reporting, and it welcomes the improved clarity of information that it will provide to investors by the adopting companies. Prudential re-iterates its view that embedded value information provides investors with a much truer picture of the underlying profitability of long-term insurance business.

1. Background

In May 2004, the CFO Forum, representing the Chief Financial Officers of 19 European Insurers, published the EEV Principles which are designed to improve the transparency and consistency of embedded value reporting. Member companies agreed to adopt the principles for supplementary reporting no later than the 2005 year-end. Prudential continues to play an active role in the CFO Forum.

To enable analysts and investors to understand Prudential's approach and the impact to the results Prudential has decided to provide today a restatement of key 2004 achieved profits results under the EEV principles. However, 2005 interim results will continue to be reported on an achieved profits basis. Full disclosures in respect of the 2004 year end will be provided in December 2005 before Prudential fully adopts the principles in respect of full year 2005 results.

2. Key Results

2.1. Overview

The 2004 results under the EEV basis are shown below together with previously reported achieved profits results.

	EEV basis £m	AP basis £m
New business Profits	741	688
New business Margin (1)	40%	37%
Long–term Business Operating Profit Before Tax (2)	1,238	1,148
Total EEV Shareholder Funds (3)	8,481	8,596

(1) Profits are expressed as a percentage of annual premium equivalent (APE) of insurance sales.
(2) Excluding increase of £101m arising from the discretionary change of accounting policy for longer term returns as explained in the IFRS section.
(3) Excluding increase of £166m brought about by changes described in the IFRS section.

The main drivers of change from an achieved profits basis are changed capitalisation levels, an explicit valuation of the time value of options and guarantees, and changed risk discount rates. The EEV results also include the value of future profits on service companies (including fund management operations) that support the Group's long-term businesses and the UK defined benefit pension scheme deficit. Core debt has been marked to market.

For EEV reporting, encumbered capital has been set at economic levels, a bottom up approach has been used for the setting of risk discount rates which are both product-specific and geographically specific, whilst the time value of options and guarantees is explicitly valued using stochastic techniques. Finally, the value of future service company profits has been included within the in-force value of long-term business. The value of the UK defined benefit pension scheme deficit has been included on an IAS 19 basis.

2.2. New Business Results

2.2.1. Operating Profit from New Business

	EEV Basis Before tax £m	**AP Basis Before tax £m**
UK and Europe Insurance Operations	241	220
Jackson National Life	145	156
Asian Operations	355	312
Total	**741**	**688**

The table below reconciles the movement from an achieved profits basis to an EEV basis.

	£m
Achieved Profits Basis	**688**
Economic Assumption Changes	(3)
Time Value of Options and Guarantees	(30)
Risk Discount Rates	91
JNL Variable Annuity Fees and Benefits	24
Inclusion of Fund Management Profits in respect of Internal Funds	17
Modelling changes and other	(18)
EEV Basis before change to JNL Tax Gross Up Approach	*769*
Change in JNL Gross Up Approach	(28)
EEV Basis	**741**

Total Group new business profits have risen 8 per cent. The overall combined impact of the changed risk discount rates and explicit valuation of options is positive at £61m and this reflects the high proportion of bond-backed linked, non-profit and A&H (1) business, which have lower risk discount rates and minimal options and guarantees. There is no impact from using economic levels of capital as, for the current mix of business, statutory requirements are sufficient to meet our current assessment of economic capital requirements. The current mix of new business has relatively little in the way of options and guarantees.

(1) A&H is Accident and Health

For Jackson National Life (JNL), as part of the transition to EEV, we have taken the opportunity to simplify the basis on which we calculate the pre-tax results. Under EEV, the net profits are grossed up for tax at the expected tax rate. There is no economic impact from this presentational change. By way of comparison, under the previous method that applied under achieved profits, JNL's pre-tax new business profit would have been (around) £173m.

Inclusion of Fund Management profits adds £17m to the new business value.

The reconciliation in movement for each of the Group's Business Units is shown in Appendix A1.

2.2.2. New Business Margin

	EEV basis		AP Basis	
	% of APE	% of PVNBP	% of APE	% of PVNBP
UK and Europe Insurance Operations	30	3.4	27	n/a
Jackson National Life	32	3.2	34	n/a
Asian Operations	62	10.4	54	n/a
Total	**40**	**5.0**	**37**	**n/a**

Note
PVBNBP is defined as the present value of new business premiums.

The comments in section 2.2.1 apply here also.

2.3. Total Shareholders' Funds

	EEV Basis After tax £m	AP Basis After tax £m
UK and Europe Insurance Operations	4,228	4,051
Jackson National Life	2,538	2,532
Asian Operations	1,567	1,672
Other	148	341
Total (1)	**8,481**	**8,596**

(1) Excluding a change of £166m brought about by changes described in the IFRS section.

The reconciliation from an achieved profits basis to an EEV basis is shown below.

	£m
Achieved Profits Basis	**8,596**
Economic Assumption Changes	32
Use of Economic Capital	(269)
Time Value of Options and Guarantees	(209)
Risk Discount Rates	427
JNL VA fees and benefits	26
Inclusion of Fund Management Profits in respect of Internal Funds	200
Inclusion of Service Company Profits in respect of Covered Business	(7)
Mark to Market Core Debt	(193)
Modelling changes and other	(122)
EEV Basis	**8,481**

The combined impact of increased encumbered capital, explicit valuation of options and guarantees, and the changed risk discount rates is broadly neutral, at £(51)m (less than 1 per cent of shareholders' funds). Inclusion of future profits on fund management businesses in respect of internal funds adds £200m to the embedded value, whilst the explicit modelling of Variable Annuity (VA) fees and benefits in the US adds £26m to the embedded value. There is no impact from the changed gross-up approach for JNL described in section 2.2.1. as shareholders' funds are net of tax.

To reflect the leverage of shareholder cashflows, the Group's core debt has been marked to market. This results in a reduction in shareholders' funds of £193m.

The time value of options and guarantees included in total shareholders' funds breaks down geographically as follows.

	Time Value of Options and Guarantees £m
UK and Europe Insurance Operations	84
Jackson National Life	101
Asian Operations	24
Total	**209**

Prudential's exposure to the time value of options and guarantees based on the approach required by the EEV principles is relatively small at £209m or 2.5 per cent of the total Group shareholders' funds of £8.5bn. This is a direct result of Prudential's risk-based approach to management. By ensuring that the guarantees offered on our products are kept prudently low and by actively taking advantage of the management actions open to us we are able to minimise our shareholder exposures.

The UK and Asia numbers of £84m and £24m reflect the fact that the majority of the guarantees are contained within with-profits products which are supported by healthy estates, and that we have increased encumbered capital to our target economic capital levels. JNL's number is also low due to the explicit charges on VA products used to meet the cost of any guarantees and the ability to change crediting rates in line with credit experience on fixed annuity business.

2.4. Operating Profits

	EEV Basis Before tax £m	AP Basis Before tax £m
In-force long-term Business Operating Profits	497	460
Total long-term Business Operating Profits	1,238	1,148
Total Group Operating Profits from Continuing Operations	1,212	1,144

The main reasons behind the change in the in-force long-term business operating profits are increased unwind amounts, contribution from fund management businesses and in Asia additional expected interest income on economic capital notionally allocated to Asia (1) and the contribution from fund management business.

(1) This results in an equal and opposite impact to interest income on central shareholder funds

The impact of the discretionary changes in accounting policy for longer term returns as described in the IFRS section is to increase the total long-term business result by £101m whilst total operating profit for the Group increases from £1,212m to £1,307m. Appendix A2 provides further detail.

3. Basis of Preparation

3.1. Overall Approach

The results presented in section 2 have been prepared using the EEV Principles for the Group's long-term business including fund management operations and service companies that support the long-term businesses. The results of the Group's other businesses have been incorporated on a modified statutory basis. In adopting the principles there has been no change in the definition of long-term new business.

The shareholders' interest in the Group's long-term business comprises,

- the present value of future shareholder cash flows from in-force covered business (value of in-force business), less a deduction for the cost of locked-in ('encumbered') capital;
- the locked-in ('encumbered') capital; and
- shareholders' net worth in excess of encumbered capital.

A full stochastic valuation has been undertaken to determine the value of the in-force business including the cost of capital. A deterministic valuation of the in-force business is also derived using consistent assumptions and the time value of the financial options and guarantees is derived as the difference between the two. The main changes Prudential has made in moving to an EEV basis of reporting are in the following areas.

- encumbered capital;
- valuation of financial options and guarantees;
- risk discount rates; and
- valuation of fund management companies that support the Group's long-term businesses

In most other respects the approach that Prudential uses for its achieved profits reporting already conforms to the requirements of the EEV Principles so there has been no change in respect of these areas.

Further detail on Prudential's approach is given below.

3.2. Capital

In adopting the EEV principles, Prudential has decided to set encumbered capital at its internal targets for economic capital, which have been assessed using internal models but without any credit for the significant geographical diversification benefits that exist within the Prudential Group. For with-profits business written into a segregated life fund, both in the UK and Asia, the capital available within the fund is sufficient to meet the economic capital requirements. For all shareholder-backed business we lock-in the higher of economic capital and the local statutory minimum requirement. In the UK, economic capital requirements for annuity business are fully met by Pillar I requirements being 4% of mathematical reserves (as used for achieved profits reporting), which are also sufficient to meet Pillar II requirements as determined in the Individual Capital Assessment (ICA) submitted to the Financial Services Authority (FSA). In the US, the level of capital that has previously been locked in for achieved profits reporting, namely 235 per cent of the NAIC's (1) Company Action Level (CAL), is sufficient to meet the economic capital requirement. In Asia, our economic capital target is substantially higher than local statutory requirements in total. Economic capital requirements vary by territory, but in aggregate, the capital requirement is equivalent to the Financial Groups Directive (FGD) requirement.

(1) NAIC is the National Association of Insurance Commissioners
(2) This is equivalent to 470% of the Authorised Control Level (ACL)

The table below summarises the levels of encumbered capital for key shareholder-backed business.

	Capital as a percentage of Relevant Statutory Requirement
UK Annuity Business	100% of EU minimum
Jackson National Life	235% of CAL
Asian Operations	100% of FGD

3.3. Valuation of Options and Guarantees

Options and guarantees have two components of value, intrinsic value and time value. The intrinsic value measures the value of the options and guarantees on the chosen valuation assumptions (i.e. the extent to which they are 'in the money'). The time value measures the additional value of the options and guarantees that arises from changing future financial conditions.

The intrinsic value of options and guarantees is directly included in the embedded value calculated using deterministic assumptions while the time value is captured through the use of stochastic techniques for the embedded value calculation that involve the projection of distributable profits under many (1,000 to 5,000) scenarios in which economic and financial factors are allowed to vary in a manner that is representative of possible future market behaviour. The time value is then determined by taking the difference between the average present value of distributable profits under all these scenarios and the deterministic embedded value referred to above. As required by the EEV principles, the option valuation is a real world one and not a market consistent value and uses investment return and risk discount rate assumptions which are consistent with the main deterministic models.

3.4. Risk Discount Rates

Principle G10.7 to G10.9 of the European Embedded Value Principles state that,

"Discount rates used to determine the present value of future cash flows should be set equal to risk free rates plus a risk margin. The risk margin should reflect any risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation.

Valuation of financing types of reinsurance and debt, including subordinated and contingent debt, should ensure that the combined impact of their servicing costs and discount rates assumption does not distort the valuation of the underlying business.

Risk discount rates may vary between product groups and territories."

Prudential has adopted a bottom-up approach to the calculation of risk discount rates as we believe the intention of the EEV principles in this area is that they should relate to the risks within each product. Having considered the various options, Prudential firmly believes that a bottom-up approach is the best way to achieve this. The risk discount rate so derived does not reflect a market cost of capital but the risk of volatility associated with the casflows in the embedded value model. Risk discount rates vary by major product group in each territory and are derived using the formula, *risk discount rate = risk free rate + [product specific beta × equity risk premium] + additional margin of 50 bps*

The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cashflows. They are determined by considering how the profits from each product are impacted by changes in expected returns on various asset classes, and by converting this into a relative rate of return it is possible to derive a product specific beta. A further additional prudential margin of 50bps has been added to all risk discount rates. In setting risk discount rates any material financial options and guarantees that have been explicitly valued are excluded from the calculation whilst capital levels are consistent with the economic capital levels described in section 3.2 above. Asset backing reflects the actual assets held at the valuation date and projection assumptions used are the same as those described in section 3.5 and 3.6. An example of the calculation may be found at the Group's website (www.prudential.co.uk).

For Prudential's UK annuity business, which is well matched, the predominant financial risks are credit risk and interest rate risk. For this line of business the existing achieved profits embedded values and risk discount rates have been carried over following validation by comparison to a market consistent valuation.

Weighted average risk discount rates are given below for each business unit

	Business in-force	New Business	Achieved Profits
UK and Europe Insurance Operations	**7.1%**	**7.1%**	**7.2%**
Jackson National Life	**5.8%**	**6.1%**	**7.4%**
Asian Operations	**7.9%**	**8.0%**	**9.6%**
Group	**7.2%**	**7.3%**	**7.8%**

The in-force risk discount rate has been weighted using the value of in-force whilst the new business risk discount rate has been weighted by new business profits. It should be noted that these are just weighted summaries of the risk discount rates and are shown to give an indication of how they compare to achieved profits risk discount rates. The rates actually used are those derived for each specific product group.

3.5. Economic Assumptions and Stochastic Asset Model

3.5.1. Deterministic Calculations

The principles used to set economic assumptions are set out below.

Economic assumptions vary by territory, with risk free rates based on actual government bond yields at the date of the valuation in territories with developed capital markets and on the long-term view of Prudential's economists for those territories in Asia with less developed capital markets. Expected returns on equity and property asset classes are derived by adding a risk premium, also based on the long-term view of Prudential's economists in respect of each territory, to the risk free rate. In the UK the equity risk premium is 3.0 per cent above risk free rates which compares to 2.5 per cent previously used for achieved profits reporting. In order to maintain consistency with EEV reporting, the interim 2005 achieved profits equity risk premium assumption will now rise to 3.0 per cent with a corresponding increase in the AP risk discount rate. The equity risk premium in the US is also 3.0 per cent, unchanged from achieved profits reporting. In Asia, equity risk premiums range from 2.8 per cent to 5.3 per cent. Assumptions for other asset classes, such as corporate bond spreads, are set consistently as best estimate assumptions.

The investment return assumptions as derived above are applied to the actual assets held at the valuation date to derive the overall fund-earned rate.

The table below summarises the principal financial assumptions.

	EEV Basis	AP Basis
UK and Europe Insurance Operations		
Pre-tax expected long-term nominal rates of investment return:		
UK equities	7.6%	7.1%
Overseas equities	7.3% to 8.3%	6.8% to 7.8%
Property	6.3%	6.3%
Gilts	4.6%	4.6%
Corporate bonds	5.5%	5.5%
Expected long-term rate of inflation	2.9%	2.9%
Post-tax expected long-term nominal rate of return:		
Pension business (where no tax applies)	6.8%	6.5%
Life business	5.9%	5.7%
US Operations (Jackson National Life)		
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	1.75%	1.75%
US 10 year treasury bond rate at 31 December 2004	4.3%	4.3%
US Equities	7.3%	7.3%
Asian Operations		
Inflation	0.0% to 7.8%	0.0% to 7.8%
Government Bond Yield	1.9% to 13.0%	1.8% to 13.0%
Equity	4.9% to 15.8%	4.9% to 15.8%

3.5.2. Stochastic Calculations

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described in section 3.5.1. Assumptions specific to the stochastic calculations such as equity volatility and credit losses reflect local market conditions and are based on a combination of actual market data, historic market data and the long-term views of Prudential's economists. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics of each model.

UK and Europe Insurance Operations

- Interest rates are projected using a two-factor model calibrated to actual market data.
- The risk premium on equity assets is assumed to follow a lognormal distribution.
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process.
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a riskless bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

The rates to which the model has been calibrated are as follows:

	Mean (1)	Standard Deviation (2)
Government Bond Yield	4.6%	1.9%
Corporate Bond Yield	5.5%	5.8%
Equities	7.6%	20.0%
Property	6.3%	15.0%

(1) Means have been derived as the annualised arithmetic average return across all simulations and durations
(2) Standard deviations have been calculated by taking the variance of the annualised average return in each year across all simulations, taking the square root and averaging overall durations. For interest rates the standard deviation relates to the change in yield.

Jackson National Life

- Interest rates are projected using a three-factor model calibrated to actual market data.

- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality.

- Variable Annuity equity and bond returns have been stochastically generated using a regime-switching lognormal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 17.5 per cent to 28.0 per cent depending on risk class, and the volatility of bond funds ranges from 1.6 per cent to 4.7 per cent.

Asian Operations

The same asset return model, appropriately calibrated, as used in the UK has been used for the Asian operations. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property is not held as an investment asset.

	Mean	Standard Deviation
Government Bond Yield (3)	1.9% to 13.0%	0.7% to 3.7%
Equity Risk Premiums	2.8% to 5.3%	22.0% to 25.0%

(3) Long Government bond yield (10 year duration)

Management Actions

In deriving the in-force value various management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, the following areas.

- Levels of reversionary bonuses and credited rates
- Total claim values
- Investment allocation decisions

In all instances the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. In the UK, the actions assumed were the same as those adopted for the realistic balance sheet (Pillar I, Peak 2) included in the regulatory return.

3.6. Non-Economic Assumptions

Demographic Assumptions

Mortality and morbidity assumptions are based on an analysis of recent experience and reflect expected future experience. Where relevant, when calculating the time value of in-force business, policyholder withdrawal rates are allowed to vary in line in line with the emerging investment conditions according to management's expectations ("dynamic lapses").

Expense Assumptions

Expense levels, including those of service companies that support the company's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified separately and reported separately. No productivity gains have been assumed.

With Profits Business and Treatment of Estate

Where participating business is written into segregated life funds, the time value of options and guarantees reflects established profit participation rules.

Projected bonus rates are consistent with the projected investment return and include the impact of management action taken in response to emerging investment conditions.

In the UK, which has the largest life fund of the Group, shareholders' interest in the estate is derived by increasing terminal bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. In those few extreme scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders.

In other territories with participating business, any required shareholder injections required to meet contractual and other payments required by local practice are also included in the time value of options and guarantees. The shareholder's share in any positive residual estate has been determined as the present value of 10 per cent of that amount as at the end of the projection. Any deficits are fully attributed to shareholders.

Taxation and Other Legislation

Current taxation and other legislation has been assumed to continue unaltered except where changes have been announced and the relevant legislation passed.

Fund Management and Service Companies

The value of future profits or losses from fund management and service companies that support the Group's long-term businesses are included in the in-force value of the Group's long-term business. However, the statutory profits actually emerging continue to be shown together with profits from external fund management business. The excess or shortfall of EEV profits over actual statutory profits is included within the long-term business non-operating result.

The assumptions used to value these businesses are consistent with those used to value the underlying long-term business. The value ascribed to the Group's fund management businesses is shown as follows.

	Value of Fund Management Business £m
UK and Europe	123
Jackson National Life	20
Asia	57
Total	**200**

The value of future profits from service companies is negligible at £(7)m .

Appendix A1: Reconciliation of Movement for New Business Profits

UK and Europe Insurance Operations

	£m
Achieved Profits Basis	**220**
Economic Assumptions	10
Time Value of Options and Guarantees	(5)
Risk Discount Rates	6
Fund Management	10
EEV Basis	**241**

JNL

	£m
Achieved Profits Basis	**156**
Economic Assumptions	(8)
Time Value of Options and Guarantees	(29)
Risk Discount Rates	30
JNL VA Fees and Benefits	24
Fund Management	4
Other	(4)
EEV Basis before change to JNL Tax Gross Up Approach	*173*
Change to JNL Gross Up Approach	(28)
EEV Basis	**145**

Asian Operations

	£m
Achieved Profits Basis	**312**
Economic Assumptions	(5)
Time Value of Options and Guarantees	0
Risk Discount Rates	55
Fund Management	3
Other	(10)
EEV Basis	**355**

Appendix A2: Total Operating Profit Before Tax and Impact of IFRS

	AP Basis £m	EEV Basis £m	Impact of IFRS £m
New Business Profits	688	741	741
In-force	460	497	598
Total Long-Term	**1,148**	**1,238**	**1,339**
Fund Management			
- M&G	136	136	136
- US Broker Dealer, Curian and Fund Management	(14)	(14)	(14)
- Asia Fund Management	19	19	19
Asia Development Costs	(15)	(15)	(15)
Egg	63	63	61
Other	(193)	(215)	(219)
Total Profit Before Tax from Continuing Operations	**1,144**	**1,212**	**1,307**

<u>Note</u>
The IFRS changes include the impact of associated discretionary changes.

APPENDIX B

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

- Prudential has today released selected financial information of restated 2004 results following the adoption of International Financial Reporting Standards.

- The adoption of IFRS has little impact on reported operating results (based on longer-term returns).

- Proforma IFRS basis operating results before shareholder tax of £608m for the year ended 31 December 2004 compare with operating results previously published under UK GAAP of £623m.

- The adoption of IFRS gives rise to changed valuation bases of derivatives and fixed income securities of Jackson National Life ("JNL"). These changes are likely to give rise to increased volatility in total profits and shareholders' equity.

- Notwithstanding this increased volatility, the Company is of the view that the IFRS changes are not significant to an understanding of the Group's financial position.

- In addition to the IFRS basis changes Prudential has chosen to make a discretionary change to the basis of determining investment returns included in operating profits for fixed income securities. This change is so as to reflect longer-term returns rather than 5 year averaged credit experience. After making this change, proforma IFRS basis operating profits for continuing operations for 2004 are £699m. Total IFRS profit before shareholder tax for continuing operations (including actual investment returns) of £985m is unaffected by this change.

- The 2004 Achieved Profits basis ("AP basis") results have also been restated for the relevant IFRS changes as described elsewhere in this announcement.

1. Background

The European Union ("EU") requires that all listed European Groups prepare their 2005 financial statements in accordance with EU approved IFRS. The IFRS basis of reporting replaces UK GAAP.

The IFRS changes of themselves are not significant to an understanding of the Group's financial position.
The Financial Review section of Prudential's 2004 Annual Report gave extensive explanation of the likely changes, which are confirmed in this announcement. The principal effect of the IFRS changes is that the reported impact of JNL's hedging strategy and the financial position of the Group's UK defined benefit pension schemes are brought more into focus.

2. Key Results

Detailed notes on the basis of preparation and main features of the changes follow in sections 3 and 4 of this announcement. Also included with this announcement are schedules of selected financial information (Schedules B1 to B6) which provide summary details of the IFRS and restated AP basis results.

The changed basis of reporting also includes a discretionary change to the presentation of investment returns for the Group's shareholder backed non-participating business that is unrelated to IFRS. The IFRS changes and the discretionary change give rise to the following summary impact on full year 2004 IFRS and AP basis results and shareholders' funds at 1 January 2005.

IFRS Basis Results **Year ended 31 December 2004**	**Previously published*1 (UK GAAP)** **£m**	**Discretionary change for longer-term investment returns** **£m**	**Required change to statutory IFRS** **£m**		**Statutory IFRS*2** **£m**	**Change to proforma IFRS** **£m**		**Proforma IFRS*2** **£m**
Operating profit based on longer-term investment returns, before amortisation of goodwill and shareholder tax of continuing operations:								
JNL	196	100	0		296	-		296
Other operations	427	(9)	(6)		412	(9)		403
Total	623	91	(6)	*3	708	(9)	*3	699
Representing:								
IFRS basis results before discretionary change for longer-term investment returns					617	(9)		608
Effect of discretionary change of policy for longer-term investment returns					91	-		91
IFRS basis results after discretionary change for longer-term investment returns					708	(9)		699
Total profit, including actual investment return, before shareholders' tax of continuing operations	758	-	92		850	135		985
Shareholders' Equity (capital and reserves)								
• As at 31 December 2004	4,281	-	209		4,490	261		4,751
• Transition adjustment following full application of IAS 32, IAS 39 and IFRS 4	-	-	236		236	(261)		(25)
• As at 1 January 2005	4,281	-	445		4,726	-		4,726

<u>Achieved Profits ("AP") Basis Results</u> **Year ended 31 December 2004**	**Previously published*1** **£m**	**Discretionary change for longer-term investment returns** **£m**	**IFRS change** **£m**	**Restated** **£m**
Group AP operating profit, based on longer-term investment returns, before tax of continuing operations	1,144	101	(6)	1,239
Total Group AP profit, including actual investment returns, before tax of continuing operations	1,629	-	85	1,714
Group AP Shareholders' Equity				
• As at 31 December 2004	8,596	-	166	8,762
• Transition adjustment following application of IAS39 and IFRS4	-		(25)	(25)
• As at 1 January 2005	8,596		141	8,737

*1 Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations.

*2 See notes a to d of section 3.1 for basis of preparation and context of references to 'statutory' and 'proforma' bases of presentation.

*3 Total changes arising from IFRS shown above give rise to a reduction of £15m in operating profit – as referred to in the overview press release.

The statutory IFRS basis financial information included within this announcement establishes the results attributable to shareholders, on the basis of selected financial information, to be included in the Group's interim 2005 results and its first annual financial statements for the year ended 31 December 2005. Due to the continuing work of the International Accounting Standards Board (IASB) and possible amendments to the interpretative guidance, the Group's accounting policies, and consequently the information presented, may change prior to the publication of the first IFRS results in July 2005 and/or the 2005 full year results to be published in mid March 2006.

Additional details on the basis of preparation, of the Group's principal accounting policies, and supplementary results schedules are to be included on 2 June 2005 on the Group's website (www.prudential.co.uk) with the details of this announcement.

3. IFRS basis results

3.1 Summary

Year ended 31 December 2004	Previously published*1 (UK GAAP) £m	Discretionary change for longer-term investment returns (note b) £m	Required change to statutory IFRS £m	Statutory IFRS*2 (note a) £m	Change to proforma IFRS £m	Proforma IFRS*2 (note a) £m
Operating profit based on longer-term investment returns, before amortisation of goodwill and shareholder tax of continuing operations (note c)						
JNL	196	100	0	296	0	296
Other operations	427	(9)	(6)	412	(9)	403
Total - see section 3.2	623	91	(6)	708	(9)	699
Representing:						
IFRS basis results before discretionary change for longer-term investment returns				617	(9)	608
Effect of discretionary change of policy for longer-term investment returns (note b)				91	-	91
IFRS basis results after discretionary change for longer-term investment returns				708	(9)	699
Total profit, including actual investment return, before shareholders' tax of continuing operations (note c) – see section 3.3	758	-	92	850	135	985

Shareholders' Equity (capital and reserves) – See section 3.4						
• As at 31 December 2004	4,281	-	209	4,490	261	4,751
• Transition Adjustment following full application of IAS 39 and IFRS 4	-	-	236	236	(261)	(25)
• As at 1 January 2005	4,281	-	445	4,726	-	4,726

*1 Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations.

*2 See notes a to d of section 3.1 for basis of preparation and context of references to 'statutory and proforma bases of presentation'.

Notes on IFRS basis results

(a) Statutory and Proforma IFRS basis results

The "statutory IFRS" basis results included in this announcement reflect the accounting policies adopted by the Group as at 1st January 2004 but are not presented, and are not intended to be, in the format required for IFRS financial statements for interim or full year reporting.

References in the table above and throughout this announcement to 'Statutory IFRS' reflect the Group's adoption of all IFRS standards other than IAS 32, IAS 39 and IFRS 4, for the 2004 comparative results to be included in the Group's 2005 statutory basis financial statements, in so far as they affect the selected financial information included in this announcement. For the avoidance of doubt the statutory IFRS results do not represent the Company's statutory accounts, nor have they been extracted from statutory IFRS accounts.

In recognition of the difficulties in IFRS for the banking sector in retrospectively applying IAS32 and IAS39 on financial instruments, the IASB has permitted application of these standards from 1st January 2005. This is also permitted for IFRS4 on insurance contracts. For Prudential, application of IAS32 and IAS39 for its banking subsidiary, Egg plc, for 2004 would have given rise to results that are not representative of the approach it intends to apply for hedge accounting from 1st January 2005. The Group has therefore chosen to utilise the IFRS 1 option to adopt these standards from 1st January 2005.

However, the application of IAS32 and IAS39 for Prudential's insurance operations, particularly JNL, has a material impact on IFRS reported results. The importance of providing information that is indicative of the basis of reporting to be applied for 2005 for these operations is recognised, and the Group has therefore chosen to present "Proforma IFRS" basis results for 2004. These results reflect the estimated impact of the application of those three additional standards, which will be adopted from 1st January 2005, to the results of the Group's insurance operations, as though they had been adopted at 1st January 2004.

The main additional changes included in the proforma information relate to the valuation of JNL's fixed income securities and derivatives. The main purpose of the proforma basis information is to provide users of this financial information with results on a basis that closely aligns with that to be applied for 2005, taking account of the Group's chosen approach to application of IAS 39, particularly for JNL.

Proforma IFRS basis results for 2004 will be included with the 2005 interim and full year results as additional information to the statutory IFRS basis results to be reported in the Group's primary statements. For the avoidance of doubt, it is emphasised that the proforma IFRS results included in this announcement do not form part of the Group's IFRS basis results for the purpose of compliance with the relevant accounting requirements on adoption of IFRS.

(b) Operating profit based on longer-term investment returns

References to operating profit, based on longer-term investment returns, before shareholders' tax, reflect the continuation of the Group's approach to providing an analysis of results that demonstrates underlying performance i.e. excluding short-term volatility in investment returns. Profits determined on this basis are provided as an additional analysis of the results to be included in the Group's income statement and reflect the long-standing convention previously advocated for UK insurers by the Statement of Recommended Practice issued by the Association of British Insurers.

In determining the statutory and proforma IFRS basis operating results based on longer-term investment returns included in this announcement, the basis of determining the longer-term investment returns has been refined. Previously for fixed income securities of JNL and other non-participating shareholder backed businesses of the Group, the basis for determining longer-term returns was estimated by recognising realised gains and losses on a five-year averaged basis. For future reporting under IFRS and restated 2004 IFRS basis results this has been replaced with a combination of an annualised charge for long-term expected default experience and amortisation of interest related realised gains and losses to the period when the sold securities would have otherwise matured.

The change more closely reflects the longer-term nature of the credit cycle and refines the impact of realisations that are unrelated to defaults and impairments. Prudential believes that the presentation of operating profits based on longer-term investment returns better reflects the Group's underlying performance.

(c) Basis of presentation of tax charge

References to operating profit and total profit before shareholder tax reflect the continued presentation as additional information of tax attributable to with-profits funds and unit linked policyholders as a charge deducted in the determination of pre-shareholder tax results. In determining the allocation of tax charges between those attributable to with-profits funds, unit-linked policyholders and shareholders, a methodology consistent with that previously appropriate under UK GAAP (modified statutory basis) reporting has been applied.

Technically under IFRS, which does not recognise the distinction between taxes attributable to these different participants, total formal IFRS pre-tax profit is required to be recorded in the income statement before deduction of all taxes. In determining such pre-tax profits, transfers to and from unallocated surplus of with-profits funds are taken into account. These transfers are themselves a function of the tax borne by with-profits funds. The total profit before tax on an IFRS basis is not representative of profit before taxes attributable to shareholders.

In order to provide pre-tax results that are relevant from a shareholder perspective, the Group has elected to provide additional analysis in its financial statements of the profits before shareholder tax, but after deduction of policyholder tax. All results shown in this announcement are presented on this basis.

(d) Accounting policies

The focus of this announcement is the impact of the changes in accounting policies as they affect the results before shareholder tax and as they affect shareholders' funds. The full set of IFRS policies that will be implemented for the Group's 2005 financial statements will incorporate changes from those previously applied under UK GAAP. These will include policies covering the balance sheet changes, incorporating the inclusion of assets and liabilities such as investments, goodwill and non-recourse borrowings of investment, property and venture fund subsidiaries that have hitherto not required consolidation. These subsidiaries are primarily investments of the Prudential Assurance Company ("PAC") with-profits fund, US investment fund, and other special purpose vehicles.

3.2 Changes to IFRS operating results, based on longer-term investment returns, for continuing operations

A summary of the changes to operating profit, based on longer-term investment returns, before shareholder tax for continuing operations is as follows:

	Previously Published*1 £m	Discretionary change for longer-term investment returns £m	Required change to statutory IFRS £m	Statutory IFRS*2 £m	Change to Proforma IFRS £m	Proforma IFRS*2 £m
UK and Europe operations						
Insurance operations (note a)	305	0	0	305	(9)	296
M&G (note b)	136	0	0	136	N/A	136
Egg (note c)	63	0	(2)	61	N/A	61
Total	504	0	(2)	502	(9)	493
US operations						
JNL (note d)	196	100	0	296	0	296
Broker dealer and fund management	(14)	0	0	(14)	N/A	(14)
Total	182	100	0	282	0	282
Asian operations (note e)						
Long-term business	126	(9)	0	117	0	117
Fund Management	19	0	0	19	N/A	19
Development Expenses	(15)	0	0	(15)	N/A	(15)
Total	130	(9)	0	121	0	121
Other income and expenditure						
Interest payable on core structural borrowings	(154)	0	0	(154)	N/A	(154)
Other (note f)	(39)	0	(4)	(43)	N/A	(43)
Total	(193)	0	(4)	(197)	0	(197)
Total	623	91	(6)	708	(9)	699
Representing:						
IFRS basis results before discretionary change for longer-term investment returns				617	(9)	608
Effect of discretionary change of policy for longer-term investment returns				91	0	91
IFRS basis results after discretionary change for longer-term investment returns				708	(9)	699

N/A: not applicable – proforma basis changes are confined to insurance operations

*1 Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations.

*2 See notes a to d of section 3.1 for basis of preparation and context of references to 'statutory and proforma bases of presentation'.

Notes on changes to operating results, based on longer-term investment returns, of continuing operations.

(a) UK and Europe Insurance operations
The proforma IFRS basis result of £296m incorporates a £(9)m change on applying IAS39 and IFRS4 to those unit-linked contracts that are classified as investment contracts under IFRS 4. Under the changed basis of classification:

- Sterling reserves are no longer recognised.
- Acquisition costs that are deferrable are restricted to incremental costs.
- Deferrable acquisition costs, front-end charges and actuarial funding are amortised in line with service provision.

For all other insurance contracts of UK and Europe operations the basis of measurement of assets and liabilities continues to be as applied under UK GAAP.

(b) M&G
For M&G, the zero change reflects the application of IAS19 for the M&G pension scheme (£(1)m) offset by altered measurement of acquisition costs and front-end charges for external investment management business (£1m).

(c) Egg
Operating profit, as previously published, shown above of £63m is shown after adjusting for the losses of £20m attaching to the now discontinued Funds Direct business.

The statutory IFRS changes to the 2004 comparative results for Egg reflect only those adjustments arising from IFRS standards other than from IAS32 and IAS39. £(3)m of the change of £(2)m arises from the application of IFRS2 to share based payment in respect of shares in Egg plc.

Consistent with the approach of many other banks, IAS32 and IAS39 will be applied for the first time as at 1 January 2005. Prospectively, wholesale assets will be classified as Available-for-Sale under IAS39 and held at fair value with unrealised gains and losses reflected directly in equity. Liabilities will be measured at amortised cost with no effect compared to UK GAAP, except where set-up fees had been previously expensed but will, under IFRS, be capitalised and amortised.

Derivatives will be the only products for which changes in fair value will affect the total result for the reporting period. However, for interest rate swaps that economically hedge fixed rate personal loans, by matching them against the variable rate savings book, Egg will apply portfolio cash flow hedge accounting under IAS39. Changes in the fair value of these hedges will be recorded directly in equity in the balance sheet and not the income statement.

(d) JNL
The discretionary change to reflect the altered basis of recognition of longer-term investment return is unrelated to the requirements of IFRS. The change primarily affects the operating result of JNL as follows:

Previously published basis:	**£m**
Averaged losses on fixed income securities	(102)

Statutory and proforma IFRS	**£m**
Longer-term default assumption	(47)
Amortisation of interest related realised gains and losses	45
	(2)

Net Change	**£m**
Gross change	110
Change to related amortisation of acquisition costs	(10)
	100

The change of £100m reflects the replacement of the 5 year averaging of the exceptional default losses experienced in 2001 and 2002 with a default assumption that reflects longer-term expectations, based on historical precedent. The longer-term default provision has been calibrated on a basis consistent with published rating agency risk margin analyses and is reflective of the credit quality of individual investments held in the JNL portfolio.

There are no significant changes to JNL's operating results for IFRS changes. The accounting basis applied previously to JNL's contracts aligns very closely to that required under IFRS.

(e) Asian Operations

With the exception of the altered basis of determining longer-term returns, there is no change to operating profit for Asian operations. Virtually all insurance contracts of the Group's Asian Operations continue to be accounted for under UK GAAP as they are technically classified as insurance rather than investment contracts under IFRS4.

(f) Other income and expenditure

The change of £(4)m comprises:

	£m
Shareholders' share of pension costs not allocated to business operations	(3)
In respect of share based payments	(1)
	(4)

3.3 Changes to total IFRS profit before shareholder tax

A summary of changes to total profit before shareholder tax, including actual investment returns, of continuing operations is as follows:

	Previously published*1 (UK GAAP) £m	Discretionary change for longer-term investment returns £m	Required change to statutory IFRS £m	Statutory IFRS*2 £m	Change to Proforma IFRS £m	Proforma IFRS*2 £m
Operating profit, based on longer-term investment returns, before shareholder tax	623	91	(6)	708	(9)	699
Representing:						
IFRS basis results before discretionary change for longer-term investment returns				617	(9)	608
Effect of discretionary change of policy for longer-term investment returns				91	-	91
IFRS basis results after discretionary change for longer-term investment returns				708	(9)	699
Amortisation of goodwill (note a)	(94)	-	94	-	-	-
Short-term fluctuations in investment returns (note b)	229	(91)	11	149	144	293
Shareholders' share of actuarial gains and losses on defined benefit pension schemes (note c)	-	-	(7)	(7)	-	(7)

Total profit including actual investment returns, before shareholder tax of continuing operations	758	-	92	850	135	985

*1 Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations

*2 See notes a to d of section 3.1 for basis of preparation and context of references to 'statutory and proforma bases of presentation'.

Notes on changes to total profit before shareholder tax of continuing operations

(a) Amortisation of goodwill
Subject to annual impairment testing, goodwill is not amortised under IFRS.

(b) Short-term fluctuations in investment returns
The discretionary change of £(91)m reflects the revised basis of determining longer-term returns, as discussed in section 3.1 (note b). The £11m change to statutory IFRS principally reflects the share of profits of property and venture fund investment subsidiaries, held by the PAC with-profits fund, that are attributable to minority interests.

The £144m change to proforma IFRS arises from the market valuation of derivatives used for economic hedging purposes by JNL. Previously, under UK GAAP, the fixed income securities of JNL were, unless impaired, accounted for at amortised cost with derivatives similarly treated. In applying IFRS the Group will account for JNL's fixed income securities on an 'Available-for-Sale' basis whereby the fixed income securities are accounted for at fair value with unrealised gains and losses being recorded directly in equity rather than the income statement. In this respect the treatment is as applied by many US insurers under US GAAP. Value movements for JNL's derivatives will, however, be booked in the income statement under IFRS from 1 January 2005 when the Group adopts IAS 32 and IAS 39.

The Group will not generally seek to hedge account for JNL's derivatives under IAS 39 i.e. it will not attempt to match up value movements on hedged assets, with the value movements in the derivatives, in the income statement.

(c) Shareholders' share of actuarial gains and losses on defined benefit pension schemes
The actuarial gains and losses comprise the effect of short-term fluctuations in investment returns on scheme assets, and the effect of changes in actuarial assumptions, after deduction of the proportion absorbed by the PAC with-profits fund. Due to IFRS requirements, as they apply to the share of actuarial gains and losses absorbed by with-profits funds, the Group's policy is to record all actuarial gains and losses in the income statement.

3.4 Changes to IFRS shareholders' equity (capital and reserves)

A summary of changes to shareholders' equity at 31 December 2004 is as follows:

	£m
Previously published under UK GAAP	4,281
Changes to statutory IFRS	
• Timing difference on recognition of accrued final dividend (note a)	253
• Shareholders' share of deficits (net of tax) of UK defined benefit pension schemes (note b)	(115)
• Goodwill (note c)	94
• Other items (note d)	(23)
	209
Statutory IFRS basis shareholders' funds at 31 December 2004*	4,490
Changes to Proforma IFRS i.e. applying IAS 39 and IFRS 4 on basis consistent with that to be applied prospectively for insurance operations	
• Valuation changes to fixed income securities and derivatives (net of related changes to deferred acquisition costs and deferred tax) of US operations (note e)	273
• UK and Europe insurance operations	(12)
	261
Proforma IFRS basis at 31 December 2004*	4,751

* See notes a to d of section 3.1 for basis of preparation and context of references to 'statutory and proforma bases of presentation'.

On formal adoption of IAS32, IAS39 and IFRS4 at 1 January 2005 for the Group's insurance and other operations, the Group's IFRS basis results will incorporate a transitional adjustment to shareholders' equity. The changes are as follows:

	Previously published £m	Statutory IFRS* £m	Proforma IFRS* £m
Shareholders' equity at 31 December 2004	4,281	4,490	4,751
Transition adjustments			
Insurance operations	N/A	261	N/A
	N/A	4,751	4,751
Banking and other non-insurance operations	N/A	(25)	(25)
Shareholders' equity at 1 January 2005	4,281	4,726	4,726

* See notes a to d of section 3.1 for basis of preparation and context of references to 'statutory and proforma bases of presentation'.

<u>Notes on changes to shareholders' equity (capital and reserves)</u>

(a) <u>Timing difference on recognition of accrued final dividend</u>
Under IFRS dividends declared after the balance sheet date of the reporting period are recognised for accounting purposes in the period of declaration.

(b) <u>Shareholders' share of deficits (net of tax) of UK defined benefit pensions schemes</u>
Under IAS 19 provision for pension scheme deficits is required on a basis similar to that previously shown in the 2004 Annual Report as memorandum disclosure under FRS 17. The

deficits of the schemes reflect the difference between the market value of the assets of the schemes and projected liabilities for future cash flows discounted at an AA graded corporate bond rate. The total deficits have been apportioned, on a basis that reflects the activity of the members of the schemes, between the PAC with-profits fund and shareholders' funds. After deduction of attaching deferred tax, the net effect is to reduce the unallocated surplus of the PAC with-profits fund at 31 December 2004 by £472m. Shareholders' funds are reduced by £115m.

(c) Goodwill
The charge for goodwill reflects the fact, subject to annual impairment testing, that goodwill is not amortised from the date of adoption of IFRS.

(d) Other items
Of the deduction of £23m, £27m relates to Prudential shares owned by unit trusts that are consolidated under IFRS. These shares are accounted for as Treasury shares and hence deducted from shareholders' equity rather than being recorded as assets.

(e) Valuation changes to fixed income securities and derivatives of JNL.
Note (b) of section 3.3 above describes the altered basis of valuation of JNL's fixed income securities and derivatives. After partially offsetting 'shadow' accounting changes, in the balance sheet and shareholder reserves, for deferred acquisition costs (DAC) and related deferred tax, the altered valuation basis gives rise to an increase in shareholders' equity of £273m. The uplift reflects the difference between fair value (as applied under IFRS) and amortised cost (as applied under UK GAAP unless securities are impaired). The movement in this unrealised appreciation from period to period primarily reflects the impact of changes of market interest rates and risk premium. In future, IFRS shareholders' funds are likely to be more volatile for this feature.

4. AP basis results

4.1 Summary

The changes applied on adoption of IFRS, primarily for the Group's non-insurance operations, have consequential effects on the Group results reported on the Achieved Profit (AP) basis. However, the AP value of in-force long-term business, which reflects the discounted value of future cash flows, is unaffected. The Group will apply the AP basis of reporting for the final time for interim reporting for 2005. Full year supplementary reporting for 2005 will be on the EEV basis.

The summary impact on full year 2004 AP basis results and shareholders' funds at 1st January 2005 is as follows:

Year ended 31 December 2004	Previously published* £m	Discretionary change for longer-term investment returns £m	IFRS change £m	Restated (note a) £m
Group Achieved Profit basis operating profit, based on longer-term investment returns, before tax of continuing operations (note b) – see section 4.2	1,144	101	(6)	1,239
Total Group Achieved Profit basis profit, including actual investment returns, before tax of continuing operations – see section 4.3	1,629	-	85	1,714
Group Achieved Profit basis Shareholders' Equity – see section 4.4				
• As at 31 December 2004	8,596	-	166	8,762
• Transition adjustment	-		(25)	(25)
• As at 1 January 2005 following application of IAS 39 and IFRS 4	8,596		141	8,737

* Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations

Notes on restated AP basis results

(a) Basis of restatement
The changes shown above reflect the application of:

(i) The discretionary change to determination of longer-term returns included in operating profit, (see note (b) below) and;
(ii) Statutory IFRS basis changes for the Group's other than long-term business operations, (i.e. IFRS changes arising from the adoption of all standards other than IAS 32, IAS 39 and IFRS 4).
(iii) An additional, consequential, change in respect of UK defined benefit pension schemes for the shareholders' interest in the PAC with-profits fund. (see note (c)).

(b) Operating profit based on longer-term investment returns
As for statutory (IFRS) basis results, it is the Group's intention to continue with the approach of providing an analysis of the results that demonstrates underlying performance, i.e. excluding short-term volatility in investment returns. As for statutory (IFRS) basis results, the basis of determining longer-term returns has been revised – see 4.2 below.

(c) Additional change in respect of UK defined benefit pensions schemes
Item (iii) in respect of the provision for deficits of UK defined benefit pension schemes reflects the AP basis methodology, whereby shareholders' equity has, in addition to the IFRS deficit attributable to shareholder backed operations (as for statutory basis (IFRS) results), been adjusted to reflect the shareholders' 10 per cent interest in the IAS19 basis deficit attributed to the PAC with-profits fund. The latter item reflects the shareholders' interest on the AP basis consistent with the basis of distribution of surplus from the fund.

4.2 Changes to AP basis operating results, based on longer-term investment returns

A summary of the changes to AP basis operating profit, based on longer-term investment returns, before shareholder tax from continuing operations is as follows:

Year ended 31 December 2004 AP basis operating results, based on longer-term investment returns before shareholder tax	Previously published* £m	Discretionary change to longer-term investment returns £m	IFRS changes £m	Restated £m
UK and Europe Insurance Operations	450		0	450
M&G (note a)	136		0	136
Egg (Note b)	63		(2)	61
Total	649		(2)	647
US Operations (note c)	303	110	0	413
Prudential Corporation Asia (note c)	385	(9)	0	377
Other income & expenditure (noted d)	(193)		(4)	(197)
Group Total	1,144	101	(6)	1,239

* Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations

Notes on changes to AP basis operating profit, based on longer-term term investment returns of continuing operations

(a) M&G
As described in section 3.2 (note (b)) the changes for M&G reflect the application of IAS 19 for the M&G pension scheme and altered measurement of acquisition costs and front end charges for external investment management business.

(b) Egg
As described in section 3.2 (note(c)) the changes reflect only adjustments needed that arise from IFRS standards other than IAS 32 and IAS 39.

(c) US and Asian Operations
As described in section 3.2 (notes (d) and (e)) the change reflects the altered basis of longer-term investment returns. For US Operations the change on AP basis excludes the related change to amortisation of deferred acquisition cost (DAC) reflected for IFRS, as DAC is not part of the AP methodology.

(d) Other income and expenditure
As described in section 3.2, (note (f)), the change of £(4)m relates to stock based compensation and pension costs.

4.3 Changes to total AP basis profit before tax including actual investment returns, of continuing operations

Total AP basis Profit before shareholder tax	Previously published* £m	Discretionary change for longer-term investment returns £m	IFRS changes £m	Restated £m
Operating profit, based on longer-term investment returns, before tax of continuing operations	1,144	101	(6)	1,239
Amortisation of goodwill (note a)	(94)	-	94	-
Short-term fluctuations in investment returns (note b)	679	(101)	9	587
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	-	-	(12)	(12)
Effect of changes in economic assumptions	(100)	-		(100)
Total profit, including actual investment returns before shareholder tax, of continuing operations	1,629	-	85	1,714

* Figures shown as 'previously published' relate to continuing operations and exclude amounts attached to discontinued activities, including Egg's Funds Direct operations

Notes on changes to total AP basis profit before tax, including actual investment returns, of continuing operations

(a) Amortisation of goodwill
Subject to annual impairment testing, goodwill is not amortised under IFRS.

(b) Short-term fluctuations in investment returns
The change of £(92)m on restatement from £679m to £587m includes £(101)m in respect of the altered basis of recognition of longer-term returns for JNL and Asian Operations.

The changes reflected in the proforma statutory basis (IFRS) short-term fluctuations in investment returns shown in section 3.3 for JNL's derivatives will not feature in the AP basis results. As the derivatives are part of the long-term business assets and liabilities, which are modelled for cash flow projection purposes, valuation adjustments, which are reported for statutory basis reporting, are not relevant for AP basis results.

4.4 Changes to total AP basis shareholders' equity (capital and reserves) at 31 December 2004

A summary of changes to AP basis shareholders' equity at 31 December 2004 is as follows:

		£m
AP basis shareholders' equity at 31 December 2004 as previously published		8,596
Changes arising from application of IFRS		
• Timing difference on recognition of accrued final dividend (note a)	253	
• Shareholders' share of deficits (net of tax) of UK defined benefit pension schemes		
- Statutory (IFRS) basis	(115)	
- Additional change for shareholders' 10% interest on the AP basis, in the deficit attributable to the PAC with-profits fund (note b)	(47)	
• Goodwill (note c)	94	
• Other Items	(19)	
		166
AP basis shareholders' equity at 31 December 2004 after IFRS change		8,762

<u>Impact of adoption of IAS 32 and IAS 39 on AP basis shareholders' equity at 31 December 2004</u>

On formal adoption of IAS 32 and IAS 39 at 1 January 2005, the Group's AP basis results will incorporate a transitional adjustment to shareholders' equity. The changes are as follows:

	Previously published £m	Restated £m
AP basis Shareholders' equity at 31 December 2004	8,596	8,762
Transition adjustment on adoption of IAS 32 and IAS 39	N/A	(25)
AP basis Shareholders equity at 1 January 2005	8,596	8,737

<u>Notes on changes to total AP basis shareholders' equity at 31 December 2004</u>

(a) <u>Timing difference on recognition of accrued final dividend</u>
Under IFRS dividends are recognised for accounting purposes in the period of declaration.

(b) <u>Shareholders' share of deficits (net of tax) of UK defined pension schemes</u>
The additional deduction for the shareholders' share of the deficits of the Prudential Staff Pension Scheme and Scottish Amicable Pension Scheme reflect the fact that on the AP basis surpluses held within the PAC with-profits fund are assumed to be distributed over time through enhanced terminal bonuses with shareholders receiving 10% of the surplus for distribution i.e. one-ninth cost of bonus.

(c) <u>Goodwill</u>
Subject to annual impairment testing, goodwill is not amortised under IFRS.

PRUDENTIAL PLC

2004 Restated Results

IFRS AND ACHIEVED PROFITS BASIS RESULTS

PRELIMINARY SELECTED FINANCIAL INFORMATION INCLUDED WITH PRESS RELEASE

IFRS basis results

The IFRS basis results shown on schedules B1 to B3 have been prepared on two bases, namely "Statutory IFRS" and "Proforma IFRS".

The "Statutory IFRS" results reflect those to form the basis of the comparative results in the Group's half year 2005 consolidated financial statements after adjustment for appropriate presentational and format changes, and to be accompanied by additional disclosures required by the relevant IFRS standards and UK listing authority requirements.

For the avoidance of doubt the "Statutory IFRS" results included in this announcement are selected financial information and do not represent the Group's statutory accounts.

The following points should also be noted:

(a) The preliminary information has been prepared in accordance with the basis of preparation set out in this announcement rather than the basis applicable for a set of formal IFRS financial statements.
(b) The disclosure and presentation requirements of formal IFRS financial statements have not been adopted in the preliminary IFRS selected financial information. The format of the presentation of the results in the announcement will however be applied as part of future IFRS financial statements.
(c) The preliminary IFRS selected financial information does not include details of the Group's consolidated cash flows, consolidated income statement, or consolidated balance sheet presentation.
(d) In accordance with IFRS1, no adjustments have been made for any changes in estimates made at the time of approval of the previous UK GAAP interim and annual financial statements on which the selected financial information is based.

The "Statutory IFRS" results reflect the application of :

(i) Measurement changes arising from the adoption of all IFRS standards, other than IAS32, IAS39 and IFRS4, from 1 January 2004, in so far as they affect the selected financial information included in this announcement.
(ii) Changes to the format of the income statement for discontinued operations, and other presentational changes under IFRS, in so far as they affect the presentation of the selected financial information included in this announcement, and
(iii) A discretionary change of policy for the basis of determining longer-term investment returns included in operating profits

The "Proforma IFRS" basis results are provided as supplementary information and are not results that will form part of the company's financial statements.

The "Proforma IFRS" results reflect the application of the "Statutory IFRS" changes noted above and the estimated effect on the Group's results for 2004 if IAS32, IAS39 and IFRS4 had been applied from 1st January 2004 to the Group's insurance operations.

The "Proforma IFRS" results for 2004 will be provided as additional information with the Group's half year 2005 consolidated financial statements.

	Schedule
Summary results, supplementary profit measures, and earnings per share	**B1**
Operating profits, based on longer-term investment returns, for continuing operations, by business area	**B2**
Movement in shareholders' equity (capital and reserves)	**B3**

Achieved Profits basis results

The restated Achieved Profits basis results shown on schedules B4 to B6 have been prepared after applying:

(i) Measurement changes arising from the adoption of all IFRS standards, other than for IAS32, IAS39 and IFRS4, from 1 January 2004.
(ii) Changes to the format of the income statement for discontinued operations, and other presentational changes under IFRS, in so far as they affect the selected financial information included in this announcement.
(iii) A discretionary change of policy for the basis of determining longer-term investment returns included in operating profits.

The Half Year 2005 Achieved Profits basis results will reflect the adoption of all IFRS standards, including IAS32, IAS39, and IFRS4.

These three standards will be adopted at 1 January 2005. The effect on the Achieved Profits basis results of these three standards will be confined to the Group's non-insurance operations.

Consolidated summary results and Earnings per Share	**B4**
Operating profits, based on longer-term investment returns, for continuing operations by business area	**B5**
Movement in shareholders' capital and reserves	**B6**

Additional details on the basis of preparation and accounting policies applied are included in a separate section of this announcement.

PRUDENTIAL PLC **Schedule B1**

2004 Restated Results

IFRS BASIS RESULTS

SUMMARY RESULTS, SUPPLEMENTARY PROFIT MEASURES, AND EARNINGS PER SHARE

	PREVIOUSLY PUBLISHED UK GAAP basis		STATUTORY IFRS basis		PROFORMA IFRS basis	
SUMMARY RESULTS	**Half year 2004 £m**	**Full year 2004 £m**	**Half year 2004 £m**	**Full year 2004 £m**	**Half year 2004 £m**	**Full year 2004 £m**
Long-term business:						
Gross premiums written for insurance contracts	7,526	16,355	7,526	16,355	6,249	14,096
Profit from continuing operations, before tax attributable to shareholders	307	758	393	850	486	985
Tax attributable to shareholders*	(128)	(246)	(138)	(240)	(170)	(290)
Profit from continuing operations after tax	179	512	255	610	316	695
Discontinued operations, net of tax	(16)	(94)	(15)	(94)	(15)	(94)
Total profit for the period	163	418	240	516	301	601
Attributable to:						
Equity holders of the parent company	156	428	233	517	294	602
Minority interest	7	(10)	7	(1)	7	(1)
Total profit for the period	163	418	240	516	301	601

SUPPLEMENTARY PROFIT MEASURES

Operating profit from continuing operations, based on longer-term investment returns, before amortisation of goodwill	328	623	372	708	373	699
Amortisation of goodwill	(48)	(94)				
Operating profit from continuing operations, based on longer-term investment returns	280	529	372	708	373	699
Short-term fluctuations in investment returns	27	229	(27)	149	65	293
Shareholders' share of actuarial gains and losses on defined benefit pension schemes			48	(7)	48	(7)
Profit from continuing operations, before tax attributable to shareholders	307	758	393	850	486	985

EARNINGS PER SHARE

Continuing operations						
From operating profit, based on longer-term investment returns, after tax and related minority interest, before amortisation of goodwill	10.7 p	20.5 p	12.9 p	24.7 p	13.0 p	24.2p
Adjustment for amortisation of goodwill	(2.3) p	(4.4) p				
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interest)	(0.3) p	7.1 p	(2.8) p	3.0 p	0.1 p	7.5p
Adjustment for post-tax shareholders' share of actuarial gains and losses on defined benefit pension schemes			1.6 p	(0.2) p	1.6 p	(0.2)p
Based on profit from continuing operations after minority interest	8.1 p	23.2 p	11.7 p	27.5 p	14.7 p	31.5p
Discontinued operations						
From post-tax profit/loss from discontinued operations, including profits on disposal and closure costs, net of tax and related minority interest	(0.6) p	(3.1) p	(0.5) p	(3.1) p	(0.5) p	(3.1)p
Based on total profit for the period after minority interests	7.5 p	20.1 p	11.2 p	24.4 p	14.2 p	28.4p
Average number of shares (million)	2,084 **	2,129	2,075	2,121	2,075	2,121
Dividend per share * **	5.19 p	15.84 p	10.22 p	14.81 p	10.22 p	14.81p

* Tax charges shown throughout this announcement exclude taxes attributable to policyholders which are accounted for as a charge in determining pre-shareholder tax results.
Additional details on the basis of presentation of the tax charge are included within the accounting policies section of this announcement.

** The as "previously published" average number of shares for half year 2004 has been adjusted to reflect the impact of the rights issue in late 2004.

*** In accordance with the changed requirements of IFRS the dividend per share figures shown above reflect dividends declared in the period rather than, as under UK GAAP, the period to which the dividend relates. The dividend per share for the 2003 final dividend, declared in February 2004, and the interim 2004 dividend, declared in July 2004, have been adjusted to reflect the bonus element in the 2004 rights issue.

PRUDENTIAL PLC **Schedule B2**

2004 Restated Results

IFRS BASIS RESULTS

OPERATING PROFITS, BASED ON LONGER-TERM INVESTMENT RETURNS, FROM CONTINUING OPERATIONS

	PREVIOUSLY PUBLISHED UK GAAP basis		STATUTORY IFRS basis		PROFORMA IFRS basis	
	Half year 2004 £m	Full year 2004 £m	Half year 2004 £m	Full year 2004 £m	Half year 2004 £m	Full year 2004 £m
RESULTS ANALYSIS BY BUSINESS AREA						
UK and Europe operations						
Insurance operations	152	305	152	305	153	296
M&G	79	136	79	136	79	136
Egg	30	63	31	61	31	61
Total	261	504	262	502	263	493
US operations						
Jackson National Life	106	196	157	296	157	296
Broker dealer and fund management	(2)	(14)	(2)	(14)	(2)	(14)
Total	104	182	155	282	155	282
Asian operations						
Long-term business	64	126	58	117	58	117
Fund management	10	19	10	19	10	19
Development costs	(10)	(15)	(10)	(15)	(10)	(15)
Total	64	130	58	121	58	121
Other income and expenditure						
Investment return and other income	16	44	16	44	16	44
Interest payable on core structural borrowings	(74)	(154)	(74)	(154)	(74)	(154)
Corporate expenditure						
Group Head Office	(25)	(54)	(25)	(54)	(25)	(54)
Asia Regional Head Office	(18)	(29)	(18)	(29)	(18)	(29)
Additional IFRS pension and share based payment costs not allocated to business operations	0	0	(2)	(4)	(2)	(4)
Total	(101)	(193)	(103)	(197)	(103)	(197)
Operating profit, based on longer-term investment returns, from continuing operations	328	623	372	708	373	699

PRUDENTIAL PLC **Schedule B3**

2004 Restated Results

IFRS BASIS RESULTS

MOVEMENT IN SHAREHOLDERS' CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY

	PREVIOUSLY PUBLISHED UK GAAP basis		STATUTORY IFRS basis		PROFORMA IFRS basis	
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE	**Half year 2004 £m**	**Full year 2004 £m**	**Half year 2004 £m**	**Full year 2004 £m**	**Half year 2004 £m**	**Full year 2004 £m**
Profit for the period (net of minority interest)	156	428	233	517	294	602
Items taken directly to equity:						
Exchange movements	(33)	(173)	(32)	(172)	(37)	(191)
Value movements on fixed income securities classified as available for sale:						
Gross valuation movements					(562)	(106)
Related change to amortisation of acquisition costs					265	74
Related tax	5	12	5	12	113	23
Total recognised income for the period (net of minority interest)	128	267	206	357	73	402
RECONCILIATION OF MOVEMENT ON CONSOLIDATED SHAREHOLDERS' EQUITY						
Total recognised income for the period (net of minority interest) - as above	128	267	206	357	73	402
Proceeds from rights issue, net of expenses		1,021		1,021		1,021
Other new share capital subscribed	61	119	61	119	61	119
Dividends	(109)	(362)	(214)	(323)	(214)	(323)
Stock based compensation - fair value adjustment (net of related tax)			3	10	3	10
Own shares						
Own shares purchased in respect of stock compensation plans		(4)	0	(4)	0	(4)
Movement on Prudential plc shares purchased by unit trusts newly consolidated under IFRS			0	14	0	14
Net increase (decrease) in shareholders' capital and reserves	80	1,041	56	1,194	(77)	1,239
Shareholders' capital and reserves at 1 January 2004						
As previously reported	3,240	3,240	3,240	3,240	3,240	3,240
Adjustments on implementation of statutory/proforma IFRS			56	56	272	272
As re-stated	3,240	3,240	3,296	3,296	3,512	3,512
Shareholders' capital and reserves at end of period (see note)	3,320	4,281	3,352	4,490	3,435	4,751

Note

Reconciliation to shareholders' capital and reserves at 1st January 2005 on adoption of IAS32, IAS39, and IFRS4

Capital and reserves at 31 December 2004 (as above)	4,490	4,751
Transition adjustment at 1 January 2005 on adoption of IAS32, IAS39, and IFRS4:		
Long-term business operations	261	
Other than long-term business operations	(25)	(25)
Shareholders' capital and reserves at 1 January 2005 - Statutory IFRS basis	4,726	4,726

2004 Restated Results

ACHIEVED PROFITS BASIS RESULTS RESTATED FOR CHANGES APPLIED ON IMPLEMENTATION OF STATUTORY IFRS

CONSOLIDATED SUMMARY RESULTS AND EARNINGS PER SHARE

	PREVIOUSLY PUBLISHED		RESTATED	
CONSOLIDATED SUMMARY RESULTS ON THE ACHIEVED PROFITS BASIS	**Half year 2004 £m**	**Full year 2004 £m**	**Half year 2004 £m**	**Full year 2004 £m**
UK and Europe Insurance operations	240	450	240	450
M&G	79	136	79	136
Egg	30	63	31	61
UK and Europe operations	349	649	350	647
US operations	164	303	220	413
Asian operations	175	385	169	376
Other income and expenditure	(101)	(193)	(103)	(197)
Operating profit, based on longer-term investment returns, from continuing operations	587	1,144	636	1,239
Amortisation of goodwill	(48)	(94)		
Short-term fluctuations in investment returns	(26)	679	(76)	587
Shareholders' share of actuarial gains and losses on defined benefit pension schemes			67	(12)
Effect of changes in economic assumptions	21	(100)	21	(100)
Profit from continuing operations before tax (including actual investment returns)	534	1,629	648	1,714
Tax	(197)	(499)	(215)	(491)
Profit from continuing operations after tax before minority interest	337	1,130	433	1,223
Discontinued operations (net of tax)	(16)	(94)	(15)	(94)
Total profit for the period	321	1,036	418	1,129
Attributable to:				
Equity holders of the parent company	314	1,046	411	1,130
Minority interest	7	(10)	7	(1)
Total profit for the period	321	1,036	418	1,129

EARNINGS PER SHARE ON THE ACHIEVED PROFITS BASIS				
Continuing operations				
From operating profit, based on longer-term investment returns, after tax and related minority interest	19.5 p	38.5 p	21.0 p	41.5 p
Amortisation of goodwill	(2.3) p	(4.4) p		
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interest)	(2.0) p	21.5 p	(3.5) p	18.6 p
Adjustment for post-tax shareholders' share of actuarial gains and losses on defined benefit pension schemes	-	-	2.3 p	(0.3) p
Adjustment for post-tax effects of changes in economic assumptions	0.5 p	(3.4) p	0.5 p	(3.4) p
Based on profit from continuing operations after minority interest	15.7 p	52.2 p	20.3 p	56.4 p
Discontinued operations				
From post-tax profit/loss from discontinued operations, including profits on disposal and closure costs, net of tax and related minority interest	(0.6) p	(3.1) p	(0.5) p	(3.1) p
Based on total profit for the period after minority interests	15.1 p	49.1 p	19.8 p	53.3 p
Average number of shares	2,084 *	2,129	2,075	2,121
**Dividend per share ** **	5.19 p	15.84 p	10.22 p	14.81 p

* The ‘previously published’ average number of shares for half year 2004 has been adjusted to reflect the impact of the rights issue in late 2004

** In accordance with the changed requirements of IFRS the dividend per share figures shown above reflect dividends declared in the period rather than, as under UK GAAP, the period to which the dividend relates. The dividend per share for the 2003 final dividend, declared in February 2004, and the interim 2004 dividend, declared in July 2004, have been adjusted to reflect the bonus element in the 2004 rights issue.

PRUDENTIAL PLC **Schedule B5**

2004 Restated Results

ACHIEVED PROFITS BASIS RESULTS RESTATED FOR CHANGES APPLIED ON IMPLEMENTATION OF STATUTORY IFRS

OPERATING PROFITS, BASED ON LONGER-TERM INVESTMENT RETURNS, FROM CONTINUING OPERATIONS

	PREVIOUSLY PUBLISHED		RESTATED	
RESULTS ANALYSIS BY BUSINESS AREA	**Half year 2004 £m**	**Full year 2004 £m**	**Half year 2004 £m**	**Full year 2004 £m**
UK and Europe operations				
New business	88	220	88	220
Business in force	152	230	152	230
Long-term business	240	450	240	450
M&G	79	136	79	136
Egg	30	63	31	61
Total	349	649	350	647
US operations				
New business	82	156	82	156
Business in force	84	161	140	271
Long-term business	166	317	222	427
Broker dealer and fund management	(2)	(14)	(2)	(14)
Total	164	303	220	413
Asian operations				
New business	135	312	135	312
Business in force	40	69	34	60
Long-term business	175	381	169	372
Fund management	10	19	10	19
Development costs	(10)	(15)	(10)	(15)
Total	175	385	169	376
Other income and expenditure				
Investment return and other income	16	44	16	44
Interest payable on core structural borrowings	(74)	(154)	(74)	(154)
Corporate expenditure				
Group Head Office	(25)	(54)	(25)	(54)
Asia Regional Head Office	(18)	(29)	(18)	(29)
Additional IFRS pension and share based payment costs not allocated to business operations	0	0	(2)	(4)
Total	(101)	(193)	(103)	(197)
Operating profit, based on longer-term investment returns, from continuing operations	587	1,144	636	1,239
Analysed as operating profits from:				
Long-term business				
New business	305	688	305	688
Business in force	276	460	326	561
	581	1,148	631	1,249
Other operations	6	(4)	5	(10)
Total	587	1,144	636	1,239

2004 Restated Results

ACHIEVED PROFITS BASIS RESULTS RESTATED FOR CHANGES APPLIED ON IMPLEMENTATION OF STATUTORY IFRS

MOVEMENT IN ACHIEVED PROFITS BASIS SHAREHOLDERS' CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY

	PREVIOUSLY PUBLISHED		RESTATED	
	Half year 2004	Full year 2004	Half year 2004	Full year 2004
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE	£m	£m	£m	£m
Profit for the period (net of minority interest)	314	1,046	411	1,130
Items taken directly to equity:				
Exchange movements	(54)	(241)	(53)	(240)
Related tax	5	12	5	12
Total recognised income for the period (net of minority interest)	265	817	363	902
RECONCILIATION OF MOVEMENT ON CONSOLIDATED SHAREHOLDERS' EQUITY				
Total recognised income for the period (net of minority interest) - as above	265	817	363	902
Proceeds from rights issue, net of expenses		1,021		1,021
Other new share capital subscribed	61	119	61	119
Dividends	(109)	(362)	(214)	(323)
Stock based compensation - fair value adjustment (net of related tax)			3	10
Own shares:				
Own shares purchased in respect of stock compensation plans		(4)		(4)
Movement on Prudential plc shares purchased by unit trusts newly consolidated under IFRS				14
Net increase in shareholders' capital and reserves	217	1,591	213	1,739
Shareholders' capital and reserves at 1 January 2004				
As previously reported	7,005	7,005	7,005	7,005
Adjustments on implementation of statutory IFRS	-	-	18	18
As re-stated	7,005	7,005	7,023	7,023
Shareholders' capital and reserves at end of period	7,222	8,596	7,236	8,762
Analysed as:				
Statutory IFRS basis shareholders' capital and reserves	3,320	4,281	3,352	4,490
Additional shareholders' interest on the Achieved Profits basis	3,902	4,315	3,884	4,272
Shareholders' capital and reserves at end of period (see note)	7,222	8,596	7,236	8,762

Note

Reconciliation to shareholders' capital and reserves at 1 January 2005 on adoption of IAS32, IAS39, and IFRS4

Capital and reserves at 31 December 2004 (as above)	8,762
Transition adjustment at 1 January 2005 on adoption of IAS32, IAS39, and IFRS4:	
Statutory basis transition adjustment	236
Less: long-term business element subsumed within adjustment to additional shareholders' interest	(261)
Achieved Profits basis transition adjustment	(25)

Shareholders' capital and reserves at 1 January 2005	8,737
Analysed as:	
Statutory IFRS basis shareholders' capital and reserves	4,726
Additional shareholders' interest on the Achieved Profits basis	4,011
Shareholders' capital and reserves at 1 January 2005	8,737

APPENDIX C

Insurance Groups Directive ("IGD") and Financial Groups Directive ("FGD")

- Prudential plc announces today an IGD surplus of £845m for 31 December 2004 in excess of its £2bn capital resources requirements.

- If Prudential had chosen to seek permission from the FSA to apply transitional rules applicable up to 31 December 2004 which allowed externally generated goodwill to be included in the valuation of certain subsidiaries, Prudential's underlying IGD surplus would have been approximately £2.2bn.

- The IGD has applied to Prudential since 1 January 2001. This requires the determination of group solvency through the aggregation of surplus capital held in its subsidiaries, from which group borrowings are deducted, other than subordinated debt issues which qualify as capital.

- The FGD has applied to Prudential since 1 January 2005. A similar calculation of group solvency as for the IGD is required, although the test under the FGD is a continuous requirement and a regulatory obligation.

1.0 Background

At 31 December 2004, Prudential was required to meet the solvency requirements of the IGD, as implemented by the Financial Services Authority (FSA). The IGD introduced specific legislation for the prudential supervision of insurance groups, which introduced a test of solvency at the parent company level which requires it to hold capital in excess of the aggregate of all the minimum solvency requirements of its subsidiaries. In particular, the IGD prohibits "double gearing", i.e. where the same regulatory capital is used more than once to cover the separate capital requirements of different insurers in the Group, and "excessive leveraging" or "down-streaming", where the proceeds of debt issuance is used as equity for the regulated subsidiaries.

Due to the geographically diverse nature of Prudential's operations, the application of these requirements to Prudential is complex. In particular, for many of our Asian operations, the assets, liabilities and capital requirements have to be recalculated on bases required by the FSA.

The FGD, which affects groups with significant cross-sectoral activities in insurance and banking/investment services, came into force for Prudential from 1 January 2005. The FSA has implemented the FGD by applying the sectoral rules of the largest sector; hence an insurance-led conglomerate such as Prudential is required to focus on the capital adequacy requirements of the IGD, the Consolidated Life Insurance Directive and the Insurance Company Accounts Directive.

The FGD requires a continuous parent company solvency test, which requires the aggregation of surplus capital held in the subsidiaries, from which group borrowings are deducted, other than subordinated debt which qualifies as capital. The test is passed when this aggregate number is positive. A negative result at any point in time becomes a notifiable breach of UK regulatory requirements. Prudential has put in place a regulatory capital projection model taking into account FSA basis capital resources and requirements of all Business Units to monitor the continuous solvency requirements.

Additionally, the FSA has indicated that it will require public disclosure of the FGD solvency position from 31 December 2005, for which the detailed rules on disclosure have yet to be published. In practice, whether Prudential is classified as a financial conglomerate or insurance group, there is very little difference in application of the rules. This is because the FSA has aligned the requirements of the FGD with the IGD and has decided to make the test mandatory from 31 December 2006 to all insurance groups, and requires public disclosure of the Group solvency position from 31 December 2005.

2.0 Results

At 31 December 2004, Prudential had surplus of £845m in excess of its £2bn capital resources requirements.

The contribution to this IGD surplus, by Business Unit is as follows:

	£m
Business Unit Entities	
Insurers	
UK Insurance Operations (shareholders)	520
Jackson National Life	1,418
Prudential Corporation Asia*	(586)
Non-Insurers	
M&G	244
Egg	59
Other	41
Total Business Unit Entities	**1,696**
Holding Company	
Assets in the Holding Company	229
Core Debt	(2,509)
Add back qualifying Subordinated Debt	1,429
Total Holding Company	**(851)**
Group Surplus	**845**

* The Prudential Corporation Asia contribution of (£586m) above compares to approximately £300m of local regulatory basis surplus of capital resources over capital resources requirements.

This excludes the impact of transitional rules applicable up to 31 December 2004 by the FSA, which allowed externally generated goodwill to be included in the valuation of certain subsidiaries. Had Prudential applied for, and been given permission to use these transitional rules, its underlying IGD position would have been a surplus of approximately £2.2bn.

APPENDIX D

Economic Capital

- Prudential plc announces today an Economic Capital surplus for 31 December 2004 in respect of its in-force business of £1.6bn against its internal Group capital target.

- This is based on the results of Prudential's internal Economic Capital assessment, which shows an Economic Capital requirement of £1.8bn taking into account diversification benefits compared to available capital of £3.4bn.

- Economic Capital is the amount required to ensure that Prudential can meet its existing contractual and discretionary policyholder obligations and remain solvent at all times over a 25-year time horizon, within a strict target solvency level.

- Prudential initiated the Economic Capital project three years ago in order to enhance its group-wide platform for business management, with particular focus on capital management and risk governance.

1.0 Background

Prudential initiated the Economic Capital project three years ago in order to enhance its group-wide platform for business management. In particular, there were three key business objectives of the project:

- Increase value creation through improved capital allocation and performance management

- Enhance risk governance as part of a comprehensive risk management framework

- Demonstrate financial strength.

Economic Capital is integral to Prudential's capital and financial management at Group and Business Unit level. It informs Prudential's risk appetite for taking on different risks in different geographies, both in terms of the extreme events that have the potential to deplete its capital base, and the more day-to-day volatility to which it is exposed. It supports the asset-liability management both through optimisation of the asset allocation process and through supporting crediting and bonus declaration strategies for Prudential's policyholders. More broadly, it will be used in the assessment and driving of value creation via risk-adjusted return on capital measures. Finally, it provides a more realistic adjunct to the various regulatory solvency calculations, in particular the Insurance Groups Directive, and will be an input into Prudential's discussions with the Financial Services Authority (FSA) in respect of its Individual Capital Guidance.

2.0 Framework and Approach

The calculation of Economic Capital is based on three key principles, namely that it should:

- Capture diversification benefits and capital mobility inherent in the business of an internationally diversified insurer such as Prudential

- Use a multi-year time horizon tailored to the multi-year nature of the life insurance business

- Have comprehensive coverage but with key focus on major risk types and operations.

Economic capital is the amount required to ensure that Prudential can meet its existing contractual and discretionary policyholder obligations and remain solvent at all times over a 25-year time horizon, within a strict target solvency level.

Prudential has adopted a framework whereby cash flows and capital requirements for each of the main Business Units in the UK, US and Asia are projected over many internally consistent stochastically-generated simulations. This process, using a Group Solvency Model, captures 80 percent of the business, the other 20 percent being modelled on a standalone basis and aggregated with the main results using a correlation matrix approach. This is a standard method of aggregation used by banks and other financial institutions.

The explicit stochastic modelling of global asset return scenarios, which are directly correlated between asset classes and between geographies, enables diversification benefits to be captured for each individual scenario. For each simulation, and in each of the projected 25 years, Business Units calculate their capital surplus, transfers or requirements using their asset-liability models. These projected capital transfers to and from Business Units are aggregated together at Group level, together with Group level cash flows such as interest on debt and expenses. This gives a Group level capital balance for each scenario in each of the 25 years.

In order to take into account restrictions on mobility of capital across the Group, capital transfers to and from Business Units are triggered at a solvency level that reflects a suitable level of operating capital, based on local regulatory solvency targets, over and above basic liabilities. This includes restrictions on the availability to the Group of the full estate of the various with-profits funds throughout the Group, which are excluded from initial available capital. The Economic Capital requirement includes sufficient capital to meet this working requirement as well as to cover the risks in the business.

Using an iterative modelling process, Economic Capital is calculated as the amount required at the calculation date such that the cumulative number of projected defaults (defined as a negative Group capital balance) is less than a pre-determined rate reflecting Prudential's internal target solvency level. Prudential's internal target solvency level has been set as equivalent to the historic default rate on a AA-rated bond (equivalent to a cumulative probability of default of 44 out of 1,000 simulations over 25 years). The Economic Capital framework thus assesses the capital required to meet Prudential's obligations with at least this level of confidence taking into account extreme events.

The definition of available capital is consistent with the definition of Capital Resources in the FSA's Integrated Prudential Sourcebook for Insurers, with some adjustments for valuation differences between the FSA and Economic Capital bases.

Stochastic risk scenarios are generated by Prudential's in-house Generator of Stochastic Investment Scenarios ("GeneSIS") which uses models of individual risks from academic literature, together with a set of correlations to produce integrated risk scenarios that reflect the range and probability of different outcomes as they affect the Group.

Prudential's Economic Capital model covers all material risks in each business, including (where relevant):

- Financial risks
  - Asset-liability matching (driven by equity, property, interest rates, bond returns and inflation)
  - Credit risk

- Insurance and business risks
  - Underwriting (mortality, longevity and morbidity)
  - Persistency
  - Operational risk

As well as the more standard approaches to market risks, Prudential has developed a detailed model for credit risk, which captures spread volatility, credit migration and default over the multi-year period.

GeneSIS produces asset returns in each scenario and for each projected time period. These are based on the scenario and time-specific risk-free return, an additional risk premium and an appropriate level of volatility. The risk-free component of the model has been calibrated to current market prices (risk free bonds and interest rate derivatives) and observed historic behaviour. The risk premium and volatility assumptions, which vary by asset class, have been derived from market prices and assumptions produced by the Portfolio Management Group, Prudential's internal economists, who are responsible for investment strategy for the £98bn of assets relating to Prudential's long-term funds.

To the extent it can be reasonably projected, the systematic behaviour of policyholders and the ability of management to react to extreme events (subject to policyholders' reasonable expectations) have been modelled. The multi-year approach also allows accumulative risks such as longevity to be captured in full.

Prudential's approach to modelling operational risk involves examining the possible operational events to which it could be exposed, with particular focus on the low frequency, but high severity events that threaten the Group's solvency, and using a stochastic model that simulates these events based on assumptions around incidence and size. This has been implemented in each of the Business Units and tailored to their own profiles, and the results are captured as part of the Economic Capital requirement.

3.0 Results

As at 31 December 2004, Prudential required £1.6bn of capital to cover the risks to its existing contractual and discretionary insurance liabilities, on an economic basis and at its internal target solvency level. This number is after allowance for diversification across risks and geographies and the capturing of future shareholders' transfers from the Business Units. This compares to available capital of £3.4bn on an equivalent basis.

This requirement has been analysed into its contributory parts, by risk type and by Business Unit, as follows:

Risk Type	Percentage of Group Economic Capital Requirement
Asset-Liability Matching	28%
Credit	47%
Underwriting (mortality, longevity and morbidity)	10%
Persistency	2%
Operational	13%

Business Unit	Percentage of Group Economic Capital Requirement
Prudential UK Shareholder	21%
Prudential UK With-Profits	0%
Jackson National Life (JNL)	45%
Prudential Corporation Asia	16%
M&G	5%
Egg	12%
Prudential Group Headquarters	1%

The largest risk exposure on a diversified basis, credit risk, reflects the relative size of the exposure to JNL (30 per cent), Prudential UK shareholder annuities business (5 per cent) and Egg (10 per cent).

Prudential UK with-profits capital requirements are fully covered by the internal estate within the 90:10 fund.

JNL is the largest shareholder operation at Prudential, and the 45% share of Economic Capital requirements reflects this.