PRUDENTIAL PLC 2005 RESULTS

RESULTS SUMMARY

European Embedded Value (EEV) Basis Results*

	2005 £m	2004 £m
UK Insurance Operations	**426**	486
M&G	**163**	136
Egg	**44**	61
UK Operations	**633**	683
US Operations	**755**	368
Asian Operations	**568**	464
Other Income and Expenditure	**(244)**	(241)
Operating profit from continuing operations based on longer-term investment returns	**1,712**	1,274
Goodwill impairment charge	**(120)**	-
Short-term fluctuations in investment returns	**1,001**	570
Shareholders' share of actuarial and other gains and losses of defined benefit pension schemes	**(47)**	(12)
Effect of changes in economic assumptions and time value of cost of options and guarantees	**(302)**	(48)
Profit from continuing operations before tax	**2,244**	1,784
Operating earnings per share from continuing operations after related tax and minority interests*	**56.6p**	43.2p
Basic earnings per share	**66.9p**	53.7p
Shareholders' funds, excluding minority interests	**£10.3bn**	£8.6bn

International Financial Reporting Standard (IFRS) Basis Results**

Statutory IFRS basis results	**2005**	2004
Profit after tax attributable to equity holders of the Company	**£748m**	£517m
Basic earnings per share	**31.6p**	24.4p
Shareholders' funds, excluding minority interests	**£5.2bn**	£4.5bn

Supplementary IFRS basis information	**Based on statutory IFRS basis results 2005**	Based on pro forma IFRS results 2004
Operating profit from continuing operations based on longer-term investment returns	**£957m**	£699m
Profit after tax attributable to equity holders of the Company	**£748m**	£602m
Operating earnings per share from continuing operations after related tax and minority interests**	**32.2p**	22.7p
Basic earnings per share	**31.6p**	28.4p
Shareholders' funds, excluding minority interests	**£5.2bn**	£4.7bn

	2005	2004
Dividends per share declared and paid in reporting period	**15.95p**	15.48p
Dividends per share relating to reporting period	**16.32p**	15.84p
Funds under management	**£234bn**	£197bn

*EEV basis results

The EEV basis results have been prepared in accordance with the European Embedded Value principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. Previously the Group has reported Embedded Value based supplementary information on the Achieved Profits basis.

Operating earnings per share is calculated using operating profits from continuing operations based on longer-term investment returns, after tax and minority interest. These profits exclude goodwill impairment charges, the post-tax effects of short-term fluctuations in investment returns, the shareholder's share of actuarial and other gains and losses on defined benefit pension schemes, the effect of changes in economic assumptions, and changes in the time value of cost of options and guarantees. The amounts for these items are included in the calculation of EEV basis basic earnings per share.

**IFRS basis results

The basis of preparation reflects the formal adoption of IFRS basis reporting for the 2005 results. This basis of reporting was anticipated in the Company's interim reporting in July 2005 and which, on all substantive matters the basis of measurement and presentation of IFRS basis results included in this announcement, is the same as applied at that time.

References to "Statutory IFRS basis" results throughout this announcement reflect results contained in the statutory basis financial statements for 2005. These statements incorporate changes from the basis of preparation for the 2004 financial statements that were included in determining the interim 2005 results. These changes reflect:

(i) Measurement changes arising from policies the Group has applied on the adoption of all IFRS standards, other than IAS 32 (Financial Instruments: Disclosure and Presentation), IAS 39 (Financial Instruments: Recognition and Measurement), and IFRS 4 (Insurance Contracts), from 1 January 2004. The 2005 results include the effect of adoption of those three standards from 1 January 2005.

(ii) Changes to the format of the results and other presentational changes that the Group has applied in its 2005 financial statements in so far as they affect the summary results included in this announcement.

(iii) A discretionary change of policy for the basis of determining longer-term investment returns included in operating profit based on longer-term investment returns.

The pro forma IFRS basis results included in this announcement are included as supplementary information and are not results that form part of the Group's financial statements. The pro forma IFRS results reflect the application of the statutory IFRS changes noted above and the estimated effect on the Group's results for 2004 if IAS 32, IAS 39 and IFRS 4 had been applied from 1 January 2004 to the Group's insurance operations.

Operating earnings per share is calculated using operating profits from continuing operations based on longer-term investment returns, after tax and minority interest. These profits exclude goodwill impairment charges, and the post-tax effects of short-term fluctuations in investment returns, and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. The amounts for these items are included in the calculation of IFRS basis basic earnings per share.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

RESULTS SUMMARY

	2005 £m	2004 £m
UK Insurance Operations	**426**	486
M&G	**163**	136
Egg	**44**	61
UK Operations	**633**	683
US Operations	**755**	368
Asian Operations	**568**	464
Other Income and Expenditure	**(244)**	(241)
Operating profit from continuing operations based on longer-term investment returns	**1,712**	1,274
Goodwill impairment charge	**(120)**	-
Short-term fluctuations in investment returns	**1,001**	570
Shareholders' share of actuarial and other gains and losses of defined benefit pension schemes	**(47)**	(12)
Effect of changes in economic assumptions and time value of cost of options and guarantees	**(302)**	(48)
Profit from continuing operations before tax (including actual investment returns)	**2,244**	1,784
Tax	**(653)**	(553)
Profit from continuing operations after tax before minority interests	**1,591**	1,231
Discontinued operations (net of tax)	**3**	(94)
Profit for the year	**1,594**	1,137
Attributable to:		
Equity holders of the Company	**1,582**	1,138
Minority interests	**12**	(1)
Profit for the year	**1,594**	1,137

Earnings per share	**2005**	2004
Continuing operations		
From operating profit, based on longer-term investment returns, after related tax and minority interests	**56.6p**	43.2p
Adjustment for goodwill impairment charge	**(5.1)p**	-
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**27.8p**	17.1p
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(1.4)p**	(0.3)p
Adjustment for post-tax effect of changes in economic assumptions and time value of cost of options and guarantees	**(11.1)p**	(3.2)p
Based on profit from continuing operations after minority interests	**66.8p**	56.8p
Discontinued operations		
Based on profit (loss) from discontinued operations after minority interests	**0.1p**	(3.1)p

Based on profit for the year after minority interests	**66.9p**	53.7p
Average number of shares (million)	**2,365**	2,121

Dividends per share	**2005**	2004
Dividends per share relating to reporting period		
Interim dividend (2005 and 2004)	**5.30p**	5.19p
Final dividend (2005 and 2004)	**11.02p**	10.65p
Total	**16.32p**	15.84p
Dividends per share declared and paid in reporting period		
Interim dividend for current period	**5.30p**	5.19p
Final dividend for prior period	**10.65p**	10.29p
Total	**15.95p**	15.48p

TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

INSURANCE PRODUCTS AND INVESTMENT PRODUCTS*

	Insurance Products*		Investment Products*		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
UK Operations	**7,276**	6,538	**7,916**	5,845	**15,192**	12,383
US Operations	**5,023**	4,420	**414**	418	**5,437**	4,838
Asian Operations	**1,485**	1,172	**18,457**	19,068	**19,942**	20,240
Group Total	**13,784**	12,130	**26,787**	25,331	**40,571**	37,461

INSURANCE PRODUCTS - NEW BUSINESS PREMIUMS AND CONTRIBUTIONS*

	Single		Regular		Annual Premium and Contribution Equivalents	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
UK Insurance Operations						
Direct to customer						
Individual annuities	**720**	630	**-**	-	**72**	63
Individual pensions and life	**29**	19	**11**	10	**14**	12
Department of Work and Pensions rebate business	**244**	265	**-**	-	**24**	27
Total	**993**	914	**11**	10	**110**	102
Business to Business						
Corporate pensions	**242**	153	**146**	137	**170**	152
Individual annuities	**212**	229	**-**	-	**21**	23
Bulk annuities	**511**	474	**-**	-	**51**	47
Total	**965**	856	**146**	137	**242**	222
Intermediated distribution						
Life	**1,112**	1,001	**6**	5	**118**	105
Individual annuities	**995**	1,180	-	-	**100**	118
Individual and corporate pensions	**108**	189	**25**	25	**36**	44
Department of Work and Pensions rebate business	**83**	89	-	-	**8**	9
Total	**2,298**	2,459	**31**	30	**262**	276
Partnerships						
Life	**814**	790	**3**	2	**84**	81
Individual and bulk annuities	**1,814**	1,249	**-**	-	**182**	125
Total	**2,628**	2,039	**3**	2	**266**	206
Europe						
Life	**201**	89	**-**	2	**20**	11
Total UK Insurance Operations	**7,085**	6,357	**191**	181	**900**	817
US Operations						
Fixed annuities	**788**	1,130	**-**	-	**79**	113
Fixed index annuities	**616**	429	**-**	-	**62**	43
Variable annuities	**2,605**	1,981	**-**	-	**261**	198

Life	**11**	16	**14**	12	**15**	14
Guaranteed Investment Contracts	**355**	180	**-**	-	**35**	18
GIC - Medium Term Notes	**634**	672	**-**	-	**63**	67
Total US Operations	**5,009**	4,408	**14**	12	**515**	453
Asian Operations						
China	**17**	9	**23**	16	**25**	17
Hong Kong	**289**	255	**83**	78	**112**	103
India (Group's 26% interest)	**4**	5	**57**	33	**57**	33
Indonesia	**42**	38	**42**	28	**46**	32
Japan	**30**	17	**4**	7	**7**	9
Korea	**29**	36	**132**	60	**135**	64
Malaysia	**9**	7	**66**	61	**67**	62
Singapore	**284**	199	**58**	47	**86**	67
Taiwan	**124**	88	**150**	143	**162**	151
Other	**9**	8	**33**	37	**34**	38
Total Asian Operations	**837**	662	**648**	510	**731**	576
Group Total	**12,931**	11,427	**853**	703	**2,146**	1,846

Annual premium and contribution equivalents are calculated as the aggregate of regular new business amounts and one tenth of single new business amounts.

INVESTMENT PRODUCTS - FUNDS UNDER MANAGEMENT *

	1 Jan 2005	Gross inflows	Redemptions	Market and other movements	31 Dec 2005
	£m	£m	£m	£m	£m
UK Operations	28,705	7,916	(4,054)	3,629	**36,196**
US Operations	550	414	(116)	125	**973**
Asian Operations	8,538	18,457	(17,130)	267	**10,132**
Group Total	37,793	26,787	(21,300)	4,021	**47,301**

* The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of US institutional business, products categorised as "insurance" refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, namely falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under FSA regulations.

The details shown above for insurance products include contributions for contracts that are classified under IFRS 4 (Insurance Contracts) as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK Insurance Operations, and Guaranteed Investment Contracts and similar funding agreements written in US Operations.

UK and Asia investment products referred to in the tables above are unit trusts, mutual funds and similar types of fund management arrangements. US investment products relate to asset under administration in Curian. These are unrelated to insurance products that are classified as "investment contracts" under IFRS 4, as described above, although similar IFRS recognition principles apply to the acquisition costs and fees attaching to this type of business.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

OPERATING PROFIT FROM CONTINUING OPERATIONS BASED ON LONGER-TERM INVESTMENT RETURNS*

Results Analysis by Business Area	2005 £m	2004 £m
UK Operations		
New business	**243**	241
Business in force	**183**	245
Long-term business	**426**	486
M&G	**163**	136
Egg	**44**	61
Total	**633**	683
US Operations		
New business	**211**	145
Business in force	**530**	237
Long-term business	**741**	382
Broker-dealer and fund management	**24**	15
Curian	**(10)**	(29)
Total	**755**	368
Asian Operations		
New business	**413**	355
Business in force	**163**	105
Long-term business	**576**	460
Fund management	**12**	19
Development expenses	**(20)**	(15)
Total	**568**	464
Other Income and Expenditure		
Investment return and other income	**42**	0
Interest payable on core structural borrowings	**(175)**	(154)
Corporate expenditure:		
Group Head Office	**(70)**	(51)
Asia Regional Head Office	**(30)**	(29)
Charge for share-based payments for Prudential schemes	**(11)**	(7)
Total	**(244)**	(241)
Operating profit from continuing operations based on longer-term investment returns	**1,712**	1,274

Analysed as profits (losses) from:		
New business	**867**	741
Business in force	**876**	587
Long-term business	**1,743**	1,328
Asia development expenses	**(20)**	(15)

Other operating results	**(11)**	(39)
Total	**1,712**	1,274

* EEV basis operating profit from continuing operations based on longer-term investment returns excludes goodwill impairment charges, short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees caused by economic factors. The amounts for these items are included in total EEV profit. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit on ordinary activities and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout this supplementary information.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

MOVEMENT IN SHAREHOLDERS' CAPITAL AND RESERVES (excluding minority interests)

	2005 £m	2004 £m
Profit for the year (net of minority interests)	**1,582**	1,138
Items recognised directly in equity:		
Cumulative effect of changes in accounting principles on adoption of IAS 32, IAS 39 and IFRS 4, net of applicable taxes, at 1 January 2005	**(25)**	-
Unrealised valuation movements on securities classified as available-for-sale from 1 January 2005	**(1)**	-
Movement on cash flow hedges	**(4)**	-
Exchange movements	**377**	(239)
Related tax	**65**	(1)
Proceeds from Rights Issue, net of expenses	-	1,021
Other new share capital subscribed	**55**	119
Dividends	**(380)**	(323)
Reserve movements in respect of share-based payments	**15**	10
Treasury shares:		
Movement in own shares in respect of share-based payment plans	**0**	(2)
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	**3**	14
Net increase in shareholders' capital and reserves	**1,687**	1,737
Shareholders' capital and reserves at beginning of year (excluding minority interests):		
As previously reported on the Achieved Profits basis	**8,596**	7,005
Adjustments on implementation of statutory IFRS (excluding IAS 32, IAS 39 and IFRS 4)	**165**	15
Adjustments on implementation of European Embedded Value (EEV) methodology	**(147)**	(143)
As restated on EEV basis	**8,614**	6,877
Shareholders' capital and reserves at end of year (excluding minority interests)	**10,301**	8,614

Comprising:		
UK Operations:		
Long-term business	**5,132**	4,228
M&G:		
Net assets	**245**	297
Acquired goodwill	**1,153**	1,153
Egg	**303**	273
	6,833	5,951
US Operations	**3,418**	2,570
Asian Operations:		
Net assets	**2,070**	1,631
Acquired goodwill	**172**	292
Other operations:		

Holding company net borrowings	**(1,724)**	(1,299)
Other net liabilities	**(468)**	(531)
	10,301	8,614

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARISED CONSOLIDATED BALANCE SHEET

	2005 £m	2004 £m
Total assets less liabilities, excluding insurance funds	**174,258**	148,682
Less insurance funds*:		
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	**(169,064)**	(144,193)
Less shareholders' accrued interest in the long-term business	**5,107**	4,125
	(163,957)	(140,068)
Total net assets	**10,301**	8,614
Share capital	**119**	119
Share premium	**1,564**	1,558
Statutory basis shareholders' reserves (following adoption of IFRS)	**3,511**	2,812
Additional EEV basis retained profit	**5,107**	4,125
Shareholders' capital and reserves (excluding minority interest)	**10,301**	8,614

*Including liabilities in respect of insurance products classified as investment products under IFRS 4.

NET ASSET VALUE PER SHARE

	2005	2004
Based on EEV basis shareholders' funds of £10,301m (£8,614m)	**432p**	363p
Number of shares at year end (million)	**2,387**	2,375

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

BASIS OF PREPARATION OF RESULTS

The European Embedded Value (EEV) basis results have been prepared in accordance with the European Embedded Value principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV Disclosures published in October 2005. Where appropriate the EEV basis results include the effects of adoption of International Financial Reporting Standards.

The EEV results for the Group include the results for the covered business on the EEV basis. These results are then combined with the IFRS basis results for the Group's other operations.

With two exceptions, covered business comprises the Group's long-term business operations. The definition of long-term business operations is consistent with previous practice under the Modified Statutory Basis and Achieved Profits basis reporting and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US Operations, contracts that are in substance the same as Guaranteed Investment Contracts but do not fall within the technical definition. Under the EEV principles, the results for covered business now include the projected margins of attaching internal fund management.

The exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and in respect of the Group's defined benefit pension schemes. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund. As regards the Group's defined benefit pension schemes, the deficits attaching to the Prudential Staff Pension Scheme and Scottish Amicable Pension Scheme are excluded. These deficits are partially attributable to the PAC with-profits fund and shareholder backed long-term business.

Previously, the Group has reported supplementary information on the Achieved Profits basis for its interim and full year financial reporting. The adoption of EEV basis reporting in place of Achieved Profits basis reporting reflects developments through the CFO Forum to achieve a better level of consistency, an improved embedded value methodology, and is applied by the major European insurance companies in their financial reporting.

Except where indicated in this announcement, the Group has applied the same methodology as previously advised with the announcement of 2004 EEV results on 13 December 2005.

ECONOMIC ASSUMPTIONS

Deterministic

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on fixed interest securities. This ‘active’ basis of assumption setting has been applied in preparing the results of all the Group’s UK and US long-term business operations. For the Group’s Asian operations, the active basis is appropriate for business written in Japan, Korea and US dollar denominated business written in Hong Kong.

An exception to this general rule is that for countries where long-term fixed interest markets are underdeveloped, investment return assumptions and risk discount rates are based on an assessment of longer-term economic conditions. Except for the countries listed above, this basis is appropriate for the Group’s Asian operations.

Expected returns on equity and property asset classes are derived by adding a risk premium, 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 4.0% (2004 - 3.0%) above risk free rates. The equity risk premium in the US is also 4.0% (2004 - 3.0%). In Asia, equity risk premiums range from 3.0% to 5.75%. 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.

	31 Dec 2005	31 Dec 2004
UK Insurance Operations		
Risk discount rate		
New business	7.55%	7.1%
In-force	7.7%	7.1%
Pre-tax expected long-term nominal rates of investment return:		
UK equities	8.1%	7.6%
Overseas equities	8.1% to 8.75%	7.3% to 8.3%
Property	6.4%	6.3%
Gilts	4.1%	4.6%

Corporate bonds	4.9%	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)	7.1%	6.8%
Life business	6.3%	5.9%

US Operations (Jackson National Life)

Risk discount rate:		
New business	6.9%	6.1%
In-force	6.1%	5.8%
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 end of period	4.4%	4.3%
Pre-tax expected long-term nominal rate of return for US Equities	8.4%	7.3%
Expected long-term rate of inflation	2.4%	2.6%

Asian Operations

	China 31 Dec 2005	Hong Kong (iii) 31 Dec 2005	India 31 Dec 2005	Indonesia 31 Dec 2005	Japan 31 Dec 2005	Korea 31 Dec 2005	China 31 Dec 2004	Hong Kong (iii) 31 Dec 2004	India 31 Dec 2004	Indonesia 31 Dec 2004	Japan 31 Dec 2004	Korea 31 Dec 2004
Risk discount rate												
New business	12.0%	5.9%	16.5%	17.5%	5.0%	10.3%	10.0%	4.7%	16.0%	18.75%	5.0%	7.1%
In-force	12.0%	6.15%	16.5%	17.5%	5.0%	10.3%	10.0%	5.0%	16.0%	18.75%	5.0%	7.1%
Expected long-term rate of inflation	4.0%	2.25%	5.5%	6.5%	0.0%	2.75%	3.0%	2.25%	5.25%	7.75%	0.0%	2.75%
Government bond yield	9.0%	4.8%	10.5%	11.5%	1.8%	5.8%	7.25%	4.9%	10.25%	13.0%	1.9%	3.9%

	Malaysia 31 Dec 2005	Philippines 31 Dec 2005	Singapore 31 Dec 2005	Taiwan (ii) 31 Dec 2005	Thailand 31 Dec 2005	Vietnam 31 Dec 2005	Malaysia 31 Dec 2004	Philippines 31 Dec 2004	Singapore 31 Dec 2004	Taiwan (ii) 31 Dec 2004	Thailand 31 Dec 2004	Vietnam 31 Dec 2004
Risk discount rate												
New business	9.4%	16.5%	6.7%	9.0%	13.75%	16.5%	9.0%	16.25%	6.3%	7.1%	13.5%	15.5%
In-force	9.0%	16.5%	6.8%	9.4%	13.75%	16.5%	8.7%	16.25%	6.4%	8.2%	13.5%	15.5%
Expected long-term rate of inflation	3.0%	5.5%	1.75%	2.25%	3.75%	5.5%	3.0%	5.25%	2.25%	2.25%	3.75%	4.5%
Government bond yield	7.5%	10.5%	4.5%	5.5%	7.75%	10.5%	7.0%	10.5%	5.0%	5.5%	7.75%	9.75%

	Asia Total 31 Dec 2005	**Asia Total 31 Dec 2004**
Weighted risk discount rate (i)		
New business	9.8%	8.0%
In force	8.4%	7.9%

(i) The weighted discount rates for the Asian Operations shown above have been determined by weighting each country's discount rates by reference to the EEV basis operating result for new business and the closing value of in-force business.

(ii) For traditional business in Taiwan, the economic scenarios used to calculate 2005 EEV basis results reflect the assumption of a phased progression of the bond yields from the current rates to the long-term expected rates. The projections assume that, in the average scenario, the current bond yields of around 2% trend towards 5.5% at 31 December 2012. Allowance is made for the mix of assets in the fund, our future investment strategy and the market value depreciation of the bonds as a result of the assumed yield increases. This gives rise to an average assumed Fund Earned Rate that trends from 2.3% to 5.4% in 2013 and falls below 2.3% for seven years due to the depreciation of bond values as yields rise. Thereafter, the Fund Earned Rate fluctuates around a target of 5.9%. This compares to a grading of 3.4% at 31 December 2004 to 5.9% by 31 December 2012 for the 2004 results. Consistent with our EEV methodology, a constant discount rate has been applied to the projected cash flows.

(iii) Assumptions for US dollar denominated business which comprises the larger proportion of the in-force Hong Kong business.

(iv) Assumed equity yields
The most significant equity holdings in Asian Operations are in Hong Kong, Singapore and Malaysia. The mean equity return assumptions for these three territories at 31 December 2005 (2004) were 8.6% (7.3%), 9.3% (9.75%) and 12.8% (12.25%) respectively. To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.

Stochastic

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations such as the volatilities of asset returns reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. 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 and calibrations of each model.

UK 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 log-normal 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 risk-less 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 set out below:

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

Standard deviations have been calculated by taking the annualised variance of the returns over all the simulations, taking the square root and averaging over all durations in the projection. For bonds the standard deviations relate to the yields on bonds of the average portfolio duration. For equity and property, they relate to the total return on these assets. The standard deviations applied are as follows:

	Standard Deviation
Government bond yield	2.0%
Corporate bond yield	5.5%
Equities	
UK	18.0%
Overseas	16.0%
Property	15.0%

Jackson National Life

Interest rates are projected using a log-normal generator 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 log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 18.6% to 28.1% depending on risk class, and the standard deviation of returns for bond funds ranges from 1.4% to 1.8%.

Asian Operations

The same asset return model, as used in the UK, appropriately calibrated, 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.

The stochastic cost of guarantees are only of significance for the Hong Kong, Singapore, Malaysia and Taiwan operations.

The mean stochastic returns are consistent with the mean deterministic returns for each country. The volatility of equity returns ranges from 18% to 26%, and the volatility of government bond yields ranges from 1.6% to 8.9%.

NOTES ON THE EEV BASIS RESULTS

a) The EEV basis results for 2005 and 2004 have been derived from the EEV basis results supplement to the Company's statutory accounts for 2005. The supplement included an unqualified audit report from the auditors.

b) Under the EEV basis, the operating profit from new business represents the profitability of new long-term insurance business written in the year, and the operating profit from business in force represents the profitability of business in force at the start of the year. These results are combined with the IFRS basis results of the Group's other operations including banking and fund management business.

To the extent applicable, presentation of the EEV profit for the year is consistent with the basis the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results of the Group's continuing operations including longer-term investment returns. Non-operating results include certain recurrent and exceptional items that primarily do not reflect the underlying performance in the year of the Group's continuing operations.

The recurrent items that are excluded from operating profit are short-term fluctuations in investment returns, the effects of changes in economic assumptions on shareholders' funds at the start of the year, the change in the time value of the cost of financial options and guarantees attributable to changes in economic circumstances, and actuarial gains and losses on defined benefit pension schemes.

c) The proportion of surplus allocated to shareholders from the UK with-profits business has been based on the present level of 10%. Future bonus rates have been set at levels which would fully utilise the assets of the with-profits fund over the life of the business in force.

d) Consistent with prior periods for the Taiwan operation, the projections include an assumption of phased progression of the bond yields of around 2% towards 5.5% at 31 December 2012 as described in the section on economic assumptions of this announcement. This takes into account the effect on bond values of interest rate movements. The principal cause of the £265m charge for the effect of changed economic assumptions is the reduction in short-term earned rates in Taiwan. This reduction has the effect of delaying the emergence of the expected long-term rate.

The EEV basis embedded value of the Taiwan life operation at 31 December 2005 was £(311)m with sensitivities to bond rates as follows:

- A 100 basis point fall in starting bond rates would reduce embedded value by £108m.
- A 100 basis point increase in starting bond rates would increase embedded value by £104m.
- A 100 basis point parallel decrease in bond rates with an equivalent adjustment to the risk discount would reduce embedded value by £174m.
- A 100 basis point parallel increase in bond rates with an equivalent adjustment to the risk discount rate would increase embedded value by £106m.

e) Additional analysis of the Group's EEV basis results and sensitivities of these results to alternative assumptions can be found at the Group's website at www.prudential.co.uk or on request.

IFRS BASIS RESULTS

STATUTORY BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

	2005 £m	2004 £m (note C)
Gross premiums earned	**15,225**	16,408
Outward reinsurance premiums	**(197)**	(256)
Earned premiums, net of reinsurance	**15,028**	16,152
Investment income	**24,013**	15,750
Other income	**2,084**	2,002
Total revenue (note D)	**41,125**	33,904
Benefits and claims and movement in unallocated surplus of with-profits funds	**(33,100)**	(26,593)
Acquisition costs and other operating expenditure	**(5,552)**	(5,563)
Finance costs: interest on core structural borrowings of shareholder financed operations	**(208)**	(187)
Goodwill impairment charge	**(120)**	-
Total charges (note D)	**(38,980)**	(32,343)
Profit before tax* (note D)	**2,145**	1,561
Tax attributable to policyholders' returns	**(1,147)**	(711)
Profit before tax attributable to shareholders	**998**	850
Tax expense (note M)	**(1,388)**	(951)
Less: tax attributable to policyholders' returns	**1,147**	711
Tax attributable to shareholders' profit (note M)	**(241)**	(240)
Profit from continuing operations after tax	**757**	610
Discontinued operations (net of tax)	**3**	(94)
Profit for the year	**760**	516
Attributable to:		
Equity holders of the Company	**748**	517
Minority interests	**12**	(1)
Profit for the year	**760**	516

Earnings per share		
Basic (based on 2,365m and 2,121m shares respectively)		
Based on profit from continuing operations attributable to the equity holders of the Company	**31.5p**	27.5p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company	**0.1p**	(3.1)p
	31.6p	24.4p
Diluted (based on 2,369m and 2,124m shares respectively)		
Based on profit from continuing operations attributable to the equity holders of the Company	**31.5p**	27.5p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company	**0.1p**	(3.1)p
	31.6p	24.4p

Dividends per share

Dividends relating to reporting period		
Interim dividend (2005 and 2004)	**5.30p**	5.19p
Final dividend (2005 and 2004)	**11.02p**	10.65p
Total	**16.32p**	15.84p
Dividends declared and paid in reporting period		
Interim dividend for current period	**5.30p**	5.19p
Final dividend for prior period	**10.65p**	10.29p
Total	**15.95p**	15.48p

* Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

IFRS BASIS RESULTS

STATUTORY BASIS RESULTS

SUMMARY OF STATEMENT OF CHANGES IN EQUITY

	2005			2004		
	Shareholders' equity	Minority interest	Total equity	Shareholders' equity	Minority interest	Total equity
	£m	£m	£m	£m	£m	£m
Reserves						
Profit for the year	**748**	**12**	**760**	517	(1)	516
Items recognised directly in equity:						
Exchange movements	**268**		**268**	(172)		(172)
Movement on cash flow hedges	**(4)**	**1**	**(3)**			
Unrealised valuation movements on securities classified as available-for-sale from 1 January 2005 (see note H)						
Unrealised holding losses arising during the year	**(773)**		**(773)**			
Less reclassification adjustment for losses included in the income statement	**22**		**22**			
Related change in amortisation of deferred income and acquisition costs	**307**		**307**			
Related tax	**218**		**218**	12		12
Total items recognised directly in equity	**38**	**1**	**39**	(160)		(160)
Total income and expense for the year	**786**	**13**	**799**	357	(1)	356
Cumulative effect of changes in accounting policies on adoption of IAS 32, IAS 39 and IFRS 4, net of applicable taxes at 1 January 2005 (note G)	**226**	**(3)**	**223**			
Dividends	**(380)**		**(380)**	(323)		(323)
Reserve movements in respect of share-based payments	**15**	**(1)**	**14**	10		10
Change in minority interest arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund		**26**	**26**		1	1
Share capital and share premium						
Proceeds from Rights Issue, net of expenses				1,021		1,021
Other new share capital subscribed	**55**		**55**	119		119
Treasury shares						
Movement in own shares purchased in respect of share-based payment plans	**0**		**0**	(2)		(2)
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	**3**		**3**	14		14
Net increase in equity	**705**	**35**	**740**	1,196	0	1,196
At beginning of year:						
As previously reported under UK GAAP	**4,281**	**71**	**4,352**	3,240	107	3,347
Changes arising from adoption of IFRS (note F)	**208**	**66**	**274**	53	30	83

As restated under IFRS	**4,489**	**137**	**4,626**	3,293	137	3,430
At end of year	**5,194**	**172**	**5,366**	4,489	137	4,626

IFRS BASIS RESULTS

STATUTORY BASIS RESULTS

CONSOLIDATED BALANCE SHEET	**31 Dec 2005 £m**	31 Dec 2004 £m (note F)
Assets		
Goodwill:		
Attributable to PAC with-profits fund	**607**	784
Attributable to shareholders	**1,341**	1,461
Total	**1,948**	2,245
Other intangible assets (primarily deferred acquisition costs):		
PAC with-profits fund (note I)	**35**	798
Other operations	**2,405**	2,244
Total	**2,440**	3,042
Other non-investment and non-cash assets:		
Property, plant and equipment	**910**	967
Reinsurers' share of policyholder liabilities	**1,278**	1,018
Deferred tax assets	**755**	827
Current tax recoverable	**231**	159
Accrued investment income	**1,791**	1,733
Other debtors	**1,318**	1,188
Total	**6,283**	5,892
Investments of long-term business, banking and other operations:		
Investment properties	**13,180**	13,303
Investments accounted for using the equity method	**5**	5
Financial investments:		
Loans and receivables	**13,245**	12,430
Equity securities and portfolio holdings in unit trusts	**71,985**	54,466
Debt securities	**82,471**	76,374
Other investments	**3,879**	2,537
Deposits	**7,627**	5,271
Total	**192,392**	164,386
Held for sale assets	**728**	100
Cash and cash equivalents	**3,586**	4,341
Total assets	**207,377**	180,006

Equity and liabilities

Equity		
Shareholders' equity (note K)	**5,194**	4,489
Minority interests	**172**	137
Total equity	**5,366**	4,626
Liabilities		
Banking customer accounts	**5,830**	6,607
Policyholder liabilities and unallocated surplus of with-profits funds*		
Insurance contract liabilities	**120,436**	-
Investment contract liabilities with discretionary participation features	**26,523**	-
Investment contract liabilities without discretionary participation features	**12,026**	-
Technical provisions in respect of non-linked business	**-**	104,996
Technical provisions for linked liabilities	**-**	24,066
Unallocated surplus of with-profits funds:		
Reflecting application of 'realistic' basis provisions for UK regulated with-profits funds	**11,357**	-
Reflecting previous UK GAAP basis of provisioning	**-**	16,149
Total	**170,342**	145,211
Core structural borrowings of shareholder-financed operations:		
Subordinated debt (other than Egg)	**1,646**	1,429
Other	**1,093**	1,368
	2,739	2,797
Egg subordinated debt	**452**	451
Total	**3,191**	3,248
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations (note L)	**6,432**	6,421
Borrowings attributable to with-profits funds (note L)	**1,898**	2,137
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**4,529**	3,819
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**965**	808
Current tax liabilities	**962**	1,018
Deferred tax liabilities	**2,991**	2,279
Accruals and deferred income	**506**	655

Other creditors	**1,478**	996
Provisions	**972**	1,006
Other liabilities	**1,769**	1,175
Held for sale liabilities	**146**	-
Total	**14,318**	11,756
Total liabilities	**202,011**	175,380
Total equity and liabilities	**207,377**	180,006

* The presentation of insurance and investment contracts liabilities to policyholders reflects the adoption of IAS 32, IAS 39 and IFRS 4 at 1 January 2005. The comparative liabilities for 2004 reflect the previous UK GAAP basis.

IFRS BASIS RESULTS

STATUTORY BASIS RESULTS

CONSOLIDATED CASH FLOW STATEMENT

	2005 £m	2004 £m
Cash flows from operating activities (note (i))		
Profit before tax (note (ii))	**2,145**	1,561
Changes in operating assets and liabilities		
Investments	**(21,462)**	(14,741)
Banking customer accounts	**(861)**	(330)
Other non-investment and non-cash assets	**(970)**	(105)
Policyholder liabilities (including unallocated surplus)	**21,126**	13,639
Other liabilities (including operational borrowings)	**180**	1,061
Interest income and expense and dividend income included in profit before tax	**(8,410)**	(7,371)
Other non-cash items	**0**	73
Operating cash items:		
Interest receipts	**5,946**	5,660
Dividend receipts	**2,680**	1,853
Tax paid	**(573)**	(450)
Net cash flows from operating activities	**(199)**	850
Cash flows from investing activities		
Purchases of property, plant and equipment	**(160)**	(227)
Proceeds from disposal of property, plant and equipment	**6**	4
Acquisition of subsidiaries, net of cash balances (note (iii))	**(68)**	(92)
Disposal of subsidiaries, net of cash balances (note (iii))	**252**	218
Net cash flows from investing activities	**30**	(97)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations (note (iv)):		
Issue	**168**	344
Redemption	**(308)**	(61)
Interest paid	**(204)**	(189)
With-profits operations (note (v)):		
Interest paid	**(9)**	(9)
Equity capital:		
Issues of ordinary share capital	**55**	1,140
Dividends paid	**(380)**	(323)
Net cash flows from financing activities	**(678)**	902
Net (decrease) increase in cash and cash equivalents	**(847)**	1,655

Cash and cash equivalents at beginning of year	**4,341**	2,756
Effect of exchange rate changes on cash and cash equivalents	**92**	(70)
Cash and cash equivalents at end of year (note (vi))	**3,586**	4,341

Notes

(i) The adjusting items to IFRS basis income include changes in operating assets and liabilities, and other items comprising adjustments in respect of non-cash items, operational interest receipts and payments, dividend receipts, income tax paid and cash flows in respect of assets categorised as available-for-sale investments. The most significant elements of the adjusting items are the changes in operating assets and liabilities made up as shown above.

(ii) Profit before tax represents income, net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits. It does not represent profit before tax attributable to shareholders.

(iii) Purchases and sales of subsidiaries shown above include purchases and sales of venture subsidiaries of the PAC with-profits fund.

(iv) Structural borrowings of shareholder-financed operations consists of the core debt of the parent company and related finance subsidiaries, Jackson National Life surplus notes and Egg debenture loans. Core debt excludes borrowings to support short-term fixed income securities reinvestment programmes and non-recourse borrowings of investment subsidiaries of shareholder-financed operations. Cash flows in respect of these borrowings are included within operating cash flows.

(v) Structural borrowings of with-profits operations relate solely to the £100m 8.5% undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows on other borrowings of with-profits funds, which principally relate to venture subsidiaries, are categorised as operating activities in the presentation above.

(vi) Under IFRS the cash flow statement comprises consolidated cash flows for the Group as a whole, including those of long-term business funds. Of the cash and cash equivalents amounts of £3,586m and £4,341m, £263m and £325m represent cash and cash equivalents of the parent company and related finance subsidiaries.

IFRS BASIS RESULTS

STATUTORY BASIS RESULTS

NOTES ON THE STATUTORY BASIS RESULTS

A. Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2005. These statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), as required by EU law (IAS Regulation EC 1606 / 2002).

The Group has applied all IFRSs and interpretations adopted by the EU at 31 December 2005, and has early adopted the amendment to IAS 39 (The fair value option) and IAS 19 (Employee benefits) (as amended in 2004).

Compared to the UK GAAP basis of presentation, the statutory IFRS basis results reflect the application of:

(i) Measurement and recognition changes arising from policies the Group has applied on the adoption of all IFRS standards, other than IAS 32 (Financial Instruments: Disclosure and Presentation), IAS 39 (Financial Instruments: Recognition and Measurement), and IFRS 4 (Insurance Contracts), from 1 January 2004. The 2005 results include the effect of these three standards from 1 January 2005.

(ii) Changes to the format of the results and other presentational changes that the Group has applied in its 2005 financial statements in so far as they affect the summary results included in this preliminary announcement.

In addition, compared to the basis of preparing supplementary results and earnings per share basis information previously provided under UK GAAP, a discretionary change of policy for the basis of determining longer-term investment returns included in operating profit based on longer-term investment returns has been applied. This change was first applied in the Group's Interim 2005 results.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2005 or 2004 but is derived from the 2005 accounts. Statutory accounts for 2004, which were prepared under UK GAAP, have been delivered to the Registrar of Companies and those for 2005, prepared under International Financial Reporting Standards as adopted by the EU, will be delivered following the Company's Annual General Meeting. The auditors have reported on both those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

B. Effects of adoption of IFRS basis reporting

The changes of accounting policy that arise on the conversion to IFRS basis reporting are numerous and extend to many items of income, expenditure, assets and liabilities. Comprehensive details of the changes were included with the announcement of restated 2004 comparative results on 2 June 2005 and the interim results announcement on 27 July 2005. These details are available at the Group's web-site at www.prudential.co.uk or on request. Notes C and F show the effect of IFRS adoption on the income statement for 2004 and shareholders' equity at 1 January 2004 and 31 December 2004. Note G shows the effect of the adoption of the standards IAS 32, IAS 39 and IFRS 4 at 1 January 2005.

C. Reconciliation of the summary income statement

Year ended 31 December 2004		IFRS adjustments		
	UK GAAP (note C(i))	Presentation of UK GAAP in IFRS format (note C(i))	Recognition, measurement and other changes (note C(ii))	**Statutory IFRS basis**
	£m	£m	£m	**£m**
Earned premiums, net of reinsurance	16,099	53		**16,152**
Investment income	13,917	2,082	(249)	**15,750**
UK fund management result	136	(136)		
US broker-dealer and fund management result	(14)	14		
Asia fund management result	19	(19)		
UK banking result (continuing operations)	63	(63)		
Other income		773	1,229	**2,002**
Total revenue	30,220	2,704	980	**33,904**

Benefits and claims and movement in unallocated surplus of with-profits funds	(26,598)	(83)	88	**(26,593)**
Acquisition costs and other operating expenditure	(2,069)	(2,434)	(1,060)	**(5,563)**
Finance costs: interest on core structural borrowings of shareholder-financed operations		(187)		**(187)**
Amortisation of goodwill (continuing operations)	(94)		94	
Total charges	(28,761)	(2,704)	(878)	**(32,343)**
Profit before tax*	1,459		102	**1,561**
Tax attributable to policyholders' returns	(701)		(10)	**(711)**
Profit before tax attributable to shareholders	758		92	**850**
Tax expense	(947)		(4)	**(951)**
Less: Tax attributable to policyholders' returns	701		10	**711**
Tax attributable to shareholders' profits	(246)		6	**(240)**
Profit from continuing operations after tax	512		98	**610**
Discontinued operations (net of tax)	(94)			**(94)**
Profit for the year	418		98	**516**
Attributable to:				
Equity holders of the Company	428		89	**517**
Minority interests	(10)		9	**(1)**
Profit for the year	418		98	**516**

* Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

Notes

C(i) UK GAAP results
The UK GAAP basis results shown above reflect those previously recorded in the technical accounts and non-technical account of the Group's profit and loss account under Companies Act requirements. These results are then reconfigured to be consistent with the format applied for reporting in the Group's 2005 financial statements under IFRS.

C(ii) Recognition, measurement and other changes
Changes to profit from continuing operations (including actual investment returns) before and after tax attributable to shareholders reflect the effects of IFRS adoption. In summary the effects are for:

	£m
Egg - primarily relates to charges for share-based payments in respect of Egg shares	(2)
Additional pension costs and share-based payments costs in respect of Prudential plc shares not allocated by business unit	(4)
Amortisation of goodwill not permitted under IFRS	94
Actuarial gains and losses of defined benefit schemes recognised under IFRS	(7)
Value movements of US investment funds newly consolidated under IFRS	2
Share of profits of venture investment companies and property partnerships of the PAC with-profits fund consolidated under IFRS, that is attributable to external investors	9
Total changes before tax	92
Related tax attributable to shareholders	6
Total changes after tax	98

Changes to revenue, charges and related tax of the Group's with-profits funds principally relate to measurement differences on investments, consolidation criteria for venture funds and other investment subsidiaries, and pension cost accounting. These changes have been reflected by transfers of an equal and opposite amount to unallocated surplus and hence have no net effect on shareholder results.

D. Segmental disclosure

The Group's primary reporting segments are long-term business, banking and broker-dealer and fund management.

	2005 £m	2004 £m
Revenue		
Long-term business	**39,296**	32,073
Banking	**1,115**	1,110
Broker-dealer and fund management	**895**	823
Unallocated corporate	**98**	151
Intragroup revenue eliminated on consolidation	**(279)**	(253)
Total revenue per income statement	**41,125**	33,904
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)		
Long-term business including post-tax transfers to unallocated surplus of with-profits funds	**(36,968)**	(30,531)
Banking	**(1,071)**	(1,049)
Broker-dealer and fund management	**(740)**	(682)
Unallocated corporate	**(480)**	(334)
Intragroup charges eliminated on consolidation	**279**	253
Total charges per income statement	**(38,980)**	(32,343)
Segment results - Revenue less charges (continuing operations)		
Long-term business	**2,328**	1,542
Banking	**44**	61
Broker-dealer and fund management	**155**	141
Unallocated corporate	**(382)**	(183)
Profit before tax*	**2,145**	1,561
Tax attributable to policyholders' returns	**(1,147)**	(711)
Profit before tax attributable to shareholders	**998**	850
Tax attibutable to shareholders' profits	**(241)**	(240)
Profit from continuing operations after tax	**757**	610
Segment results - Discontinued operations		
Long-term business	**-**	4
Banking	**3**	(98)

	3	(94)
Profit for the year	**760**	516

* Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

E. Supplementary analysis of profit from continuing operations before tax attributable to shareholders and related earnings per share

Profit from continuing operations before tax

	2005 £m	2004 £m
Operating profit from continuing operations based on longer-term investment returns (note E(i))	**957**	
Goodwill impairment charge	**(120)**	
Short-term fluctuations in investment returns on shareholder-backed business	**211**	
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(50)**	(see note E(ii))
Profit from continuing operations before tax attributable to shareholders (including actual investment returns)	**998**	

Earnings per share from continuing operations

From operating profit based on longer-term investment returns after related tax and minority interests of £761m	**32.2p**	
Adjustment for goodwill impairment charge	**(5.1)p**	
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**5.9p**	(see note E(ii))
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(1.5)p**	
Based on profit from continuing operations after tax and minority interests of £745m	**31.5p**	

Notes

E(i) Under the Group's accounting policies additional analysis is provided of profit before tax attributable to shareholders that distinguishes operating profit based on longer-term investment returns from other constituent elements of total profit before tax attributable to shareholders.

For the purposes of measuring operating profits based on longer-term investment returns, investment returns are based on the expected longer-term rate of return. The expected long-term rates of return are intended to reflect historical real rates of return and, where appropriate, current inflation expectation, adjusted for consensus economic and investment return forecast. The significant operations that require adjustment for the difference between actual and longer-term investment returns are Jackson National Life and certain businesses of the Group's Asian Operations. The amounts included in operating results for longer-term capital returns for debt securities comprise two components. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest related realised gains and losses to operating results based on longer-term returns to the date when sold bonds would otherwise have matured.

Items excluded from operating profit based on longer-term investment returns but included in profit before tax attributable to shareholders of continuing operations include goodwill impairment charges, short-term fluctuations in investment returns (i.e actual less longer-term returns), actuarial gains and losses on defined benefit pension schemes and exceptional items.

With the exception of derivatives used for managing equity exposure, value movements on derivatives held by Jackson National Life are included within short-term fluctuations.

For the purposes of distinguishing actuarial gains and losses on defined benefit pension schemes in this analysis, plan assets include Prudential policies held by the Prudential Staff Pension Scheme and the M&G pension scheme. At 31 December 2005, these policies had a carrying value of £253m.

E(ii)The supplementary analysis of statutory IFRS basis results shown above has been presented only for 2005. Details have not been provided for 2004 in this announcement as the results would not be comparable. This is due to IAS 32, IAS 39 and IFRS 4 only being adopted from 1 January 2005. Details of the analysis of the statutory IFRS basis results for 2004 on this basis will be published in the Group's financial statements.

Additional analysis of the 2005 result, and pro forma basis comparative results for 2004 as if the above standards had been applied by the Group's insurance operations from 1 January 2004, is provided as supplementary information to this announcement. The analysis on those pages has not been extracted from the Group's IFRS financial statements.

F. Reconciliations of equity and balance sheet

At 1 January 2004	Shareholders' equity	Minority interests	Total equity
	£m	£m	£m
Changes on adoption of statutory IFRS basis			
Treasury shares adjustment for Prudential plc shares held by unit trusts consolidated under IFRS (note F(i))	(40)		(40)
Minority share of equity of consolidated venture investment companies and property partnerships of the PAC with-profits fund (note F(i))		32	32
Shareholders' share of deficits (net of tax) of defined benefit pension schemes (note F(ii))	(110)		(110)
Timing difference on recognition of dividend declared after balance sheet date (note F(iii))	214		214
Other items	(11)	(2)	(13)
Total	53	30	83
Equity at 1 January 2004			
As previously published under UK GAAP	3,240	107	3,347
As restated under statutory IFRS	3,293	137	3,430

At 31 December 2004	UK GAAP	Effect of changes on implementation of IFRS recognition and measurement changes: Newly consolidated entities (note F(i))	Defined benefit pension schemes accounting (note F(ii))	Other recognition and measurement changes (note F(iii))	Grossing-up and other format changes	Total IFRS changes	**Statutory IFRS basis**
	£m	£m	£m	£m	£m	£m	**£m**
Assets							
Goodwill:							
Attributable to PAC with-profits fund		784				784	**784**
Attributable to shareholders	1,367			94		94	**1,461**
Investments: per IFRS balance sheet		1,963		35	162,388	164,386	**164,386**
Investments: per UK GAAP analysis (non-linked, linked and banking business assets)	129,468				(129,468)	(129,468)	**0**
Other items	43,741	1,477	102	50	(31,995)	(30,366)	**13,375**
Total assets	174,576	4,224	102	179	925	5,430	**180,006**

Equity and liabilities							
Equity							
Shareholders' equity	4,281	(30)	(117)	355		208	**4,489**
Minority interests	71	68		(2)		66	**137**
Total equity	4,352	38	(117)	353		274	**4,626**
Liabilities							
Banking customer accounts: per IFRS balance sheet					6,607	6,607	**6,607**
Banking business liabilities: per UK GAAP balance sheet	11,216				(11,216)	(11,216)	**0**
Policyholder liabilities and unallocated surplus of with-profits funds							
Technical provisions	129,101		(125)	8	78	(39)	**129,062**
Unallocated surplus of with-profits funds	16,686	(31)	(472)	(34)		(537)	**16,149**
Borrowings per IFRS balance sheet							
Core structural borrowings of shareholder-financed operations					3,248	3,248	**3,248**
Operational borrowings attributable to shareholder-financed operations		972		9	5,440	6,421	**6,421**
Borrowings attributable to with-profits funds		1,888		105	144	2,137	**2,137**
Borrowings per UK GAAP balance sheet (subordinated liabilities, debenture loans and other borrowings)	4,673				(4,673)	(4,673)	**0**
Dividend payable	253			(253)		(253)	**0**
Other non-insurance liabilities	8,295	1,357	816	(9)	1,297	3,461	**11,756**
Total liabilities	170,224	4,186	219	(174)	925	5,156	**175,380**
Total equity and liabilities	174,576	4,224	102	179	925	5,430	**180,006**

Notes

F(i)Newly consolidated entities

Under IAS 27 and SIC 12, the Group is required to consolidate the assets and liabilities of certain entities which have previously not been consolidated under UK GAAP. The principal change to shareholders' equity arises from an adjustment in respect of Prudential plc shares held by unit trusts that are newly consolidated. These shares are accounted for as treasury shares and the cost of purchase of £44m and £29m is deducted from shareholders' equity at 1 January 2004 and 31 December 2004 respectively. The change to the minority share of equity reflects external parties' interest in consolidated venture investment companies and property partnerships of the PAC with-profits fund. Measurement changes to the carrying value of these companies that are attributable to the PAC with-profits fund share are reflected in unallocated surplus.

F(ii)Defined benefit pension schemes accounting

Provisions for deficits on the Group's defined benefit pension schemes are absorbed by the unallocated surplus of the PAC with-profits fund and shareholders' funds on a basis that reflects the weighted cumulative activity attaching to the contributions paid in the past, and after deduction of deferred tax. The M&G scheme held Prudential Group insurance policies as scheme assets of £125m at 31 December 2004. The asset and liability are eliminated on consolidation.

F(iii)Other recognition and measurement changes

Under IFRS, dividends declared after the balance sheet date are not recognised as a liability. In addition, subject to required impairment testing, goodwill under IFRS represents the balance sheet carrying value at 1 January 2004. Adjustments in the table include the write-back of amortisation previously charged under UK GAAP in 2004.

G. Effect of adoption of IAS 32, IAS 39, and IFRS 4 at 1 January 2005

	Statutory IFRS basis at 31 Dec 2004 (note F)	Effect of adoption of IAS 32, IAS 39 and IFRS 4					
		UK Insurance Operations (note G(i))	Jackson National Life (note G(ii))	Banking and non-insurance operations (note G(iii))	Grossing-up and other format changes	Total effect	**Statutory IFRS basis at 1 Jan 2005**

	£m	£m	£m	£m	£m	£m	**£m**
Assets							
Goodwill							
Attributable to PAC with-profits fund	784						**784**
Attributable to shareholders	1,461						**1,461**
Other intangible assets (primarily deferred acquisition costs)							
PAC with-profits fund (note I)	798	(765)				(765)	**33**
Other operations	2,244	23	(456)			(433)	**1,811**
Investments	164,386	(145)	1,262	145	68	1,330	**165,716**
Other assets	10,333	10	66	(92)		(16)	**10,317**
Total assets	180,006	(877)	872	53	68	116	**180,122**
Equity and liabilities							
Equity							
Shareholders' equity	4,489	(22)	273	(25)		226	**4,715**
Minority interest	137			(3)		(3)	**134**
Total equity	4,626	(22)	273	(28)		223	**4,849**
Liabilities							
Banking customer accounts	6,607			84		84	**6,691**
Policyholder liabilities and unallocated surplus of with-profits funds							
Contract liabilities (non-linked and linked business)	129,062	7,020	(51)			6,969	**136,031**
Unallocated surplus of with-profits funds	16,149	(7,807)				(7,807)	**8,342**
Borrowings							
Core structural borrowings of shareholder-financed operations	3,248				5	5	**3,253**
Other borrowings attributable to shareholder-financed operations	6,421		207	62	(13)	256	**6,677**
Borrowings attributable to with-profits funds	2,137						**2,137**
Other non-insurance liabilities							
Deferred tax liabilities	2,279	(91)	218	(6)		121	**2,400**
Other	9,477	23	225	(59)	76	265	**9,742**
Total liabilities	175,380	(855)	599	81	68	(107)	**175,273**
Total equity and liabilities	180,006	(877)	872	53	68	116	**180,122**

Notes

The changes shown above reflect the impact of re-measurement for :

G(i)UK Insurance Operations

(a) The reduction of shareholders' equity of £22m includes £20m relating to certain unit-linked and similar contracts that do not contain significant insurance risk and are therefore categorised as investment contracts under IFRS 4. The reduction of shareholders' equity at 1 January 2005 on adoption of IFRS 4 for these items is £10m different from the amount reported in the interim results due to refinements to the IFRS methodology applied.

(b) Changes to insurance assets and liabilities of the PAC with-profits fund following the improvement of accounting policy applied on adoption of IFRS 4. The changes correspond to those applicable if the Group had adopted FRS 27 under UK GAAP. As a result of the policy improvement, liabilities, deferred acquisition costs, deferred tax and unallocated surplus of UK regulated with-profits funds are remeasured as described in note I. At 1 January 2005, the unallocated surplus is subject to a transition adjustment of £(7.8)bn. Shareholders' equity is not affected by this change.

The unallocated surplus of £8.3bn at 1 January 2005 post IAS 39 and IFRS 4 adoption, comprises £8.0bn for the PAC with-profits fund and £0.3bn for Asian subsidiaries. The £8.0bn for the PAC with-profits fund represents:

	£bn
Regulatory basis realistic surplus of with-profits sub-fund and SAIF	6.0
Add back: Regulatory basis provision for future shareholder transfers	2.9
Less: Other adjustments to align with accounting basis	(0.9)
Accounts basis	8.0

G(ii) Jackson National Life
Under IAS 39, JNL's debt securities and derivative financial instruments are re-measured to fair value from the lower of amortised cost and, if relevant, impaired value. Fair value movements on debt securities, net of shadow changes to deferred acquisition costs and related deferred tax are recorded directly to equity. Fair value movements on derivatives are recorded in the income statement.

G(iii)Banking and non-insurance operations
Under IAS 39, for Egg, changes to opening equity at 1 January 2005 arise from altered policies for effective interest rate on credit card receivables, impairment losses on loans and advances, fair value adjustments on wholesale financial instruments and embedded derivatives in equity savings products. The net effect on shareholders equity of these changes, after tax, is a deduction of £15m. A further £10m reduction in equity arises on certain centrally held financial instruments and derivatives.

H. Jackson National Life - Debt securities

Changes in equity

IAS 32 and IAS 39 have been adopted from 1 January 2005. Accordingly, for 2004 under IFRS, financial instruments continue to be accounted for under previous GAAP. For Jackson National Life debt securities have been accounted for at amortised cost, unless impaired. From 1 January 2005, these assets have been classified as available-for-sale under IAS 39 with valuation at fair value. Unrealised gains and losses and reclassification adjustments for gains and losses included in net income are recorded from 1 January 2005 within the statement of changes in equity.

Balance sheet

Due to the change in the valuation basis referred to above, the carrying values of the debt securities of Jackson National Life that have been included in the consolidated balance sheet are not comparable. The fair value of the debt securities at 31 December 2004 was £22.5bn. After deduction of related changes to deferred acquisition costs and deferred tax, there was a consequential impact on shareholders' equity at 1 January 2005, on adoption of IAS 32 and IAS 39, of £397m for the changed basis of valuation of Jackson's securities.

I. Unallocated surplus of with-profits funds

The unallocated surplus of with-profits funds reflects the excess of assets over technical provisions and other liabilities and represents amounts that have yet to be allocated to policyholders and shareholders. For the Group's 2004 financial statements, and as applied for IFRS purposes for 2004 in these financial statements, the technical provisions in respect of insurance and investment contracts of UK regulated with-profits funds have been determined in accordance with the modified statutory basis of accounting that applied under UK GAAP. With the exception of minor accounting adjustments, the technical provisions reflect the UK regulatory basis of reporting which effectively constitutes the Peak 1 basis under the new FSA regime.

On this basis the unallocated surplus of the PAC with-profits fund at 31 December 2004 was £16,301m. After inclusion of the unallocated surplus of with-profits funds of Asian subsidiaries the unallocated surplus in the consolidated balance sheet at 31 December 2004 was £16,686m. Following changes arising from the application of IFRS requirements applicable for 2004, the IFRS basis unallocated surplus for the Group is altered as described in note F.

On adoption of IFRS 4 at 1 January 2005, the Group has chosen to improve its accounting policy in respect of the insurance assets and liabilities of UK regulated with-profits funds. The improvement is consistent with the requirements of FRS 27 that apply for life assurers reporting under UK GAAP in 2005 for the application of the Peak 2 realistic basis.

The main accounting changes that are required for UK regulated with-profits funds are:

De-recognition of deferred acquisition costs and related deferred tax

Inclusion of the FSA Peak 2 basis of the value of in-force non-participating business written by the PAC with-profits sub-fund, and the Scottish Amicable Insurance Fund; and

Replacement of modified statutory basis liabilities for with-profits business with adjusted realistic basis liabilities.

Adjusted realistic liabilities represent the Peak 2 realistic liabilities for with-profits business included in Form 19 of the FSA regulatory returns, but after excluding the element for shareholders' share of future bonuses. This latter item is recognised as a liability for the purposes of regulatory returns but for accounting purposes shareholder transfers are recognised only on declaration.

For accounting purposes, to the extent that the value of non-participating business has been taken into account in determining projected policyholder benefits, deduction is made from the gross regulatory value of realistic liabilities. The balance is deducted from the accounting balance of unallocated surplus.

In determining accounting basis liabilities and unallocated surplus, an adjustment is also required where the regulatory and accounting carrying values of assets and liabilities differ for altered measurement or recognition criteria. For the Group's UK with-profits funds the main additional item for which adjustment is necessary is the attributable share of deficit of the Group's UK defined benefit pension schemes, net of related tax.

The impact of the changes at 1 January 2005, on adoption of IFRS 4, are shown in note G. At 31 December 2005, the unallocated surplus of £11.4bn comprises £11.3bn for the PAC with-profits sub-fund and £0.1bn for Asian subsidiaries. The £11.3bn for the PAC with-profits fund represents:

	£bn
Estimated regulatory basis realistic surplus of the PAC with-profits sub-fund	8.0
Add back: Provision for future shareholder transfers	3.5
Less: Other adjustments to align with accounting basis	(0.2)
	11.3

The £11.3bn is attributable solely to the PAC with-profits sub-fund. No amount is recognised for SAIF. This treatment is to comply with actuarial guidance note GN 45 which requires that for a closed fund where the fund will be distributed fully the working capital is shown as zero with the future enhancements to asset shares being increased by the free capital.

The £0.1bn of unallocated surplus for Asia subsidiaries almost wholly relates to the Malaysian life business. Following local regulatory changes which affect the presentation of the balance sheet, unallocated surplus of the Singapore with-profits business is now amalgamated with policyholder liabilities.

J. Dividend

A final dividend of 11.02p per share was proposed by the directors on 15 March 2006. This dividend will absorb an estimated £267m of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 26 May 2006 to shareholders on the register at the close of business on 24 March 2006. A scrip dividend alternative will be offered to shareholders.

K. Shareholders' equity

	2005 £m	2004 £m
Share capital	**119**	119
Share premium	**1,564**	1,558
Reserves	**3,511**	2,812
Total	**5,194**	4,489

L. Other borrowings

	2005 £m	2004 £m
Operational borrowings attributable to shareholder-financed operations		
Borrowings in respect of short-term debt securities reinvestment programmes	**1,472**	1,079
Non-recourse borrowings of investment subsidiaries managed by PPM America	**1,085**	1,155

Borrowings in respect of banking operations	**3,856**	4,159
Other borrowings	**19**	28
Total	**6,432**	6,421

Borrowings attributable to with-profits funds		
Non-recourse borrowings of venture fund investment subsidiaries	**988**	1,167
Subordinated debt of the Scottish Amicable Insurance Fund	**100**	100
Other borrowings (predominantly external funding of consolidated investment vehicles)	**810**	870
Total	**1,898**	2,137

M. Tax charge

The total tax charge of £1,388m for 2005 (£951m) comprises £1,119m (£805m) UK tax and £269m (£146m) overseas tax. This tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £241m for 2005 (£240m) comprises £(21)m (£63m) UK tax and £262m (£177m) overseas tax.

N. Acquisitions

In May 2005, Jackson National Life completed the purchase of Life Insurance Company of Georgia from ING Groep N.V. for £142m subject to post-completion adjustments. There is currently no goodwill arising on the transaction.

O. Taiwan life operation: Sensitivity of liabilities to projected investment returns

The in-force business of Taiwan life operation includes traditional whole of life policies where the premium rates have been set by the regulator at different points for the industry as a whole. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included allowance for mortality and expenses. Guarantees have fallen over time as interest rates have reduced from a high of 8% to current levels of around 2%. The current low level of bond rates in Taiwan gives rise to a negative spread in Taiwan of around £30m a year.

The profits attaching to these contracts is particularly affected by the rates of return earned, and estimated to be earned, on the assets held to cover liabilities and on future investment income and contract cash flows. Under IFRS the insurance contract liabilities of the Taiwan business are determined on the US GAAP basis as applied previously under UK GAAP. Under this basis the policy liabilities are calculated on sets of assumptions, which are locked in at the point of policy inception, and a deferred acquisition cost is held in the balance sheet.

The adequacy of the insurance contract liabilities is tested by reference to best estimates of expected investment returns on policy cash flows and reinvested income. The assumed earned rates are used to discount the future cash flows. The assumed earned rates consist of a long-term best estimate determined by consideration of long-term market conditions, and rates assumed to be earned in the trending in period. For 2005, it has been projected that rates of return for Taiwanese bond yields will trend from the current levels of some 2% to 5.5% by 31 December 2012.

The liability adequacy test results are sensitive to the attainment of the trended rates during the trending period. Based on the current asset mix, margins in other contracts that are used in the assessment of the liability adequacy tests, and currently assumed future rates of return, if interest rates were to remain at current levels in 2006 the premium reserve, net deferred acquisition costs, would be broadly sufficient. If interest rates were to remain at current levels in 2007 then some level of write-off of deferred acquisition costs may be necessary. However, the amount of the charge, currently estimated at £50m to £70m is sensitive for the previously mentioned variables.

The adequacy of the liability is also sensitive to the level of the projected long-term rate. The current best estimate of 5.5% has been determined on a prudent best estimate basis by reference to detailed assessments of the financial dynamics of the Taiwanese economy. In the event that the rate applied was reduced or increased the carrying value of the liabilities would be effected.

In broad terms, if the assumed long-term rate applied was to fall by 0.25% from 5.5% to 5.25% the impact on IFRS basis results would be a charge of some £120m to £130m. If the rate were to further reduce the incremental increase in liabilities would be of a similarly commensurate size. The effects of changes in any one year reflect the combination of short-term and long-term factors described above.

P. Effect of changes of assumptions and other bases of preparation of liabilities of insurance contracts

Profit before tax attributable to shareholders for 2005 includes the impact of the following items:

UK Insurance Operations

For shareholder-backed non-participating business, changes of assumptions were made which had the effect of increasing liabilities by £36m with a consequent reduction in operating profit based on longer-term investment returns. The reduction arose from a charge of £69m for strengthened mortality assumptions being partially offset by a net credit of £29m in respect of a reduced level of defaults for fixed income securities, and a credit of £4m for other changes.

In addition to this £36m charge to operating profit based on longer-term investment returns a further £20m charge for the effect of changes of assumption for renewal expenses, which relates to an increase in ongoing pension scheme contributions for future service of active members, has been recorded as part of actuarial and other gains and losses excluded from operating profit based on longer-term investment returns, but included in total profit before shareholder tax.

US Operations

The operating profit based on longer-term investment returns of £362m for US Operations for 2005 has been determined after taking account of material changes of assumption during the year. Several changes were modified to conform to more recent experience. The most significant changes included a write-off of deferred acquisition costs of £21m for Single Premium Deferred Annuities partial withdrawal changes and a Universal Life SOP 03-01 (Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long Duration Contracts and Separate Accounts) reserve increase of £13m due to increasing the mortality assumption. Several smaller changes relating to Single Premium Whole Life surrenders and annuity mortality and annuitisation rates resulted in a £19m benefit on adjusting amortisation of deferred acquisition costs. Combined with other minor modifications, the resulting net impact of all changes during the year was a decrease to pre-tax profit of £7m.

Asian Operations

The 2005 results for Asian operations are affected in two significant ways for changes of basis or assumption.

For the Singapore life business, under the basis applied previously, liabilities of non-participating business for 2004 were determined on a net premium basis using prescribed interest rates such that a very high degree of prudence resulted. This basis has been replaced under the Singapore Risk Based Capital framework with one that, although still including provisions for adverse deviation, more accurately estimates the liability. This has resulted in a change of estimate and reduction in the liability of £73m.

The second item reflects the application of liability adequacy testing for the Taiwan life business which has resulted in a write-off of deferred acquisition costs of £21m in 2005. The assumptions for future investment returns are as described in note O. The loss reflects the reduction in 2005 in the expected yields over the trending period to the assumed long-term rate of 5.5% for Taiwanese government bonds.

Q. Asian Fund Management business

Operating profit for the Asian fund management business was £12m for 2005. The decrease from the result for 2004 of £19m reflects the exceptional cost of £16m in Taiwan incurred due to bond fund restructuring required as a result of industry wide regulatory change.

R. Post balance sheet events

In December 2005, the Company announced its intention to acquire the minority interests in Egg representing approximately 21.7% of the existing issued share capital of Egg. Under the terms of the offer, Egg shareholders would receive 0.2237 new ordinary shares in the Company for each Egg share. In January 2006, the Company announced that it had received acceptances in respect of 80.3% of the shares that it did not already own and that it would extend the offer until further notice. In February 2006, the Board of Egg announced the de-listing of Egg shares. Full acceptance of the offer would result in the issue of 41m new ordinary shares in the Company representing 1.7% of its issued ordinary share capital as enlarged by this acquisition.

SUPPLEMENTARY IFRS BASIS RESULTS

Additional IFRS basis information to enable consistent comparison of results for Prudential's insurance operations

This information does not form part of the IFRS basis results to be reported in the statutory financial statements.

The statutory basis results included in this announcement are for the years 2005 and 2004. These results reflect significant changes of accounting policies from those previously applied under UK GAAP. For all except three IFRS standards these changes have been applied consistently in preparing the results for both years. However, as permitted by the IFRS transition rules, 2005 results include the effects of adoption of the standards IAS 32, IAS 39 and IFRS 4 for the Group's insurance and other operations from 1 January 2005. The 2004 comparative results in those statements are therefore prepared on an inconsistent basis.

The "Pro forma IFRS basis" comparative results shown below for 2004 reflect the estimated effect on the Group's 2004 results if IAS 32, IAS 39 and IFRS 4 had been applied from 1 January 2004 to the Group's insurance operations.

The main purpose of providing this pro forma information is to present the operating results for the UK insurance business and short-term fluctuations in investment returns for Jackson National Life (JNL) on a consistent basis. Under IAS 39 and IFRS 4, the assets and liabilities of certain unit-linked and similar contracts of the UK insurance business are subject to re-measurement. For JNL, derivatives held for economic hedging purposes are fair valued under IAS 39 with value movements recorded in the income statement giving rise to significant levels of volatility. In addition debt securities of JNL are fair valued with value movements taken directly to shareholders reserves through the statement of changes in equity.

	Based on statutory IFRS basis results	Pro forma IFRS basis results
Summary results	**2005 £m**	2004 £m
Operating profit from continuing operations based on longer-term investment returns (note 1)	**957**	699
Goodwill impairment charge	**(120)**	-
Short-term fluctuations in investment returns on shareholder-backed business (note 2)	**211**	293
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(50)**	(7)
Profit from continuing operations before tax attributable to shareholders (including actual investment returns)	**998**	985
Tax attributable to shareholders' profits	**(241)**	(290)
Profit from continuing operations after tax	**757**	695
Discontinued operations (net of tax)	**3**	(94)
Profit for the year	**760**	601
Attributable to:		
Equity holders of the Company	**748**	602
Minority interests	**12**	(1)
Profit for the year	**760**	601
Earnings per share		
Continuing operations		
From operating profit, based on longer-term investment returns after related tax		
and minority interests of £761m (£481m)	**32.2p**	22.7p
Adjustment for goodwill impairment charge	**(5.1)p**	-
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**5.9p**	9.0p

Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(1.5)p**	(0.2)p
Based on profit from continuing operations after tax and minority interests of £745m (£669m)	**31.5p**	31.5p
<u>Discontinued operations</u>		
Based on post-tax profit (loss) from discontinued operations (after minority interests)	**0.1p**	(3.1)p
Based on profit for the year after minority interests of £748m (£602m)	**31.6p**	28.4p

SUPPLEMENTARY IFRS BASIS RESULTS

Additional IFRS basis information to enable consistent comparison of results for Prudential's insurance operations

This information does not form part of the IFRS basis results to be reported in the statutory financial statements.

CHANGES IN EQUITY (NET OF MINORITY INTERESTS)	**Based on statutory IFRS basis results 2005 £m**	Pro forma IFRS basis results 2004 £m
Other Reserves		
Profit for the year	**748**	602
Items recognised directly in equity:		
Exchange movements	**268**	(191)
Movement on cash flow hedges	**(4)**	-
Unrealised valuation movements on securities classified as available-for-sale:		
Unrealised investment losses, net	**(751)**	(106)
Related change in amortisation of deferred income and acquisition costs	**307**	74
Related tax	**218**	23
Total items recognised directly in equity	**38**	(200)
Total income and expense for the year	**786**	402
Cumulative effect of changes in accounting principles on adoption of IAS 32, IAS 39 and IFRS 4, net of applicable taxes, at 1 January 2005		
Statutory IFRS basis	**226**	-
less: Pro forma adjustment reflected in adjusted shareholders' equity at 1 January 2005 (as reflected in statement of changes in equity - see below) for impact of adoption of IAS 32, IAS 39 and IFRS 4 for insurance operations	**(251)**	-
Pro forma IFRS basis (i.e. transition adjustment in respect of banking and other non-insurance operations)	**(25)**	-
Dividends	**(380)**	(323)
Reserve movements in respect of share-based payments	**15**	10
Share capital and share premium		
Proceeds from Rights Issue, net of expenses	**-**	1,021
Other new share capital subscribed	**55**	119
Treasury shares		
Movement in own shares purchased in respect of share-based payment plans	**0**	(2)
Movement on Prudential plc shares purchased by unit trusts newly consolidated under IFRS	**3**	14
Net increase in shareholders' equity	**454**	1,241
<u>Shareholders' equity at beginning of year</u>		
As previously reported under UK GAAP	**4,281**	3,240

Changes arising from adoption of statutory IFRS	**208**	53
Statutory IFRS basis	**4,489**	3,293
Pro forma basis adjustments for estimated impact if IAS 32, IAS 39, and IFRS 4 had been adopted from 1 January 2004 for insurance operations	**251**	206
Pro forma IFRS basis	**4,740**	3,499
Shareholders' equity at end of year	**5,194**	4,740

SUPPLEMENTARY IFRS BASIS RESULTS

Additional IFRS basis information to enable consistent comparison of results for Prudential's insurance operations

This information does not form part of the IFRS basis results to be reported in the statutory financial statements

NOTES ON THE SUPPLEMENTARY IFRS BASIS RESULTS

1. Operating profit from continuing operations based on longer-term investment returns*

	Based on statutory IFRS basis results	Pro forma IFRS basis results
Results analysis by business area	**2005 £m**	2004 £m
UK Operations		
UK Insurance Operations	**400**	296
M&G	**163**	136
Egg	**44**	61
Total	**607**	493
US Operations		
Jackson National Life	**348**	296
Broker-dealer and fund management (including Curian losses of £10m and (£29m))	**14**	(14)
Total	**362**	282
Asian Operations		
Long-term business	**195**	117
Fund management	**12**	19
Development expenses	**(20)**	(15)
Total	**187**	121
Other income and expenditure		
Investment return and other income	**87**	44
Interest payable on core structural borrowings	**(175)**	(154)
Corporate expenditure:		
Group Head Office	**(70)**	(51)
Asia Regional Head Office	**(30)**	(29)
Charge for share-based payments for Prudential schemes	**(11)**	(7)
Total	**(199)**	(197)
Operating profit from continuing operations based on longer-term investment returns	**957**	699

* IFRS basis operating profit from continuing operations based on longer-term investment returns excludes goodwill impairment charges, short-term fluctuations in investment returns, and the shareholders' actuarial and other gains and losses on defined benefit pension schemes. The amounts for these items are included in total IFRS profit as shown elsewhere in this announcement.

2. Short-term fluctuations in investment returns

	Based on statutory IFRS basis results	Pro forma IFRS basis results
	2005 £m	2004 £m
US Operations:		
Movement in market value of derivatives used for economic hedging purposes	**122**	144
Actual less longer-term investment returns for other items	**56**	61
Asian Operations	**32**	37
Other Operations	**1**	51
	211	293