

## NEWS RELEASE



# PRUDENTIAL

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### PRUDENTIAL PLC 2007 INTERIM RESULTS

- Total EEV operating profit on continuing operations £1,326 million, up 39%
- Total IFRS operating profit from continuing operations £601 million, up 27%
- New business APE £1,334 million, up 12%; PVNBP £9.7 billion, up 4%
- New business profit £534 million, up 12%
- Asset management profit £180 million, up 45%
- EEV shareholders' funds £13.4 billion, up 13% (end 2006 £11.9 billion\*)
- Interim dividend 5.7 pence per share, up 5% (2006: 5.42 pence per share)

All figures compared to 2006 constant exchange rates unless stated, \*at reported exchange rates

Commenting, Mark Tucker, Group Chief Executive said:

"The growth in operating profit of 39 per cent in the first half of the year demonstrates the clear and continued momentum that we have within the Group. It builds on the very strong operating performance in both 2005 and 2006 when we grew operating profit by 36 per cent and 28 per cent respectively.

"Our strategy is focused on the growing global market for retirement savings and income and our advantaged regional platforms and global capabilities place the Group in an excellent and immensely strong position to capture a disproportionate share of this opportunity.

"In Asia, growth across the region continues to be strong, with new business up 48 per cent to £619 million APE, and new business profit up 31 per cent to £282 million. These strong first half results, and the continuing development of our operations in the region, mean that we are very confident that we will achieve our target of at least doubling 2005 EEV new business profits by 2009.

"In the US, we have one of the fastest growing variable annuity franchises in the market - VA sales grew by 31 per cent in the first half to £2.2 billion, continuing to gain profitable market share.

"In the UK, retail sales grew by 10 per cent in the first half of the year, while our focus on value has kept margins on new business in the UK at 30 per cent which remain high compared to the overall UK market. The Internal Rate of Return (IRR) was 15 per cent against our target of 14 per cent.

"Our asset management businesses saw very strong growth in operating profit, with M&G and Asia fund management up 40 per cent and 65 per cent respectively. Retail net sales at M&G surpassed last year's record half-year net flows and in Asia net flows remained strong at £1.7 billion, with a number of successful fund launches in Taiwan and Korea, as well as ongoing strong net sales in India and Japan.

"The Group is extremely well placed to continue to deliver real long-term sustainable profit growth for shareholders."

## **Group Chief Executive's Review**

### **Introduction**

The Group has today announced a strong set of results.

Prudential's performance in the first half of the year demonstrates the real shareholder value that we are delivering through consistent implementation of our retirement-focused strategy. This strategy is generating both continued excellent results and creating substantial longer term opportunities from our advantaged regional platforms and global capabilities.

### **Capturing the Retirement Opportunity**

Developments in the global retirement market represent one of the most significant and important global trends in retail financial services. In the UK and US alone, it is estimated that over the next five years, as much as £7 trillion of assets will be available for investment into the retirement savings and retirement income market sectors. In Asia, the retirement opportunity is also expanding rapidly driven by rising incomes, increasing longevity, and a growing realisation among individuals of the need to save for retirement and to protect their income.

Prudential's strategy focuses on capturing the ever-increasing revenue and value from these material opportunities.

### **Prudential is well positioned – Capabilities and Geographic Coverage**

While many financial institutions are moving to capture this opportunity, Prudential has an outstanding combination of assets and capabilities to succeed:

- Sophisticated risk management
- Integrated solutions to address retirement needs
- Privileged access to retirement advisers
- Trusted brands which are strongly associated with retirement
- Financial strength and reliability
- Geographic reach

Moreover, Prudential has the additional advantage of being able to draw on expertise and experience across international frontiers to advance product innovation, distribution and the quality of customer service. These initiatives transfer learning and value from one business to another, creating competitive advantage above and beyond what each could individually achieve.

### **Group Performance**

The operating performance of the Group was again very strong in the first half of 2007. Group operating profit before tax from continuing operations, on the European Embedded Value basis (EEV), was up 39 per cent, to £1,326 million building on the momentum established in 2005 and 2006. On the statutory IFRS basis, operating profit before tax on continuing operations was up 27 per cent to £601 million.

The Group had a positive cashflow from operations in the period to 30 June 2007. The benefit of a significant increase in the uptake of the scrip dividend helped to achieve this. Our expectation remains that operations will provide a positive cash flow in the 2008 full year.

The Group's cash balances also benefited by £527 million from the sale of Egg. In addition, the already robust regulatory capital surplus of the Group was improved by around £300 million from the sale of this business.

### **Regional Performance**

As outlined earlier, Prudential's operations in Asia, the US and the UK are all well-positioned to capitalise on the retirement opportunity, and each has specific strategies in place to build on and strengthen our established market positions.

Performance in all of our regional markets over the first half has been strong, indicating that our approach to the market is delivering material financial benefits.

## Asia

Prudential's geographic spread in Asia, the strength and scale of our distribution, and the recognition of and trust in the Prudential brand in the region, continue to be key differentiating factors for the Group.

Agent numbers have reached 350,000 and at the same time, almost 30 per cent of new business is being derived from non-agency sources.

In addition to capitalising on and further building these strengths, we are increasing the focus on the fast emerging retirement opportunity by developing and providing integrated protection and savings solutions to meet consumers' increasingly sophisticated needs.

Work is progressing well on our initiatives to deepen our Health business and we are putting in place the infrastructure to facilitate greater cross-selling and up-selling to our established customer base of some 8.5 million in the region.

Growth across the region continues to be strong, with new business up 48 per cent to £619 million APE in the half year. Compound annual growth in APE over the last five years is 29 per cent. New business profit was up 31 per cent to £282 million.

A significant contributor to this growth was the "What's my number?" retirement campaign which has already seen great success in Korea and Hong Kong, and was rolled out to Taiwan at the end of April. As a result, new business in Taiwan in the second quarter was £106 million APE and half year new business was up 103 per cent. We will continue to identify other opportunities in retirement across the region.

We are also making good progress in two additional areas; firstly we are developing a regionwide infrastructure to support our approach to develop systematic cross-selling and up-selling to our 8.5 million customers, with plans already in place in three markets and with the first pilots due to begin later this year. Secondly, on health products we saw a 62 per cent increase in the first half. We launched a new product in Singapore in the second quarter and we have recently launched a new product in India.

These strong first half results, and the continuing development of our operations in the region, mean that we are very confident that we will achieve our target of at least doubling 2005 EEV new business profits by 2009. The outlook beyond 2009 also remains very positive.

## US

In the US, our long-term strategy has been to position Jackson to meet the retirement needs of the baby boomer generation pre and post retirement. We recognised early on the central role of advice as the key source of success in this market and Jackson has developed a very effective and hard to replicate business model, with particular success in the independent broker channel – the key channel for advice.

The Jackson brand is trusted to provide integrated retirement planning solutions to financial professionals and their clients, including variable annuity products that provide the most flexibility and customisation in the industry.

We are continuing to develop our variable annuity offering, adding a number of new guaranteed minimum withdrawal benefits and a new guaranteed minimum accumulation benefit. The total number of benefit combinations available is now in excess of 2,100.

At Curian, our separately managed account platform, we also recently launched a new proposal system which cuts the time required to open a separately managed account by a factor of three. This is just one example of how we continue to leverage Jackson's superior technological capabilities to enhance our efficiency and effectiveness.

We have also continued to add to Jackson's distribution strength, increasing the number of external wholesalers by 30 per cent. Over the last two years, Jackson's wholesaling force has been one of the fastest growing in the market whilst still growing productivity per producer and sales per territory. This increase in numbers of wholesalers will allow us to take an even more granular approach to our segmentation of the market.

Today, Jackson is already one of the fastest growing variable annuity franchises in the market. Variable annuity sales grew by 31 per cent in the first half to £2.2 billion, continuing to gain profitable market share.

Our market share of variable annuities reached 5.1 per cent at the end of the first quarter, compared to 4.2 per cent in the first quarter of 2006, and share in the main target Independent Broker Dealer channel was 11.7 per cent, up from 10.4 per cent in the first quarter of 2006.

Overall margins on new business in the US remained strong at 41 per cent (2006: 41 per cent) with an IRR of 18 per cent.

## **UK**

In the UK, our manufacturing capabilities in the retirement space, combined with the Prudential brand - which is strongest among pre and post retirement age groups - provides an excellent platform from which to develop the business.

In line with our stated plans we are exiting those product areas that are structurally uneconomic and we are developing a new range of trail-based commission products centred on the multi-asset investment capabilities. Our new unit-linked product, for instance, will be launched later this month.

To further strengthen our distribution, we have entered into an agreement with Barclays to be the preferred provider of conventional annuity products to retail customers of Barclays in the UK. This is a five-year agreement which will take effect from later in 2007.

UK retail sales grew by 10 per cent in the first half of the year. Momentum is particularly strong in individual annuities, up 23 per cent, a market segment in which we are a clear leader with 23 per cent market share in 2006. This is a high growth, high return sector of the market where Prudential benefits from significant and recurring internal flows of maturing pensions as well as flows from both new and existing partnerships. All of this, combined with sophisticated risk management and competitive pricing, is enabling us to deliver good returns to shareholders.

In the bulk annuity market we reached an agreement in principle to acquire Equitable Life's portfolio of in-force with-profits annuities, now estimated at around £1.7 billion. This transaction remains on track to complete in the fourth quarter and on its own represents almost 20 per cent growth on the bulk annuities written by our UK business in the whole of 2006. We will continue to exercise pricing discipline in this market, and to pursue specific opportunities which play to our distinctive capabilities.

Margins on new business in the UK of 30 per cent (2006: 29 per cent) remain high compared to the overall UK market and the Internal Rate of Return (IRR) was 15 per cent against our target of 14 per cent. This represents an attractive return in both absolute and relative terms.

We remain confident of achieving our already-announced cost savings target of £195 million by 2010. By the end of 2007 we will have taken all of the actions to secure £115 million of the announced savings, and we are making good progress in determining the approach we will take to deliver the remaining £80 million, whether that is through offshoring, outsourcing or a combination of the two. We are on track to confirm our final decision by the middle of the fourth quarter this year.

Prudential's main with-profit fund in the UK was the top performing life fund in 2006 in terms of gross investment return ranking first, in the WM Company's survey of with-profit funds, over 1, 3, 5 and 10 years - an outstanding performance. Investment performance has remained strong in the first half of 2007.

Our work on the Inherited Estate is progressing well and as previously disclosed, if a decision is taken to proceed, a formal appointment of the Policyholder Advocate could be expected to take place later this year. We will only proceed if there are clear benefits to both policyholders and shareholders.

## **Asset Management**

Our asset management businesses continue to both add value to our insurance operations as well as growing their external funds under management.

Key to this is our ability to develop retirement savings and retirement income products based on sophisticated asset allocation strategies which match customers' risk profiles and strong investment performance.

This is clearly evidenced in the UK, where our strength in the with-profits business - both bonds and annuities - has been driven by our multi-asset allocation capabilities which can deliver the kind of cautious

growth that customers want. In the US, these capabilities enable us to deliver our fully unbundled variable annuity proposition.

These capabilities also position us well in the emerging area of lifecycle finance where we can create products that adapt to consumers changing circumstances, risk appetites, and needs over different stages of the retirement cycle. These products need to be underpinned by adaptable and creative asset management.

Across the Group's asset management businesses net inflows were £5 billion and at similar levels to those achieved in the first half of 2006. Retail net sales at M&G surpassed last year's record half-year net flows and in Asia net flows remained strong at £1.7 billion, with a number of successful fund launches in Taiwan and Korea, plus ongoing strong net sales in India and Japan. External funds under management increased to £63 billion.

This is contributing to very strong growth in operating profit from these businesses, with M&G and Asia fund management up 40 per cent and 65 per cent respectively.

### **Capital Efficiency**

Prudential benefits from greater capital efficiency and an increased risk appetite by actively managing its product and geographic diversification. Prudential's economic capital modelling indicates that the capital requirements of the businesses on a stand-alone basis would be £1.3 billion higher than for the Group as a whole, as at 31 December 2006.

While the dialogue with both regulators and rating agencies continues to develop, for example over the draft Solvency II Directive, it is already clear that in future there will be material and enduring opportunities for greater regulatory capital efficiency within broader-based groups.

### **Outlook**

In summary:

- Our strategy is focused on the growing global market for retirement savings and retirement income
- Our advantaged regional platforms and our global capabilities place the Group in a strong position to capture a disproportionate share of the retirement opportunity around the world
- Delivery of that strategy is generating continuing excellent short-term operating performance both in the regions and at the Group level, which in turn is creating superior shareholder value
- Our diversified geographic footprint across three regions provides a strong and operationally efficient base for future growth
- Prudential is extremely well placed to deliver real long-term sustainable profit growth for its shareholders

### **ENDS**

#### **Enquiries:**

<b>Media</b>		<b>Investors/Analysts</b>	
Jon Bunn	020 7548 3559	James Matthews	020 7548 3561
Carole Butcher	020 7548 3719	Marina Novis	020 7548 3511

#### **Notes to Editor:**

1. The results in this announcement are prepared on two bases, namely International Financial Reporting Standards ('IFRS') and the European Embedded Value ('EEV') basis. The IFRS basis results form the basis of the Group's financial statements.

The EEV basis results have been prepared in accordance with the principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate the EEV basis results include the effects of IFRS.

References to 'operating profit' in this announcement are to operating profit based on longer-term investment

returns. Consistent with previous reporting practice the Group analyses its EEV basis results, and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other constituent elements of total profit. On both the EEV and IFRS bases operating profit based on longer-term investment returns excludes goodwill impairment charges, short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profits based on longer-term investment returns also excludes the mark to market value movement in core borrowings, the effect of changes in economic assumptions, and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

'PVNBP' refers to the Present Value of New Business Premiums. PVNBPs are calculated as equalling new single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.

Period on period percentage increases are stated on a constant exchange rate basis.

2. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

3. The internal rate of return (IRR) is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the life time of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is the initial capital in excess of the premiums received required to pay acquisition costs and set up the statutory capital requirement. The time value of options and guarantees are included in the calculation.

4. There will be a conference call today for wire services at 7.30am (BST) hosted by Mark Tucker, Group Chief Executive and Philip Broadley, Group Finance Director. Dial in telephone number: +44 (0)20 8609 0793. Passcode: 155439#.

5. A presentation to analysts will take place at 9.30am (BST) at Governor's House, Laurence Pountney Hill, London, EC4R 0HH. An audio cast of the presentation and the presentation slides will be available on the Group's website, [www.prudential.co.uk](http://www.prudential.co.uk)

6. There will be a conference call for investors and analysts at 2.30pm (BST) hosted by Mark Tucker, Group Chief Executive and Philip Broadley, Group Finance Director. Please call from the UK +44 (0)20 8609 0793 and from the US +1 866 793 4279. Passcode 487687#. A recording of this call will be available for replay for one week by dialling: +44 (0)20 8609 0289 from the UK or +1 866 676 5865 from the US. The conference passcode is 160473#.

7. High resolution photographs are available to the media free of charge at [www.newscast.co.uk](http://www.newscast.co.uk) +44 (0) 208 886 5895.

8. An interview with Mark Tucker, Group Chief Executive, (in video/audio/text) will be available on [www.cantos.com](http://www.cantos.com) and [www.prudential.co.uk](http://www.prudential.co.uk) from 7.00am on 1 August 2007.

#### 9. Financial Calendar 2007:

Ex-dividend date	15 August 2007
Record Date	17 August 2007
Payment of interim dividend	24 September 2007
Third Quarter 2007 New Business Figures	18 October 2007
Full Year 2007 New Business Figures	29 January 2008
Full Year 2007 results	14 March 2008

10. In addition to the financial statements provided with this press release, additional financial schedules are available on the Group's website at [www.prudential.co.uk](http://www.prudential.co.uk)

11. Total number of Prudential plc shares in issue as at 30 June 2007 was 2,460,159,970.

**About Prudential**

Prudential plc is a company incorporated and with its principal place of business in England, 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 £256 billion in assets under management as at 30 June 2007. 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.

# PRUDENTIAL PLC 2007 UNAUDITED INTERIM RESULTS

## RESULTS SUMMARY

### European Embedded Value (EEV) Basis Results\*

	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
UK Insurance Operations	462	336	686
M&G	140	100	204
UK Operations	602	436	890
US Operations	351	350	718
Asian Operations	520	374	864
Other Income and Expenditure	(147)	(141)	(298)
UK restructuring costs	0	(12)	(41)
Operating profit from continuing operations based on longer-term investment returns*	1,326	1,007	2,133
Short-term fluctuations in investment returns	241	73	738
Mark to market value movements on core borrowings	113	168	85
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	125	246	207
Effect of changes in economic assumptions and time value of cost of options and guarantees	275	(20)	59
Profit from continuing operations before tax	2,080	1,474	3,222
Operating earnings per share from continuing operations after related tax and minority interests*	39.4p	29.3p	62.1p
Basic earnings per share	72.8p	43.8p	91.7p
Shareholders' equity, excluding minority interests	£13.4bn	£10.9bn	£11.9bn

### International Financial Reporting Standards (IFRS) Basis Results\*

	Half Year 2007	Half Year 2006	Full Year 2006
<b>Statutory IFRS basis results</b>			
Profit after tax attributable to equity holders of the Company	£715m	£449m	£874m
Basic earnings per share	29.3p	18.7p	36.2p
Shareholders' equity, excluding minority interests	£5.9bn	£5.0bn	£5.5bn
<b>Supplementary IFRS basis information</b>			
Operating profit from continuing operations based on longer-term investment returns*	£601m	£498m	£1,050m
Operating earnings per share from continuing operations after related tax and minority interests*	16.3p	14.0p	30.9p
	Half Year 2007	Half Year 2006	Full Year 2006
<b>Dividends per share declared and paid in reporting period</b>	11.72p	11.02p	16.44p
<b>Dividends per share relating to reporting period</b>	5.70p	5.42p	17.14p
<b>Funds under management</b>	£256bn	£238bn	£251bn

#### \* Basis of preparation

#### Results bases

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. The basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2006 full year results and financial statements.

#### Operating profit based on longer-term investment returns

Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other constituent elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits from continuing operations based on longer-term investment returns, after tax and minority interests. These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. After adjusting for related tax and minority interests, the amounts for these items are included in the calculation of basic earnings per share.

For half year 2007, the EEV basis operating profit from continuing operations based on longer-term investment returns before tax of £1,326m includes a credit of £92m that arises from including the benefits, grossed up for notional tax, of altered corporate tax rates for the UK, Singapore and China. Further details are explained in note 7 to the EEV basis supplementary information.

#### Discontinued operations

The results for continuing operations shown above and throughout this announcement exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg Banking plc. Accordingly, the presentation of the comparative results for half year and full year 2006 has been adjusted from those previously published.



## REVIEW OF OPERATING AND FINANCIAL RESULTS

### RESULTS HIGHLIGHTS

	Half year 2007 £m	Half year CER 2006 £m	Change %	Half year RER <sup>(4)</sup> 2006 £m	Change %
Annual premium equivalent (APE) sales <sup>(1)</sup>	1,334	1,196	12%	1,255	6%
Present value of new business premiums (PVNBP) <sup>(1)</sup>	9,681	9,300	4%	9,761	(1%)
Net investment flows	5,047	5,198	(3%)	5,304	(5%)
External funds under management	63,222	50,376	26%	51,070	24%
New business profit (NBP) <sup>(1)</sup>	534	476	12%	504	6%
NBP Margin (% APE) <sup>(1)</sup>	40%	40%		40%	
NBP Margin (% PVNBP) <sup>(1)</sup>	5.5%	5.1%		5.2%	
EEV basis operating profit from long-term business from continuing operations <sup>(2) (3)</sup>	1,293	979	32%	1,034	25%
Total EEV basis operating profit from continuing operations <sup>(3)(5)</sup>	1,326	952	39%	1,007	32%
Total IFRS operating profit from continuing operations <sup>(3)(5)</sup>	601	473	27%	498	21%
EEV basis shareholders' funds	13,412	10,726	25%	10,932	23%
IFRS shareholders' funds	5,905	4,915	20%	5,049	17%
Holding company cash flow	34	(94)	136%	(94)	136%

<sup>(1)</sup> The details shown include the effect of the bulk annuity transfer from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Income Limited in the first half of 2006, a shareholder owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund established by a court approved scheme of arrangement in September 1997, whose results are solely for the benefit of SAIF policyholders.

<sup>(2)</sup> Long-term business profits after deducting Asia development expenses and before restructuring costs.

<sup>(3)</sup> Based on longer term investment returns from continuing operations, as explained in the basis of preparation section shown below.

<sup>(4)</sup> Reported exchange rate (RER).

<sup>(5)</sup> The restructuring costs and operating loss for Egg for 2006 and the period of ownership in 2007, together with the profit on disposal, are included within discontinued operations

In the Operating and Financial Review (OFR), year-on-year comparisons of financial performance are on a constant exchange rate (CER) basis, unless otherwise stated.

### **Impact of currency movements**

Prudential has a diverse international mix of businesses with a significant proportion of its profit generated outside the UK. In the first half of 2007, 64% of the Group's total EEV operating profit came from outside the UK. In preparing the Group's consolidated accounts, results of overseas operations are converted at rates of exchange based on the average of the year to date, whilst shareholders' funds are converted at period-end rates of exchange.

Changes in exchange rates from year to year have an impact on the Group's results when these are converted into pounds sterling for reporting purposes. In some cases, these exchange rate fluctuations can have a significant effect on reported results.

Consequently, the Board has for a number of years reviewed and reported the Group's international performance on a CER basis. This basis eliminates the impact from exchange translation.

In the Operating and Financial Review, period-on-period comparisons of financial performance are on a CER basis, unless otherwise stated.

### **Basis of preparation of results**

The European Union (EU) requires that all listed European groups prepare their financial statements in accordance with EU approved IFRS. Since 1 January 2005, Prudential has been reporting its primary results on an IFRS basis and 2007 represents the third year in which the Group's financial statements have been prepared under IFRS.

In addition, as a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential has also been reporting supplementary results on an EEV basis for the Group's long-term business since 2005. These results are combined with the IFRS basis results of the Group's other businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on long-term investment returns. On both the EEV and IFRS bases, operating profits from continuing operations based on longer-term investment returns exclude short-term fluctuations in investment returns and shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profits based on longer-term investment returns also exclude the mark to market value movement on core borrowings and the effect of changes in economic assumptions and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

In broad terms, IFRS profits for long-term business contracts reflect the aggregate of statutory transfers from with-profits funds and profits on a traditional accounting basis for other long-term business. Although the statutory transfers from with-profits funds are closely aligned with cash flow generation, the pattern of IFRS profits over time from shareholder-backed long-term businesses will generally differ from the cash flow pattern. Over the life of a contract, however, aggregate IFRS profits will be the same as aggregate cash flow.

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS does not, in Prudential's opinion, properly reflect the inherent value of these future profit streams.

Prudential believes that embedded value reporting provides investors with a better measure of underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

### **Sales and Funds under Management**

Prudential delivered overall sales growth during the first half of 2007 with total new insurance sales up 12 per cent from the first six months of 2006 to £1.3 billion on the annual premium equivalent (APE) basis. At reported exchange rates (RER), APE sales were up 6 per cent on the same period in 2006. This is equivalent to insurance sales of £9.7 billion on a present value of new business premium basis ("PVNBP"), an increase of 4 per cent on 2006 at CER.

Total gross investment sales were £25 billion, up 55% per cent on the first half of 2006 at CER. Net investment sales of £5 billion were down 3% from net investment sales in 2006 at CER.

Total external funds under management increased by 10 per cent at RER from £57.2 billion at 31 December 2006, to £63.2 billion at 30 June 2007, reflecting net investment flows of £5 billion and net market and other movements of positive £1 billion.

At 30 June 2007, total funds under management were £256 billion, an increase of 2 per cent from 2006 year end at RER.

## **EEV basis operating profit from continuing operations**

	Half year 2007 £m	Half year CER 2006 £m	Change %	Half year RER 2006 £m	Change %
<b>EEV basis operating profit from continuing operations</b>					
Insurance business:					
UK	462	336	38%	336	38%
US	344	316	9%	346	(1%)
Asia	493	334	48%	359	37%
<b>Long-term business profit</b>	<b>1,299</b>	<b>986</b>	<b>32%</b>	<b>1,041</b>	<b>25%</b>
Asia development expenses	(6)	(7)	14%	(7)	14%
Fund management business:					
M&G	140	100	40%	100	40%
US broker-dealer and fund management	9	7	29%	8	13%
Curian	(2)	(3)	33%	(4)	50%
Asia fund management	33	20	65%	22	50%
	180	124	45%	126	43%
Other income and expenditure	(147)	(139)	(6%)	(141)	(4%)
Total EEV basis operating profit from continuing operations	1,326	964	38%	1,019	30%
Restructuring costs	0	(12)	100%	(12)	100%
<b>Total EEV basis operating profit from continuing operations after restructuring costs</b>	<b>1,326</b>	<b>952</b>	<b>39%</b>	<b>1,007</b>	<b>32%</b>

Total EEV basis operating profit from continuing operations based on longer-term investment returns was £1,326 million, up 39 per cent from the first half of 2006 at CER. At RER, the result was up 32 per cent. This result reflects profitable growth in the insurance and funds management businesses, and the benefit of positive operating assumption changes.

Prudential's insurance businesses achieved significant growth, both in terms of NBP and in-force profit, resulting in a 32 per cent increase in long term business profit over the first half of 2006 at CER.

In the first six months of 2007, the Group generated record NBP from insurance business of £534 million, which was 12 per cent above the same period in 2006 at CER, driven by strong sales momentum in the US and Asia, achieved without compromising margins. At RER, NBP was up 6 per cent. The average Group NBP margin was 40 per cent (2006 H1: 40 per cent) on an APE basis and 5.5 per cent (2006 H1: 5.1 per cent at CER) on a PVNBP basis. In-force profit increased 50 per cent on the first half of 2006 at CER to £765 million. In aggregate, net assumption changes were £95 million positive of which £92 million relates to lower tax rates in the UK and Asia. Experience variances and other items were £53 million positive. At RER, in-force profit was up 42 per cent.

Asia's development expenses (excluding the regional head office expenses) were £6 million, (2006 H1: £7 million at CER).

Results from the fund management business were £180 million (2006 H1: £124 million), up 45 per cent on the first half of 2006 at CER.

Other income and expenditure totalled a net expense of £147 million compared with £141 million in the first half of 2006 at RER. This result includes £17 million of costs for the Asia head office (2006 H1: £19 million at RER); £50 million for the Group head office costs (2006 H1: £46 million); and net interest expense on central borrowings and other items of negative £80 million (2006 H1: £76 million).

### **EEV basis profit before tax and minority interests from continuing operations**

	Half year 2007 £m	Half year RER 2006 £m
<b>Total EEV basis operating profit from continuing operations</b>		
<b>after restructuring costs</b>	<b>1,326</b>	<b>1,007</b>
<i>Short term fluctuations in investment returns:</i>	241	73
UK	98	37
US	69	55
Asia	54	(34)
Other	20	15
<i>Actuarial gains and losses on defined benefit pension schemes</i>	125	246
<i>Effect of change in economic assumptions:</i>	253	(42)
UK	281	163
US	(46)	(141)
Asia	18	(64)
<i>Effect of change in time value of cost of options and guarantees:</i>	22	22
UK	15	4
US	8	19
Asia	(1)	(1)
<i>Movement in mark to market value of core borrowings:</i>	113	168
US	5	15
Other	108	153
<b>Profit from continuing operations before tax</b>	<b>2,080</b>	<b>1,474</b>

The following half year-on-half year comparisons are presented on a RER basis.

The EEV basis result before tax and minority interests was a profit of £2,080 million up 41 per cent on the first half of 2006.

This reflects in part an increase in operating profit from £1,007 million in the first six months of 2006 to £1,326 million for the same period in 2007.

The profit before tax also includes £241 million in short-term fluctuations in investment returns (2006 H1: £73 million), positive changes in economic assumptions of £253 million (2006 H1: negative £42 million) and the effect of change in time value of options and guarantees of positive £22 million (2006 H1: positive £22 million).

The UK long-term business component of short-term fluctuations in investment returns of £97 million (2006 H1: £34 million) primarily reflects the difference between the actual investment return for the with-profits life fund of 5.8 per cent (2006 H1: 4.2 per cent) and the long-term assumed return of 4.1 per cent for the first half of 2007.

The US long-term business short-term fluctuations in investment returns of £68 million include a net positive £30 million in relation to changed expectations of future profitability on variable annuity business in force due to the actual variable annuity investment account ('separate account') return exceeding the long-term return reported within operating profit, offset by the impact of the associated hedging position. It also includes a positive £38 million in respect of the difference between actual investment returns and long-term returns included in operating profit primarily in respect of equity based investments and other items.

In Asia, long-term business short-term investment fluctuations were £54million, compared to negative £34 million last year. This reflects strong equity market performance across the region particularly in Vietnam, Hong Kong and Singapore partially offset by Taiwan as a result of lower investment returns.

The half year 2007 shareholders' share of actuarial gains and losses on defined benefit schemes of £125 million reflects the increase in discount rate applied in determining the present value of projected pension payments from 5.2 per cent at 31 December 2006 to 5.8 per cent at 30 June 2007, offset by a shortfall of market returns over long-term assumptions due to the decrease in value of corporate and government bonds, which more than offset the increase in value of equity and property asset classes.

Positive economic assumption changes of £253 million in the first six months of 2007 compared with negative economic assumption changes of £42 million in the same period in 2006. Economic assumption changes in the first half of 2007 comprised positive £281 million in the UK, negative £46 million in the US and positive £18 million in Asia.

In the UK, economic assumption changes of positive £281 million reflect the impact of the increase in the future investment return assumption offset by the increase in the risk discount rates, mainly arising from the change in UK gilt rates.

In the US, economic assumption changes of negative £46 million primarily reflect an increase in the risk discount rates compared to the 2006 year end following an increase in the US 10-year Treasury rate, partially offset by an increase in the separate account return assumption.

In Asia, economic assumption changes were £18 million, due to a positive change in Hong Kong partially offset by negative effects in Malaysia and Singapore as a result of adjusting the projected investment returns and risk discount rates in these countries. Taiwan interest rates have increased ahead of our assumptions.

The change in the time value of cost of options and guarantees was positive £22 million for the half year (2006 H1: positive £22 million), consisting of £15 million, £8 million and negative £1 million for the UK, the US and Asia, respectively.

The mark to market movement on core borrowings was a positive £113 million (2006 H1: positive £168 million) reflecting the reduction in fair value of core borrowings due to increases in interest rates.

**EEV basis profit after tax and minority interests**

	Half year 2007 £m	Half year RER 2006 £m
<b>Profit from continuing operations before tax</b>	<b>2,080</b>	<b>1,474</b>
Tax	(545)	(387)
<b>Profit from continuing operations after tax before minority interests</b>	<b>1,535</b>	<b>1,087</b>
Discontinued operations (net of tax)	241	(34)
Minority interests	(1)	(1)
<b>Profit for the period attributable to the equity holders of the Company</b>	<b>1,775</b>	<b>1,052</b>

The following half year-on-half year comparisons are presented on a RER basis.

Profit for the period attributable to the equity holders of the Company was £1,775 million (2006 H1: £1,052 million). The tax charge of £545 million compares with a tax charge of £387 million in the first half of 2006. Minority interests in the Group results were £1 million (2006 H1: £1 million).

The effective tax rate at an operating tax level was 28 per cent (2006 H1: 30 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level on profits from continuing operations was 26 per cent (2006 H1: 26 per cent) on a profit of £2,080 million.

On 29 January 2007, Prudential announced that it had entered into a binding agreement to sell Egg Banking plc to Citi. Under the terms of the agreement, the consideration payable to the Company by Citi was £575 million in cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion.

On 1 May 2007, Prudential completed the sale. The consideration, net of transaction expenses, was £527 million. The reduction from the £575 million noted above primarily reflects the post-tax loss of Egg Banking plc from 1 January 2007 to the date of sale of £49 million. The profit on sale was £290 million.

## IFRS basis operating profit from continuing operations based on longer-term investment returns

	Half year 2007 £m	Half year 2006 CER £m	Change %	Half year RER <sup>(4)</sup> 2006 £m	Change %
<b>IFRS basis operating profit based on longer-term investment returns</b>					
Insurance business:					
UK	251	205	22%	205	22%
US	218	203	7%	223	(2%)
Asia	76	83	(8%)	88	(14%)
<b>Long-term business</b>	<b>545</b>	<b>491</b>	<b>11%</b>	<b>516</b>	<b>6%</b>
Asia development expenses	(6)	(7)	(14%)	(7)	(14%)
Fund management business:					
M&G	140	100	40%	100	40%
US broker-dealer and fund management	9	7	29%	8	13%
Curian	(2)	(3)	33%	(4)	50%
Asia fund management	33	20	65%	22	50%
	180	124	45%	126	43%
Other income and expenditure	(118)	(124)	5%	(126)	6%
Total IFRS basis operating profit based on longer-term investment returns	601	484	24%	509	18%
Restructuring costs	0	(11)	(100%)	(11)	(100%)
<b>Total IFRS basis operating profit based on longer-term investment returns after restructuring costs</b>	<b>601</b>	<b>473</b>	<b>27%</b>	<b>498</b>	<b>21%</b>

Group operating profit before tax from continuing operations based on longer-term investment returns on the IFRS basis after restructuring costs was £601 million, an increase of 27 per cent on the first six months of 2006 at CER. At RER, operating profit was up 21 per cent on the same period in the prior year.

### Insurance business

In the UK, IFRS operating profit for the long-term business increased 22 per cent to £251 million in the first half of 2007. This reflected a 15 per cent increase in profits attributable to the with-profits business to £195 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses.

In the US, IFRS operating profit for long-term business was £218 million, up 7 per cent from £203 million in the first half of 2006 at CER. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS and the Group's basis of presenting operating profit based on longer-term investment returns. In determining the operating profit for US operations, longer-term returns for fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. The growth in the US operations' long-term IFRS operating profit mainly reflects increased fee income. The fee income was driven by an increase in separate account assets held at the half year, and improved returns on these assets. Profits from the annuities spread business were broadly in line with prior year and continue to represent the key contributor to the overall IFRS operating profit. One-off items affecting the spread-based income were £14 million (2006 H1: £16 million at CER), net of DAC amortisation.

Prudential Corporation Asia's IFRS operating profit for long-term business, before development expenses of £6 million, was £76 million, an 8 per cent decrease on the first half of 2006 at CER. The fall in IFRS operating profits is due primarily to the expansion costs incurred in India to support its rapid growth. In the first half of 2007, India incurred losses of £17 million. Investment in India will continue throughout the remainder of 2007. The most significant contribution to operating profit continues to be from the established markets of Singapore, Malaysia and Hong Kong which represent £65 million of the total operating profit in 2007. There was a significant contribution from Indonesia as this operation continues to build scale, and also Taiwan. Five life operations made IFRS operating losses: China, India and Korea which are relatively new businesses rapidly building scale, Thailand, which is marginally loss making, and Japan, where Prudential continues to look for opportunities to increase the scale and profitability of its life business over the long term.



The profits and recoverability of deferred acquisition costs (DAC) in Taiwan are dependent on the rates of return earned and assumed to be earned on the assets held to cover liabilities and on future investment income and contract cash flows for traditional whole of life policies. No write-off of DAC was required in half year 2007 or 2006. At the 2006 year end it was estimated that if interest rates were to remain at then current levels in 2007 the premium reserve, net of DAC, would be broadly sufficient and that if interest rates were to remain at then current levels in 2008 then some level of write-off of DAC may be necessary. Indicatively the possible 2008 write-off was estimated as being in the range of £70-90 million. In the first half of 2007 bond yields increased by 0.5 per cent. With this effect and increases in the value of business in force in the six month period the outlook on recoverability has significantly improved. At 30 June 2007, if interest rates were to remain at current levels until the end of 2008, the premium reserve net of DAC would be at a level such that the likelihood of a need for a write-off of DAC in 2008 would be significantly reduced. The position in future remains sensitive to the above mentioned variables.

### **Fund management business**

M&G's operating profit for the first half of 2007 was £140 million, an increase of 40 per cent over the £100 million recorded for the same period in 2006, due to strong net investment inflows and positive market conditions.

The operating profit from the US broker-dealer and fund management businesses was £9 million, a 29 per cent increase on the first half of 2006 (2006 H1: £7 million at CER). Curian recorded losses of £2 million in the first half of 2007, down from £3 million for the same period in 2006, as the business continues to build scale.

The Asian fund management operations reported an 65 per cent growth in operating profits to £33 million (2006 H1: £20 million) driven by strong contributions from the established markets of Hong Kong and Singapore. Hong Kong and Singapore account for 49 per cent of profit compared to 60 per cent a year ago, as newer operations such as India, Japan and Korea begin to make meaningful contributions.

**IFRS basis profit before tax from continuing operations**

	Half year 2007 £m	Half year RER 2006 £m
<b>Operating profit from continuing operations</b>		
<b>based on longer-term investment returns</b>	<b>601</b>	<b>498</b>
Short-term fluctuations in investment returns	24	39
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	103	200
<b>Profit before tax from continuing operations</b>	<b>728</b>	<b>737</b>

The following half year-on-half year comparisons are presented on a RER basis.

Total IFRS basis profits before tax and minority interests were £728 million, compared with £737 million for the first half of 2006. The decrease reflects: an increase in operating profit of £103 million; a decrease in short-term fluctuations in investment returns, down £15 million from the first half of 2006; and a £97 million negative movement from the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

**IFRS basis profit after tax**

	Half year 2007 £m	Half year RER 2006 £m
<b>Profit before tax from continuing operations</b>	<b>728</b>	<b>737</b>
Tax	(253)	(253)
<b>Profit from continuing operations after tax before minority interests</b>	<b>475</b>	<b>484</b>
Discontinued operations (net of tax)	241	(34)
Minority interests	(1)	(1)
<b>Profit for the period attributable to equity holders of the Company</b>	<b>715</b>	<b>449</b>

The following half year-on-half year comparisons are presented on a RER basis.

Profit after tax and minority interests was £715 million compared with £449 million in the first half of 2006. The effective rate of tax on operating profits from continuing operations, based on longer-term investment returns, was 34 per cent (2006 H1: 33 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 35 per cent (2006 H1: 34 per cent). The effective tax rates in 2007 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

On 29 January 2007, Prudential announced that it had entered into a binding agreement to sell Egg Banking plc to Citi. Under the terms of the agreement, the consideration payable to the Company by Citi was £575 million in cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion.

On 1 May 2007, Prudential completed the sale. The consideration, net of transaction expenses, was £527 million. The reduction from the £575 million noted above primarily reflects the post-tax loss of Egg Banking plc from 1 January 2007 to the date of sale of £49 million. The profit on sale was £290 million.

### **Earnings per share**

The following half year-on-half year comparisons are presented on an RER basis.

Earnings per share for the first half of 2007, based on EEV basis operating profit from continuing operations after tax and related minority interests, were 39.4 pence, compared with 29.3 pence over the same period in 2006.

Earnings per share, based on IFRS operating profit from continuing operations after tax and related minority interests, were 16.3 pence, compared with 14.0 pence for the 2006 half year.

Basic earnings per share, based on total EEV basis profit after minority interests, were 72.8 pence, compared with 43.8 pence for the 2006 half year.

Basic earnings per share, based on IFRS profit after minority interests, were 29.3 pence, compared with 18.7 pence for the 2006 half year..

### **Dividend per share**

The Board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term a dividend cover of around two times is appropriate.

The directors recommend an interim dividend for 2007 of 5.70 pence per share payable on 24 September 2007 to shareholders on the register at the close of business on 17 August 2007, an increase of 5 per cent. The interim dividend for 2006 was 5.42 pence per share.

## **Shareholders' funds**

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 30 June 2007 were £13.4 billion, an increase of £1.5 billion from the 2006 year-end level of £11.9 billion at RER. This 13 per cent increase primarily reflects: total EEV basis operating profit of £1,326 million; a £241 million favourable movement in short-term fluctuations in investment returns; a £275 million positive movement due to changes in economic assumptions and in time value of options and guarantees; a positive movement on the mark to market of core debt of £113 million; a positive movement in the actuarial gains on the defined benefit pension schemes of £125 million; £241 million from discontinued operations and £117 million from the issue of new share capital. These were offset by: a tax charge of £545 million; the negative impact of £65 million for foreign exchange movements, and dividend payments of £288 million made to shareholders.

The shareholders' funds at 30 June 2007 of £13.4 billion comprise £6.3 billion for the UK long-term business operations, £3.5 billion for the US long-term business operations, £2.9 billion for the Asian long-term business operations and £0.7 billion for other operations.

Within the embedded value for the Asian long-term business of £2.9 billion, the established markets of Hong Kong, Singapore and Malaysia account for £2.2 billion of the embedded value, with Korea (£233 million) and Vietnam (£222 million) making further substantial contributions. Prudential's other markets, excluding Taiwan, in aggregate account for £397 million of the embedded value. Taiwan has a negative embedded value of £157 million. This is an improvement from the reported negative £216 million at the 2006 year end.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 82 per cent and 8 per cent of new business APE in the first half of 2007, respectively. As a result, interest rates have little effect on new business profitability. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a £134 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by £83 million. If it had been assumed in preparing the half year 2007 results that interest rates remained at the current level of 2.5 per cent until 31 December 2008 and the progression period in bond yields was delayed by a year so as to end on 31 December 2014, there would have been a reduction in the Taiwan embedded value of £90m. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a 3 per cent decrease to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 30 June 2007 were £5.9 billion. This compares with £5.5 billion at 31 December 2006 at RER. The increase primarily reflects: profit after tax and minority interests of £715 million and new share capital of £117 million, offset by the impact of negative foreign exchange movements of £21 million, dividend payments to shareholders of £288 million, and the impact of unrealised holding losses on available for sale investments of £113 million.

## Holding company cash flow

	Half year 2007 £m	Half year 2006 £m
Cash remitted by business units:		
UK life fund transfer	261	217
US	0	68
Asia	86	66
M&G	75	38
<b>Total cash remitted to Group</b>	<b>422</b>	<b>389</b>
Net interest paid	(76)	(90)
Dividends paid	(286)	(267)
Scrip dividends and share options	119	18
<b>Cash remittances after interest and dividends</b>	<b>179</b>	<b>50</b>
Tax received	24	88
Corporate activities	(30)	(24)
<b>Cash flow before investment in businesses</b>	<b>173</b>	<b>114</b>
Capital invested in business units:		
UK	(69)	(147)
Asia	(70)	(61)
<b>Total capital invested in business units</b>	<b>(139)</b>	<b>(208)</b>
<b>Increase/(Decrease) in cash</b>	<b>34</b>	<b>(94)</b>
<b>Egg sale net proceeds</b>	<b>527</b>	<b>-</b>
<b>Total holding company cash flow</b>	<b>561</b>	<b>(94)</b>

The table above shows the Group holding company cash flow. Prudential believes that this format gives a clearer presentation of the use of the Group's resources than the format of the statement required by IFRS.

The Group holding company received £422 million in cash remittances from business units in the first half of 2007 (2006 H1: £389 million) comprising the shareholders' statutory life fund transfer of £261 million from the UK business, and remittances of £86 million and £75 million from Asia and M&G respectively. A remittance of \$230 million is expected from the US operations in the second half of 2007.

There was a strong scrip dividend take-up of £117 million, in respect of the 2006 final dividend. After net dividends and interest paid, there was a cash inflow of £179 million (2006 H1: £50 million).

During the first six months of 2007, the Group holding company paid £30 million (2006 H1: £24 million) in respect of corporate activities and received £24 million (2006 H1: £88 million) in respect of relief on taxable losses. The Group invested £139 million (2006 H1: £208 million) in its business units, comprising £69 million in its UK operations and £70 million in Asia. In the first half of 2007, Asia contributed a net remittance of £16 million to the Group holding company cash flow.

In addition, the Group received £527 million from the disposal of Egg (net of expenses).

In aggregate this gave rise to an increase in cash of £561 million (2006 H1: £94 million decrease). Excluding the Egg sale proceeds, cash increased by £34 million.

Depending on the mix of business written and the opportunities available, cash invested to support the UK business in 2007 is expected to be less than in 2006, up to £160 million and with the expectation that the UK shareholder backed business will become cash positive in 2010.

Taking into account plans for future growth, a normalised level of scrip dividend, the reducing UK capital requirement and increased remittances from the other life and asset management operations it is also expected that the operating cash flow of the Group holding company will be positive in 2008.

## **BUSINESS UNIT REVIEW**

### **Insurance Operations**

#### **United Kingdom**

##### **1. Market review and summary of strategy**

During the first half of 2007 Prudential UK pursued its retirement-led strategy, focusing on profitable opportunities in its chosen product areas and distribution channels, and declining to write low margin or low persistency business. The success of this strategy is reflected in the financial performance for the first six months of the year with APE Retail sales increasing by 10 per cent at a new business margin of 32 per cent. The business is continuing to target capital efficient returns through selective participation in the Retail Retirement and Wholesale markets while delivering embedded value through its Mature Life and Pensions business.

The UK continues to be an attractive market for long-term savings, fuelled by an ageing demographic profile and increased life expectancy. The proportion of the UK's population aged 65 and over is expected to grow by some 2 million over the next 10 years, while the average life expectancy of a 65 year old man has improved by 3.5 years to 82 compared with a 65 year old man retiring 20 years ago. In addition, much of the nation's wealth is concentrated in older segments of the population, with many having benefited from rising property prices over the last 30 years. However, the majority still have insufficient savings to provide for the same standard of living during retirement as they have enjoyed while working.

Growth in equity markets recently and simpler pension regulation following A-Day in April 2006, have created positive conditions for growth in the Life and Pensions market.

Prudential's UK insurance operations are structured into three business areas: Retail Retirement, Wholesale and Mature Life and Pensions.

The Retail Retirement business aims to grow a profitable and sustainable franchise focused on retirement leadership. By building on Prudential UK's brand strength and core capabilities in multi-asset management and asset allocation, providing strong investment performance at lower volatility, and longevity risk management, it is able to offer unique solutions to customers who are saving for retirement and seeking to turn their wealth into income in retirement.

Prudential UK has a significant pipeline of customers with maturing pensions business over the next 25 years from policies sold through, among other channels, its direct sales-force prior to 2001 and under the old Scottish Amicable brand. By providing competitive annuities to these existing customers and to new customers from financial advisers and partnership arrangements, Prudential UK has built a leading presence in the retirement income market. It is at the forefront of the development of asset-backed retirement income solutions, building on the success of its with-profits annuity, which provides customers with an income linked to potential growth from equity investment but without the volatility. In the first half of 2007, Prudential UK added an option to accept pensions with protected rights and will continue to develop new solutions in this important market.

Prudential UK is also developing its capability in the Lifetime Mortgage market, for customers who want to remain in the family home while drawing additional income to support their retirement. In building its proposition in this market, Prudential has established a dedicated sales-force (there are currently 30 fully trained advisers with a plan to increase this further), as well as selling this product via financial advisors. The UK will continue to extend its capabilities in this market through further product innovation in the fourth quarter of this year. Prudential now has outstanding loans of over £160 million on its balance sheet and has grown its market share to 12.5 per cent at the end of the first quarter.

Prudential UK is continuing to deliver significant volume and hence operational scale in the corporate pensions market as it also reduces the costs associated with the distribution and administration of this business. Business volume in corporate pensions has increasingly been delivered in recent years through larger scheme wins and Prudential is now more selective, choosing not to write lower margin business.

Within retirement savings, Prudential is building on its market leading propositions. These provide access to strong investment returns with lower volatility, by adding guarantees that help consumers, particularly those approaching or at retirement, to safeguard their savings while still benefiting from investment growth, such as the capital guarantee offered on PruFund.

The Wholesale operation, which has been in operation for over 10 years, has around 1,100 people years of experience and more than 400 bulk buy-outs already written, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment and longevity liabilities. In the first quarter of 2007, Prudential reached agreement in principle with Equitable to acquire Equitable's book of in-force with-profit annuities. The transaction is expected to complete in the fourth quarter of 2007. Prudential UK will continue to compete selectively in this market, only writing business at prices that deliver an adequate return. The UK business remains confident in the long-term outlook in the bulk and back-book wholesale market where nearly £900 billion of assets are held in defined benefit schemes and insurers' back-book annuities.

Prudential UK is continuing to deliver embedded value through its Mature Life and Pensions business. It has set a target to reduce per policy unit processing costs over and above the cost reduction required to reduce costs in line with the expected run-off of policies on these closed books of business and is evaluating the best route for achieving this which will include one or all of internal cost cutting, further off-shoring or out-sourcing.

Prudential welcomes the Retail Distribution Review Discussion Paper, which has recently been published by the Financial Services Authority. This is in line with Prudential's strategy which is focused on building strong longer-term relationships with advisers and offering market-leading retirement solutions. Prudential has already taken significant steps to improve its distribution model by moving some of its products to a 'Factory Gate Price' basis, where the costs for intermediary services are separated from the costs of the product. As the advice costs are negotiated and paid separately, this method of pricing has also been termed Customer Agreed Remuneration. Factory gate pricing delivers more capital efficient volume through intermediary partners as the commission costs are no longer funded at outset from shareholder capital. Prudential has re-aligned its account managers to provide an even more focused service across accounts seeking to build deeper relationships with those distributors who are moving to "wealth adviser" models. More than half of Prudential UK's top 100 advisors have changed compared to last year, reflecting our focus on switching to value-creating accounts.

Through PruHealth, its joint venture with Discovery, the leading South African health insurer, Prudential UK is building a health insurance business which rewards those customers who lead healthier lives through the 'Vitality' points system. PruHealth is on track to meet its target of becoming a significant player in the private healthcare market with insured lives of more than 117,000 up 31 per cent on the 2006 year-end position. The joint venture is being expanded to include Prudential UK's protection product, expanding 'Vitality' across both health and life insurance products later in 2007.

## **2. Financial results and performance**

	<b>Half Year 2007 £m</b>	<b>Half Year CER 2006 £m</b>	<b>Change</b>	<b>Half Year RER 2006 £m</b>	<b>Change</b>
<b><u>Sales</u></b>					
APE retail sales	<b>358</b>	325	10%	325	10%
APE total sales	<b>363</b>	484	(25%)	484	(25%)
PVNB	<b>2,905</b>	4,224	(31%)	4,224	(31%)
NBP retail	<b>115</b>	95	21%	95	21%
NBP total	<b>108</b>	138	(22%)	138	(22%)
NBP retail margin (% APE)	<b>32%</b>	29%		29%	
NBP total margin (% APE)	<b>30%</b>	29%		29%	
<b><u>Operating Profits</u></b>					
Total EEV basis operating profit *	<b>462</b>	336	38%	336	38%
Total IFRS operating profit *	<b>251</b>	205	22%	205	22%

\* Based on longer-term investment returns



Prudential UK delivered a strong performance in the first half of 2007 including:#

- Retail sales were up 10 per cent on the first half of 2006
- New business Retail profits increased 21 per cent on the first half of 2006
- Retail new business margins were strong at 32 per cent
- The Wholesale business announced an agreement in principle to acquire Equitable's portfolio of in-force with-profits annuities
- In-force profits increased 79 per cent on first half of 2006
- IFRS profits increase by 22 per cent on first half of 2006
- The initial phase of the cost reduction programme to deliver annual savings of £115 million is on schedule to be achieved by the end of 2007. An update on the second phase (£80 million) will be given in the fourth quarter of 2007

Retail APE sales of £358 million were 10 per cent higher than during the same period in 2006. This growth was driven by strong performance in individual annuities, corporate pensions and with-profits bonds. Total UK APE sales in the first half were £363 million, a decrease of 25 per cent year-on-year. However, the first half of 2006 included two large back book annuity deals totalling £128 million and also £31 million of credit life sales under a contract with Lloyds TSB that was not renewed in 2007. On a PVNBP basis, new business sales were £2.9 billion compared with £4.2 billion in the same period last year.

Individual annuities continued the strong performance experienced in the first quarter with total sales for the half-year of £140 million, up 23 per cent on the same period last year. This performance was driven by the strength of Prudential's internal vestings (up 11 per cent) with sales from its direct channel and partnership deals with Zurich, Pearl and Royal London gathering momentum (up 59 per cent compared with the same period in 2006). Prudential and Save & Prosper signed an agreement in 2006 under which Save & Prosper will offer Prudential's conventional annuity product to customers with maturing Save & Prosper pensions. The 5-year agreement went live on 18 June 2007.

The with-profits annuities market continues to grow with increased consumer recognition for the need to protect retirement income against inflation during increasingly longer retirement periods. Prudential UK remains the leading player in this market with APE sales 51 per cent higher than for the same period last year. This was aided by strong relationships with Openwork. The new enhancements Prudential UK made to the product in the first quarter (adding the facility to accept Protected Rights monies, which was a first in the with-profit annuity market) has been well received and has delivered more than expected.

The UK business continues to increase its presence in the lifetime mortgage market. Illustrations and applications continued to increase with £67 million of new loans advanced to customers in the first 6 months of 2007. This represents a 123 per cent increase on the £30 million advanced for the same period in 2006.

With-profits bond sales continue to increase on the back of continued strong investment performance. At the half-year, APE sales of £17 million were 47 per cent higher than during the same period in 2006. The overall with-profits bond market has been steadily increasing since the fourth quarter of 2005 (Q4 2005 sales through financial advisors of £6.7 million compared with £15.7 million APE in Q1 2007) and Prudential UK continues to write approximately half of with-profits bonds sold through financial advisors in the UK. Approximately 45 per cent of sales have been made with a capital guarantee, for which an additional charge is made.

APE sales of corporate pensions grew to £124 million, a rise of 28 per cent on the £97 million written in the first half of 2006. Sales of the shareholder-backed defined contribution proposition grew to £40 million, while sales of the legacy DC and AVCs grew 16 per cent to £71 million as AVC sales continued to flourish on the back of A-day. Prudential continues to be a market leader in AVCs, supporting major customers through its comprehensive sales capability existing in the work-place. Corporate pensions also continue to be an important source for Prudential's future annuity business.

PruHealth has continued to make encouraging progress during the first half of 2007. Gross written premiums have increased by 91 per cent to £32 million compared with the comparative period last year. PruHealth has extended its distribution footprint through a partnership with Boots the Chemist, and quotes and applications under this agreement have been building steadily during the second quarter. Importantly, PruHealth's lapse and claim ratios are in line with expectations.

Retail new business profits increased by 21 per cent to £115 million. Retail performance was driven by increased sales of high margin business, predominately of individual annuity business, and the cessation of writing low margin business. This has led to overall margins increasing to 30 per cent, with a Retail margin of 32 per cent being achieved. Total new business profits for the first half of £108 million were 22 per cent below the level achieved over the same period in 2006. However 2006 included significant profits relating to the Royal London and SAIF back-book transactions, and Lloyds TSB credit life profits.

A 15 per cent average IRR was achieved on new business written for the first half of 2007.

EEV basis operating profit based on longer-term investment returns of £462 million, were 38 per cent up on the same period last year. In-force profits were 79 per cent higher than 2006, primarily due to the increase in profits arising from the unwind of the discount from the in-force book and the effect of the change in the UK corporation tax rate. The unwind of the discount increase of £59 million reflects a higher opening embedded value and increases in risk discount rates.

Changes to operating assumptions of £68 million included a benefit of £67 million being the effect of a reduction in the corporation tax rate from 30 per cent to 28 per cent.

Prudential UK continues to progress its cost saving programme and by the end of 2007 the initiatives will be in place to deliver the initial £115 million of annual savings (of the total of £195 million target), which is already reflected in the current assumptions. Prudential UK continues to actively manage the retention of the in-force book. Following the strengthening of persistency assumptions in 2005, overall experience continues to be in line with assumptions.

Other charges of £30 million were below those incurred in the same period of 2006. These are mainly costs associated with new product and distribution development and certain costs associated with complying with regulatory change.

IFRS profits of £251 million increased by 22 per cent. This reflected a 15 per cent increase in profits attributable to the with-profits business, to £195 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses.

### **Financial Strength of the UK Long Term Fund**

The fund is very strong. On a realistic basis, with liabilities recorded on a market consistent basis, the inherited estate of the fund is estimated to be valued at around £9.5 billion before a deduction for the risk capital margin.

In the first half of the year, the performance of the Prudential's with-profits life fund has benefited from its exposure to strongly performing equity markets around the world at the expense of global bond markets. The Fund returned 5.8 per cent gross in the first half of the year.

Recently, the decision was taken by the Fund's investment managers to partially hedge its exposure to credit risk. Since 2002, the Fund has taken a strategic exposure devoid of government bonds and encompassing a sizeable low investment grade and high yield credit component. This has proved a very successful strategy. Given the stretched level of credit spreads around mid-year, the decision was taken to hedge the entirety of the Funds High Yield and a substantial proportion of its Sterling, Euro and Dollar BBB credit exposure, using highly liquid iTraxx and CDX index credit default swap (CDS) contracts. Around £4 billion nominal contracts were transacted in the second half of June in respect of the Prudential and Scottish Amicable Funds. Although, given recent market events, these derivative positions are well in the money, it is the intention to hold them for some time.

The PAC long-term fund is rated AA+ (stable outlook) by Standard & Poor's, Aa1 (negative outlook) by Moody's and AA+ (stable outlook) by Fitch Ratings.

### **3. Outlook and forthcoming objectives**

As announced in the first quarter of 2007, an agreement in principle was reached for Prudential to acquire Equitable's portfolio of in-force with-profit annuities, a book of 62,000 policies with assets as at 31 December 2006 of approximately £1.7 billion. This transaction demonstrates Prudential's ability to grow its with-profits fund to create value for both its policyholders and shareholders. This transaction, which is subject to certain conditions including a vote among Equitable's policyholders as well as regulatory and court approval, is expected to complete in the fourth quarter at which time the sale and associated profit will be recognised.

Prudential UK has entered into an agreement with Barclays under which it will be the preferred supplier of conventional annuity products to Barclays' retail customers in the UK. Prudential will establish an annuities

desk within its PruDirect distribution business through which Barclays customers can enquire about the range of annuity options and product features that are available to them. The agreement will take effect later in 2007 and run for five years.

In addition Prudential UK has been chosen as the main provider on Thinc group's new adviser-service, Annuity Desk. The service will allow Thinc advisers, who do not advise on annuity business, to refer their customers' annuity needs to PruDirect.

In line with our strategy of building on the core capability of asset allocation which has driven the exceptional investment performance for the Life Fund over recent years, Prudential UK has launched two multi-asset funds during the first half of 2007 – the Cautious Managed Growth Fund and the Managed Defensive Fund. These two new funds are available within Prudential's collectives, pension, onshore and offshore bond product ranges.

As Prudential has avoided business with lower expected persistency, to increase profitability, unit-linked bond sales remained subdued, with Prudential signalling its intention to progressively withdraw from the traditional provider funded commission arena to improve the quality of its book. A new factory gate priced onshore bond will be available during August.

Prudential has committed to a £195 million cost saving programme. Much of this cost will be saved within Mature Life and Pensions, which encompasses products that are not actively marketed to customers and in long term decline. As explained above, plans to achieve these cost savings are being developed both internally and with third parties, with the expectation that significant savings will be delivered through a decision to either outsource or offshore roles in operations and overhead areas and simplify the systems and technology required to manage these policies. Together these actions will ensure that Prudential continues to deliver in-force profit at least in line with current assumptions. As previously announced, the savings, net of restructuring costs, are expected to result in a small positive assumption change on an EEV basis, estimated to be around £60 million. A decision on the option selected to deliver the further £80 million cost savings is scheduled to be made during the fourth quarter of 2007.

By the end of 2007, the initiatives will be in place to deliver the initial £115 million of this annual target which is already reflected in the current assumptions.

Total restructuring costs of £ 57 million have been incurred in 2006 in respect of the annual £115 million savings target (£ 34 million of the costs related to shareholders on an EEV basis). Further costs of approximately £18 million are expected to be incurred by the end of 2007, bringing the total cost to approximately £75 million.

Prudential UK will continue to focus on growth opportunities to deliver capital efficient returns and will seek to maintain an aggregate IRR of at least 14 per cent on new business.

## United States

### 1. Financial results and performance

	Half Year 2007 £m	Half Year CER 2006 £m	Change	Half Year RER 2006 £m	Change
PVNB	3,490	2,915	20%	3,209	9%
APE sales	352	294	20%	323	9%
NBP	144	122	18%	134	7%
NBP margin (% APE)	41%	41%		41%	
Total EEV basis operating profit *	344	316	9%	346	(1)%
Total IFRS operating profit *	218	203	7%	223	(2)%

\* Based on longer-term investment returns and excluding broker-dealer and fund management operations and Curian

Jackson, Prudential's US insurance business, provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to near and post-retirees. The United States is the largest retirement savings market in the world, and as 78 million baby boomers born between 1946 and 1964 begin to move into retirement, annual retirement distributions are expected to increase to more than \$1 trillion per year by 2012.

Jackson's primary focus is manufacturing high-margin, capital-efficient products, such as variable annuities (VA), and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings, Jackson leverages its low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson had a strong first half of the year delivering APE sales of £352 million, up 20 per cent on last year with strong new business profit margins at 41 per cent. PVNB sales were £3.5 billion.

Jackson again delivered record variable annuity sales of £2.2 billion during the first half of 2007, up 31 per cent on last year and, in the first quarter of 2007, recorded its twelfth consecutive quarter of variable annuity market share growth. This reflects its distinct competitive advantages of an innovative product offering, a relationship-driven distribution model, award-winning service as well as an efficient and flexible technology platform.

Jackson's variable annuity sales result was achieved in a market that grew 6 per cent year-on-year through the first quarter of 2007. Jackson increased its variable annuity market share to 5.1 per cent as at the end of the first quarter of 2007, up from 4.6 per cent at the end of 2006, and maintained its ranking of 12th in total variable annuity sales. In the independent broker-dealer distribution channel, Jackson's variable annuity sales during the first quarter of 2007 increased 32 per cent over the same period in 2006, while industry sales grew 16 per cent. Jackson maintained its number 2 ranking in the channel at the end of March 2007 and increased its market share to 11.7 per cent from 10.8 per cent at year end 2006.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness. In April, Jackson added a number of features to its variable annuity key offering: three new guaranteed minimum withdrawal benefits (GMWBs), a new guaranteed minimum accumulation benefit (GMAB), and several new portfolio investment options.

In the first quarter of 2007, Jackson continued its track record of product innovation by launching a set of retail mutual funds for distribution by existing wholesalers. Jackson's new mutual funds are marketed as an additional option for financial advisors selling variable annuity products.

At the 2007 half year, Jackson had £39.8 billion in US GAAP assets, an increase of £2.7 billion at CER compared to 2006 year end and up from £35.2 billion 12 months ago. Total assets include £13.6 billion in the separate accounts that back the variable portion of variable life and annuity contracts, an increase of £2.5 billion compared to the 2006 year-end and up from £8.8 billion 12 months ago, further diversifying Jackson's earnings towards fee-based income. At 30 June 2007, Jackson's investment portfolio of £23.3 billion included asset-backed securities with a total of £252 million exposure to sub prime residential mortgages, including £8 million held within collateralised debt obligation (CDO) structures. All of these securities are triple-A rated.

The increased variable annuity APE sales more than offset a reduction in APE sales of fixed index annuities, which were down 19 per cent to £22 million. Fixed annuity APE sales increased 4 per cent to £29 million. Entry spreads for fixed annuities continued to be challenging during the first half of the year, which limited the attractiveness of the market to Jackson. To the end of March 2007 the traditional deferred fixed annuity market was down 25 per cent from the same point in the prior year while Jackson's market share grew from 2.8 per cent to 3.6 per cent over the same period.

Fixed index annuity sales continued to be impacted by the uncertain regulatory environment in the US, with total market sales to March 2007 down 9.5 per cent from the prior year while Jackson's market share grew from 3.4 per cent to 3.5 per cent over the same period.

Institutional APE sales of £67 million, a market in which Jackson participates on an opportunistic basis, were up 14 per cent from the prior year.

New business profit of £144 million was 18 per cent above the prior year, reflecting a 20 per cent increase in APE sales with margins of 41 per cent in line with the prior year figure.

Total EEV basis operating profit for the US insurance operations at the half year 2007 was £344 million compared to £316 million in the prior year at CER. In-force EEV profits of £200 million were 3 per cent higher than prior year profit, primarily reflecting an increase in the unwind of the in-force business during the first half of 2007 resulting from a higher opening embedded value and a higher aggregate risk discount rate on the in-force business. Spread variance of £53 million is broadly in line with that of prior year (£55 million at CER) and includes £23 million of non-recurring items (2006: £28 million at CER).

Jackson IFRS operating profit was £218 million, up 7 per cent on the prior year. The driver of this growth was higher fee income from the variable annuity business driven by higher separate account assets given the growth in variable annuity sales and market appreciation. While the fee-based business represents the key driver of growth in IFRS operating profit, the in-force block of spread-based business continues to deliver the majority of profits. Profits from the annuity spread-based business were broadly in line with prior year.

## **2. Outlook and forthcoming objectives**

Jackson continues to deliver profitable growth in the attractive US market and enhance its competitive advantages in the variable annuity market. With a continued focus on product innovation, a proven relationship-based distribution model, award winning service and excellence in execution, Jackson is well positioned to take advantage of the changing demographics and resulting opportunities in the US market.

## Asia

### 1. Financial results and performance

	Half Year 2007 £m	Half Year CER 2006 £m	Change	Half Year RER 2006 £m	Change
PVNB	3,286	2,161	52%	2,328	41%
APE sales	619	418	48%	448	38%
NBP	282	216	31%	232	22%
NBP margin (% APE)	46%	52%		52%	
Total EEV basis operating profit *	493	334	48%	359	37%
Total IFRS operating profit *	76	83	(8%)	88	(14%)

\* Based on longer-term investment returns and excluding fund management operations, development and Asia regional head office expenses.

Prudential has increased the pace of growth in Asia delivering strong, broad based and profitable growth from its Asian life operations through a combination of freshly invigorated multi-channel distribution, innovative product design and insightful marketing.

Average new business growth accelerated to 48 per cent, up on the first half of 2006 on an APE basis at £619 million and this boosted the five year compound annual growth rate (CAGR) to 29 per cent. The second quarter included the impact of an exceptionally successful retirement campaign in Taiwan. This is not expected to generate the same level of growth over the full year. Average new business profit margin on APE at 46 per cent compares to 52 per cent for the same period last year with the change being principally driven by a shift in geographic mix accounting for 4 per cent of the change and product mix the remaining 2 per cent. Profit margin for the full year is expected to remain at or around this level. The proportion of linked business remains high at 72 per cent and, as has been the case in the past, this has been unaffected by the equity market fluctuations seen earlier on this year.

In-force EEV profits at £211 million are increasing steadily with the realisation of value inherent in the business; operating variances remain small, but the first half of 2007 saw positive assumption changes of £34 million primarily following corporation tax changes in Singapore and China. On the IFRS basis operating profits for the half year of £76 million are down 8 per cent on the first half 2006, due to increased losses in India and to a lesser extent China, as Prudential continues to invest in building the branch networks, offsetting profits from the more established operations including a particularly strong result from Taiwan. Korea continues to record IFRS losses as a result of new business strain. Continuing the trend seen in 2006, Prudential received a net remittance of £16 million capital in the first half of 2007 from Asia after including injections totalling £40 million into China, India and Korea.

A key driver of the new business growth in the first half was the launch of a new variable annuity product and the very successful launch of the 'What's your number?' retirement planning initiative in Taiwan, replicating the success of this initiative in Hong Kong and Korea. New business APE for Taiwan in the second quarter was exceptional and 246 per cent higher than the same period last year. New business volumes are expected to revert to more normal levels during the second half of 2007. The new business profit margin on the VA products is lower than regular unit linked business and, together with the launch incentives, this has lowered the average margin from 52 per cent for the first half last year to 42 per cent.

Prudential's Indonesian life business continues to maintain its robust growth with a 57 per cent increase in first half new business. Since 2002 this business has been growing at a CAGR of 54 per cent. With APE of £47 million for the half year the operation is becoming a material contributor to total new business. The business now has 40,000 agents and is currently growing this base at around a net 1,000 per month. The life insurance market in Indonesia is still very much in its infancy and this business has considerable long term potential. This business made an IFRS profit during the first half and remitted £11 million of surplus capital.

In China, growth remains on track at 57 per cent with APE of £22 million, although agency recruitment is currently challenging, particularly in Guangzhou and Beijing. China is also a recipient of capital from the Group to support growth and geographic expansion. China's new business profit margin in the first half of 2007 decreased by two percentage points to 44 per cent compared to 46 per cent in 2006 due to a higher proportion of unit-linked business.

The life joint venture with ICICI in India continues to grow apace with new business APE for the first half 2007 of £83 million for Prudential's 26 per cent stake, up 54 per cent compared to the same period in 2006, with the number of branches now 583 compared to 256 this time last year. Agent numbers have similarly increased and there are now over 244,000 agents across the country. The CAGR for this business over the last five years has been 107 per cent and it now has 3.4 million customers. New business profit margins in India remain the lowest in the region and averaged 20 per cent for the first half 2007. This pace of growth is capital intensive and the lower margin products means more shareholder support is required than in other markets. In the first half of 2007 India incurred IFRS operating losses of £17 million. Investment in India will continue throughout the remainder of 2007.

In Hong Kong, despite this market being deemed mature and competitive, new business growth continues to accelerate, up 45 per cent on the same period last year. This is in part driven by successful marketing campaigns with the continuation of 'What's your number?' and the 'Double Treasure Income Plan' bancassurance promotion with Standard Chartered Bank (SCB). Average new business margins remain satisfactory at 62 per cent, down from 67 per cent in 2006 due to a higher proportion of unit-linked business as a result of the 'What's Your Number?' retirement campaign. IFRS profits were in line with 2006 reflecting higher new business strain from a higher proportion of linked business.

Singapore's first half new business growth in 2007 on an APE basis was 27 per cent. Two new pilot health products were successfully launched in Singapore in May as part of Prudential's regional initiative in this area and so far 15,000 proposals have been received.

Korea had a slower first half in 2007 compared to previous years with new business growth at a modest 18 per cent principally due to the first quarter where, as previously reported, there were some market related issues around unit-linked products, increased competition in the general agent channel and lower agent recruitment. During the second quarter, the business improved strongly, being up 31 per cent on the same quarter last year. A new distribution agreement with Korea Bank got underway in the second quarter. New business profit margins in Korea are relatively low and were 33 per cent compared to 38 per cent at the same time last year as a result of product mix changes. Korea is a recipient of capital injections to fund its growth.

Malaysia grew at 10 per cent for the first half of 2007, however senior management remain confident the business will continue to accelerate during the second half following a second quarter that was up 25 per cent on the first quarter.

Japan Life reported new business APE of £16 million, up around 5 times the half year 2006 level. New business profit margins in Japan are currently negative as the expense base remains high relative to the current scale of the business. As previously reported, Prudential continues to look for opportunities to increase the scale and profitability of its Japanese life business over the long term.

Prudential's other markets of the Philippines, Thailand and Vietnam collectively grew by 29 per cent with some encouraging signs of growth in Vietnam up 6 per cent after several years of decline and strong growth in Thailand at 78 per cent with the success of the call centre.

In summary, Prudential continues its excellent track record of building a profitable business in Asia.

## **2. Outlook and forthcoming objectives**

Prudential continues to deliver strong, broad based and profitable growth in Asia from its well established platform. The demographics and environment in Asia remain as compelling as ever and the business is expected to carry on growing at a fast pace.

The objectives going ahead are to continue to focus on building agency scale, particularly in the huge markets of India, China and Indonesia, and to increase productivity in other markets. Prudential remains unique amongst the regional players in Asia with a proven approach to partnership distribution and this will continue to be expanded.

There is also the opportunity to deepen and strengthen relationships with the over 8.5 million customers already on the books using a disciplined and systematic approach. Work is already underway in this area and pilot schemes are scheduled for later this year in a number of markets.

The retirement opportunity is clear and Prudential has already demonstrated its ability to successfully package and promote retirement accumulation products through the 'What's your number?' campaign. The

next stage is to build on this with a retirement solution that covers not just accumulation, but also drawdown and associated protection needs.

Prudential has not leveraged its strengths to building scale direct distribution as yet and this will be a priority in the future. A new regional team is being assembled to drive this initiative

Prudential will also be re-examining its approach to health products as there are significant opportunities to create value to shareholders and customers above and beyond what is already being done. A new regional team is developing the approach and has already piloted initiatives in Singapore and most recently India.

The business remains well on track to deliver its target of at least doubling 2005 new business profits of £413m by 2009.



## **Asset Management**

### **Global**

The Prudential Group's asset management businesses are contributing to the Group in two ways. Not only do they provide value to the insurance businesses within the Group, but also are important profit generators in their own right, with low capital requirements and generating significant cash flow for the Group.

The asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services (RFS) markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths, but are increasingly working together by managing money for each other with clear regional specialism, distributing each others' products and sharing knowledge and expertise, such as credit research.

Each business and its performance for the first half of 2007 is summarised below.

### **M&G**

#### **1. Financial results and performance**

	Half Year 2007 £m	Half Year CER 2006 £m	Change	Half Year RER 2006 £m	Change
Net investment flows	3,367	3,595	(6)%	3,595	(6)%
Total IFRS operating profit	140	100	40%	100	40%

M&G is Prudential's UK and European fund management business and has £168 billion of funds under management, of which £119 billion relates to Prudential's long-term business funds. M&G aims to maximise profitable growth by operating in areas of the retail and wholesale markets where it has a leading position and competitive advantage, including retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

M&G is made up of three distinct and autonomous businesses – Retail, Wholesale and Prudential Capital – each with its own strategy for the markets in which it operates. M&G's retail strategy is to maximise the leverage of its strong investment performance, efficient operating platform and multi-channel distribution in the UK, Europe and Asia. M&G's wholesale strategy is twofold: to add value to its internal clients through investment performance, liability matching and investment in innovative and attractive areas of capital markets and to utilise the skills developed primarily for internal funds to build new business streams and diversify revenues. Prudential Capital manages Prudential's balance sheet for profit.

M&G delivered significant profit growth during the first six months of 2007. Operating profits, which include performance related fees (PRF), increased 40 per cent to £140 million compared to the same period last year. Underlying profits, excluding PRF, were £127 million, an increase of 40 per cent. This continues M&G's strong profit growth that has seen underlying profits increase fourfold over the past five years. Profit growth in the first half was generated on the back of rising market levels, strong net inflows across the UK and international markets and improved deal flow in Prudential Capital. First half profits were boosted by £5 million of non-recurring items and M&G also expects to incur a number of anticipated project costs in the second half. PRF and carried interest during the first six months was £13 million, an increase of 51 per cent on last year.

Strong fund performance led to record gross fund inflows of £7.5 billion, up 11 per cent on the same period last year. Net fund inflows of £3.4 billion were the second highest ever achieved in a first half, but were slightly down on last year largely due to reduced inflows into lower margin institutional areas such as traditional segregated bond funds. External funds under management grew by 8 per cent to £49 billion from the end of 2006 and represent over a quarter of M&G's total funds under management.

In the retail marketplace, continued high demand for M&G's high alpha equity and competitive fixed income and property offerings led to record gross fund inflows of £4.5 billion, up 26 per cent on the first half last year. Net fund inflows in the first six months were £1.7 billion, equalling last year's record.

Excellent retail sales momentum continued in the UK, with gross fund inflows increasing by 23 per cent and net inflows up 7 per cent compared with the same period last year. M&G was also named Best Overall Large Group at the 2007 Lipper Awards.

Growth was also strong in international markets. In Europe, where M&G is maximising the opportunity created by the continued opening of markets to foreign players, gross fund inflows increased by 15 per cent. While net fund inflows reduced by 25 per cent as a result of asset allocation shifts by European investors in the wake of equity market falls in late February, sales in May and June have been exceptionally strong. Asian markets, where M&G distributes funds in partnership with Prudential Corporation Asia (PCA), also saw significant growth with net inflows up 56 per cent in the first half compared to 2006. M&G's international markets now account for some 70 per cent of net retail fund inflows.

In its wholesale markets, M&G saw a continued shift towards higher margin products during the first half of 2007 and a fall in lower margin business such as traditional segregated bond funds. As a result, total gross institutional fund inflows fell by 6 per cent to £3.0 billion and net inflows fell 13 per cent to £1.6 billion.

However, gross fund inflows into higher margin products, such as leveraged loans, collateralised debt obligations (CDOs), infrastructure finance and the Episode global macro hedge fund, more than doubled during the first six months of the year and represented over half of all institutional flows. Net fund inflows into these areas more than tripled compared to the same period last year, producing a more profitable sales mix. The first half of the year has also seen M&G's infrastructure fund, InfraCapital, grow substantially, completing purchases of the Isle of Wight ferry business, Red Funnel, and investing in Zephyr, one of the UK's largest wind farm operators.

## **2. Outlook and forthcoming objectives**

Looking ahead, M&G's priorities continue to be to deliver investment outperformance to its clients, extend distribution through existing channels and exploit new opportunities, and to leverage its scale and capabilities to develop innovative products for the retail and wholesale marketplaces.

## **Asia**

### **1. Financial results and performance**

	Half Year 2007 £m	Half Year CER 2006 £m	Change	Half Year RER 2006 £m	Change
Net investment flows	1,662	1,603	4%	1,709	(3%)
Total IFRS operating profit	33	20	65%	22	50%

The Asian asset management business continues to deliver record net inflows. Net inflows of £1.7 billion were up 4 per cent on the same period in 2006. Of the £1.7 billion in net inflows, £1.3 billion was in longer term equity and fixed income products and £0.4 billion was in shorter term money market funds. Third party funds under management in Asia at the half year were £14.6 billion, up 42 per cent compared to the end of the first half of 2006. The main contributors to the growth were Japan, India, Korea and Taiwan.

PCA Asset Management Korea successfully launched the China A-Share fund under the Qualified Foreign Institutional Investor ("QFII") scheme and raised over £50 million in the second quarter of 2007. Introduced in May 2002, the QFII scheme allows qualified foreign institutional investors direct participation in China's domestic "A" share equity and fixed income markets.

Our innovative product strategy continues to deliver strong growth in net inflows for our operation in Japan. We have reached a significant milestone with our PCA India Infrastructure Equity Fund, which has now become our third POIT (Publicly Offered Investment Trust) crossing the Yen 100 billion mark (GBP 400 million). This makes us one of only three foreign asset management companies that have attained this achievement in Japan.

In Taiwan, PCA Securities Investment Trust (PSIT) had a successful launch of the Asian Infrastructure Fund, raising over £210 million. This is PSIT's third consecutive fund launch that has hit the fund cap and the success of these fund launches is evidence that the combination of providing innovative products together with a sound distribution strategy is working well in Taiwan. Following the successful product launches, PSIT's retail FUM has grown to over £1.9 billion up 68 per cent on the first half of 2006. In terms of overall domestic fund market ranking, PSIT's ranking has improved from 9th to 5th in the overall market. This increased the number of our funds operations in top five market positions from four to five as at the end of May 2007.

Our fund management businesses in India (ICICI Prudential Asset Management) and Singapore (Prudential Asset Management Singapore) both won Gold Awards in the Reader's Digest Trusted Brand Awards 2007. The top award being Gold for brands which score clearly above their competitors based on consumers' surveys. This achievement represents consumers' confidence in our brand and services in both markets.

Total funds under management as at 30 June 2007 were £32.8 billion, up 34 per cent on the first half of 2006. Operating profits grew 65 per cent, compared to the first half of 2006, to £33 million (2006 H1: £20 million) driven by strong contributions from the established markets of Hong Kong and Singapore. Hong Kong and Singapore account for 49 per cent of profit compared to 60 per cent a year ago, as newer operations such as India, Japan and Korea begin to make meaningful contributions.

### **2. Outlook and forthcoming objectives**

Prudential remains confident that its fund management business is ideally positioned to capitalise on the opportunities to grow this business strongly and profitably.

## United States

### US broker dealer, fund management and Curian

#### 1. Financial results and performance

	Half Year 2007	Half Year CER 2006	Change	Half Year RER 2006	Change
<i>Funds under management (£bn)</i>					
Fund Management (PPMA)	39	35	11%	38	3%
Curian	1.5	1.0	50%	1.1	36%
<i>Total IFRS operating profit (£m)</i>					
US Broker Dealer	5	3	67%	4	25%
Fund Management (PPMA)	4	4	-	4	-
Curian	(2)	(3)	33%	(4)	50%
Total	7	4	75%	4	75%

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides investment services to other affiliated and unaffiliated institutional clients including CDOs, private investment funds, institutional accounts and mutual funds. PPMA's strategy is focused on effectively managing existing assets, maximising synergies with international asset management affiliates and leveraging investment management capabilities across the Prudential Group. PPMA also opportunistically pursues third party mandates. During the first half of 2007 PPMA raised over £0.5 billion of third party funds under management, with the opportunity to increase such mandates during the second half of the year.

PPMA's IFRS operating profit in the first half of 2007 was £4 million, in line with the prior year figure.

National Planning Holdings (NPH), Jackson's independent broker-dealer network, had a strong first half to the year with profits up 67 per cent to £5 million. NPH, which is a network of four independent broker-dealers, increased product sales to £3.5 billion in the six months ending June 2007, an increase of 14 per cent over the prior year. NPH also increased the number of registered advisors in its network to 2,819 at the half year, up from 2,628 at year-end, further expanding Jackson's access to independent broker-dealer distribution.

Curian Capital, which offers innovative fee-based customised separately managed accounts, recorded improved results with losses of £2 million in the first half compared to losses of £3 million in the first half of the prior year at CER, as it continues to build scale in assets under management. At 30 June 2007, Curian Capital had £1.5 billion of assets under management compared with £1.2 billion at 31 December 2006.

#### 2. Outlook and forthcoming objectives

PPMA expects a positive outlook for the rest of 2007, driven by current momentum, favourable economic and market conditions, and growth prospects.

NPH expects to continue its track record of profitable growth driven by its strong operating model and opportunities in the US retirement market.

Curian expects to continue growing its assets under management, driven by favourable market conditions and opportunities in the US retirement market.

## **OTHER CORPORATE INFORMATION**

### **Shareholders' borrowings and financial flexibility**

Core structural borrowings of shareholder-financed operations at 30 June 2007 totalled £2,413 million, compared with £2,612 million at the end of 2006 (excluding Egg). This decrease reflected repayment of the £150 million 9.375% guaranteed bonds, exchange translation gains of £23 million and other adjustments of £26 million.

After adjusting for holding company cash and short-term investments of £1,546 million, net core structural borrowings at 30 June 2007 were £867 million. This compared with £1,493 million at 31 December 2006, mainly reflecting the net cash inflow of £561 million (including £527 million net proceeds from the sale of Egg) and exchange translation gains of £30 million.

Core structural borrowings at 30 June 2007 included £1,470 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. £841 million of the core borrowings were denominated in US dollars, to hedge partially the currency exposure arising from the Group's investment in Jackson.

Prudential has in place an unlimited global commercial paper programme. At 30 June 2007, commercial paper of £95 million, US\$3,517 million and €212 million has been issued under this programme. Prudential also has in place a £5,000 million medium-term note (MTN) programme. At 30 June 2007, subordinated debt outstanding under this programme was £435 million and €520 million, and senior debt outstanding was €65 million, US\$12 million and £5 million. In addition, the holding company has access to £1,600 million committed revolving credit facilities, provided by sixteen major international banks, and a £500 million committed securities lending liquidity facility. These facilities have not been drawn on during the first half of the year. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are available for general corporate purposes and to support the liquidity needs of the parent company.

The Group's insurance and asset management operations are funded centrally. The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 30 June 2007, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 6.1 per cent compared with 11.2 per cent at 31 December 2006.

Prudential plc enjoys strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential long-term senior debt is rated A+ (stable outlook), A2 (stable outlook) and AA- (stable outlook) from Standard & Poor's, Moody's and Fitch respectively, while short-term ratings are A-1, P-1 and F1+.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 16.1 times in the first half of 2007 compared with 12.3 times in the first half of 2006.

## **Regulatory capital**

In May 2007, Prudential completed the sale of Egg to Citi. As a result of this transaction Prudential expects a regulatory capital benefit of around £300 million.

Including this benefit Prudential currently estimates its Financial Conglomerates Directive ("FCD") capital position at the end of 2007 will be a surplus of over £1 billion.

## **Inherited estate of Prudential Assurance**

The assets of the main with-profits fund within the long-term insurance fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

PAC believes that it would be beneficial if there were greater clarity as to the status of the Inherited Estate. As a result PAC has announced that it has begun a process to determine whether it can achieve that clarity through a reattribution of the inherited estate. As part of this process a Policyholder Advocate has been nominated to represent policyholders' interests. This nomination does not mean that a reattribution will occur.

Given the size of the Group's with-profits business any proposal is likely to be time consuming and complex to implement and is likely to involve a payment to policyholders from shareholders funds. If a reattribution is completed the inherited estate will continue to provide working capital for the long-term insurance fund.

# EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

## SUMMARY CONSOLIDATED INCOME STATEMENT

	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
UK Insurance Operations	462	336	686
M&G	140	100	204
UK Operations	602	436	890
US Operations	351	350	718
Asian Operations	520	374	864
Other Income and Expenditure	(147)	(141)	(298)
UK restructuring costs	0	(12)	(41)
<b>Operating profit from continuing operations based on longer-term investment returns</b>	<b>1,326</b>	<b>1,007</b>	<b>2,133</b>
Short-term fluctuations in investment returns	241	73	738
Mark to market value movements on core borrowings	113	168	85
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	125	246	207
Effect of changes in economic assumptions and time value of cost of options and guarantees	275	(20)	59
<b>Profit from continuing operations before tax</b>	<b>2,080</b>	<b>1,474</b>	<b>3,222</b>
Shareholder tax	(545)	(387)	(904)
Profit from continuing operations for the period after tax before minority interests	1,535	1,087	2,318
Discontinued operations (net of tax)	241	(34)	(105)
<b>Profit for the period</b>	<b>1,776</b>	<b>1,053</b>	<b>2,213</b>
Attributable to:			
Equity holders of the Company	1,775	1,052	2,212
Minority interests	1	1	1
<b>Profit for the period</b>	<b>1,776</b>	<b>1,053</b>	<b>2,213</b>
<b>Earnings per share (in pence)</b>			
<i>Continuing operations</i>			
From operating profit, based on longer-term investment returns, after related tax and minority interests	39.4p	29.3p	62.1p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after minority interests)	7.0p	1.7p	21.8p
Adjustment for mark to market value movements on core borrowings	4.6p	7.0p	3.5p
Adjustment for post-tax effect of shareholders' share of actuarial gains and losses on defined benefit pension schemes	3.7p	7.2p	6.0p
Adjustment for post-tax effect of changes in economic assumptions and time value of cost of options and guarantees	8.2p	(0.1)p	2.6p
Based on profit from continuing operations after minority interests	62.9p	45.1p	96.0p
<i>Discontinued operations</i>			
Based on profit (loss) from discontinued operations after minority interests	9.9p	(1.3)p	(4.3)p
<b>Based on profit for the period after tax and minority interests</b>	<b>72.8p</b>	<b>43.8p</b>	<b>91.7p</b>
Average number of shares (millions)	2,437	2,403	2,413
<b>Dividends per share (in pence)</b>			
Dividends relating to the reporting period:			
Interim dividend (2007 and 2006)	5.70p	5.42p	5.42p
Final dividend (2006)	-	-	11.72p
Total	5.70p	5.42p	17.14p
Dividends declared and paid in the reporting period:			
Current year interim dividend	-	-	5.42p
Final dividend for prior year	11.72p	11.02p	11.02p
Total	11.72p	11.02p	16.44p

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

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

	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
<b>Results Analysis by Business Area</b>			
<b>UK Operations</b>			
New business	108	138	266
Business in force	354	198	420
Long-term business	462	336	686
M&G	140	100	204
Total	602	436	890
<b>US Operations</b>			
New business	144	134	259
Business in force	200	212	449
Long-term business	344	346	708
Broker-dealer and fund management	9	8	18
Curian	(2)	(4)	(8)
Total	351	350	718
<b>Asian Operations</b>			
New business	282	232	514
Business in force	211	127	315
Long-term business	493	359	829
Fund management	33	22	50
Development expenses	(6)	(7)	(15)
Total	520	374	864
<b>Other Income and Expenditure</b>			
Investment return and other income	13	18	8
Interest payable on core structural borrowings	(88)	(89)	(177)
Corporate expenditure:			
Group Head Office	(50)	(46)	(83)
Asia Regional Head Office	(17)	(19)	(36)
Charge for share-based payments for Prudential schemes	(5)	(5)	(10)
Total	(147)	(141)	(298)
UK restructuring costs	0	(12)	(41)
<b>Operating profit from continuing operations based on longer-term investment returns</b>	<b>1,326</b>	<b>1,007</b>	<b>2,133</b>
Analysed as profits (losses) from:			
New business	534	504	1,039
Business in force	765	537	1,184
Long-term business	1,299	1,041	2,223
Asia development expenses	(6)	(7)	(15)
Other operating results	33	(15)	(34)
UK restructuring costs	0	(12)	(41)
Total	1,326	1,007	2,133

\* EEV basis operating profit from continuing operations based on longer-term investment returns excludes short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial 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 arising from changes in 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 interim report.

For half year 2007, the EEV basis operating profit from continuing operations based on longer-term investment returns before tax of £1,326m includes a credit of £92m that arises from including the benefits, grossed up for notional tax, of altered corporate tax rates for the UK, Singapore and China. Further details are explained in note 7 to the EEV basis supplementary information.

The results for continuing operations shown above exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg Banking plc. Accordingly, the presentation of the comparative results for half year and full year 2006 has been adjusted from those previously published.



## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### MOVEMENT IN SHAREHOLDERS' EQUITY (excluding minority interests)

	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
Profit for the period attributable to equity holders of the Company	1,775	1,052	2,212
Items taken directly to equity:			
Exchange movements	(65)	(217)	(359)
Unrealised valuation movements on Egg securities classified as available-for-sale	(2)	(4)	(2)
Movement on cash flow hedges	(3)	4	7
Related tax	(11)	(39)	(74)
Dividends	(288)	(267)	(399)
Acquisition of Egg minority interests	-	(167)	(167)
New share capital subscribed	117	253	336
Reserve movements in respect of share-based payments	9	6	15
Treasury shares:			
Movement in own shares in respect of share-based payment plans	11	9	6
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	1	1	0
Mark to market value movement on Jackson assets backing surplus and required capital*	(15)	-	7
Net increase in shareholders' equity	1,529	631	1,582
Shareholders' equity at beginning of period (excluding minority interests)	11,883	10,301	10,301
<b>Shareholders' equity at end of period (excluding minority interests)</b>	<b>13,412</b>	<b>10,932</b>	<b>11,883</b>
Comprising:			
UK Operations:			
Long-term business	6,308	5,370	5,813
M&G:			
Net assets	287	273	230
Acquired goodwill	1,153	1,153	1,153
Egg	-	360	292
	7,748	7,156	7,488
US Operations	3,544	3,379	3,360
Asian Operations:			
Net assets	3,012	2,159	2,637
Acquired goodwill	172	172	172
Holding company net borrowings (at market value)	(811)	(1,558)	(1,542)
Other net liabilities	(253)	(376)	(232)
<b>Shareholders' equity at end of period (excluding minority interests)</b>	<b>13,412</b>	<b>10,932</b>	<b>11,883</b>
Representing shareholders' equity for:			
Long-term business operations	12,690	10,756	11,664
Other operations	722	176	219
	13,412	10,932	11,883

\* The mark to market value movement on Jackson assets backing surplus and required capital for full year 2006 represents the cumulative adjustment as at 31 December 2006.

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### SUMMARISED CONSOLIDATED BALANCE SHEET

	30 Jun 2007 £m	30 Jun 2006 £m	31 Dec 2006 £m
<b>Total assets less liabilities, excluding insurance funds</b>	<b>189,436</b>	175,456	183,130
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(183,531)	(170,407)	(177,642)
Less shareholders' accrued interest in the long-term business	7,507	5,883	6,395
	<b>(176,024)</b>	<b>(164,524)</b>	<b>(171,247)</b>
<b>Total net assets</b>	<b>13,412</b>	10,932	11,883
Share capital	123	121	122
Share premium	1,823	1,808	1,822
IFRS basis shareholders' reserves	3,959	3,120	3,544
Total IFRS basis shareholders' equity	5,905	5,049	5,488
Additional EEV basis retained profit	7,507	5,883	6,395
<b>Shareholders' equity (excluding minority interests)</b>	<b>13,412</b>	10,932	11,883
*Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.			
<b>Net asset value per share (in pence)</b>			
Based on EEV basis shareholders' equity of £13,412m (£10,932m, £11,883m)	545p	450p	486p
Number of issued shares at end of reporting period (millions)	2,460	2,430	2,444

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### NOTES ON THE UNAUDITED EEV BASIS RESULTS

#### (1) Basis of preparation of results

The EEV basis results have been prepared in accordance with the EEV Principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results for the Group's other operations.

The definition of long-term business operations is consistent with previous practice 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 (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal fund management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of two of the Group's defined benefit pension schemes. A very small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund. In 2006, a bulk annuity arrangement between SAIF and Prudential Retirement Income Limited (PRIL), a shareholder-owned subsidiary, took place as explained in the notes to the schedule of new business within this announcement. Reflecting the altered economic interest for SAIF policyholders and Prudential shareholders, this arrangement represents a transfer from long-term business of the Group that is not 'covered' to business that is 'covered' with consequential effect on the EEV basis results.

As regards the Group's defined benefit pension schemes, the surplus or deficit attaching to the Prudential Staff Pension Scheme (PSPS) and Scottish Amicable Pension scheme are excluded from the EEV value of UK Operations and included in the total for Other Operations. The surplus and deficit amounts are partially attributable to the PAC with-profits fund and shareholder-backed long-term business and partially to other parts of the Group. In addition to the IFRS surplus or deficit, the shareholders' 10 per cent share of the PAC with-profits sub-fund's interest in the movement on the financial position of the schemes is recognised for EEV reporting purposes.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The EEV basis results for the 2007 and 2006 half years are unaudited. The 2006 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2006. The supplement included an unqualified audit report from the auditors.

#### (2) Economic assumptions

##### (a) Deterministic assumptions

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 cash or 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 less established, 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, also based on the long-term view of Prudential's economists in respect of each territory, to the risk-free rate. In the UK and the US, the equity risk premium is 4.0 per cent above risk-free rates for all periods for which results are prepared in this report. In Asia, equity risk premiums range from 3.0 per cent to 5.8 per cent for all periods for which results are prepared in this report. Best estimate assumptions for other asset classes, such as corporate bond spreads, are set consistently.

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

The table below summarises the principal financial assumptions:

	30 Jun 2007	30 Jun 2006	31 Dec 2006
	%	%	%
<b>UK Insurance Operations</b>			
Risk discount rate:			
New business	8.7	8.0	7.8
In force	8.6	8.2	8.0
Pre-tax expected long-term nominal rates of investment return:			
UK equities	9.3	8.7	8.6
Overseas equities	9.6 to 10.6	8.7 to 9.4	8.6 to 9.3
Property	7.8	7.2	7.1
Gilts	5.3	4.7	4.6
Corporate bonds	6.0	5.4	5.3
Expected long-term rate of inflation	3.1	3.0	3.1
Post-tax expected long-term nominal rate of return for the with-profits fund:			
Pension business (where no tax applies)	8.3	7.7	7.5
Life business	7.4	6.85	6.6
<b>US Operations (Jackson)</b>			
Risk discount rate:			
New business (note)	7.9	8.0	7.6
In force (note)	7.3	7.1	6.7
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	1.75	1.75	1.75
US 10 year treasury bond rate at end of period	5.1	5.2	4.8
Pre-tax expected long-term nominal rate of return for US equities	9.1	9.2	8.8
Expected long-term rate of inflation	2.4	2.7	2.5

##### Note:

##### US Operations - risk discount rates

The risk discount rates at 30 June 2007 for new business and business in force for US Operations reflect weighted rates based on underlying rates of 8.8% for variable annuity business and 5.9% for other business. The increase in the weighted discount rate for business in force from 31 December 2006 of 6.7% to 30 June 2007 of 7.3% reflects the increase in the US 10-year treasury bond rate and the increasing proportion of variable annuity business.

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### Economic assumptions (continued)

#### Asian Operations

	China	Hong Kong (notes iii,iv,v)	India	Indonesia	Japan	Korea	Malaysia (notes iv,v)	Philippines	Singapore (notes iv,v)	Taiwan (notes ii,v)	Thailand	Vietnam
30 Jun 2007	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	12.0	6.5	16.5	17.5	5.3	10.1	9.7	16.5	7.1	8.6	13.75	16.5
In force	12.0	6.7	16.5	17.5	5.3	10.1	9.3	16.5	6.3	9.3	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	9.0	5.1	10.5	11.5	2.2	5.6	7.0	10.5	4.5	5.5	7.75	10.5
30 Jun 2006	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	12.0	6.6	16.5	17.5	5.3	9.7	9.5	16.5	6.7	8.9	13.75	16.5
In force	12.0	6.9	16.5	17.5	5.3	9.7	9.1	16.5	6.8	9.5	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	9.0	5.3	10.5	11.5	2.1	5.2	7.0	10.5	4.5	5.5	7.75	10.5
31 Dec 2006	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	12.0	6.6	16.5	17.5	5.3	9.5	9.5	16.5	6.9	8.8	13.75	16.5
In force	12.0	6.8	16.5	17.5	5.3	9.5	9.2	16.5	6.9	9.3	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	9.0	4.7	10.5	11.5	2.1	5.0	7.0	10.5	4.5	5.5	7.75	10.5
											Asia total	Asia total
											30 Jun 2007	30 Jun 2006
											%	%
Weighted risk discount rate (note i)												
New business											10.1	9.9
In force											8.7	8.8

#### Notes:

##### Asian Operations - economic assumptions

(i) The weighted risk discount rates for the Asian operations shown above have been determined by weighting each country's risk 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 the half year 2007 EEV basis results continue to reflect the assumption of a phased progression of the bond yields from the current rates applying to the assets held to the long-term expected rates. The projections assume that in the average scenario, the current bond yields of around 2.5 per cent trend towards 5.5 per cent at 31 December 2013 (half year 2006: 2 per cent towards 5.5 per cent at 31 December 2012, full year 2006: 2 per cent towards 5.5 per cent at 31 December 2013).

The projections for the Fund Earned Rate reflect the same approach as applied for the full year 2006 results with allowance made for the mix of assets in the fund, future investment strategy and further market depreciation of bonds held as a result of assumed future yield increases. The projections for the Fund Earned Rate alter for changes to these factors and the effects of movements in interest rates from period to period.

After taking into account current bond yields, the assumption of the phased progression in bond yields and the factors described above, the average assumed Fund Earned Rate remains below 1.2 per cent until 2010 (due to the depreciation of bond values as yields rise) and fluctuates around a target of 5.9 per cent after 2013.

Consistent with EEV methodology, a constant discount rate has been applied to the projected cash flows.

(iii) The assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force Hong Kong business.

(iv) Assumed equity returns

The mean equity return assumptions for the most significant equity holdings in the Asian Operations were:

	30 Jun 2007	30 Jun 2006	31 Dec 2006
	%	%	%
Hong Kong	9.1	9.2	8.7
Malaysia	12.8	12.8	12.8
Singapore	9.3	9.3	9.3

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.

(v) For Hong Kong, Malaysia, Singapore and Taiwan, bond yields have been used in setting the risk discount rates for half year 2007 reporting. For half year and full year 2006, cash rates were used in setting the risk discount rates for these operations.

##### (b) Stochastic assumptions

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; and

- 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.

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### Economic assumptions (continued)

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 to all periods presented in these statements are as follows:

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

### **US Operations (Jackson)**

- 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; and
- 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 19.2 per cent to 28.6 per cent, (half year 2006 and full year 2006: 18.6 per cent to 28.1 per cent) depending on risk class, and the volatility of bond funds ranges from 1.4 per cent to 2.0 per cent for all periods presented in this report.

### **Asian Operations**

The same asset return model, as used in the UK, appropriately calibrated, has been used for the Asian Operations.

The stochastic cost of guarantees are only of significance for the Hong Kong, Malaysia, Singapore 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 per cent to 25 per cent, (half year 2006: 18 per cent to 26 per cent, full year 2006: 18 per cent to 25 per cent) and the volatility of government bond yields ranges from 1.4 per cent to 2.5 per cent (half year 2006: 1.2 per cent to 2.2 per cent, full year 2006: 1.4 per cent to 2.5 per cent).

### **(3) Level of encumbered capital**

In adopting the EEV Principles, the Company has based encumbered capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models, but when applying EEV Principles, no credit is taken for the significant diversification benefits that exist within the Group. For with-profits business written in a segregated life fund, as is the case in the UK and Asia, the capital available in the fund is sufficient to meet the encumbered capital requirements.

The table below summarises the level of encumbered capital as a percentage of the relevant statutory requirement.

	Capital as a percentage of relevant statutory requirement
UK Insurance Operations	100% of EU Minimum
Jackson	235% of Company Action Level
Asian Operations	100% of Financial Conglomerates Directive requirement

### **(4) Margins on new business premiums**

	New Business Premiums		Annual premium equivalent	Present value of New Business Premiums	Pre-Tax New Business Contribution	New Business Margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
<b>Half year 2007</b>							
UK Insurance Operations	2,441	119	363	2,905	108	30	3.7
US Operations	3,425	9	352	3,490	144	41	4.1
Asian Operations	784	541	619	3,286	282	46	8.6
<b>Total</b>	<b>6,650</b>	<b>669</b>	<b>1,334</b>	<b>9,681</b>	<b>534</b>	<b>40</b>	<b>5.5</b>

	New Business Premiums		Annual premium equivalent	Present value of New Business Premiums	Pre-Tax New Business Contribution	New Business Margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
<b>Half year 2006</b>							
UK Insurance Operations	3,890	95	484	4,224	138	29	3.3
US Operations	3,146	8	323	3,209	134	41	4.2
Asian Operations	519	396	448	2,328	232	52	10.0
<b>Total</b>	<b>7,555</b>	<b>499</b>	<b>1,255</b>	<b>9,761</b>	<b>504</b>	<b>40</b>	<b>5.2</b>

	New Business Premiums		Annual premium equivalent	Present value of New Business Premiums	Pre-Tax New Business Contribution	New Business Margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
<b>Full year 2006</b>							
UK Insurance Operations	6,991	201	900	7,712	266	30	3.4
US Operations	5,964	17	614	6,103	259	42	4.2
Asian Operations	1,072	849	956	5,132	514	54	10.0
<b>Total</b>	<b>14,027</b>	<b>1,067</b>	<b>2,470</b>	<b>18,947</b>	<b>1,039</b>	<b>42</b>	<b>5.5</b>

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### (4) Margins on new business premiums (continued)

New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP). APEs are calculated as the aggregate of regular new business premiums on an annualised basis and one-tenth of single new business premiums. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business allowing for lapses and other assumptions made in determining the EEV new business contribution.

In determining the EEV basis value of new business written in the period the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business contributions represent profits determined by applying the economic and non-economic assumptions applying at the end of the reporting period.

### (5) UK Insurance Operations expense assumptions

The half year 2006 EEV basis financial statements included note disclosure which explained that in determining the appropriate expense assumptions account had been taken of the cost synergies that were expected to arise with some certainty from the initiative announced in December 2005 from UK Insurance Operations working more closely with Egg and M&G, and the effect of the end to end review of the UK business which was underway at the time. The disclosure noted that the half year 2006 basis results had been prepared on the same basis as the 2005 full year statements which had disclosed that without the anticipation of the cost synergies there would have been a charge for altered expense assumptions of approximately £55m.

On 29 January 2007 the Company announced the agreement to sell Egg Banking plc to Citi. On 15 March 2007 the Company announced the actions necessary to implement the reassessed plans in light of this transaction and additional initiatives. In preparing the 2006 full year results, account was also taken of the effect of expense savings that were expected to arise with some certainty. Without this factor the effect on the full year 2006 results would have been a charge of £44m for the net effect of revised assumptions in line with 2006 unit costs.

The half year 2007 results have been prepared using the same approach. Without the anticipation of expense savings there would have been an additional charge of £28m for the net effect of revised assumptions in line with half year 2007 unit costs.

### (6) Taiwan - effect of altered economic assumptions and sensitivity of results to future market conditions

For the half year 2007 results, as explained in note 2 (a), the expected long-term bond yield has been maintained at 5.5 per cent to be achieved by 31 December 2013.

The sensitivity of the embedded value at 30 June 2007 of the Taiwan operation to altered economic assumptions and future market conditions to:

(a) a 1 per cent increase or decrease in the projected long-term bond yield, (including all consequential changes to investment returns for all classes, market values of fixed interest assets and risk discount rates), is £83m and £(134)m respectively; and

(b) a 1 per cent increase or decrease in the starting bond rate for the progression to the assumed long-term rate is £92m and £(100)m respectively.

If it had been assumed in preparing the half year 2007 results that interest rates remained at the current level of around 2.5% until 31 December 2008 and the progression period in bond yields was delayed by a year so as to end on 31 December 2014, there would have been a reduction in the Taiwan embedded value of £90m.

### (7) Effect of changes in corporate tax rates

At 30 June 2007, a change to reduce the UK corporate tax rate from 30 per cent to 28 per cent in 2008 had been substantively enacted in the legislative process. Accordingly, the half year 2007 results incorporate the effects of this change in projecting the tax cash flows attaching to in-force business. Under the convention applied for EEV basis reporting, profits are generally determined on a post-tax basis and then grossed up at the prevailing corporate tax rates to derive pre-tax results. The effect of the change in the UK rate is to give rise to a benefit to the value of business in force at 1 January 2007 of £48m. After grossing up this amount for notional tax, the effect on the pre-tax operating results based on longer-term investment returns for UK Insurance Operations for half year 2007 is a credit of £67m.

Similar considerations apply to corporate tax rate changes in Singapore and China giving rise to a benefit to the value of in-force business at 1 January 2007 of £20m. After grossing up this amount for notional tax, the effect on the pre-tax operating results based on longer-term investment returns for Asian Operations for half year 2007 is a credit of £25m.

### (8) Short-term fluctuations in investment returns for half year 2006 comparative results

The analysis of the half year 2006 EEV basis results in this announcement incorporates a reallocation of £41m from the amount shown for the effect of changes in economic assumptions and time value of cost of options and guarantees to the credit for short-term fluctuations in investment returns. The change, which has no effect on operating profit or profit before tax relates to asset related gains for Jackson and has been made to align with the full year 2006 and current presentation.

### (9) Holding company net borrowings (at market value)

Holding company net borrowings at market value comprise:

	30 Jun 2007 £m	30 Jun 2006 £m	31 Dec 2006 £m
Central funds borrowings:			
IFRS basis	(2,289)	(2,520)	(2,485)
Mark to market value adjustment	(68)	(105)	(176)
EEV basis	(2,357)	(2,625)	(2,661)
Holding company* cash and short-term investments	1,546	1,067	1,119
Holding company net borrowings	(811)	(1,558)	(1,542)

\* Prudential plc and related finance subsidiaries

## TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

### INSURANCE PRODUCTS AND INVESTMENT PRODUCTS\*

	Insurance Products *			Investment Products *			Total		
	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
UK Operations	2,560	3,985	7,192	7,519	6,795	13,486	10,079	10,780	20,678
US Operations	3,434	3,154	5,981	19	-	-	3,453	3,154	5,981
Asian Operations	1,325	915	1,921	17,471	10,027	20,408	18,796	10,942	22,329
<b>Group Total</b>	<b>7,319</b>	<b>8,054</b>	<b>15,094</b>	<b>25,009</b>	<b>16,822</b>	<b>33,894</b>	<b>32,328</b>	<b>24,876</b>	<b>48,988</b>

### INSURANCE PRODUCTS - NEW BUSINESS PREMIUMS AND CONTRIBUTIONS \*

	Single			Regular			Annual Premium and Contribution			Present Value of New Business		
	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
<b>UK Operations</b>												
<b>Product Summary</b>												
Internal Vesting annuities	687	615	1,341	-	-	-	69	62	134	687	615	1,341
Direct and Partnership Annuities	431	273	780	-	-	-	43	27	78	431	273	780
Intermediated Annuities	282	247	592	-	-	-	28	25	59	282	247	592
<b>Total Individual Annuities</b>	<b>1,400</b>	<b>1,135</b>	<b>2,713</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>140</b>	<b>114</b>	<b>271</b>	<b>1,400</b>	<b>1,135</b>	<b>2,713</b>
Equity Release	67	30	89	-	-	-	7	3	9	67	30	89
Individual Pensions	18	10	21	-	-	-	2	1	2	20	10	21
Corporate Pensions	107	35	318	42	32	66	53	36	98	296	124	490
Unit Linked Bonds	138	213	388	-	-	-	14	21	39	138	213	388
With-Profit Bonds	114	54	139	-	-	-	11	5	14	114	54	139
Protection	-	2	11	2	6	9	2	6	10	14	21	63
Offshore Products	205	361	540	2	-	-	22	36	54	215	361	540
<b>Total Retail Retirement</b>	<b>2,049</b>	<b>1,840</b>	<b>4,219</b>	<b>46</b>	<b>38</b>	<b>75</b>	<b>251</b>	<b>222</b>	<b>497</b>	<b>2,264</b>	<b>1,948</b>	<b>4,443</b>
Corporate Pensions	110	165	261	60	44	100	71	61	126	314	350	643
Other Products	100	134	232	13	13	26	23	26	49	145	175	347
DWP Rebates	129	161	161	-	-	-	13	16	16	129	161	161
<b>Total Mature Life and Pensions</b>	<b>339</b>	<b>460</b>	<b>654</b>	<b>73</b>	<b>57</b>	<b>126</b>	<b>107</b>	<b>103</b>	<b>191</b>	<b>588</b>	<b>686</b>	<b>1,151</b>
<b>Total Retail</b>	<b>2,388</b>	<b>2,300</b>	<b>4,873</b>	<b>119</b>	<b>95</b>	<b>201</b>	<b>358</b>	<b>325</b>	<b>688</b>	<b>2,852</b>	<b>2,634</b>	<b>5,594</b>
Wholesale Annuities	38	1,278	1,431	-	-	-	4	128	143	38	1,278	1,431
Credit Life	15	312	687	-	-	-	1	31	69	15	312	687
<b>Total UK Operations</b>	<b>2,441</b>	<b>3,890</b>	<b>6,991</b>	<b>119</b>	<b>95</b>	<b>201</b>	<b>363</b>	<b>484</b>	<b>900</b>	<b>2,905</b>	<b>4,224</b>	<b>7,712</b>
<b>Channel Summary</b>												
Direct and Partnership	1,151	993	2,543	106	81	174	221	180	428	1,567	1,288	3,133
Intermediated	1,108	1,146	2,169	13	14	27	124	129	244	1,156	1,185	2,300
Wholesale	53	1,590	2,118	-	-	-	5	159	212	53	1,590	2,118
<b>Sub-Total</b>	<b>2,312</b>	<b>3,729</b>	<b>6,830</b>	<b>119</b>	<b>95</b>	<b>201</b>	<b>350</b>	<b>468</b>	<b>884</b>	<b>2,776</b>	<b>4,063</b>	<b>7,551</b>
DWP Rebates	129	161	161	-	-	-	13	16	16	129	161	161
<b>Total UK Operations</b>	<b>2,441</b>	<b>3,890</b>	<b>6,991</b>	<b>119</b>	<b>95</b>	<b>201</b>	<b>363</b>	<b>484</b>	<b>900</b>	<b>2,905</b>	<b>4,224</b>	<b>7,712</b>
<b>US Operations</b>												
Fixed annuities	291	313	688	-	-	-	29	31	69	291	313	688
Fixed index annuities	220	293	554	-	-	-	22	29	55	220	293	554
Variable annuities	2,243	1,888	3,819	-	-	-	224	189	382	2,243	1,888	3,819
Life	3	4	8	9	8	17	10	9	18	68	67	147
Guaranteed Investment Contracts	133	310	458	-	-	-	13	31	46	133	310	458
GIC - Medium Term Notes	535	338	437	-	-	-	54	34	44	535	338	437
<b>Total US Operations</b>	<b>3,425</b>	<b>3,146</b>	<b>5,964</b>	<b>9</b>	<b>8</b>	<b>17</b>	<b>352</b>	<b>323</b>	<b>614</b>	<b>3,490</b>	<b>3,209</b>	<b>6,103</b>
<b>Asian Operations</b>												
China	19	17	27	20	13	36	22	15	39	112	88	198
Hong Kong	199	139	355	54	42	103	74	56	139	493	360	933
India (Group's 26% interest)	16	11	20	81	55	105	83	56	107	340	177	411
Indonesia	35	11	31	43	31	71	46	32	74	178	117	269
Japan	52	23	68	11	1	7	16	3	14	97	30	97
Korea	72	58	103	113	103	208	120	109	218	608	492	1,130
Malaysia	9	2	4	32	31	72	33	31	72	186	185	418
Singapore	306	205	357	30	29	72	61	49	108	484	391	803
Taiwan	63	47	92	136	74	139	142	79	148	711	421	743
Other	13	6	15	21	17	36	22	18	37	77	67	130
<b>Total Asian Operations</b>	<b>784</b>	<b>519</b>	<b>1,072</b>	<b>541</b>	<b>396</b>	<b>849</b>	<b>619</b>	<b>448</b>	<b>956</b>	<b>3,286</b>	<b>2,328</b>	<b>5,132</b>
<b>Group Total</b>	<b>6,650</b>	<b>7,555</b>	<b>14,027</b>	<b>669</b>	<b>499</b>	<b>1,067</b>	<b>1,334</b>	<b>1,255</b>	<b>2,470</b>	<b>9,681</b>	<b>9,761</b>	<b>18,947</b>

### INVESTMENT PRODUCTS - FUNDS UNDER MANAGEMENT \*

	1 Jan 2007 £m	Gross Inflows £m	Redemptions £m	Market and other Movements £m	30 June 2007 £m
UK Operations	44,946	7,519	(4,152)	311	48,624
US Operations	-	19	(1)	-	18
Asian Operations	12,253	17,471	(15,809)	665	14,580
<b>Group Total</b>	<b>57,199</b>	<b>25,009</b>	<b>(19,962)</b>	<b>976</b>	<b>63,222</b>

\* The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.

Annual premium and contribution equivalents are calculated as the aggregate of regular new business amounts and one tenth of single new business amounts. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. Products categorised as "insurance" refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. 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.

Investment products referred to in the table for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as "investment contracts" under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

The premiums for half year and full year 2006 for wholesale annuities for UK Operations include £592m and £560m for a bulk annuity transaction with the Scottish Amicable Insurance Fund (SAIF). SAIF is a closed ring-fenced sub-fund of the PAC long-term fund established by a Court approved Scheme of Arrangement in October 1997, which is solely for the benefit of SAIF policyholders. Shareholders have no interest in the profits of this fund, although they are entitled to investment management fees on this business. The full year 2006 amount is £32m different from the half year 2006 estimate due to refinements to calculations under the reinsurance arrangement between the internal funds.

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## SUMMARY CONSOLIDATED INCOME STATEMENT

	Half Year 2007 £m
Earned premiums, net of reinsurance	7,903
Investment income	8,250
Other income	1,094
Total revenue, net of reinsurance (note C)	17,247
Benefits and claims and movement in unallocated surplus of with-profits funds	(14,315)
Acquisition costs and other operating expenditure	(2,118)
Finance costs: Interest on core structural borrowings of shareholder-financed operations	(88)
Total charges (note C)	(16,521)
Profit before tax* (note C)	726
Tax attributable to policyholders' returns	2
Profit before tax attributable to shareholders (note D)	728
Tax expense (note E)	(251)
Less: Tax attributable to policyholders returns	(2)
Tax attributable to shareholders' profits (note E)	(253)
Profit from continuing operations after tax	475
Discontinued operations (net of tax) (note M)	241
<b>Profit for the period</b>	<b>716</b>
Attributable to:	
Equity holders of the Company	715
Minority interests	1
Profit for the period	716
<b>Earnings per share (in pence)</b>	
Basic (based on 2,437m, 2,403m and 2,413m shares respectively):	
Based on profit from continuing operations attributable to the equity holders of the Company (note F)	19.4p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company	9.9p
	29.3p
Diluted (based on 2,440m, 2,406m and 2,416m shares respectively):	
Based on profit from continuing operations attributable to the equity holders of the Company (note F)	19.4p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company	9.9p
	29.3p
<b>Dividends per share (in pence)</b>	
Dividends relating to reporting period:	
Interim dividend (2007 and 2006) (note G)	5.70p
Final dividend (2006)	-
Total	5.70p
Dividends declared and paid in reporting period:	
Current year interim dividend	-
Final dividend for prior year	11.72p
Total	11.72p

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

The presentation of the half year and full year 2006 comparative results has been adjusted to show Egg as a discontinued operation.



# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 June 2007							Shareholders' equity	Minority interests	Total equity
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve				
	£m	£m	£m	£m	£m	£m		£m	£m	£m
<b>Reserves</b>										
Profit for the period			715					715	1	716
Items recognised directly in equity:										
Exchange movements				(21)				(21)		(21)
Movement on cash flow hedges						(3)		(3)		(3)
Unrealised valuation movements on securities classified as available-for-sale:										
Unrealised holding losses arising during the period					(289)			(289)		(289)
Less gains included in the income statement					(3)			(3)		(3)
					(292)			(292)		(292)
Related change in amortisation of deferred income and acquisition costs					120			120		120
Related tax				(12)	59	1		48		48
Total items of income and expense recognised directly in equity				(33)	(113)	(2)		(148)		(148)
Total income and expense for the period			715	(33)	(113)	(2)		567	1	568
Dividends			(288)					(288)		(288)
Reserve movements in respect of share-based payments			9					9		9
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and other consolidated investment funds									(38)	(38)
<b>Share capital and share premium</b>										
New share capital subscribed	1	116						117		117
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(115)	115							
<b>Treasury shares</b>										
Movement in own shares in respect of share-based payment plans			11					11		11
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS			1					1		1
Net increase (decrease) in equity	1	1	563	(33)	(113)	(2)		417	(37)	380
At beginning of period	122	1,822	3,640	(125)	27	2		5,488	132	5,620
At end of period	123	1,823	4,203	(158)	(86)	0		5,905	95	6,000

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Period ended 30 June 2006								
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Hedging reserve £m	Shareholders' equity £m	Minority interests £m	Total equity £m
<b>Reserves</b>									
Profit for the period			449				449	1	450
Items recognised directly in equity:									
Exchange movements				(134)			(134)		(134)
Movement on cash flow hedges						4	4		4
Unrealised valuation movements on securities classified as available-for-sale:									
Unrealised holding losses arising during the period					(707)		(707)		(707)
Less gains included in the income statement					(3)		(3)		(3)
					(710)		(710)		(710)
Related change in amortisation of deferred income and acquisition costs					311		311		311
Related tax				(39)	140	(1)	100		100
Total items of income and expenses recognised directly in equity				(173)	(259)	3	(429)		(429)
Total income and expense for the period			449	(173)	(259)	3	20	1	21
Dividends			(267)				(267)		(267)
Reserve movements in respect of share-based payments			6				6		6
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund								7	7
Acquisition of Egg minority interests (note K)			(167)				(167)	(84)	(251)
<b>Share capital and share premium</b>									
New share capital subscribed	2	251					253		253
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(7)	7						
<b>Treasury shares</b>									
Movement in own shares in respect of share-based payment plans			9				9		9
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS			1				1		1
Net increase (decrease) in equity	2	244	38	(173)	(259)	3	(145)	(76)	(221)
At beginning of period	119	1,564	3,236	173	105	(3)	5,194	172	5,366
At end of period	121	1,808	3,274	0	(154)	0	5,049	96	5,145

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2006									
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Hedging reserve £m	Shareholders' equity £m	Minority interests £m	Total equity £m
<b>Reserves</b>									
Profit for the year			874				874	1	875
Items recognised directly in equity:									
Exchange movements				(224)			(224)		(224)
Movement on cash flow hedges						7	7		7
Unrealised valuation movements on securities classified as available-for-sale:									
Unrealised holding losses arising during the year					(210)		(210)		(210)
Less losses included in the income statement					7		7		7
					(203)		(203)		(203)
Related change in amortisation of deferred income and acquisition costs					75		75		75
Related tax				(74)	50	(2)	(26)		(26)
Total items of income and expense recognised directly in equity				(298)	(78)	5	(371)		(371)
Total income and expense for the year			874	(298)	(78)	5	503	1	504
Dividends			(399)				(399)		(399)
Reserve movements in respect of share-based payments			15				15		15
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and other consolidated investment funds								43	43
Acquisition of Egg minority interests (note K)			(167)				(167)	(84)	(251)
<b>Share capital and share premium</b>									
New share capital subscribed	3	333					336		336
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(75)	75						
<b>Treasury shares</b>									
Movement in own shares in respect of share-based payment plans			6				6		6
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS			0				0		0
Net increase (decrease) in equity	3	258	404	(298)	(78)	5	294	(40)	254
At beginning of year	119	1,564	3,236	173	105	(3)	5,194	172	5,366
At end of year	122	1,822	3,640	(125)	27	2	5,488	132	5,620

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## SUMMARY CONSOLIDATED BALANCE SHEET

	30 Jun 2007 £m	30 Jun 2006 £m	31 Dec 2006 £m
<b>Assets</b>			
Intangible assets attributable to shareholders:			
Goodwill	1,341	1,341	1,341
Deferred acquisition costs and acquired in-force value of long-term business contracts	2,693	2,697	2,497
	4,034	4,038	3,838
Intangible assets attributable to PAC with-profits fund			
In respect of acquired subsidiaries for venture fund and other investment purposes	1,145	978	830
Deferred acquisition costs	40	32	31
	1,185	1,010	861
<b>Total</b>	<b>5,219</b>	<b>5,048</b>	<b>4,699</b>
Other non-investment and non-cash assets:			
Property, plant and equipment	1,107	1,018	1,133
Reinsurers' share of policyholder liabilities	1,092	1,141	945
Deferred tax assets	675	423	1,012
Current tax recoverable	332	315	404
Accrued investment income	1,980	1,891	1,900
Other debtors	2,268	2,297	1,052
<b>Total</b>	<b>7,454</b>	<b>7,085</b>	<b>6,446</b>
Investments of long-term business, banking and other operations:			
Investment properties	14,149	13,682	14,491
Investments accounted for using the equity method	14	5	6
Financial investments:			
Loans and receivables	5,441	12,795	11,573
Equity securities and portfolio holdings in unit trusts	83,819	75,534	78,892
Debt securities	80,211	78,090	81,719
Other investments	6,737	3,930	5,401
Deposits	7,519	7,422	7,759
<b>Total</b>	<b>197,890</b>	<b>191,458</b>	<b>199,841</b>
Held for sale assets	286	94	463
Cash and cash equivalents	4,500	3,665	5,071
<b>Total assets</b>	<b>215,349</b>	<b>207,350</b>	<b>216,520</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Shareholders' equity (note H)	5,905	5,049	5,488
Minority interests	95	96	132
<b>Total equity</b>	<b>6,000</b>	<b>5,145</b>	<b>5,620</b>
<b>Liabilities</b>			
Banking customer accounts	-	5,545	5,554
Policyholder liabilities and unallocated surplus of with-profits funds:			
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	169,895	158,127	164,988
Unallocated surplus of with-profits funds	14,728	13,421	13,599
<b>Total insurance liabilities</b>	<b>184,623</b>	<b>171,548</b>	<b>178,587</b>
Core structural borrowings of shareholder-financed operations:			
Subordinated debt (other than Egg)	1,492	1,573	1,538
Other	921	1,082	1,074
	2,413	2,655	2,612
Egg subordinated debt	-	451	451
<b>Total (note I)</b>	<b>2,413</b>	<b>3,106</b>	<b>3,063</b>
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations (note J)	2,605	5,994	5,609
Borrowings attributable to with-profits funds (note J)	2,122	2,042	1,776
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements	4,381	3,860	4,232
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,406	1,495	2,476
Current tax liabilities	1,033	1,168	1,303
Deferred tax liabilities	3,624	2,714	3,882
Accruals and deferred income	477	476	517
Other creditors	2,029	2,216	1,398
Provisions	376	383	464
Other liabilities	2,260	1,658	1,652
Held for sale liabilities	-	-	387
<b>Total</b>	<b>17,586</b>	<b>13,970</b>	<b>16,311</b>
<b>Total liabilities</b>	<b>209,349</b>	<b>202,205</b>	<b>210,900</b>
<b>Total equity and liabilities</b>	<b>215,349</b>	<b>207,350</b>	<b>216,520</b>

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## SUMMARY CONSOLIDATED CASH FLOW STATEMENT

	Half Year 2007 £m	Half Year 2006 £m
<b>Cash flows from operating activities</b>		
Profit before tax from continuing operations (note i)	726	899
Profit (loss) before tax from discontinued operations (including profit on sale) (note M)	222	(45)
Total profit before tax	948	854
Changes in operating assets and liabilities (note ii)	283	73
Other items (note ii)	(767)	(241)
Net cash flows from operating activities	464	686
<b>Cash flows from investing activities</b>		
Net cash flows from purchases and disposals of property and equipment	(137)	(280)
Costs incurred on purchase of Egg minority interests (note K)	-	(6)
Acquisition of subsidiaries, net of cash balances (note iii)	(77)	15
Disposal of Egg, net of cash balances (notes iv and K)	(538)	-
Disposal of other subsidiaries, net of cash balances (note iii)	157	80
Net cash flows from investing activities	(595)	(191)
<b>Cash flows from financing activities</b>		
Structural borrowings of the Group:		
Shareholder-financed operations (note v):		
Redemption	(150)	(1)
Interest paid	(104)	(104)
With-profits operations (note vi):		
Interest paid	-	(9)
Equity capital (note vii):		
Issues of ordinary share capital	1	1
Dividends paid	(171)	(260)
Net cash flows from financing activities	(424)	(373)
Net (decrease) increase in cash and cash equivalents	(555)	122
Cash and cash equivalents at beginning of period	5,071	3,586
Effect of exchange rate changes on cash and cash equivalents	(16)	(43)
<b>Cash and cash equivalents at end of period (note viii)</b>	<b>4,500</b>	<b>3,665</b>

### Notes

- (i) Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds before tax attributable to policyholders and surplus of with-profits funds, unit-linked policies and shareholders' profits. It does not represent profit before tax attributable to shareholders.
- (ii) The adjusting items to profit before tax include changes in operating assets and liabilities and other items comprising adjustments in respect of including operational interest receipts and payments, dividend receipts and tax paid. The figure of £(767)m for other items at half year 2007 in respect of the profit on sale of Egg, which is included in the cash flows from investing activities in this statement, and tax paid of £(361)m. The elements of the adjusting items within changes in operating assets and liabilities are as follows:

	Half Year 2007 £m	Half Year 2006 £m
Deferred acquisition costs (excluding changes taken directly to equity)	(277)	(462)
Other non-investment and non-cash assets	(884)	(873)
Investments	(7,189)	(2,618)
Policyholder liabilities (including unallocated surplus)	7,181	4,105
Other liabilities (including operational borrowings)	1,452	(79)
<b>Changes in operating assets and liabilities</b>	<b>283</b>	<b>73</b>

- (iii) Acquisitions and disposals of subsidiaries shown above include venture fund and other investment subsidiaries of the PAC with-profits fund, as s
- (iv) The amount of £(538)m in respect of the disposal of Egg, net of cash balances shown above, represents the net sale proceeds of £527m less cash equivalents of £1,065m held by Egg and transferred on disposal.
- (v) Structural borrowings of shareholder-financed operations consist of the core debt of the parent company and related finance subsidiaries, Jacks and, in 2006, Egg debenture loans. Following the sale of Egg in May 2007, these loans no longer form part of the Group's borrowings. Cash borrowings to support short-term fixed income securities programmes and non-recourse borrowings of investment subsidiaries of shareholder-financed operations are included within cash flows from operating activities. In June 2007, borrowings of £150m were repaid.
- (vi) Structural borrowings of with-profits operations relate solely to the £100m 8.5 per cent undated subordinated guaranteed bonds which contribute to the 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 the Group, which principally relate to venture fund investment subsidiaries and other consolidated investment vehicles, are categorised as operating activities in the presentation above.
- (vii) Cash movements in equity capital exclude scrip dividends and share capital issued in respect of the acquisition of Egg minority interests in 2006.
- (viii) Of the cash and cash equivalents amounts reported above, £377m (half year 2006: £388m; full year 2006: £437m) represents cash and cash equivalents of the parent company and related finance subsidiaries.

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## NOTES ON THE UNAUDITED IFRS BASIS RESULTS

### A Basis of preparation and audit status

The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or changed IFRS that are already endorsed by the European Union (EU) and that are applicable or available for early adoption for the next annual financial statements.

The IFRS basis results for the 2007 and 2006 half years are unaudited. The 2006 full year IFRS basis results have been derived from the 2006 statutory accounts. The auditors have reported on the 2006 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was (i) unqualified, (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

### B Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2006.

### C Segment disclosure

	Half Year 2007 £m	Half Year 2006 £m	Full Year 2006 £m
<b>Revenue</b>			
Long-term business	16,616	13,565	34,197
Broker-dealer and fund management	682	518	1,080
Unallocated corporate	90	71	38
Intra-group revenue eliminated on consolidation	(141)	(138)	(284)
<b>Total revenue per income statement</b>	<b>17,247</b>	<b>14,016</b>	<b>35,031</b>
<b>Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)</b>			
Long-term business, including post-tax transfers to unallocated surplus of with-profits funds	(16,076)	(12,881)	(32,162)
Broker-dealer and fund management	(479)	(358)	(797)
Unallocated corporate	(107)	(16)	(135)
Intra-group charges eliminated on consolidation	141	138	284
<b>Total charges per income statement</b>	<b>(16,521)</b>	<b>(13,117)</b>	<b>(32,810)</b>
<b>Revenue less charges (continuing operations)</b>			
Long-term business	540	684	2,035
Broker-dealer and fund management	203	160	283
Unallocated corporate	(17)	55	(97)
Profit before tax*	726	899	2,221
Tax attributable to policyholders' returns	2	(162)	(849)
Profit before tax attributable to shareholders	728	737	1,372
Tax attributable to shareholders' profits	(253)	(253)	(392)
<b>Profit from continuing operations after tax</b>	<b>475</b>	<b>484</b>	<b>980</b>
<b>Discontinued operations (net of tax)</b>			
Banking (note M)	241	(34)	(105)
<b>Profit for the period</b>	<b>716</b>	<b>450</b>	<b>875</b>

\* 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.

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## NOTES ON THE UNAUDITED IFRS BASIS RESULTS (CONTINUED)

### D Supplementary analysis of profit from continuing operations before tax attributable to shareholders

	Half Year 2007 £m	Half Year 2006 £m
<b>Results analysis by business area</b>		
<b>UK Operations</b>		
UK insurance operations	251	205
M&G	140	100
Total	391	305
<b>US Operations</b>		
Jackson	218	223
Broker-dealer and fund management	9	8
Curian	(2)	(4)
Total	225	227
<b>Asian Operations</b>		
Long-term business	76	88
Fund management	33	22
Development expenses	(6)	(7)
Total	103	103
<b>Other income and expenditure</b>		
Investment return and other income	42	33
Interest payable on core structural borrowings	(88)	(89)
Corporate expenditure:		
Group Head Office	(50)	(46)
Asia Regional Head Office	(17)	(19)
Charge for share-based payments for Prudential schemes (note iii)	(5)	(5)
Total	(118)	(126)
UK restructuring costs	0	(11)
Operating profit from continuing operations based on longer-term investment returns (note iv)	601	498
Short-term fluctuations in investment returns on shareholder-backed business (note i)	24	39
Shareholders' share of actuarial gains and losses on defined benefit pension schemes (note ii)	103	200
<b>Profit from continuing operations before tax attributable to shareholders (note iv)</b>	<b>728</b>	<b>737</b>
(i) Short-term fluctuations in investment returns on shareholder-backed business	£m	£m
US Operations:		
Movement in market value of derivatives (other than equity-based) used for economic hedging purposes	36	93
Actual less longer-term investment returns for other items	25	9
Asian Operations	(10)	(36)
Other Operations	(27)	(27)
	24	39
(ii) Shareholders' share of actuarial gains and losses on defined benefit pension schemes	£m	£m
Actual less expected return on scheme assets*	(178)	(57)
Experience (losses) gains on liabilities	(8)	0
Gains on changes of assumptions for scheme liabilities**	462	611
	276	554
Less: amounts attributable to the PAC with-profits fund	(173)	(354)
	103	200

\* The expected rate of return applied for half year 2007 was 5.9 per cent. The shortfall of actual investment returns against expected returns in half year 2007 was due to a decrease in the value of corporate and government bonds which more than offset the increase in the value of equity and property holdings of the schemes.

\*\* The gains on changes of assumptions for scheme liabilities primarily reflect movements in yields on good quality corporate bonds. These yields are used to determine projected pension scheme benefit payments.

The discount rates applied for the Group's UK defined benefit schemes, and reflected in the gains and losses shown above, are as follows:

30 June 2007	5.8%
31 December 2006	5.2%
30 June 2006	5.5%
31 December 2005	4.8%

#### (iii) Share-based payments

The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.

#### (iv) Continuing operations - scope

The results for continuing operations shown above exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg Bank. Accordingly, the presentation of the comparative results for half year and full year 2006 has been adjusted from those previously published. Note M shows the results for the discontinued operations.

# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## NOTES ON THE UNAUDITED IFRS BASIS RESULTS (CONTINUED)

### E Tax charge

The total tax charge of £251m for the half year 2007 (half year 2006: £415m; full year 2006: £1,241m) comprises £37m (half year 2006: £231m; full year 2006: £214m) (half year 2006: £184m; full year 2006: £543m) overseas tax. This tax charge comprises tax attributable to policyholders and unallocated surplus linked policies and shareholders. The tax charge attributable to shareholders of £253m for the half year 2007 (half year 2006: £253m; full year 2006: £1,066m; full year 2006: £142m) UK tax and £158m (half year 2006: £147m; full year 2006: £250m) overseas tax.

The tax credit related to discontinued operations, which is all attributable to shareholders, amounted to £19m (half year 2006: £11m; full year 2006: £41m).

Amounts for deferred tax are determined using the current rate of tax or, where substantively enacted through the legislative process, the prospective rate. Deferred tax amounts for half year 2007 reflect the prospective change for the main UK corporation tax rate from 30 per cent to 28 per cent which is an accounting change effective from 1 April 2008.

	Half Year 2007 (pence)
<b>F Supplementary analysis of earnings per share from continuing operations</b>	
On operating profit based on longer-term investment returns after related tax and minority interests	16.3p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	0.1p
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	3.0p
On profit from continuing operations after tax and minority interests	19.4p

### G Dividend

An interim dividend of 5.70p per share will be paid on 24 September 2007 to shareholders on the register at the close of business on 17 August 2007. The dividend will be offered to shareholders.

	30 Jun 2007 £m
<b>H Shareholders' equity</b>	
Share capital	123
Share premium	1,823
Reserves	3,959
Total	5,905

	30 Jun 2007 £m
<b>I Net core structural borrowings of shareholder-financed operations</b>	
Core structural borrowings of shareholder-financed operations (per consolidated balance sheet):	
Central funds	2,289
Jackson	124
Total	2,413
Less: Holding company** cash and short-term investments (recorded within the consolidated balance sheet)	(1,546)
Net core structural borrowings of shareholder-financed operations	867

\* Excluding Egg's borrowings

\*\* Prudential plc and related finance subsidiaries

	30 Jun 2007 £m
<b>J Other borrowings</b>	
<b>Operational borrowings attributable to shareholder-financed operations</b>	
Borrowings in respect of short-term fixed income securities programmes	2,045
Non-recourse borrowings of investment subsidiaries managed by PPM America	544
Borrowings in respect of banking operations	0
Other borrowings	16
Total	2,605
<b>Borrowings attributable to with-profits funds</b>	
Non-recourse borrowings of venture fund investment subsidiaries	1,063
Non-recourse borrowings of consolidated investment vehicles	854
Subordinated debt of the Scottish Amicable Insurance Fund	100
Other borrowings (predominantly obligations under finance leases)	105
Total	2,122



# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## NOTES ON THE UNAUDITED IFRS BASIS RESULTS (CONTINUED)

### K Acquisitions and disposals

#### (i) Shareholder acquisitions and disposals - Egg

In the first half of 2006, the Company acquired the outstanding 21.7 per cent minority interest in Egg, its UK banking business. The Company accounted for the purchase of minority interests using the economic entity method. Accordingly, £167m was charged to retained earnings in 2006 representing the difference between the consideration paid and the share of net assets acquired.

On 29 January 2007, the Company announced that it had entered into a binding agreement to sell Egg Banking plc to Citi. Under the terms of the agreement, the consideration payable to the Company by Citi was £575m cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion.

On 1 May 2007, the Company completed the sale. The consideration, net of expenses, was £527m. The reduction from the £575m noted above primarily reflects Egg's post tax operating loss of £49m for the period from 1 January 2007 to the date of sale, as shown in note M.

Cash and cash equivalents disposed of were £1,065m. Accordingly, the cash outflow for the Group arising from the disposal of Egg, as shown in the summary consolidated cashflow statement, was £538m.

#### (ii) PAC with-profits fund acquisitions

The PAC with-profits fund acquires a number of venture capital holdings through PPM Capital and M&G in which the Group is deemed to have a controlling interest, in aggregate with, if applicable, other holdings held by, for example, the Prudential Staff Pension Scheme. There were two such acquisitions during the period to 30 June 2007. These were acquisitions for:

- 78 per cent of the voting equity interest of Red Funnel, a ferry company, in June 2007.
- 71 per cent of the voting equity interest of Orizon AG, an employment hiring agency, in March 2007.

The results of the acquisitions have been included in the consolidated financial statements of the Group commencing on the respective dates of acquisition. The earnings contributed by these acquisitions to the income statement are insignificant to the half year 2007 results and are reflected in the change in the unallocated surplus of the with-profits fund. Shareholder results are unaffected. Total consideration of £97m was paid in respect of the acquisitions during the period to 30 June 2007. Cash and cash equivalents of £20m were acquired.

#### (iii) PAC with-profits fund disposals

As at 31 December 2006, one venture subsidiary was classified as held for sale; Pharmacia Diagnostics. The sale of this venture subsidiary was completed on 18 January 2007. Total cash consideration received was £179m. Goodwill of £138m and cash and cash equivalents of £22m were disposed of. No other venture subsidiaries were sold during the first half of 2007 or classified as held for sale at 30 June 2007.

### L 2006 half year comparative balance sheet

Minor presentational adjustments have been made for refinements to the acquisition accounting for intangible assets of venture fund investment subsidiaries of the PAC with-profits fund. These adjustments affect the carrying value of goodwill and other intangible assets, with minor consequential effects on some other balance sheet categories. Shareholders' profit and equity are unaffected by these adjustments.

### M Discontinued operations

	Half year 2007 £m	Half year 2006 £m	Full Year 2006 £m
Pre-tax profit (loss) from discontinued operations			
Egg results :			
Operating loss based on longer-term investment returns for the period of ownership	(68)	(45)	(157)
Short-term fluctuations in investment returns	-	-	7
Profit on sale of Egg Banking plc	290	-	-
Total	222	(45)	(150)
Tax			
On Egg results :			
Operating loss based on longer-term investment returns for the period of ownership	19	11	47
Short-term fluctuations in investment returns	-	-	(2)
On profit on sale of Egg Banking plc	0	-	-
Total	19	11	45
<b>Profit (loss) from discontinued operations, net of tax</b>	<b>241</b>	<b>(34)</b>	<b>(105)</b>

Discontinued operations relate entirely to UK banking operations following the sale on 1 May 2007 of Egg Banking plc to Citi. Note K(i) provides details of the sale of Egg.