

PRUDENTIAL PLC 2003 UNAUDITED RESULTS

Results Summary

Achieved Profits Basis Results	2003 £m	2002 £m
UK and Europe Insurance Operations	359	516
M&G	83	71
Egg	(34)	(20)
UK and Europe Operations	408	567
US Operations	216	265
Prudential Asia	378	516
Other Income and Expenditure (including Asia development expenses)	(208)	(215)
Operating profit before amortisation of goodwill and exceptional items*	794	1,133
Amortisation of goodwill	(98)	(98)
Short-term fluctuations in investment returns	682	(1,406)
Effect of changes in economic assumptions	(540)	(467)
Profit on sale of UK general business operations	-	355
Profit (loss) on ordinary activities before tax	838	(483)
Operating earnings per share*	26.4p	42.8p
Shareholders' funds	£7.0bn	£7.2bn
		Restated**
Statutory Basis Results	2003 £m	2002 £m
Operating profit before amortisation of goodwill and exceptional items*	357	449
Profit on ordinary activities before tax	350	501
Operating earnings per share*	12.9p	16.7p
Basic earnings per share	10.4p	23.5p
Shareholders' funds	£3.3bn	£3.6bn
	2003	2002
Dividend Per Share	16.0p	26.0p
Insurance and Investment Funds under Management	£168bn	£155bn

* Operating profit and operating earnings per share include investment returns at the expected long-term rate of return but exclude amortisation of goodwill and exceptional items. 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 the Preliminary Announcement.

** Statutory basis results for 2002 have been restated for altered accounting policy for certain reinsurance contracts on the adoption of the revised Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers in November 2003.

ACHIEVED PROFITS BASIS RESULTS

Summarised Consolidated Profit and Loss Account	2003 £m	2002 £m
UK and Europe Insurance Operations	359	516
M&G	83	71
Egg	(34)	(20)
UK and Europe Operations	408	567
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Prudential Asia	378	516
Other Income and Expenditure (including Asia development expenses)	(208)	(215)
Operating profit before amortisation of goodwill and exceptional items	794	1,133
Amortisation of goodwill	(98)	(98)
Short-term fluctuations in investment returns	682	(1,406)
Effect of changes in economic assumptions	(540)	(467)
Profit on sale of UK general business operations	-	355
Profit (loss) on ordinary activities before tax (including actual investment returns)	838	(483)
Tax	(355)	329
Profit (loss) for the year before minority interests	483	(154)
Minority interests	2	9
Profit (loss) for the year after minority interests	485	(145)
Dividends	(320)	(519)
Retained profit (loss) for the year	165	(664)

Basic Earnings Per Share

Based on operating profit after tax and related minority interests before amortisation of goodwill and exceptional items of £527m (£851m)	26.4p	42.8p
Adjustment for amortisation of goodwill	(4.9)p	(4.9)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests)	23.3p	(48.0)p
Adjustment for post-tax effect of changes in economic assumptions	(20.5)p	(14.4)p
Adjustment for post-tax profit on sale of UK general business operations	-	17.2p
Based on profit (loss) for the year after minority interests of £485m (£(145)m)	24.3p	(7.3)p
Average number of shares	1,996m	1,988m
Dividend Per Share	16.0p	26.0p

TOTAL INSURANCE AND INVESTMENT NEW BUSINESS

Insurance Products and Investment Products	Insurance Products		Investment Products		Total	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
UK and Europe Operations	4,448	5,808	3,797	3,731	8,245	9,539
US Operations	4,066	5,757	-	-	4,066	5,757
Prudential Asia	989	944	18,157	13,661	19,146	14,605
Group Total	9,503	12,509	21,954	17,392	31,457	29,901

Insurance Products - New Business Premiums	Single		Regular		Annual Equivalents	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
UK and Europe Insurance Operations						
Direct to customer						
Individual annuities	657	683	-	-	66	68
Individual pensions and life	22	74	12	15	14	23
Department of Work and Pensions rebate business	280	215	-	-	28	22
Total	959	972	12	15	108	113
Business to Business						
Corporate pensions	488	350	127	114	176	149
Individual annuities	223	212	-	-	22	21
Total	711	562	127	114	198	170
Intermediated distribution						
Life	1,065	2,179	22	18	128	236
Individual annuities	828	860	-	-	83	86
Bulk annuities	287	710	-	-	29	71
Individual and corporate pensions	120	162	29	48	41	65
Department of Work and Pensions rebate business	103	90	-	-	10	9
Total	2,403	4,001	51	66	291	467
Partnerships						
Life and individual annuities	98	11	-	-	10	1
Europe						
Life	87	42	-	25	9	29
Total UK and Europe Insurance Operations	4,258	5,588	190	220	616	780
US Insurance Operations						
Fixed annuities	1,375	2,708	-	-	138	271
Equity linked indexed annuities	255	254	-	-	25	25
Variable annuities	1,937	1,363	-	-	194	136
Life	-	-	13	22	13	22
Guaranteed Investment Contracts	183	292	-	-	18	29
GIC - Medium Term Notes	303	1,118	-	-	30	112
Total	4,053	5,735	13	22	418	595
Asian Insurance Operations						
China	7	5	11	8	12	9
Hong Kong	189	140	83	84	102	98
India (Group's 26% interest)	4	4	16	6	16	6
Indonesia	27	11	31	19	34	20
Japan	9	9	35	39	36	40
Korea	19	-	30	10	32	10
Malaysia	11	15	59	59	60	61
Singapore	181	279	57	46	75	74
Taiwan	28	14	132	145	135	146
Other	7	2	53	49	53	49
Total	482	479	507	465	555	513
Group Total	8,793	11,802	710	707	1,589	1,888

Annual Equivalents are calculated as the aggregate of regular new business premiums and one tenth of single new business premiums.

Investment Products - Funds Under Management (FUM)	FUM		Gross		Market and Other	
	1 Jan 2003	31 Dec 2003	Inflows	Redemptions	Movements	FUM
	£m	£m	£m	£m	£m	£m
UK and Europe Operations	20,284	25,516	3,797	(2,444)	2,555	24,192
Prudential Asia	5,232	25,516	18,157	(16,635)	(158)	6,596
Group Total	25,516	25,516	21,954	(19,079)	2,397	30,788

ACHIEVED PROFITS BASIS RESULTS

Operating Profit before Amortisation of Goodwill and Exceptional Items

Results Analysis by Business Area	2003 £m	2002 £m
UK and Europe Operations		
Insurance Operations:		
New business	166	233
Business in force	193	283
Long-term business	359	516
M&G	83	71
Egg	(34)	(20)
Total	408	567
US Operations		
New business	148	234
Business in force	71	17
Long-term business	219	251
Broker dealer and fund management	(3)	14
Total	216	265
Prudential Asia		
New business	291	307
Business in force	87	209
Long-term business	378	516
Development expenses	(27)	(26)
Total	351	490
Other Income and Expenditure		
Investment return and other income	29	3
Interest payable on core structural borrowings of shareholder financed operations	(143)	(130)
Corporate expenditure:		
Group Head Office	(43)	(36)
Asia Regional Head Office	(24)	(26)
Total	(181)	(189)
Operating profit before amortisation of goodwill and exceptional items	794	1,133
Analysed as profits (losses) from:		
New business	605	774
Business in force	351	509
Long-term business	956	1,283
Asia development expenses	(27)	(26)
Other operating results	(135)	(124)
Total	794	1,133

ACHIEVED PROFITS BASIS RESULTS

Summarised Consolidated Balance Sheet	2003 £m	2002 £m
Total assets less liabilities, excluding insurance funds*	136,373	126,280
Less insurance funds:		
Technical provisions (net of reinsurers' share)*	120,449	115,004
Fund for future appropriations	12,646	7,663
Less shareholders' accrued interest in the long-term business*	(3,765)	(3,583)
	129,330	119,084
Total net assets	7,043	7,196
Share capital	100	100
Share premium	553	550
Statutory basis retained profit*	2,625	2,963
Additional achieved profits basis retained profit*	3,765	3,583
Shareholders' capital and reserves	7,043	7,196
Movement in Shareholders' Capital and Reserves	2003 £m	2002 £m
Profit (loss) for the year after minority interests	485	(145)
Exchange movements, net of related tax	(348)	(330)
New share capital subscribed	30	40
Dividends	(320)	(519)
Net decrease in shareholders' capital and reserves	(153)	(954)
Shareholders' capital and reserves at beginning of year	7,196	8,150
Shareholders' capital and reserves at end of year	7,043	7,196
Comprising		
UK and Europe Operations:		
Long-term business	3,424	3,026
M&G	336	382
Egg	348	369
	4,108	3,777
US Operations	2,490	2,732
Prudential Asia	1,419	1,407
Other operations (including central goodwill and borrowings)	(974)	(720)
	7,043	7,196

* The 2002 figures for these lines have been restated as a result of the altered accounting policy for certain reinsurance contracts. However, neither profit nor total net assets on the Achieved Profits basis has changed.

ACHIEVED PROFITS BASIS RESULTS

Basis of Preparation of Results

The achieved profits basis results have been prepared in accordance with the guidance issued by the Association of British Insurers in December 2001 "Supplementary Reporting for long-term insurance business (the achieved profits method)".

Under this guidance, the basis for setting long-term expected rates of return on investments and risk discount rates are, for countries with developed long-term fixed income securities markets, set by reference to period end rates of return on fixed income securities. This "active" basis of assumption setting has been applied in preparing the results of the Group's UK, Europe and US operations. For the Group's Asian operations, the active basis is appropriate for business written in Japan and Korea and US dollar denominated business written in Hong Kong.

For countries where long-term fixed income securities markets are underdeveloped, investment return assumptions and risk discount rates are based on an assessment of long-term economic conditions. Except for the countries listed above, this basis is appropriate to the Group's Asian operations.

The key economic assumptions are set out below:

	<u>2003</u>	<u>2002</u>
UK and Europe Insurance Operations		
Pre-tax expected long-term nominal rate of investment return:		
UK equities	7.3%	7.0%
Overseas equities	6.6% to 7.9%	7.0% to 7.8%
Property	6.6%	6.75%
Gilts	4.8%	4.5%
Corporate bonds	5.8%	5.5%
PAC with-profits fund assets (applying the rates listed above to the investments held by the fund)	6.8%	6.6%
Expected long-term rate of inflation	3.1%	2.5%
Post-tax expected long-term nominal rate of return:		
Pension business (where no tax applies)	6.8%	6.6%
Life business	5.9%	5.7%
Risk margin included within the risk discount rate	2.6%	2.6%
Risk discount rate	7.4%	7.1%
US Operations (Jackson National Life)		
Expected long-term spread between earned rate and rate credited to policyholders	1.75%	1.75%
US 10 year treasury bond rate	4.3%	3.9%
Risk margin included within the risk discount rate	3.1%	3.1%
Risk discount rate	7.4%	7.0%
Prudential Asia		
Weighted pre-tax expected long-term nominal rate of investment return	7.4%	7.1%
Weighted expected long-term rate of inflation	3.4%	3.0%
Weighted risk discount rate	10.4%	9.6%

The Prudential Asia weighted economic assumptions have been determined by weighting each country's assumptions by reference to the Achieved Profits basis operating results for new business written in the relevant year.

ACHIEVED PROFITS BASIS RESULTS

Notes on the Unaudited Achieved Profits Basis Results

- (1) The achieved profits basis results for 2003 are unaudited. The results for 2002 have been derived from the achieved profits basis supplement to the Company's statutory accounts for that year. The supplement included an unqualified audit report from the auditors.
- (2) Under the achieved profits basis, the operating profit from new business represents the profitability of new long-term insurance business written in the year and the operating profit from business in force represents the profitability of business in force at the start of the year with, for Asia, the statutory basis results of non-insurance operations. These results are combined with the statutory basis results of the Group's other operations including banking, mutual funds and other non-insurance investment management business. The effects of short-term fluctuations in investment returns and the impact of changes in economic assumptions on shareholder's funds at the start of the reporting period are excluded from operating profit but included in total profit. In the directors' opinion, the achieved profits basis results provide a more realistic reflection of the performance of the Group's long-term business than results under the statutory basis.
- (3) The proportion of surplus allocated to shareholders from the UK with-profits business has been based on the present level of 10%. Future bonus rates have been set at levels which would fully utilise the assets of the with-profits fund over the lifetime of the business in force.

STATUTORY BASIS RESULTS

		Restated*
Summarised Consolidated Profit and Loss Account	2003 £m	2002 £m
Continuing operations:		
Long-term business gross premiums written (note 3)	13,781	16,669
Discontinued operations:		
UK general business gross premiums written	-	329
	13,781	16,998
Profit on ordinary activities before tax*	350	501
Tax (note 4)*	(144)	(42)
Profit for the year before minority interests*	206	459
Minority interests	2	9
Profit for the year after minority interests*	208	468
Dividends (note 5)	(320)	(519)
Retained loss for the year*	(112)	(51)
Reconciliation of Operating Profit to Profit on Ordinary Activities		
Operating profit based on long-term investment returns before amortisation of goodwill and arising wholly from continuing operations*	357	449
Amortisation of goodwill	(98)	(98)
Operating profit based on long-term investment returns*	259	351
Short-term fluctuations in investment returns	91	(205)
Profit on sale of UK general business operations	-	355
Profit on ordinary activities before tax (including actual investment returns)*	350	501
Basic Earnings Per Share		
Based on operating profit after tax and related minority interests before amortisation of goodwill and exceptional items of £257m (£333m)*	12.9p	16.7p
Adjustment for amortisation of goodwill	(4.9)p	(4.9)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests)	2.4p	(5.5)p
Adjustment for post-tax profit on sale of UK general business operations	-	17.2p
Based on profit for the year after minority interests of £208m (£468m)*	10.4p	23.5p
Average number of shares	1,996m	1,988m
Dividend Per Share	16.0p	26.0p

* The 2002 figures for these lines have been restated (note 2).

STATUTORY BASIS RESULTS

Operating Profit before Amortisation of Goodwill and Exceptional Items

Results Analysis by Business Area	2003 £m	Restated* 2002 £m
UK and Europe Operations		
UK and Europe Insurance Operations*	256	372
M&G	83	71
Egg	(34)	(20)
Total*	305	423
US Operations		
Jackson National Life	165	139
Broker dealer and fund management	(3)	14
Total	162	153
Prudential Asia		
Long-term business and investment products	98	88
Development expenses	(27)	(26)
Total	71	62
Other Income and Expenditure		
Investment return and other income	29	3
Interest payable on core structural borrowings of shareholder financed operations	(143)	(130)
Corporate expenditure:		
Group Head Office	(43)	(36)
Asia Regional Head Office	(24)	(26)
Total	(181)	(189)
Operating profit before amortisation of goodwill and exceptional items*	357	449

* The 2002 figures for these lines have been restated (note 2).

STATUTORY BASIS RESULTS

Summarised Consolidated Balance Sheet	2003 £m	Restated* 2002 £m
Assets		
Goodwill	1,504	1,604
Investments in respect of non-linked business:		
Equities	34,877	30,007
Fixed income securities	64,591	63,200
Properties	10,965	10,766
Deposits with credit institutions	4,088	5,840
Other investments (principally mortgages and loans)	5,719	5,325
	120,240	115,138
Assets held to cover linked liabilities	19,921	15,763
Reinsurers' share of technical provisions*	924	1,167
Banking business assets	12,629	11,502
Deferred acquisition costs*	2,952	3,222
Other assets*	3,556	3,595
Total assets*	161,726	151,991
Liabilities		
Share capital	100	100
Share premium	553	550
Statutory basis retained profit *	2,625	2,963
Shareholders' capital and reserves*	3,278	3,613
Minority interests	107	108
Fund for future appropriations	12,646	7,663
Technical provisions in respect of non-linked business*	101,178	100,164
Technical provisions for linked liabilities	20,195	16,007
Deferred tax	1,154	696
Debenture loans (note 6)	3,083	2,293
Other borrowings (note 6)	1,362	2,080
Banking business liabilities (note 7)	11,681	10,784
Obligations of Jackson National Life under funding and stocklending arrangements	3,762	5,098
Final dividend	214	341
Other liabilities*	3,066	3,144
Total liabilities*	161,726	151,991
Movement in Shareholders' Capital and Reserves		
Profit for the year after minority interests*	208	468
Exchange movements, net of related tax	(253)	(252)
New share capital subscribed	30	40
Dividends	(320)	(519)
Net decrease in shareholders' capital and reserves*	(335)	(263)
Shareholders' capital and reserves at beginning of year		
As originally reported	3,668	3,950
Prior year adjustment for altered accounting policy for certain reinsurance contracts*	(55)	(74)
As restated*	3,613	3,876
Shareholders' capital and reserves at end of year*	3,278	3,613

* The 2002 figures for these lines have been restated (note 2).

STATUTORY BASIS RESULTS

FRS1 Consolidated Cash Flow Statement	2003 £m	2002 £m
Operations		
Net cash inflow from operating activities#	88	31
Servicing of finance		
Interest paid	(172)	(180)
Tax		
Tax received	128	299
Acquisitions and disposals		
Net cash inflow from:		
Acquisition of subsidiary undertakings	-	(12)
Disposal of businesses, net of reinsurance payments	27	353
Net cash inflow from acquisitions and disposals	27	341
Equity dividends		
Equity dividends paid	(447)	(509)
Net cash outflow before financing	(376)	(18)
Financing		
Issue of borrowings	829	86
Reduction in credit facility utilised by investment subsidiaries managed by PPM America	(151)	(165)
Issues of ordinary share capital	30	40
Net cash inflow (outflow) from financing	708	(39)
Net cash inflow (outflow) for the year	332	(57)

The net cash inflow (outflow) was invested (financed) as follows:

Net sales of portfolio investments	(149)	(83)
Increase in cash and short-term deposits, net of overdrafts	481	26
	332	(57)

In accordance with FRS 1, this statement excludes the cash flows of long-term business funds.

The reconciliation from operating profit before amortisation of goodwill to net cash inflow from operating activities is summarised below:

	2003 £m	2002 £m
Operating profit before amortisation of goodwill*	357	449
Add back interest charged to operating profit**	189	190
Adjustments for non-cash items:		
Tax on long-term business profits*	(154)	(172)
Amounts retained in long-term business operations and Egg, timing differences and other items*	(304)	(436)
Net cash inflow from operating activities (as shown above)	88	31

* The 2002 figures for these lines have been restated (note 2).

** This adjustment comprises interest payable on core structural borrowings, commercial paper and other borrowings, non-recourse borrowings of investment subsidiaries managed by PPM America and structural borrowings of Egg. Interest payable on long-term business with-profits fund borrowings and other trading activities has been excluded from this adjustment.

STATUTORY BASIS RESULTS

Notes on the Unaudited Statutory Basis Results

- (1) The statutory basis results are unaudited. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2003 or 2002. The financial information for 2002 is derived from the statutory accounts for 2002, which have been delivered to the Registrar of Companies, as adjusted for the change of accounting policy explained in note 2. The auditors have reported on the 2002 statutory accounts; their report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The statutory accounts for 2003 will be finalised on the basis of the financial information presented by the directors in this Preliminary Announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.
- (2) The basis of accounting for certain reinsurance contracts has changed due to the adoption of the revised Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers in November 2003. Previously, the Company complied with the 1998 version of the SORP. The impact of the change in policy is to increase statutory basis pre-tax operating profit for 2002 by £17m and to reduce statutory basis capital and reserves at the end of 2002 by £55m. If the previous policy had been retained, statutory basis pre-tax operating profit for 2003 would have been lower by approximately £10m.
- (3) An analysis of long-term business gross premiums written is set out below:

	2003 £m	2002 £m
UK and Europe Insurance Operations	7,264	8,675
Jackson National Life	4,369	6,098
Prudential Asia	2,148	1,896
	13,781	16,669

- (4) The tax charge of £144m (£42m) comprises £22m (£69m) UK tax and £122m (£27m credit) overseas tax.
- (5) The final dividend of 10.7p per share will be paid on 26 May 2004 to shareholders on the register at the close of business on 19 March 2004. A scrip dividend alternative will be offered to shareholders. The total dividend for the year, including the interim dividend of 5.3p per share paid in 2003, amounts to 16.0p per share and the total cost of the dividend declared in respect of 2003 is £320m.
- (6) An analysis of borrowings is set out below:

	2003 £m	2002 £m
Net core structural borrowings of shareholder financed operations	2,135	2,226
Add back holding company cash and short-term investments	432	226
Core structural borrowings of shareholder financed operations	2,567	2,452
Commercial paper and other borrowings that support a short-term fixed income securities reinvestment programme	1,074	1,241
Non-recourse borrowings of investment subsidiaries managed by PPM America*	214	365
Egg debenture loans	451	202
UK Insurance Operations long-term business with-profits fund borrowings	120	100
Other borrowings of shareholder financed operations	19	13
	4,445	4,373
This total is recorded in the statutory basis summarised consolidated balance sheet as:		
Debenture loans	3,083	2,293
Other borrowings	1,362	2,080
	4,445	4,373

* The holders of the borrowings issued by these subsidiaries do not have recourse beyond the assets of the subsidiaries.

- (7) An analysis of banking business liabilities is set out below:

	2003 £m	2002 £m
Egg	10,787	9,882
US Operations	894	902
	11,681	10,784
Comprising		
Banking deposit balances	7,075	8,666
Debt securities issued and other liabilities	4,606	2,118
	11,681	10,784