Prudential plc Annual Report 2000

PRUDENTIAL

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Front cover:
In June 2000 Prudential reinforced its position as a leading international financial services group, when it listed on the New York Stock Exchange

Total dividend up 6.5%

24.5p per share

Total new business achieved profit up 2%

£613m

Overseas new business achieved profit up 30%

£383m

Statutory basis operating profit up 8%

£840m

Record insurance and investment sales up 13%

£13.9bn

Group Financial Highlights

	2000 £m	1999 £m
Statutory operating profit (based on longer-term investment returns) before amortisation of goodwill		
UK Insurance Operations:		
Long-term business	**468**	454
General business	**33**	61
	501	515
M&G	**125**	87
Egg	**(155)**	(150)
UK Operations	**471**	452
US Operations	**466**	451
Prudential Asia	**22**	15
Prudential Europe	**(10)**	6
Other Income and Expenditure	**(109)**	(78)
Re-engineering costs	**–**	(70)
Operating profit before amortisation of goodwill	**840**	776
Amortisation of goodwill	**(84)**	(54)
Short-term fluctuations in investment returns	**(48)**	28
Profit on sale and flotation of holding in Egg	**119**	–
Share of exceptional gain of associate company	**21**	–
Profit on sale of holding in associate company	**99**	–
Profit before tax (including actual investment returns)	**947**	750
Earnings per share		
Based on operating profit after tax and related minority interests before amortisation of goodwill	**31.5p**	29.1p
Based on profit after tax and minority interests – basic	**35.1p**	27.8p
Based on profit after tax and minority interests – diluted	**35.0p**	27.7p
Dividend per share	**24.5p**	23.0p
Achieved profits basis shareholders' funds	**£8.8bn**	£8.3bn
Insurance and investment funds under management	**£165bn**	£170bn
Banking deposit balances under management	**£7.6bn**	£8.2bn

Profit before tax includes actual investment returns. The Company believes that operating profit, which is based on longer-term investment returns, before amortisation of goodwill better reflects the Group's underlying performance.

Prudential plc, through its businesses in Europe, the US and Asia, provides retail financial products and services and fund management to many millions of customers worldwide.

Our commitment to the shareholders who own Prudential is to maximise the value over time of their investment. We do this by investing for the long term to develop and bring out the best in our people and our businesses to produce superior products and services, and hence superior financial returns. Our aim is to deliver top quartile performance within the FTSE 100 in terms of total shareholder returns.

At Prudential our aim is lasting relationships with our customers and policyholders, through products and services that offer value for money and security. We also seek to enhance our Company's reputation, built over 150 years, for integrity and for acting responsibly within society.

PRUDENTIAL

Established in London in 1848, **Prudential plc** is a leading international financial services group with a market capitalisation of approximately £20 billion. It has funds under management of £165 billion as at 31 December 2000, and has 22,000 employees worldwide.

PRUDENTIAL

Prudential is one of the UK's leading life insurers. Its UK insurance operations include Prudential Financial Services, Prudential Intermediary Business and Prudential Insurance Services, providing advice on a broad range of financial products including life insurance, pensions and savings plans.

Jackson National Life Insurance Company

Jackson National Life was acquired by Prudential in 1986 and is one of the leading writers of individual life insurance and annuities in the US, providing products and services in all 50 states. It employs 2,100 people and distributes its products through independent agents, broker-dealers and financial institutions.

PRUDENTIAL
英国保诚集团

Prudential Corporation Asia has operations in 11 countries in Asia. Its 20,000 managers, staff and agents develop and sell a range of insurance and investment products tailored to the needs of each local market.

PRUDENTIAL

Prudential Europe was formed in 1999 and is responsible for spearheading Prudential's expansion into continental Europe. It currently has operations in France and Germany where it has established strategic alliances with strong local partners. In addition, it has established a leading position in the unit linked market through its German broker business.

egg: Individual Money Matters

Egg was launched in October 1998. In June 2000, Prudential completed an Initial Public Offering of a minority share of Egg. Now established as a household name, Egg has become a leading internet financial services brand, providing banking products and intermediation services over the internet. Egg offers deposit accounts, credit cards, personal loans, mutual funds, general insurance and online shopping.

Scottish Amicable

Scottish Amicable was acquired by Prudential in 1997. It is Prudential's leading Independent Financial Adviser (IFA) brand. It is committed to supporting advisers through a combination of high levels of service and a strong product range.

M&G INVESTMENTS

M&G was founded in 1931 and was acquired by Prudential in 1999. As Prudential's European fund manager, M&G is responsible for managing £130 billion of funds and is one of the largest retail unit trust managers in the UK. M&G's institutional business focuses on segregated fixed interest and pooled pension funds.

In my first statement to shareholders as Chairman of Prudential, I am delighted to report a strong financial performance with statutory basis operating profit up eight per cent to £840 million, overseas new business achieved profit up 30 per cent to £383 million, new business achieved profit up two per cent to £613 million and record insurance and investment sales of £13.9 billion. These results reflect the strength and diversity of our operations around the world. The Board has decided to increase the total dividend by 6.5 per cent to 24.5 pence per share.

Prudential is a leading international financial services group – a position reinforced by our listing on the New York Stock Exchange in June. We have a clear and focused strategy designed to achieve sustainable growth in our chosen markets. During the course of the year, there were a number of notable achievements that demonstrate the Group's commitment to broadening our product range and distribution capabilities and to delivering shareholder value.

In June, we completed the public offering of a 21 per cent stake in Egg, our internet-based financial services operation.

We have restructured our UK businesses in order to increase productivity and cost effectiveness and enable us to operate competitively in a low margin environment. This reorganisation has led to a clearer customer focus and greater operating efficiency.

The introduction of stakeholder pensions in the UK represents an enormous opportunity for the Group and we are well placed in this market. Both the TUC and British Chambers of Commerce have endorsed our considerable experience in providing pensions, and working with affinity groups, by selecting Prudential as their preferred stakeholder supplier. In October, we also announced that our stakeholder proposition would be accompanied by lower charges for our existing pension customers.

In the United States, Jackson National Life has leading positions in a number of product areas and we have continued to drive forward our strategy of broadening our distribution reach. We also acquired Highland Bancorp, which we merged with Jackson Federal Bank, a wholly-owned subsidiary of JNL. This acquisition has given our banking operation scale and enabled us to broaden our product range to incorporate banking products. In 2000 we also acquired IFC Holdings, the leading bank third-party marketing organisation in the US, which has significantly enhanced our distribution through banks and has further enhanced our broker-dealer network. This acquisition has created the fifth largest independent broker-dealer network in the US.

Our operations in Asia have also made significant progress. Following the launch of Prudential's life operation in Taiwan in 1999, we acquired an 89 per cent interest in a Taiwanese mutual fund company, Core Pacific Securities Investment Trust Enterprise. We launched a joint venture with China International Trust and Investment Corporation (CITIC) in Guangzhou which was one of the first Sino-British life insurance operations in China. Also ICICI Prudential Life Insurance, our joint venture with Industrial Credit and Investment Corporation of India, received a licence from the Insurance Development Authority to commence life insurance operations in India. In January 2001 we announced that we had signed an agreement to acquire Orico Life Insurance Company Limited of Japan.

We are delighted with the progress that has been made by M&G in 2000. As a result of our acquisition of M&G in 1999, and the strong growth we are experiencing in Asia, 25 per cent of Group sales now come from unit trusts and mutual funds.

In mainland Europe, our strategy is to establish distribution alliances and thereby build on our existing partnership agreements with CNP Assurances in France and Signal Iduna in Germany. We have also joined forces with Centre Français du Patrimoine to distribute Prudential Europe Vie, an innovative equity-backed life insurance product that builds on the success of Prudence Bond in the UK. Policy sales began in January 2001. In addition, M&G plans to launch a range of equity and fixed interest funds in Germany in autumn 2001, rolling out to other European markets from 2002 onwards.

None of the progress made by the Group during the year would have been possible without the hard work of our staff. As I have visited our operations around the world, I have been enormously impressed by their commitment, drive and professionalism and I would like to take this opportunity to thank them for all their efforts.

During the year we said farewell to some of our Board and welcomed others. I would like to pay particular tribute to Sir Martin Jacomb, who stepped down in May following five years as Chairman, and to thank him for his enormous contribution to Prudential. I wish him well in his retirement. I am happy to take over from Sir Martin, working with so

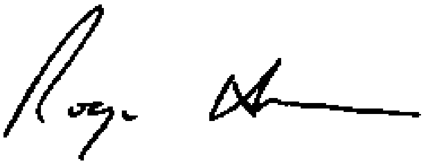
"Prudential is a leading international financial services group. We have a clear and focused strategy designed to achieve sustainable growth in our chosen markets."

many talented people, particularly the management team, ably led by Jonathan Bloomer, who succeeded Sir Peter Davis as Group Chief Executive in February. We also said farewell to Michael Abrahams, a director since 1984 and Deputy Chairman since 1991, who retired in May, and Derek Higgs, a director since 1996, who retired in November. Each of them made a significant contribution to the development of the Group and I wish them well for the future.

The Board has welcomed several new members. Philip Broadley joined Prudential from Arthur Andersen in May as Group Finance Director, and succeeded Les Cullen; Roberto Mendoza, formerly with JP Morgan and recently with Goldman Sachs, also joined the Board in May; and Michael McLintock, the Chief Executive of M&G, joined the Board in September. I am delighted to add that Mark Wood, formerly Chief Executive of AXA UK, will join the Board as Chief Executive of Prudential's UK and European Insurance businesses, on 21 June 2001. I know that all of them will make valuable contributions to the future prosperity of the Group.

The complementary strengths of the management team, with the breadth of experience of the executive board members and the wealth of knowledge and diversification of skills brought to the Group by the non-executive directors, has ensured that Prudential enters 2001 in excellent health.

The markets in which we operate have witnessed tremendous change, bringing with it both enormous opportunities and challenges. Prudential continues to adapt to meet these changes and we now have a significant brand and distribution presence in each of our chosen markets. I am confident that the Group is well placed for the future and that our focus on value rather than volume will enable us to deliver superior investment returns to our customers and to our shareholders.



Sir Roger Hurn, Chairman

This has been a year in which we moved quickly to meet the changing needs of our customers, ensuring rapid and sustained growth and the continued delivery of shareholder value.

2000 was a year of significant international development for the Prudential Group. This achievement stems from the fundamental transformation that has taken place across the Group over the last five years. This transformation has placed us as a major international-based financial services company.

We are totally committed to creating shareholder value and to this end we have not been afraid to take bold decisions. The continued diversification of our product range, broadened distribution reach, increased access to our chosen markets and the quality of our partners and staff have resulted in a record inflow of new funds of more than £13.9 billion in 2000. The changing business mix is reflected in the fact that 25 per cent of this total is from investment product sales.

Value creation involves growing the business in the most appropriate way by deploying capital in the most efficient markets, and can involve taking some difficult decisions. The decision to restructure our UK direct sales channels and customer service operations was taken in the long term interest of our customers and our shareholders.

During the year we have expanded our operations by reaching new markets and also broadening our services in existing markets. We have achieved a position of strength in the US, UK and Asian markets. We currently manage and invest over £165 billion of client funds worldwide, on behalf of our customers.

Understanding local customer needs in individual marketplaces has been paramount in helping us design the products and channels of delivery to suit consumers and keep us ahead of the competition.

With over 50 per cent of our new business revenue and 60 per cent of our new business achieved profits in 2000 coming from outside the UK, we have established our position as a leading international retail financial services group, with a focus on long-term savings.

One of our key initiatives in 2000 was our listing in June on the New York Stock Exchange. This reflects the increasingly international nature of our business and will enable us to widen our international shareholder base. The listing also offers us flexibility in respect of funding any future expansion in the United States.

In June we also completed an Initial Public Offering (IPO) of a minority share of Egg, our internet financial services business, on the London Stock Exchange. The IPO has promoted the continued growth of Egg and has given Egg's management team the currency to expand and invest further in technology. We have retained 79 per cent of the company to ensure that Prudential shareholders benefit in the future growth of Egg.

At M&G, fund performance has been extremely strong across all activities in 2000. We have seen excellent performance in a number of our flagship retail equity funds as well as in fixed interest, and new funds, including the Innovator fund and the Global Technology fund, have shown market leading returns. In addition, despite difficult market conditions globally, the life fund has outperformed its competitors and its strategic benchmarks due in particular to strong relative returns from UK and European equities, as well as fixed interest. M&G's specialist institutional business has continued to go from strength to strength, with £2.1 billion of new fixed interest mandates won during 2000.

During 2000 we have taken great strides in developing our presence in Asia where we have seen insurance sales grow by 75 per cent over the year to £504 million. We entered two of the largest life markets, China and India, in 2000. In October, we opened an office in Guangzhou, the third largest city in China, in partnership with China International Trust and Investment Corporation (CITIC). This is one of the first Sino-British life insurance operations in China. In November we gained regulatory approval to begin the sale of life insurance in partnership with the Industrial Credit and Investment Corporation of India (ICICI), and sales began in December. Going forward, the business will be further enhanced by our announcement in January 2001 that we have signed an agreement to acquire Orico Life Insurance Company Limited of Japan, one of the world's largest life insurance markets. Orico Life is a modern and innovative life business and will provide us with a solid platform to build a presence in this significant market.

In 2000 Standard & Poor's (S&P) raised its insurer financial strength rating on Jackson National Life and Jackson National Life of New York to AAA. According to S&P, the rating upgrade reflected JNL's improving risk profile and the view that JNL has become a core operation to Prudential based on its significant contribution to Group earnings.

"We have moved quickly to meet the changing needs of our customers, ensuring rapid and sustained growth and the continued delivery of shareholder value."

By improving communications between our staff throughout all of our businesses, we can ensure the sharing of best practice and knowledge as well as achieving economies of scale. Internet communication has been improved for each of our businesses through enhancements to our many internet sites. These are now linked and can be accessed through one brand and one entry portal, thereby allowing customers easy access to our individual brands. Additionally, we have also developed an intranet system that links our businesses throughout the world.

On a personal note, it has been a busy time since taking on the role of Group Chief Executive in February 2000. There have been many exciting milestones, all of which have been made possible by the tremendous efforts of everyone in the Group. I would like to thank each member of staff for their continued drive, enthusiasm and support. The real challenge is to use the Group's achievements in 2000 as a springboard to further growth and success in 2001.

Jonathan Bloomer.

Jonathan Bloomer, Group Chief Executive

Asian Operations

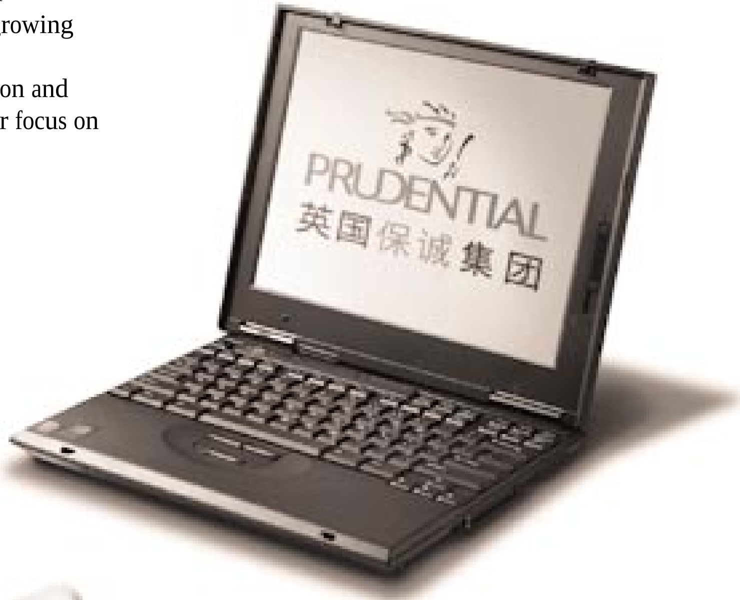
In Asia we have operations in 11 countries, offering life insurance with health insurance options, investment products and general insurance, tailored to each local market. We distribute these products primarily through our high quality agency sales forces and through strong bank and broker arrangements.

Total insurance sales of £504 million in 2000 were 75 per cent up on 1999. New business achieved profits were 70 per cent higher at £153 million, and statutory basis operating profit rose 47 per cent to £22 million.

We now have strong and expanding businesses with growing customer recognition of our brand name and values across the region. Life insurance remains our core business, and continues to offer major opportunities for further growth. We also have a growing mutual fund presence and will continue to expand our product range to serve our customers' lifetime financial services needs as profitable opportunities arise. Building professional agency distribution remains one of our core strengths in the region. However, we are widening our distribution channels with a growing number of bank distribution arrangements. All our expansion and development plans have a clear focus on adding significant value to our customers and shareholders.

During 2000 we had three significant new market launches. In China, we had a high profile launch with our CITIC Prudential joint venture in Guangzhou. We re-entered the Indian life market after nearly 50 years' absence with the launch of ICICI Prudential Life in December 2000. Our joint venture with Bank of China had great success in signing up employers for Hong Kong's Mandatory Provident Fund during the year and the first round of collections commenced in early 2001.

We also made two important acquisitions. In October, we acquired 89 per cent of Core Pacific Securities Investment Trust Enterprise (now Prudential Taiwan SITE), a mutual fund operation with around £1 billion funds under management, underlining our commitment to the growing Taiwanese market for high quality financial services products. This gives us a great opportunity to leverage synergies from our successful mutual fund business in India. In February 2001, we acquired Orico Life in Japan, an operationally and financially sound



Following another outstanding year of growth, Prudential is now firmly established as a leading life insurer and retail financial services provider in Asia.

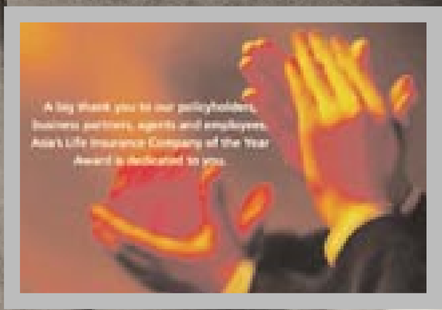
modern Japanese life insurance company. Major changes are underway in the Japanese life insurance market and Orico Life provides us with a very strong platform to effectively apply our distribution management and product innovation skills to rapidly build scale in one of the world's largest life insurance markets.

Our existing operations continue to make good progress. Prudential Taiwan Life now has more than three times the number of agents it had when we acquired the business in November 1999 and new business volumes continue to grow strongly. Prudential Hong Kong has also considerably strengthened its agency force and at the year-end, was fourth in the market in terms of new business, its highest ever ranking. New business sales in Vietnam, our greenfield operation launched in November 1999, continue to exceed all our expectations. These successes illustrate the strength of our approach to building and managing high quality agency forces across the region.

Our bancassurance distribution partnership with Standard Chartered Bank continues to show good growth in new business volumes from Singapore and Hong Kong and was extended to Malaysia in April 2000. Results to date have been encouraging.

In 2000 we launched a number of new products, in line with our focus on meeting customer needs. These included our first range of Syariah compliant funds in Malaysia to cater for the Islamic sector of the population, and PRUeSaver in Singapore, our first insurance product specifically designed for distribution via the internet.

We have continued to make innovative use of technology across Asia during the year to further improve our customer service and efficiency. Our electronic proposal and signature system has been enhanced with the addition of automatic underwriting and in Singapore we were the first insurer to provide customers with WAP phone services including access to policy details.



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1 Launch of Prudential Taiwan SITE, a mutual fund business with about £1 billion funds under management **2** Prudential Singapore won Asia's 'Life Insurance Company of the Year' award **3** Hong Kong.

Our comprehensive customer service, including full e-transactional functionality, has helped Prudential ICICI become the largest private sector mutual fund manager in India.

Prudential Singapore won Asia's 'Life Insurance Company of the Year' award for its commitment to innovation, its responsiveness to customer needs and its high quality customer service.

To support all this strong growth and development we continue to give high priority to attracting, retaining and developing the region's best people. During 2000 a number of key senior management positions were filled with very experienced industry professionals. Our growth plans for 2001 and beyond make it important to continue this process.

Following another outstanding year of growth, Prudential is now firmly established as a leading life insurer and retail financial services provider in Asia and will continue to strengthen this position in 2001.

Jackson National Life, USA

In the United States, Jackson National Life is the 20th largest life insurance company in terms of total assets. JNL offers a range of products including fixed and equity-indexed annuities, variable annuities, life insurance and stable value products which consist of guaranteed investment contracts and funding agreements.

Despite an increasingly competitive environment, Jackson National Life has continued to perform strongly, with sales in 2000 amounting to £4.9 billion, an increase over the prior year of 19 per cent. Statutory basis operating profit increased by £15 million to £466 million, despite operating in a market experiencing high policy surrenders, adverse investment performance and growing pressures on spreads. Achieved basis operating profit fell from £469 million to £226 million, reflecting changes in persistency and expense assumptions following an increase in the level of fixed annuity surrenders and the development of systems designed to handle higher volumes of our increased product range.

Jackson National Life has continued to expand distribution, both by adding representatives to its broker-dealer network and through strategic acquisitions.

1 Jackson National Life's new headquarters facility in Lansing, Michigan 2 National Planning Holdings, the fifth largest independent financial planner broker-dealer in the USA.

Jackson National Life has continued to expand distribution, both by adding representatives to its broker-dealer network and through strategic acquisitions. These included the acquisitions of Highland Federal Bank and IFC Holdings. The acquisition of Highland Federal doubled its retail branch network and assisted it in obtaining critical mass in its banking operations. IFC Holdings further strengthens JNL's presence in the broker-dealer market, giving it the largest bank broker-dealer, and increases the scale and profitability of Jackson's own broker-dealer business, National Planning Holdings, the fifth largest independent financial planner broker-dealer in the USA.

Excellent growth in retail sales has been achieved predominantly through increased sales through bank and broker-dealer channels. JNL continues to expand its distribution capability, which will assist with future acquisitions or joint ventures.

JNL has continued to expand and improve its product portfolio including an equity-index linked banking deposit product, MarketPath, available throughout the United States, and Target Select, an innovative multi-year guarantee fixed annuity. JNL has also expanded its client base by adapting the Medium Term Note programme to reach Australian investors, and has begun developing a client base in Asia.

Building on its established website, JNL has made significant progress in incorporating internet efficiencies into the service areas of the business. It has launched an internet-based variable annuity application, allowing producers to complete and submit applications electronically. JNL has also completed the installation of a fully automated new business system for life insurance. This

will eliminate the processing of paperwork and therefore shorten the time required to issue a policy.

In November Jackson National Life relocated its headquarters into a new award-winning office complex. This move enabled JNL to consolidate its staff, previously housed in five different locations, and allowed it to make significant gains in productivity. JNL has also reorganised its service centre along product lines to improve the quality and efficiency of customer service and to lower marginal cost, allowing it to make more profit from expanded premium sales.

In 2000 Standard & Poor's (S&P) raised its insurer financial strength rating on Jackson National Life and Jackson National Life of New York to AAA. According to S&P the rating upgrade reflected JNL's improving risk profile and the view that JNL has become a core operation to Prudential, based on its significant contribution to Group earnings.

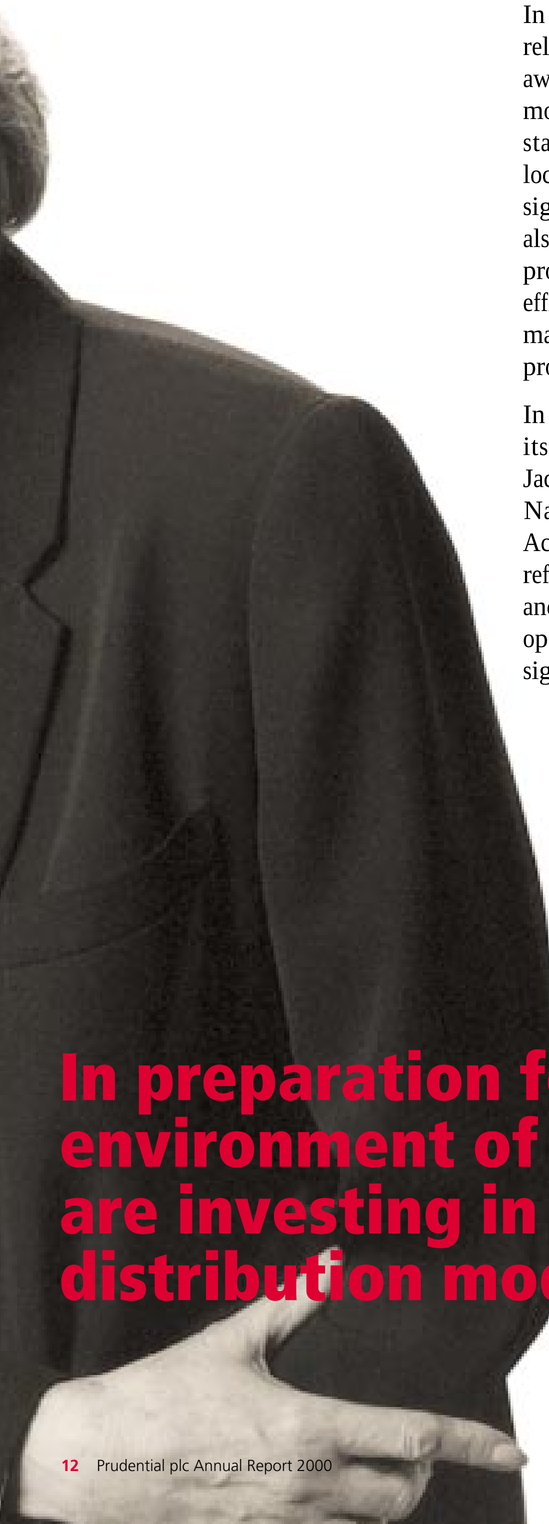
United Kingdom

Insurance Operations

Prudential is one of the leading UK life insurers and is well placed to be a significant player in the stakeholder pensions market. Operating under both the Prudential and Scottish Amicable brands, it is a leading provider of annuities and with-profits bonds in the UK.

In 2000, statutory basis operating profit from UK long-term insurance business operations increased three per cent to £468 million in 2000 and achieved basis operating profit grew by 11 per cent to £708 million.

The UK pensions market has undergone significant change ahead of the launch of stakeholder pensions in April 2001. In preparation for the lower charging environment of stakeholder pensions, we are investing in alternative lower-cost distribution models. Our considerable investment in distribution and technology, coupled with the strength of our brand in that market gives us a considerable advantage. We have already announced agreements with the Trades Union Congress and the British Chambers of Commerce to be their preferred provider of stakeholder pensions. With these two

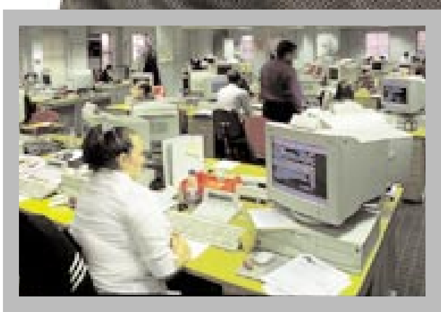


In preparation for the lower charging environment of stakeholder pensions, we are investing in alternative lower-cost distribution models.

agreements in place, we have the potential to be the leading player in this new market.

The benefit of lower pensions charging will not be confined solely to new stakeholder pensions customers. Our existing UK individual pensions customers will also benefit from reduced pension charges with effect from April 2001, to reflect the one per cent stakeholder charges.

During 2000, we restructured our UK insurance operations into three key areas: Prudential Financial Services, Prudential Intermediary Business and Prudential Insurance Services. Prudential Financial Services is responsible for all direct distribution of Prudential-branded products; Prudential Intermediary Business, for all distribution of products via the Independent Financial Adviser channel; and Prudential Insurance Services, for all administration of in force products under the Prudential brand, together with our successful and profitable General Insurance business.



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1 London **2** Sales of Prudence Bond in 2000 were £1.5 billion
3 The Nottingham General Insurance call centre takes 46,000 servicing and sales calls every week from our UK customers.

This reorganisation reflects the importance of focusing on the needs of our customers, while recognising the importance of the low cost business models necessary for the low margin environment in which we will be operating.

In addition, we recently announced changes to our direct sales channels and customer service operations in the UK. These changes, which are being implemented in order to continue to meet changing customer needs and to ensure we operate cost-effectively as a scale player in the UK marketplace, represent a further evolution of the Group's business model in the UK to improve our service offering to over six million customers.

In the IFA sector, our UK intermediary business continues to develop, offering products under both the Scottish Amicable and Prudential brands. In March 2001, we will be bringing together our two sales forces (Scottish Amicable and Prudential) into a new integrated structure that will more effectively bring our products and services to a wider group of financial advisers. The development of our adviser extranet which provides on-line servicing, product information and highlights sales opportunities is part of our overall aim of adding value to the IFA sales process and has been a key differentiator for us in this market place. In 2000 sales of Prudence Bond were £1.5 billion, bringing the total sold in the last 10 years to £10 billion, ensuring we remain a leading player in the market, despite increased competition from new players and very aggressive pricing from other life companies.

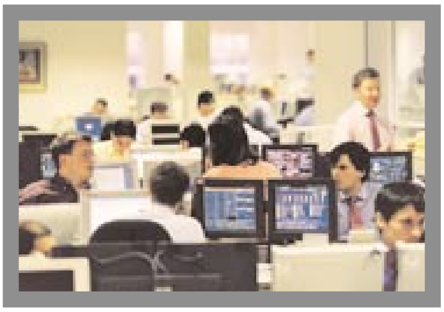
We have integrated our annuities business with that of our intermediaries business, predominantly to capitalise on opportunities in the over 50s market where we expect to see substantial and profitable growth. We are well placed to take advantage of the potential of this market through our existing Prudential Annuities business and by leveraging the additional sales potential available through our intermediaries' distribution capability. In 2001 this business will build through the impetus of its recent profitable growth and maintain the shift in focus from annuities at the point of retirement to income through retirement.

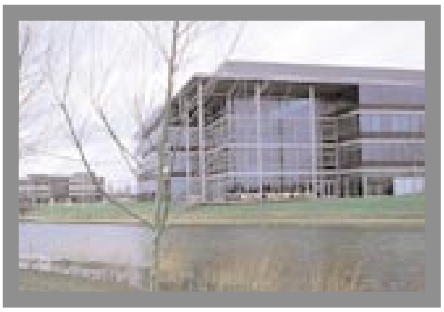
M&G

M&G is our UK and European fund manager, responsible for managing £130 billion of funds. Since its acquisition in 1999, M&G has been successfully integrated into the Group and we have restructured our entire European fund management business under this single investment brand, while the PPM brand continues in the US and Asia. During 2000 we completed the sale of part of our institutional business, as announced last year, and focused M&G on its core strengths in unit trusts, specialist fixed interest and pooled life and pension fund management.

Fund performance has been extremely strong across all activities in 2000 on the back of M&G's revitalised investment team and research process. We have seen excellent performance in a number of our flagship retail equity funds as well as in fixed interest, and some of our new funds

We have seen excellent performance in a number of our flagship retail equity funds as well as in fixed interest, and some of our new funds have shown market-leading returns.





have shown market-leading returns. The breadth of this achievement is shown through the M&G Managed Growth Fund's top quartile performance over three and five years, as this directly reflects the success of its underlying fund-of-fund portfolio of 22 M&G unit trusts*.▲

The integration of PPM and M&G allowed us to extend this process across our internal funds, including the £80 billion managed on behalf of the Prudential Assurance Company's long-term fund. In 2000, despite difficult market conditions globally, this fund beat its competitor and strategic benchmarks due in particular to strong relative returns from UK and European equities and fixed interest. This was an exceptional result. Most impressively, the UK equities portfolio outperformed its benchmark in all four quarters of 2000 despite the radically different investment characteristics in these periods.

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1 M&G's outdoor advertising campaign **2** M&G's trading floor in its London headquarters **3** GreenPark, a Prudential-owned and built business park in Reading, Berkshire. Newly signed occupiers include Cisco Systems and Veritas Software.

▲ *The price of units and the income from them can go down as well as up. Past performance is not necessarily a guide to future performance. M&G does not offer investment advice or make recommendations about investments. We only market the packaged products and services of the M&G marketing group. M&G unit trusts are managed by M&G Securities Limited which is regulated by IMRO and the Personal Investment Authority. Issued by M&G Financial Services Limited which is regulated by the Personal Investment Authority. Registered office: M&G House, Victoria Road, Chelmsford, CM1 1FB. Registered in England no. 923891. M&G is a wholly owned subsidiary of Prudential plc.*

Product innovation is key for M&G. In June 2000, we launched the Innovator fund which aims to pick fast-growing companies with the potential to become the market heavyweights of the future. During 2000, Innovator was ranked second in the UK Smaller Companies sector and outperformed the sector average by over 17 per cent†. Our Global Technology fund was also first out of all technology funds since its launch in October 1999 having grown 56 per cent to the end of 2000‡.▲ Building on our success in this area, M&G has expanded its range of global thematic funds with the launch of Global Financials and Global Media and Communications funds in February 2001.

M&G continued to develop its business in 2000 with one of the most exciting initiatives being Cofunds, a fund supermarket for intermediaries, founded through a joint venture with Gartmore, Jupiter and Threadneedle. Mutual fund supermarkets have proved to be extremely successful in the US and Cofunds' exclusive focus on the intermediary market offers it exciting growth opportunities in the UK and potentially in Europe. M&G has also won the contract to provide the third party administration capability for Cofunds, which opened for business in February 2001.

M&G has made considerable progress throughout its refocused wholesale division with the specialist fixed interest business, which we retained due to its competitive advantages and growth potential, winning £2.1 billion of net new mandates in 2000. This was due to increasing demand from defined benefit pension schemes for corporate bonds and sophisticated liability matching services, both team specialities. In pooled funds, our flagship UK equity and balanced funds have improved performance with good second quartile years. In addition, the private finance group continues to expand its innovative capabilities and launched the UK's first sterling Collateralised Debt Obligation in early 2001.

During 2000, we also established M&G Europe to target the increasing appetite for equity investment on the Continent. We will initially look at entry into Germany, with the intention of launching before the end of 2001, and plan entry into other European markets from 2002 onwards.

Prudential Property Investment Managers (PruPIM) continues to manage in excess of £10 billion worth of property and in 2000 consolidated its outstanding long-term performance record. PruPIM is a founding member of a consortium, created in the summer of 2000, comprising five large UK property owners offering broadband telecommunications services to tenants within their buildings. Prudential alone owns over 1,000 properties in the UK and the potential benefits are significant.

Egg has continued to develop and enhance its range of products and services, adopting new technologies for the benefit of customers while growing rapidly and retaining its market leading brand position.

PPM Ventures (PPMV) has continued to build its global private equity investment capability and now has over £600 million invested on behalf of its clients. PPMV has also continued its successful investment record during 2000.

* *Source: Standard & Poor's Micropal, bid to bid (with net income reinvested) as at 21/12/2000.*

† *Source: Standard & Poor's Micropal, bid to bid (with net income reinvested) from 23/6/2000 to 29/12/2000.*

‡ *Source: Standard & Poor's Micropal, bid to bid (with net income reinvested) from 15/10/1999 to 29/12/2000.*

▲ *See footnote page 15.*

Egg

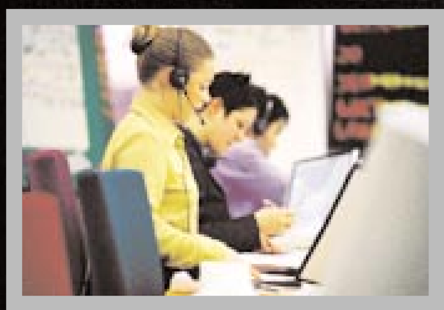
Prudential launched Egg in October 1998 as a division of Prudential Banking. Since then Egg has become a leading internet financial services brand, providing banking products and intermediation services over the internet. Egg currently offers customers deposit accounts, credit cards, personal loans, mutual funds, general insurance and on-line shopping.

2000 was an important year for Egg in terms of investing in and developing its business model and customer acquisition. This continuing investment resulted in Egg reporting losses of £155 million for the year, which was in line with expectations.

We successfully completed a public offering of just over a 20 per cent share in Egg in June. This will enable Egg to maximise the potential for growth in the business both in the UK domestic market and, over time, internationally. Egg has continued to develop and enhance its range of products and services, adopting new technologies for the benefit of customers, while growing rapidly and retaining its market leading brand position.

1 2 3

1 Egg savings and investment accounts **2** L O V E campaign from Egg **3** An Egg Call Centre.



Customer acquisition has continued to grow rapidly with 559,000 net new customers joining Egg during the year, giving an impressive customer base of just over 1.35 million at the year-end. Cross-sales numbers are also showing encouraging signs, with nearly 400,000 products cross-sold since launch.

Product innovation and partnership remains integral to Egg's philosophy. In April, Egg announced its joint venture with leading retailer Boots, whereby Boots' highly successful 'Advantage' loyalty card has combined with Egg to create a credit and loyalty card. The rate of customer acquisition for the card has started well and we expect this growth to continue over coming months.

Egg remains at the forefront of adopting latest technology to open up new channels

In Europe we expanded our offering of products and services, and increased our range of distribution partners and channels.

for customers to access its services. Egg has a multi-channel strategy, encompassing internet, telephone, WAP and interactive digital television and, through its partnership with Boots, also has a physical distribution presence on the high street. In addition, Egg has introduced several new products and services during the year including the launch of the first mutual fund supermarket in the UK, a share trading service, and a general and home insurance on-line supermarket.

The year ahead is of equal importance for Egg. The early part of the year will see continued focus on acquiring credit card customers, as well as capitalising on the forthcoming ISA season with the expansion of its range of pre-packaged easy choice ISAs.

Egg is actively exploring opportunities to expand into overseas markets, and is currently exploring commercial partnerships with a number of significant European businesses.

The senior management team remains committed to achieving a break-even position for the existing UK business during the fourth quarter of 2001 and we are confident that they are on track to meet this.

Europe

Prudential Europe was formed in 1999 and is responsible for spearheading Prudential's expansion into continental Europe. We currently have operations in France and Germany where we have established strategic alliances with strong local partners. In addition, we have established a leading position in the unit linked market through our German broker business.

Our strategy is to capture a significant and profitable share of the growing European savings market, building a substantial market presence through a business model that unbundles the value chain. We will provide competitive and relevant products, support and service, tailored to meet local markets' requirements through an open platform in partnership with distributors and local market participants.

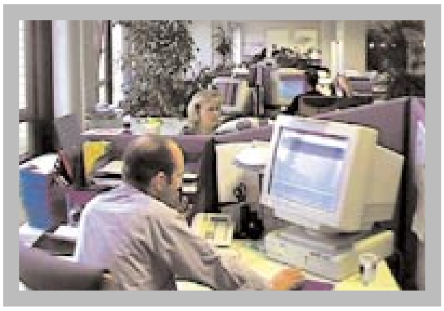
2000 was a significant year for our operations in Europe. We continued to develop our presence in our chosen markets, taking advantage of the growing

European medium and long-term savings market. We expanded our offering of products and services, and increased our range of distribution partners and channels.

In Germany, we have continued the development of our broker business, with the establishment of a local front office customer service infrastructure to better support the activity. Through our joint venture agreement with Signal Iduna, we have begun distribution of a long-term care bond product through Signal Iduna's sales force. We aim to be in a position to capture the significant opportunities expected to arise through future legislative and competitive changes.

In France, we have established a branch of the Prudential Assurance Company in Paris, clearly demonstrating our commitment to becoming a major long-term player in the French market. Our first product launched in France was Prudential Europe Vie, an innovative equity-backed single premium savings product that offers a choice of investment through the Prudential life fund or Réactif, a unit-linked fund provided by Véga Finance. This product is now selling through the Centre Français du Patrimoine (CFP), the largest multi-product broking network in France and early indications are that it has been extremely well received. Co-operation with our joint venture partner CNP Assurances has continued with an objective to begin operating in both the French and the UK markets in the near future.

We will combine the local expertise of country teams and partners with our global product and service capability. Our approach integrates a range of specialist capabilities to deliver unique and innovative offerings to European markets and provides Prudential with significant scope for large scale, profitable distribution and brand promotion.



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1 Prudential Europe Vie was the first product launched in France. This is an equity-backed, single premium savings product **2** Paris **3** In Germany we have developed our broker business and established a local front office customer service centre.

Philip Broadley, Group Finance Director

Financial Summary

	2000 £m	1999 £m
Statutory basis operating profit*		
Before tax	840	776
After tax and related minority interests	617	567
Earnings per share	31.5p	29.1p
Achieved profits basis operating profit*		
Before tax	1,029	1,098
After tax and related minority interests	749	762
Earnings per share	38.2p	39.1p
Dividend per share	24.5p	23.0p
Shareholders' funds		
Statutory basis	4,020	3,424
Achieved profits basis	8,833	8,342

*Based on longer-term investment returns before amortisation of goodwill

New Insurance and Investment Business

Total insurance and investment sales for full year 2000 amount to £13.9 billion, 13 per cent ahead of prior year. On an annual premium equivalent (APE) basis, sales amounted to £1,904 million, 13 per cent ahead of prior year. The growth in new business volumes reflects strong growth in overseas APE sales, with Asia up 165 per cent and the US up 18 per cent, offsetting a 16 per cent fall in the UK. APE sales of insurance products fell two per cent to £1,528 million in 2000, while investment products grew 171 per cent to £376 million and now account for 20 per cent of total Group APE sales.

Supplementary Achieved Profits Basis Results

Total Achieved Operating Profit

The Group total achieved operating profit before amortisation of goodwill was £1,029 million compared to £1,098 million in 1999. This result reflects a £10 million improvement in long-term business new business profits offset by a lower in force result, down £124 million. Adverse persistency and expense experience at Jackson National Life (JNL) have resulted in an assumption change impact on the in force profit of £258 million together with current year experience variances of £61 million. Profits from non long-term business improved £45 million in 2000, primarily due to the one-off UK re-engineering charge of £70 million in 1999.

New Business Achieved Profit

Group new business achieved profit from insurance business of £613 million, which excludes profits from investment product sales, was £10 million (two per cent) ahead of prior year, with strong growth in the US and Asia offsetting a fall in the UK operations. The growth in new business achieved profits, despite a two per cent fall in insurance sales, reflects slightly stronger new business margins at Group level.

Prudential Asia's new business achieved profit of £153 million is 70 per cent up on 1999 reflecting strong sales growth across all operations (APE insurance sales growth of 106 per cent). New business achieved profits as a percentage of APE reduced in line with anticipated changes in geographic and product mixes.

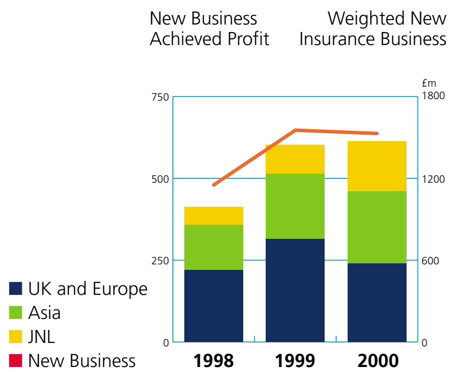
The 12 per cent growth in JNL's new business achieved profit to £221 million is principally driven by an 18 per cent growth in new insurance sales, reflecting a 44 per cent increase in sales of variable annuities and a 28 per cent increase in sales of fixed annuities.

UK Insurance Operations' new business achieved profit of £230 million is 25 per cent below 1999, primarily reflecting a 24 per cent reduction in sales volumes. Sales volumes reflect lower sales of Prudence Bond and mortgage endowments through the IFA channel, and the significant reduction in the size of the direct sales force in 2000. Margins from our UK business are in line with 1999.

Prudential Europe's new business achieved profit of £9 million is £2 million up on 1999. This mostly reflects higher sales through the German broker business.

Value Added by New Insurance Business up 2% on Prior Year

	2000 £m	1999 £m	%
UK Operations:			
Intermediary Business	138	199	(31%)
Other UK Operations	92	109	(16%)
UK Insurance Operations	230	308	(25%)
Jackson National Life	221	198	12%
Prudential Asia	153	90	70%
Prudential Europe	9	7	29%
Total	613	603	2%



The achieved profits basis shareholders' funds are analysed in the following table:

	2000 £m	1999 £m
UK Operations	5,186	5,167
US Operations	2,756	2,533
Asia	793	593
Europe	82	68
Other operations	16	(19)
Achieved profits basis shareholders' funds	8,833	8,342

The ratio of Group new business achieved profit to APE has increased to 40 per cent from 39 per cent in 1999 and 36 per cent in 1998, primarily reflecting the growing proportion of higher margin sales in Asia, with broadly maintained margins in the UK and US.

In Force Achieved Profit

UK Insurance Operations' in force profit was £478 million, £151 million better than 1999, reflecting the growth in the business and a £30 million benefit from a change in assumptions to reflect an improvement in the persistency of Prudence Bond. No adjustment has been required to the provision established in 1999 in respect of the cost of resolving pension mis-selling.

JNL's in force result was a loss of £2 million, down from a profit of £277 million in 1999, reflecting a higher than expected level of surrenders of fixed annuities, primarily of older policies. Relatively high offered crediting rates and an increasingly competitive market encouraged customers to surrender fixed annuities early, giving rise to an adverse experience variance of £24 million. The level of surrenders peaked during the early summer, falling towards the end of the year due to the effects of JNL's conservation measures and lowering interest rates. The assumption going forward has been changed to reflect an assumed continuation of the level of surrenders experienced towards the end of the year, giving rise to a charge of £192 million.

In addition, there was an adverse expense variance during the year of £37 million. This reflects changes in the business mix and the development of JNL's systems to provide the capacity for increased volumes of upscale products at lower cost, continuing the process of creating a balanced product portfolio. This has required a reassessment of the unit cost assumption at current policy volumes, giving rise to a negative assumption change impact of £66 million.

Asia's in force achieved profit before development expenses of £60 million compares to a profit of £35 million in 1999. The result reflects the growth in the business during 2000.

A full description of the achieved profits methodology and the result for the year is included on pages 78 to 86.

Modified Statutory Basis Results

Operating Profit

Group operating profit before tax on the modified statutory basis (MSB) of £840 million was £64 million ahead of 1999, which included a £70 million UK re-engineering charge. Excluding this charge, MSB operating profit was in line with 1999.

UK Insurance Operations' operating profit in 2000 was £501 million, £14 million below 1999. Prudential Insurance Services profit of £346 million was £32 million below 1999, as the impact of increased funds under management in the long-term result was offset by the impact of lower reversionary bonus rates. The general insurance result was impacted by £33 million as a result of the severe floods in October and November. Profit from Prudential Intermediary Business was up £26 million to £127 million, primarily reflecting a one-off £30 million profit relating to the reinsurance of the M&G life and pensions business following its transfer to Scottish Amicable. Profit from Prudential Financial Services was down £8 million to £28 million in 2000, reflecting increased investment in our new stakeholder platform.

M&G profit increased from £87 million to £125 million in 2000, primarily reflecting a full 12 months' contribution from the acquired M&G business compared to eight months in 1999 and increased life fund fees, the result of out-performance by life fund investments against benchmarks in 2000.

Egg's reported loss of £155 million is in line with the expectation laid out in its prospectus in 2000. Egg's results are presented in its own annual report.

US Operations' profit of £466 million was £15 million ahead of prior year reflecting increased spread, fee income and expenses

Total New Business In-flows
New funds of £13.9bn in 2000

	2000	1999
Insurance Products	Sales of £10.4bn	Sales of £11.1bn
Investment Products	Sales of £3.5bn	Sales of £1.2bn
Banking Products	Retail assets increase £1.7bn	Retail assets increase £1.4bn

at JNL. In addition, there were positive contributions from the US fund manager, PPM America, and the independent brokerage network, National Planning Holdings, and a favourable movement in the exchange rate. The 1999 result benefited from a one-off positive of £17 million arising from a change in accounting for guarantee assessments.

Prudential Asia's profit of £22 million was £7 million ahead of 1999 despite increased development expenditure and support for new operations.

Prudential Europe reported a £10 million loss in 2000 compared to a £6 million profit in 1999. This is mostly due to development spend for the future administration platform and set-up costs for the French branch, which began writing business in January 2001.

Other income and expenditure was £31 million higher than prior year primarily reflecting the full year funding cost of the M&G acquisition and the cost of additional Egg funding up until the date of its IPO.

Profit Before Tax

Profit on ordinary activities before tax amounted to £947 million in 2000, compared to £750 million in 1999. This improvement is despite increased goodwill amortisation of £84 million, mainly due to a full 12 months' amortisation in respect of the M&G acquisition. The £239 million profit on business disposals represents the sale of the minority stake in Egg and the disposal of our stake in St James's Place Capital.

Earnings per Share

Earnings per share, based on MSB operating profit after tax and related minority interests before amortisation of goodwill, have improved by eight per cent in 2000 to 31.5 pence.

Dividend per Share

The final dividend per share is 16.3 pence, resulting in a full year dividend growth of 6.5 per cent to 24.5 pence.

Funds under Management

Insurance and investment funds under management at 31 December 2000 totalled £165 billion, compared to £170 billion at the end of 1999. This reduction is mainly due to the disposal of M&G's institutional equity fund management business during 2000, which managed £12 billion of funds at 31 December 1999.

Shareholders' Funds

The consolidated balance sheet on page 47 shows MSB shareholders' funds of £4,020 million at the end of 2000, an increase of £596 million from 1999. The increase primarily reflects the profit retained after dividend payments.

On the achieved profits basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds were £8,833 million, an increase of £491 million compared with 1999. The increase reflects the profit retained in the long-term businesses and profit on disposals. After adjusting for borrowings, approximately 63 per cent of these funds are held in sterling with a further 27 per cent held in US dollars.

Surplus Assets in Prudential Assurance's Long-term Fund

Surplus assets are the assets of the long-term fund less all non-participating liabilities and the policyholder asset shares aggregated across all with-profits policies and any additional amounts expected at the valuation date to be paid to in force policyholders in the future in respect of smoothing costs and guarantees. Thus surplus assets are amounts in excess of what we expect to pay to policyholders.

These surplus assets have accumulated over many years from a variety of sources and provide the long-term fund with working capital. This working capital permits us to invest a substantial portion of the assets of the long-term fund in equities and real estate, smooth investment returns to with-profits policyholders, to keep our products competitive, to write new business without being constrained as to cash flows in the early years of the policy and to demonstrate solvency.

In addition, we can use surplus assets to absorb the costs of significant events, such as fundamental strategic change in our long-term business and, as approved by the UK regulator, the cost of our pension mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities including acquisitions.

The aggregate with-profits policyholder asset shares upon which the calculation of surplus assets is based are not used in any form of external reporting or for internal financial reporting and do not form part of our accounting books and records. Asset share methodology has evolved only over the past 20 to 30 years for actuarial purposes to assist in the determination of bonus rates. It is only in recent years that the application of this methodology has been extended to calculating aggregate asset shares.

The calculation of aggregate with-profits policyholder asset shares, unlike the calculation for determining bonuses, depends upon the experience for each type of policy in respect of mortality, surrenders, expenses, investment returns, taxation and transfers to shareholders over the duration that current policies have been in force. As we have not been using this methodology since the inception of a significant proportion of our in force policies, we do not have the detailed historical data for all policies required to calculate a precise aggregate asset share for each class of policy. Without a precise calculation of aggregate asset shares on which to base our calculation of the surplus assets within the fund for future appropriations, we can only estimate this amount.

The amount of surplus assets changes from year to year to reflect the achieved investment performance of the fund and any change over the year in the anticipated costs of smoothing and guarantees for the in force with-profits business. The anticipated costs of smoothing and guarantees depend upon the projection of claim values and asset shares and hence on assumptions, which themselves vary from year to year, about future experience for mortality, surrenders, expenses, investment return and taxation.

For the reasons set out above, there is significant difficulty in calculating surplus assets. We estimate that at 31 December 2000, our surplus assets, after taking into account pension mis-selling costs and the anticipated costs of fundamental strategic change, amounted to between £7 billion and £9 billion. This estimate is inherently uncertain.

In recent years, a number of UK life insurance companies have reached agreement with the relevant UK supervisory authority to permit them to attribute a proportion of the surplus assets in their long-term funds to their shareholders while retaining it in their long-term funds. To date, the supervisory authority has permitted companies to distribute only a modest proportion of the amounts attributed to them.

We continue to pursue opportunities to resolve the ultimate attribution of the surplus assets in Prudential Assurance's long-term fund, and have, since 1996, been discussing this attribution with the relevant UK supervisory authorities. The attribution of surplus assets has also been a subject of public debate in the United Kingdom. This may or may not result in a portion of the surplus assets in the long-term fund being attributed solely to shareholders.

The amount and timing of any attribution to shareholders is sufficiently uncertain that it is not possible to accurately estimate any potential attribution. In addition, it is likely that if any surplus assets are attributed to shareholders they will remain in Prudential Assurance's long-term fund to support the long-term business, and accordingly, they are unlikely to be distributed to shareholders for some considerable period of time, if at all.

Financial Strength of Insurance Operations

The solvency ratio of free assets to liabilities within the Group's main UK long-term fund at the year end is estimated to be 16 per cent, a reduction of 12 per cent compared with prior year. The reduction in solvency ratio reflects the lower investment return earned on the assets of the fund during 2000 compared with the previous year and the introduction during the year of new, more stringent valuation regulations relating to unitised with-profits policies. The new valuation regulations do not affect the underlying financial strength of the fund, which continues to be rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The solvency position of Jackson National Life remains strong with a risk-based capital ratio of over 230 per cent of the regulatory minimum (1999 – 240 per cent). Also Jackson's financial strength is rated AAA by Standard & Poor's and Aa3 by Moody's Investors Service. Adequate solvency levels have been maintained by our insurance operations in Asia.

Funds Flow

The table opposite provides details of the holding company funds flow.

We believe that for an insurance group this presentation provides a clearer demonstration of the utilisation of resources than the format prescribed under FRS1 shown on page 49. In 2000 the Group's operations generated funds after tax of £617 million, compared to £567 million in 1999, and retained funds after dividends were £133 million. In 2000, the Group invested £555 million in its businesses including £292 million reinvested in Jackson National Life. In addition, £123 million was repatriated from businesses in 2000: £72 million of surplus capital from M&G, and £51 million from Prudential Assurance, following a review of capital requirements. After including £173 million proceeds from the disposal of the Company's holding in St. James's Place Capital and from the flotation of Egg, when part of the Company's holding was placed in the market, and £139 million proceeds from a listing of shares on the New York Stock Exchange, overall there was a net cash inflow in 2000 to the holding company of £179 million.

Holding Company Funds Flow

	2000 £m	1999 £m
Group operating profit after tax and related minority interests before amortisation of goodwill	617	567
Dividends	(484)	(449)
Reinvested in businesses	(292)	(278)
Funds available to holding company	(159)	(160)
New investment in businesses	(263)	(2,320)
Capital repatriated from businesses	123	310
Disposal of businesses	173	–
Listing of shares on the New York Stock Exchange (net of expenses)	139	–
Timing differences and other items	166	(98)
Holding company net cash movement	179	(2,268)

As a result of the above inflow and exchange translation losses of £39 million the holding company net borrowings at the end of 2000 totalled £1,697 million, compared with £1,837 million at the end of 1999.

Shareholders' Borrowings

Core structural borrowings of shareholder financed operations at the end of 2000 totalled £1,735 million including £1,485 million at fixed rates of interest with maturity dates ranging from 2001 to 2029 as set out in note 30 on page 70. Of this long-term borrowings balance, £535 million was denominated in US dollars, in order to hedge partially the currency exposure arising from our investment in Jackson National Life. There were also £196 million short-term commercial paper and bank borrowings and £54 million floating rate loan notes, all sterling denominated.

Prudential plc enjoys strong debt ratings from both Moody's Investors Service and Standard & Poor's. Its rated long-term debt is Aa3 and AA+, while short-term ratings are P-1 and A-1+. The Group also retains access to both committed and uncommitted bank facilities.

Treasury Policy

The Group operates a central treasury function, which has overall responsibility for managing its capital funding programme as well as its central cash and liquidity positions.

To reduce investment, interest rate and currency exposures, and to facilitate efficient investment management, derivative instruments are used. Group policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. The accounting treatment of derivative contracts is consistent with that of the underlying assets or liabilities.

The Group transacts business primarily in sterling and US dollars. The currency exposure relating to the translation of reported earnings is not separately managed although its impact is reduced by interest payments on the foreign currency borrowings and by the adoption of average exchange rates for the translation of foreign currency revenues.

Risk Management

The Group has established a continuous process for identifying, managing and reporting the Group's risks that is regularly reviewed by the Board. The main features of this process are as follows:

Investment

The respective responsibilities of the Board and business unit management for investment strategy, compliance and performance are clearly defined. There are also detailed rules governing investment dealing and settlement (including the use of derivatives), incorporating details of procedures and authority levels.

Underwriting

The Group has controls over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually.

Financial Control Procedures

Detailed controls, applicable across the Group, are laid down in financial and actuarial procedures manuals.

Performance Planning and Monitoring

There is a comprehensive planning and performance monitoring system based on key performance indicators for each business area.

Financial Position

The Board receives regular reports from the Group Finance Director on financial matters and receives annual reports from the relevant senior actuaries on the financial condition of the Group's principal long-term insurance businesses.

Vibrant communities and a sound environment are fundamental to profitable trading. As an international Company, we are committed to the delivery of a social investment programme that responds to the changing environment, delivers real value to the communities within which we operate, and recognises the values of our local partners and stakeholders.

Environment

The Environmental Policy Group sets our Group-wide environmental strategy and makes recommendations to business units on the implementation of environmental action plans. Keith Bedell-Pearce holds board responsibility for our environmental policy. In addition to incorporating environmental considerations into our investment decision making process, we are striving to:

- reduce consumption of materials in our operations
- help employees to achieve environmental improvement
- encourage our suppliers to minimise the impact of their operations on the environment through our procurement policies and practices
- apply best practice in the planning, development and decommissioning of our buildings

We are currently developing targets for measuring and reporting on our environmental performance. We are also a signatory to the United Nations Environment Programme (UNEP) Statement by Financial Institutions on the Environment and Sustainable Development and we take an active role in endorsing the statement principles.

Socially Responsible Investment

We believe that the adoption of ethical and environmental codes of practice can help companies improve their long-term growth prospects. As one of the largest investors in the UK stock market, we expect companies in which we invest to report their strategy on these issues.

For investors who feel that social responsibility should play a significant part in their choice of investments, we offer a Light Green Fund, a socially responsible fund for pension fund clients. In addition, Scottish Amicable also offers an Ethical Fund that aims to maximise the long-term total return whilst investing in UK companies that avoid activities which have a significantly harmful impact on the environment.

Community Investment

In 2000 our businesses around the world contributed £2 million towards a wide range of community and arts programmes, including the following examples:

- Scottish Amicable made a Millennium promise to encourage and support its employees to raise £60,000 for Save the Children, to provide medical facilities for children in Mozambique. As part of this, 180 staff took up the challenge of riding the distance from the UK to Mozambique on static cycles.
- Prudential Property Investment Managers Ltd (PruPIM), is running the Pru Youth Action Shopping Centre Programme, in partnership with Crime Concern. This is moving from strength to strength and now has 10 centres participating in the current phase, with plans to bring on a further three centres during 2001. PruPIM shopping centres are also actively involved with the development of the New Deal Retail Routeway, a retail training scheme for the unemployed.
- In the US a scholarship programme, run by Jackson National Life, to encourage college education through the provision of $40,000 merit-based scholarships to area high schools. JNL is also a major participant in the 'Big Brothers/Big Sisters' programme, which provides children with adult 'mentors' when such mentors do not exist in the home environment.
- In China, CITIC Prudential Life donated US$72,000 to the Hope Primary School to expand their equipment and facilities for over 1,000 students.

Employee Volunteering

We marked the Millennium with '£200 for 2000', rewarding over 800 employee volunteers with a £200 grant for their chosen community organisation. Following the success of this, we are running 'TimeGivers' an international employee volunteer reward programme for 2001. Employee volunteering schemes include:

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1 Pupils from Pendeford High School, Wolverhampton, at the launch of their report 'Young People & Shop Theft', part of the Pru Youth Action Shopping Centre Programme **2** Successful New Deal Retail Routeway candidate John Craggs takes up his new role as trainee opthalmic technician with Specsavers at The Galleries, Washington, England **3** Children's Theatre Festival in Singapore.

- In Ho Chi Minh City, Vietnam, staff are supporting the establishment of a vocational school for under-privileged children, while in Hong Kong, staff are hosting the 'Best Start Family carnival' to help families create a healthy environment for raising children.
- Across the UK businesses, staff are volunteering in local schools to support numeracy hour, information technology classes and projects focusing on the development of key skills.

Diversity

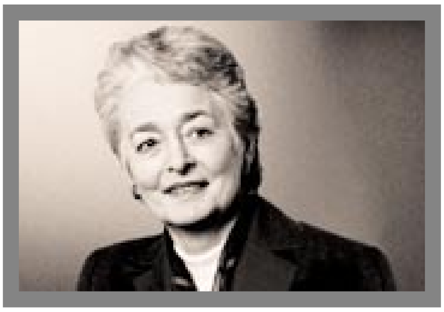
We respect and value the talent and diversity of our employees around the world. To remain competitive, we seek to recruit, develop and retain people from the widest range of backgrounds and we seek to be fair, responsible and caring in all aspects of our business. In the UK, we have committed to the Commission for Racial Equality Leadership Challenge and are members of Opportunity Now, Race for Opportunity, Employers for WorkLife Balance and the Employers Forum on Disability. We also subscribe to the Employers Forum on Age and to their voluntary Code of Practice. We have established a UK-wide diversity group to stimulate discussions, develop good practice and monitor progress, chaired by Rodney Baker-Bates, Chief Executive, Prudential Financial Services.

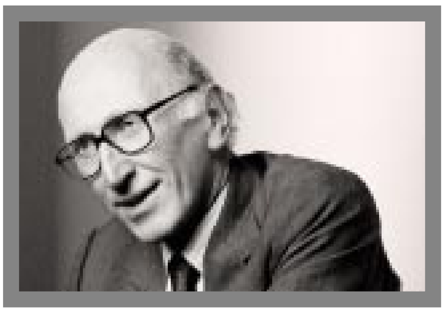
Arts

We believe that everyone should be given the opportunity to enjoy access to the arts and take pride in our cultural heritage. As a Founding Corporate Partner of Tate, we are proud to have contributed towards the building of Tate Modern and the redevelopment of Tate Britain. During 2000, we also sponsored 'The Art of Bloomsbury' at Tate Britain, a new look at the paintings of the Bloomsbury Group. 2000 was the final year of our sponsorship of the Creative Britons, the UK's biggest arts prize with £200,000 going to arts organisations to recognise outstanding work of arts practitioners.

In Asia we sponsored the Children's Theatre Festival in Singapore. This annual event attracts quality theatre companies from around the world including Britain, Japan, Canada and Australia.

Board of Directors





Sir Roger Hurn*
Chairman (Age 62)
A director since February 2000 and Chairman since May 2000. Chairman of Marconi plc (formerly The General Electric Company plc). Deputy Chairman of GlaxoSmithKline plc and previously Deputy Chairman of Glaxo Wellcome plc. Non-executive director of Imperial Chemical Industries PLC. Previously Chairman of Smiths Industries plc and previously a director of SG Warburg Group. Chairman of the Court of Governors at the Henley Management College.

Jonathan Bloomer FCA
(Age 46)
A director since 1995 and Group Chief Executive since March 2000. Previously Deputy Group Chief Executive since May 1999 and Group Finance Director. Non-executive director of Egg plc. Non-executive director of Railtrack Group plc. Member of the Urgent Issues Task Force Committee of the Accounting Standards Board.

Philip Broadley FCA
(Age 40)
Group Finance Director since May 2000. Previously he was with Arthur Andersen where he became a partner in 1993. He specialised in providing audit, risk management and regulatory advisory services to clients in the financial services industry.

Keith Bedell-Pearce
(Age 55)
A director since 1992. e-Commerce Director since March 2000 and Chairman of Prudential Europe since September 1999. Previously International Development Director since November 1996. Joined Prudential in 1972.

Michael McLintock
(Age 39)
A director since September 2000. Chief Executive of M&G since February 1997, a position he held at the time of M&G's acquisition by Prudential in March 1999. Joined M&G in October 1992.

Mark Tucker
(Age 43)
A director since September 1999. Chief Executive of Prudential Corporation Asia since 1994 and previously General Manager in Prudential, Hong Kong from 1989 to 1992. Joined Prudential in 1986.

Sir David Barnes CBE*
(Age 65)
A director since January 1999. Deputy Chairman of AstraZeneca plc from April 1999 and previously Chief Executive of Zeneca PLC. Non-executive Deputy Chairman of Syngenta AG from November 2000. Non-executive Chairman of Imperial Cancer Research Technology Ltd. Member of the Board of Trustees, British Red Cross Society. Previously Deputy Chairman of Business in the Community.

Ann Burdus*
(Age 67)
A director since 1996. Non-executive director of Next plc. Council member of the Institute of Directors. Previously a non-executive director of Safeway Group plc and previously a committee member of the Automobile Association.

Roberto Mendoza*
(Age 55)
A director since May 2000. Non-executive Chairman of Egg plc. Non-executive director of ACE Limited, Reuters Group PLC and Vitro SA. Previously Vice Chairman and director and a member of the Corporate Office of JP Morgan & Co, Inc., and recently a managing director of Goldman Sachs.

Rob Rowley*
(Age 51)
A director since July 1999. Director of Reuters Group PLC and Chief Executive of Reuterspace division. Previously Finance Director of Reuters Group PLC.

Bridget Macaskill*
(Age 52)
A director since May 1999. Chairman and Chief Executive Officer of OppenheimerFunds Inc, an investment management company based in New York.

Sandy Stewart*
(Age 67)
A director since 1997. Chairman of Murray Extra Return Investment Trust plc and of the Scottish Amicable (supervisory) Board. Previously a practising solicitor and Chairman of Scottish Amicable Life Assurance Society.

* Non-executive director

The directors support the Combined Code on Corporate Governance annexed to the Listing Rules issued by the Financial Services Authority. The Company has complied throughout the accounting period ended 31 December 2000 with all the Code provisions set out in Section 1 of the Combined Code, except in relation to recognising a senior independent director following the retirement of Michael Abrahams as Deputy Chairman at the Annual General Meeting in May 2000. We have applied the principles in the manner described below and in the Remuneration Report.

Organisational Structure

The organisational structure of the Group is clearly defined by reference to business units for which individual business chief executives are responsible. The Board, the members of which are set out on page 29, meets regularly, usually eight times a year with a separate strategy day and additional meetings as and when required. The Board determines the objectives and strategy for the Group. It has set out the specific matters which are reserved to it for decision.

Authority is delegated to the Group Chief Executive for implementing the strategy and for managing the Group. In discharging his responsibility, the Group Chief Executive works with a group executive committee, comprising all the executive directors and other business unit heads, and is also assisted by a group head office team of functional specialists.

The head of each business unit has responsibility and authority for the management of that business unit and has established a management board comprising the most senior executives in that business unit.

All directors have direct access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Board papers are provided to all directors approximately one week before each Board or committee meeting.

Board Committees

The Board has established the following committees of non-executive directors with written terms of reference:

Audit Committee

Rob Rowley (Chairman)
Ann Burdus
Sandy Stewart

The Audit Committee normally meets six times a year and assists the Board in meeting its responsibilities under the Combined Code in ensuring an effective system of internal control and risk management. It also provides a direct channel of communication between the external and internal auditors and the Board and assists the Board in ensuring that the external audit is conducted in a thorough, objective and cost-effective manner. It reviews the annual audit plan prepared by Internal Audit. The terms of reference of the Audit Committee includes reviewing with the management of the Company and the external auditors the performance of the external auditors and auditors' fees for both statutory audit work and non-audit work. The minutes of Audit Committee meetings are circulated to the Board after each meeting.

The Chairman, Group Chief Executive, the Group Finance Director and other members of the senior management team, together with the external auditors usually attend meetings of the Committee except when the Committee wishes to meet alone. The Committee meets privately with both external and internal auditors.

Remuneration Committee

Sir David Barnes (Chairman)
Ann Burdus
Bridget Macaskill
Roberto Mendoza
Rob Rowley
Sandy Stewart

Upon appointment to the Board, all non-executive directors (except the Chairman) automatically become members of the Remuneration Committee.

The Remuneration Committee normally meets twice a year to review remuneration policy and determines the remuneration packages of the executive directors and certain other senior executives. Additional meetings of the Remuneration Committee are held as necessary during the year. In framing its remuneration policy, the Committee has given full consideration to the provisions of Section 1B of and Schedule A to the Code. The Remuneration Report prepared by the Board is set out on pages 33 to 39. In preparing the Report, the Board has followed the provisions of Schedule B to the Code.

Except in relation to its proposals relating to the remuneration of the Group Chief Executive, when only the Chairman is consulted, the Remuneration Committee consults the Chairman and the Group Chief Executive about the Committee's proposals relating to the remuneration of all executive directors and certain other senior executives. The Committee has access to professional advice inside and outside the Company.

Nomination Committee

Sir Roger Hurn (Chairman)
Sir David Barnes
Ann Burdus
Sandy Stewart

The Nomination Committee meets as required to consider candidates for appointment to the Board.

Independent Professional Advice

The Board has approved a procedure whereby directors have the right in furtherance of their duties to seek professional advice at the Company's expense.

Copies of any instructions and advice given by an independent professional adviser to a director is supplied by the director to the Company Secretary who will, unless otherwise instructed by the director concerned, circulate to other directors any necessary information to ensure that other members of the Board are kept informed on issues arising affecting the Company or any of its subsidiaries.

No director obtained independent professional advice during 2000.

Directors' Independence, Training and Re-election

A majority of Board members are non-executive directors who are all considered to be independent. Given the calibre and experience of its non-executive directors, the Board does not believe that it is appropriate at this time to recognise a senior independent director, other than the Chairman, to whom concerns can be conveyed. The Company is one of the UK's largest institutional investors and the Board does not believe that this situation compromises the independence of those non-executive directors who are also on the boards of companies in which the Company has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre non-executive directors.

Non-executive directors are appointed initially for a three-year term. The appointment is then reviewed towards the end of this period. Upon appointment, all non-executive directors embark upon a programme of induction that will usually take the form of visits to different business areas in the Group where the opportunity is taken for the newly appointed director to meet members of staff. Training is available for executive directors where appropriate.

All directors are required to submit themselves for re-election at regular intervals and at least every three years.

Relations with Shareholders

As a major institutional investor, the Company is acutely aware of the importance of maintaining good relations with its shareholders. The Company regularly holds discussions with major shareholders and a programme of meetings took place during 2000. The Company hosted a four-day visit to Hong Kong and Singapore in November 2000 for institutional and broking analysts. Information on the Company is also made available on our website at www.prudential.co.uk/plc

The Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Thursday 10 May 2001 at 11.00 am. The Company believes the Annual General Meeting is an important forum for both institutional and private shareholders and encourages attendance by all its shareholders. At its Annual General Meeting in 2000 the Company indicated the balance of proxies lodged for and against each resolution after it had been dealt with on a show of hands. This practice provides shareholders present with sufficient information regarding the level of support and opposition to each resolution. The Company discloses details of the proxy votes received to any shareholder upon request after the Annual General Meeting. The notice of the Annual General Meeting and related papers are sent to shareholders at the same time as the Annual Report, no less than 20 working days before the meeting. As with last year's Annual General Meeting, a business presentation will be provided and questions sought from shareholders.

Financial Reporting

The directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 42 to 74 and the supplementary information on pages 79 to 85. It is the responsibility of the auditors to form an independent opinion, based on their audit of the financial statements and their review of the supplementary financial statements; and to report their opinions to the Company's shareholders. Their opinions are given on pages 75 and 87.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the results for the period and which comply with the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Company and enable them to prepare the financial statements and that reasonable steps are taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue its operations for the foreseeable future. They therefore continue to use the going concern basis in preparing the financial statements.

Internal Control

The Board has responsibility for the Group's system of internal control and for reviewing its effectiveness. The control procedures and systems the Group has established are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss. The system of internal controls includes financial, operational and compliance controls and risk management.

The Group Risk Framework, adopted in 1999, requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group.

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. The system of internal control is an essential and integral part of the risk management process. As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks. This involves an assessment of the impact and likelihood of key risks and of the effectiveness of controls in place to manage them. The assessment is reviewed regularly through the year. In addition, business units review opportunities and risks to business objectives regularly with the Group Chief Executive and Group Finance Director.

Businesses are required to confirm annually that they have undertaken risk management during the year as required by the Group Risk Framework and that they have reviewed the effectiveness of the system of internal control. The results of this review were reported to and reviewed by the Audit Committee and confirmed that the processes described above and required by the Group Risk Framework were in place throughout 2000 and complied with Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance). Internal Audit undertakes a review for the Audit Committee of the operation of the risk management process throughout the Group.

In addition Internal Audit execute a comprehensive risk-based audit plan throughout the Group, from which all significant issues are reported to the Audit Committee.

The Group's internal control framework includes detailed procedures laid down in financial and actuarial procedure manuals. The Group prepares an annual business plan with three-year projections. Executive management and the Board receive monthly reports on the Group's actual performance against plan, together with regularly updated forecasts. The Group's risk management procedures are further described in the Group Financial Review on page 25.

The Remuneration Committee of the Board is made up wholly of independent non-executive directors and is responsible for setting remuneration policy and individual remuneration packages for executive directors. The Board has adopted the principles of good corporate governance relating to directors' remuneration as set out in the Combined Code and complies with the provisions of Section 1B of and Schedules A and B to the Code.

The members of the Remuneration Committee during 2000 were:
Sir David Barnes Chairman
Michael Abrahams (who was a member until the date of his retirement from the Board on 5 May 2000)
Ann Burdus
Sir Roger Hurn (for the period from 17 February 2000 until his election as Chairman of the Board on 5 May 2000)
Bridget Macaskill
Roberto Mendoza (who became a member on 25 May 2000)
Rob Rowley
Sandy Stewart

Executive Directors' Remuneration

Remuneration Policy

The policy of the Company is to provide competitive remuneration packages in order to recruit and retain high calibre executives. In addition to salary and pensions, this is achieved through annual incentives and long-term incentive plans directly related to the Company's longer-term performance.

Salary

The Remuneration Committee normally reviews executive directors' salaries annually, having regard to business results, individual accountabilities and performance, and market conditions. Independent surveys are obtained on salary levels in major companies of comparable size in both the financial and non-financial sectors in relevant locations. The Group's policy on salaries is unchanged from 1999.

Annual Bonus

The annual incentive plan for directors is designed to leverage value creation over the performance period while supporting sustained long-term value creation. The awards for all executive directors were based on performance against quantitative financial and business targets in the business plans as well as personal performance. Annual bonus awards are non-pensionable and in 2000 were made in cash.

For 2000, executive directors were eligible for awards of up to 45 per cent of basic salary at the time of making the award, with the exception of Michael McLintock who has an annual bonus award in line with remuneration levels in the investment management industry.

Benefits

Executive directors receive certain non-pensionable benefits, principally the provision of company cars, security arrangements and participation in medical insurance schemes. These benefits are not pensionable.

Service Contracts

The normal notice of termination which the Company is required to give executive directors is 12 months, although for newly appointed directors there may be an initial contractual period of up to two years before the 12 months' notice period applies. The contracts of employment for all executive directors, including those appointed to the Board in 2000, contain a 12 months' notice period. When considering termination of service contracts, the Committee will have regard to the specific circumstances of each case, including mitigation.

Policy on External Appointments

Subject to the Board's approval, executive directors are able to accept a limited number of external appointments as non-executive directors of other organisations.

Non-Executive Directors' Remuneration

Fees for individual non-executive directors had been unchanged since July 1996. The fees payable to non-executive directors were increased from £25,000 per annum to £32,500 per annum with effect from 1 June 2000. The non-executive directors used the net amount of the increase to purchase shares in the Company, which they will hold until their retirement from the Board, and it is intended that these arrangements will continue each year. In 2000 the fee received by the Chairman was increased from £175,000 per annum to £300,000 per annum on the election of Sir Roger Hurn as Chairman at the Annual General Meeting in that year. The former Deputy Chairman, Michael Abrahams, received a fee of £45,000 per annum until his retirement at the Annual General Meeting in May 2000. During his appointment he also received a fee of £20,000 per annum as a non-executive director of Scottish Amicable Life. In addition, Sandy Stewart, as Chairman of the supervisory board of the Scottish Amicable Insurance Fund, received a fee of £25,000 per annum and Roberto Mendoza, as Chairman of Egg from 10 May 2000, received a fee at the rate of £75,000 per annum.

Shareholders will be asked at the Annual General Meeting in May 2001 to approve an increase to the overall limit of the aggregate annual sum for the fees paid to non-executive directors from £600,000 per annum to £800,000 per annum. Subject to shareholders approving this increase, the Board has also approved additional fees with effect from 1 June 2001. The respective Chairmen of the Audit and Remuneration Committees would be paid an additional fee of £5,000 per annum in respect of the role. The other non-executive directors on each committee would be paid an additional fee of £2,500 per annum. As noted above, it is intended that the net amount of these additional fees would be used by the non-executive directors to purchase shares in the Company.

Non-executive directors do not have service contracts and are not eligible for the annual bonus, the long-term incentive scheme or pensions, except Michael Abrahams who was a member of the Prudential Staff Pension Scheme during his appointment.

Directors' Remuneration	Salary /Fees £000	Bonus £000	Benefits £000	Total 2000 £000	Total 1999 £000
Executive directors					
Keith Bedell-Pearce	325	105	28	458	472
Jonathan Bloomer	562	224	62	848	668
Philip Broadley (appointed 11/5/00)	208	76	9	293	–
Les Cullen (resigned 29/2/00, note 4)	117	–	5	122	165
Sir Peter Davis (resigned 29/2/00)	100	–	5	105	876
Derek Higgs (retired 30/11/00)	368	125	18	511	633
Michael McLintock (appointed 1/9/00, note 2)	100	350	3	453	–
Mark Tucker (note 3)	360	576	183	1,119	256
Total executive directors	2,140	1,456	313	3,909	3,070
Non-executive directors					
Michael Abrahams (retired 5/5/00)	23	–	–	23	65
Sir David Barnes	29	–	–	29	25
Ann Burdus	29	–	–	29	25
Sir Roger Hurn (appointed 17/2/00, Chairman 5/5/00)	200	–	–	200	–
Sir Martin Jacomb (retired 5/5/00)	62	–	3	65	188
Bridget Macaskill	29	–	–	29	16
Roberto Mendoza (appointed 25/5/00)	68	–	–	68	–
Rob Rowley	29	–	–	29	12
Sandy Stewart	55	–	–	55	50
Niall FitzGerald	–	–	–	–	9
Lord Gillmore	–	–	–	–	6
Total non-executive directors	524	–	3	527	396
Overall total	2,664	1,456	316	4,436	
Overall total 1999	2,306	973	187		3,466

Notes

1. The highest paid director for both 2000 and 1999 was Sir Peter Davis whose emoluments in 2000, including the value of rights granted to him under the long-term incentive plan, were £2,476,000 (1999 – £1,922,000). Additionally in 2000 the Company made pension contributions of £47,000 on his behalf (1999 –£299,000) including contributions of £36,000 to a Funded Unapproved Retirement Benefit Scheme.
2. Michael McLintock's bonus includes a payment of £117,000 that was included in his contractual arrangements following the purchase of M&G in 1999.
3. Mark Tucker's bonus figure includes a cash payment of £207,000 from his 1998 Asian long-term incentive plan. His benefits include an allowance for housing and additional similar benefits paid to reflect his expatriate circumstances. For 2000, these benefits and allowances amounted to £163,000.
4. Les Cullen also received compensation for loss of office of £276,000.

Directors' Long-term Incentive Plans

The Group's primary long-term incentive plan is the Restricted Share Plan which is designed to provide rewards contingent upon the achievement of pre-determined returns to shareholders.

Under the Restricted Share Plan executive directors have received annual grants of conditional awards of shares in the Company which are held in trust for three years.

For the Group Chief Executive, the conditional award for 2000 was equivalent to 100 per cent of salary at the time of the award and for Michael McLintock the award was equivalent to 40 per cent of salary. For the other executive directors, the award was equivalent to 80 per cent of salary. The shares are valued at their average share price during the preceding calendar year, and the price used for the 2000 award was 921.7 pence (1999 – 837.3 pence).

At the end of the three-year performance period, a right to receive shares at no cost to the individual may be granted dependent on the Company's Total Shareholder Return (TSR) relative to other companies in the FTSE 100 share index over the performance period. In addition, the Remuneration Committee must be satisfied with the Company's overall financial performance during this period. No rights will be granted if the Company's TSR percentile ranking is 60th or below and the maximum grant will be made only if the TSR percentile ranking is 20th or above. Between these points, the size of the grant made is calculated on a straight line basis. In normal circumstances, directors may take up their right to receive shares at any time during the following seven years.

Details of conditional awards made under the Plan are shown below. These shares are held in trust and represent the conditional awards out of which rights may be granted, as stated above, at the end of the relevant performance period.

In respect of the 1998 Restricted Share Plan, the Company's TSR was ranked 22nd out of the 86 relevant comparator companies (i.e. 26th percentile) for the three year performance period ended on 31 December 2000. As a result, rights will be granted over 85 per cent of the shares conditionally awarded to executive directors. The 1999 and 2000 Restricted Share Plans run to 31 December 2001 and 31 December 2002 respectively and any grants under these plans will be based on the final TSR ranking at the end of each performance period. Performance under these plans was ranked 37th and 68th respectively, on the basis of TSR performance as at 31 December 2000.

	Conditional share awards outstanding at 1 Jan 2000	Conditionally awarded in 2000	Rights granted in 2000	Market value of rights granted in 2000* (£000)	Conditional share awards outstanding at 31 Dec 2000	Release year
Keith Bedell-Pearce	39,350		39,350	383		
	36,024				36,024	2001
	28,664				28,664	2002
		28,209			28,209	2003
	104,038	28,209	39,350	383	92,897	
Jonathan Bloomer	56,859		56,859	554		
	45,390				45,390	2001
	36,308				36,308	2002
		63,470			63,470	2003
	138,557	63,470	56,859	554	145,168	
Philip Broadley		18,806			18,806	2003
Les Cullen (note 1)	16,720		4,714	46		
Sir Peter Davis (note 2)	101,534		101,534	1,007		
	79,417		79,417	788		
	64,494		58,045	576		
	245,445		238,996	2,371		
Derek Higgs (note 3)	56,859		56,859	554		
	45,390				45,390	2001
	36,308				36,308	2002
		34,718			34,718	2003
	138,557	34,718	56,859	554	116,416	
Michael McLintock		13,019			13,019	2003
Mark Tucker	46,931		46,931	457		
	36,024				36,024	2001
	28,664				28,664	2002
		31,247			31,247	2003
	111,619	31,247	46,931	457	95,935	

* The market value of rights granted in 2000 is based on the market value of the shares over which rights are granted on the day of the grant

Notes

1. In accordance with the arrangements for Les Cullen's departure, the release date applying to his 1999 RSP award was brought forward to April 2000 with shares released subject to pro rating for service in the performance period and TSR performance at 29 February 2000. The balance of the award lapsed.
2. In accordance with the arrangements for Sir Peter Davis' departure, the release dates applying to his RSP awards were brought forward to February 2000 with shares released subject only to pro rating for TSR performance at 31 January 2000. The balance of the awards lapsed.
3. In accordance with the arrangements for his retirement, the release dates applying to the 1999 and 2000 RSP awards for Derek Higgs have been brought forward to 28 February 2001, with pro rating and TSR performance effective 31 December 2000. The balance of the awards lapsed.
4. The market value of rights granted in 1999 were as follows: Keith Bedell-Pearce £435,000; Jonathan Bloomer £575,000; Sir Peter Davis £1,046,000; and Derek Higgs £628,000.

To reflect his role as Chief Executive, Prudential Asia, Mark Tucker also participates in a cash-based long-term incentive plan that measures performance of the Group's Asian operations. This plan is designed to provide reward contingent upon the rate of change in value of Prudential Asia over a three-year period. The threshold performance criteria under the plan is that the growth in value must be greater than 15 per cent per annum over the period. Any payment for performance above threshold is made in the April following the end of the performance period. The on-target payout is 100 per cent of salary at the beginning of the period, for which an annual growth rate of 35 per cent is required. The maximum of 150 per cent is for exceptional performance, representing 50 per cent per annum growth or higher. The payment for the 1998 award is included in the Directors' Remuneration table.

To reflect his role as Chief Executive of M&G, Michael McLintock also participates in the M&G Chief Executive Long Term Incentive Plan. The plan is designed to provide a cash reward based on the economic and investment performance of M&G over a three-year period. Awards under the plan are made through the granting of awards of phantom share options and restricted shares, vesting at the end of the performance period. At the time of appointment, he held awards for the year 2000 with face values of £225,000 in phantom restricted shares and £367,800 in phantom share options. In addition, he held an award of £275,000 in phantom restricted shares with a performance period which ended on 31 December 2000 and vesting in December 2001.

Directors' Shareholdings

As a condition of serving, all executive and non-executive directors are required to hold 2,500 shares in the Company. These shares must be acquired within two months of appointment to the Board if the director does not own that number upon appointment. As stated above, non-executive directors also use a proportion of their fees to purchase additional shares in the Company on a quarterly basis.

A cash-based incentive plan replaced the Share Participation Plan in 1999 as the Group's annual bonus plan. Those shares awarded under the Share Participation Plan in previous years are included in the interests of directors in shares of the Company shown below. In addition, rights granted under the Restricted Share Plan are included in the interests shown below where the executive has yet to exercise his right to receive shares. Awards that remain conditional under the Restricted Share Plan are excluded. All interests are beneficial except in respect of 6,450 shares held in trust by Sandy Stewart.

Directors' Shareholdings	1 Jan 2000*	31 Dec 2000
Sir David Barnes	3,750	3,971
Keith Bedell-Pearce	142,463	144,654
Jonathan Bloomer	119,399	112,947
Philip Broadley	126	3,022
Ann Burdus	2,612	2,938
Sir Roger Hurn	10,000	10,000
Bridget Macaskill	2,792	3,013
Michael McLintock	820	2,820
Roberto Mendoza	0	2,765
Rob Rowley	2,519	2,799
Sandy Stewart	9,786	9,302
Mark Tucker	85,398	134,713

* Or date of appointment if later

Interests of directors in shares of the Company's listed subsidiary, Egg plc, at 31 December 2000, are shown below:

Keith Bedell-Pearce	1,410
Jonathan Bloomer	470
Philip Broadley	470
Roberto Mendoza	200,000
Rob Rowley	940

There were no changes in interests between 31 December 2000 and 1 March 2001.

Directors' Share Options

The Restricted Share Plan replaced the Executive Share Option Scheme in 1995 as the Group's long-term incentive plan. Outstanding options under that Scheme remain in force and are set out below together with options under the Prudential Savings-Related Share Option Scheme. The Prudential Savings-Related Share Option Scheme is open to all employees in the UK and options up to Inland Revenue limits are granted at a 20 per cent discount and cannot normally be exercised until a minimum of three years has elapsed.

	Options outstanding at 1 Jan 2000**	Granted in year	Exercised in year	Options outstanding at 31 Dec 2000	Exercise price (pence)	Earliest exercise date	Latest exercise date
Keith Bedell-Pearce	189,000			189,000	201	1995	2002
	105,000			105,000	328	1996	2003
	60,500			60,500	309	1997	2004
	2,267*			2,267*	344	2003	2003
	3,259*			3,259*	359	2003	2004
	360,026			360,026			
Jonathan Bloomer	196,750			196,750	315	1998	2005
	226,750			226,750	315	2000	2005
	7,677*			7,677*	254	2002	2002
		2,296*		2,296*	751	2005	2005
	431,177	2,296		433,473			
Philip Broadley		1,327*		1,327*	730	2003	2004
Michael McLintock	4,538*			4,538*	380	2003	2003
Mark Tucker (note 3)	4,074*			4,074*	254	2000	2000
	2,172*			2,172*	359	2003	2004
		1,378*		1,378*	751	2005	2005
	6,246	1,378		7,624			

* Savings-Related Share Option Scheme
** Or date of appointment if later

Notes

1. The market price of shares at 31 December 2000 was 1,077 pence. The highest and lowest share prices during 2000 were 1,186 pence and 880 pence respectively.
2. During 1999, Keith Bedell-Pearce exercised options with an associated gain on exercise of £40,000.
3. Mark Tucker exercised options over the 4,074 shares on 13 March 2001.

Directors' Pensions

Prudential Staff Pension Scheme

Executive directors are eligible to participate in the Prudential Staff Pension Scheme on the same basis as other members. The scheme is non-contributory and provides members with a maximum pension of 38/60 of Final Pensionable Earnings at the normal retirement age of 60. Final Pensionable Earnings are the sum of the pensionable salary for the 12 months immediately preceding retirement or termination of employment and, for entrants since 31 May 1989, are restricted to salary up to the Inland Revenue earnings cap, which at the time of writing is £91,800.

The scheme also provides on death, whether in service, in deferment or following retirement, pensions for spouse and eligible children. The spouse's pension on death in service is the higher of 54 per cent of the member's prospective pension at age 60 or 25 per cent of salary in the 12 months preceding death subject to the earnings cap. The spouse's pension on death in deferment is 50 per cent of the member's deferred pension at the date of death. On death after retirement, the spouse's pension is 50 per cent of the member's pension in payment ignoring any pension commuted for a lump-sum at retirement. A lump sum death in service benefit of four times Final Pensionable Earnings is also provided. Pension increases after retirement are wholly discretionary but in recent years annual increases have been awarded broadly in line with inflation. Discretionary increases are taken into account in calculating transfer values payable in lieu of deferred pension benefits. As set out in previous reports, the service contract of Keith Bedell-Pearce provides that in the event of his retirement at age 55, his pension will be based on the pension he would have received at normal retirement age 60 subject to a discount rate of three per cent per annum for early retirement.

M&G Group Pension Scheme

Michael McLintock is a member of the M&G Group Pension Scheme and has a normal retirement age of 60. The scheme is contributory with members currently contributing 2.4 per cent of salary and will provide him with a maximum pension of 2/3rds of Final Pensionable Salary subject to Inland Revenue restrictions at the normal retirement age of 60. Final Pensionable Salary is the greater of salary in the last 12 months of service and the yearly average of salary over the last 36 months of service and, for entrants since 31 May 1989, is restricted to salary up to the Inland Revenue earnings cap. As Michael McLintock joined the scheme post 31 May 1989 his Final Pensionable Salary is restricted to the earnings cap.

The scheme also provides on death, whether in service, in deferment or following retirement, a spouse's pension. On death in service the spouse would receive a pension equal to 50 per cent of the pension the member would have received had they remained in service until their Normal Retirement Age but based on the pensionable salary at the date of death. The spouse's pension on death in deferment is 50 per cent of the member's deferred pension at the date of death. On death after retirement, the spouse's pension is 50 per cent of the member's pension in payment ignoring any pension commuted for a lump-sum at retirement. A lump sum death in service benefit of four times salary is also provided. Pensions are increased after retirement each 1 October. In respect of pension in excess of the Guaranteed Minimum Pension, the increases are in line with the increase in the Retail Prices Index over the 12 months to the preceding July subject to a maximum of five per cent per annum.

Other Pension Arrangements

For directors subject to the earnings cap, the Company will, on request, establish a Funded Unapproved Retirement Benefit Scheme (FURBS) and a separate life assurance scheme to provide additional retirement and life assurance benefits based on salary in excess of the earnings cap. Sir Peter Davis and Derek Higgs participated in these arrangements and Philip Broadley is now a participant. Jonathan Bloomer does not participate in a FURBS and instead the Company pays a salary supplement to fund arrangements for the provision of income in retirement. The Prudential Staff Pension Scheme provides a lump sum death in service benefit and Jonathan Bloomer also participates in a separate life assurance scheme that provides cover over the earnings cap. The same arrangements applied to Les Cullen.

Michael McLintock participates in a separate funded scheme, the intention of which is to fund a 2/3rds pension at age 60 taking into account the benefits from the M&G Group Pension Scheme and participates in a separate life assurance scheme which provides additional life assurance benefits based on salary in excess of the earnings cap.

Pension Entitlements

Details of directors' pension entitlements under the Prudential Staff Pension Scheme or other Company pension schemes and pre-tax contributions to FURBS or salary supplements are set out opposite:

	Age at 31 Dec 2000	Years of pensionable service at 31 Dec 2000	Additional pension earned (excluding inflation) in year £000	Accrued entitlement based on normal retirement age 31 Dec 2000 £000	31 Dec 1999* £000	Pre-tax contribution to FURBS or salary supplement 2000 £000	1999 £000
Keith Bedell-Pearce	54	30	15	178	157	–	–
Jonathan Bloomer	46	–	–	–	–	169	124
Philip Broadley	39	less than 1	1	1	–	39	–
Les Cullen	48	–	–	–	–	35	34
Sir Peter Davis	59	5	0	7	7	36	207
Derek Higgs	56	4	1	7	6	127	127
Michael McLintock	39	8	1	17	16	20	–
Mark Tucker	43	15	12	101	89	–	–
Michael Abrahams (note 1)	63	16	0	10	10	–	–
Total						426	492

* Or date of appointment if later

Notes

1. For the one remaining non-executive director during 2000 who was appointed before 1988, Michael Abrahams, the normal retirement age in the Scheme is 72 but a pension not discounted for early retirement is available from age 65. The spouse's pension on death in service is 50 per cent of the member's prospective pension at age 72 and, on death after retirement, 50 per cent of the member's pension in payment. No lump sum benefit is payable on death in service. He ceased to be an active member of the scheme in May 2000.
2. Total contributions to directors' pension schemes were £571,000 (1999: £594,000).

Service Contracts of Directors Proposed for Election or Re-election

Philip Broadley and Michael McLintock, who are proposed for election, and Jonathan Bloomer, who is proposed for re-election, have service contracts of 12 months. Roberto Mendoza, who is proposed for election, and Sir David Barnes and Sandy Stewart, who are proposed for re-election, do not have service contracts.

On behalf of the Board of directors

Sir David Barnes
Chairman of the Remuneration Committee
15 March 2001

Sir Roger Hurn
Chairman
15 March 2001

Principal Activity and Business Review
Prudential plc is the Group holding company and the principal activity of its subsidiary undertakings is the provision of financial services in Europe, the US and Asia. Particulars of principal subsidiary undertakings are given in note 29 on page 69. The Group's business is reviewed in the Chairman's Statement on pages 4 and 5, the Group Chief Executive's Review on pages 6 to 19 and the Group Financial Review on pages 21 to 25.

Financial Statements and Supplementary Information
The consolidated balance sheet on pages 46 and 47 shows the state of affairs of the Group at 31 December 2000. The Company's balance sheet appears on page 48 and the consolidated profit and loss account on pages 42 to 44. A summary of the statutory basis results is shown on page 41. There is a five-year review of the Group on pages 76 and 77. Supplementary information prepared on the achieved profits basis of financial reporting is provided on pages 78 to 86.

Dividends
The directors have declared a final dividend for 2000 of 16.3p per share payable on 30 May 2001 to shareholders on the register at the close of business on 30 March 2001. The dividend for the year, including the interim dividend of 8.2p per share paid in 2000, amounts to 24.5p per share compared with 23.0p per share for 1999. The total cost of dividends for 2000 was £484 million.

Payment Policy
It is the policy of the Group to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms. Trade creditor days, based on the ratio of trade creditors at the year end to the amounts invoiced by trade creditors during the year, were 24 days.

Directors
The present directors are shown on pages 28 and 29. Sir Roger Hurn was appointed a director on 17 February 2000 and elected at the Annual General Meeting on 5 May 2000. Les Cullen and Sir Peter Davis resigned as directors on 29 February 2000. Michael Abrahams and Sir Martin Jacomb retired as directors on 5 May 2000. Philip Broadley, Roberto Mendoza and Michael McLintock were appointed directors on 11 May 2000, 25 May 2000 and 1 September 2000 respectively and in accordance with the Articles of Association retire and offer themselves for election at the Annual General Meeting. Derek Higgs retired as a director on 30 November 2000. Sir David Barnes, Jonathan Bloomer and Sandy Stewart retire by rotation at the Annual General Meeting and offer themselves for re-election. Details of directors' interests in the share capital of the Company are set out in the Remuneration Report on page 36.

Employees
The following information is given principally in respect of employees of the Group in the United Kingdom. The policy towards employees overseas is the same but the practical application of the policy varies according to local requirements.

Equal Opportunity
Our equal opportunities policy is to be fair, responsible and caring in all aspects of our business. We recognise, respect and value difference and diversity. We will treat everyone fairly and with dignity. We are working towards equality as part of our normal way of doing things because we believe it is the right thing to do for our people, our customers and our success. Full consideration is given to continuing the employment of staff who become disabled and to provide training and career development opportunities to disabled employees.

Employee Involvement
The Group has effective communication channels through which employees' views can be sought on issues which concern them. The first two meetings of the Prudential European Employee Forum took place in 2000. The new Forum is a high-level employee consultative body, which ensures that Prudential plc meets its European legal obligations.

In 2000 employees were again invited to participate in the Prudential Savings-Related Share Option Scheme. The Scheme has now been operating for over 17 years and some 71 per cent of UK staff currently participate. In 2000 a savings-related share option scheme for overseas employees, the Prudential International Savings-Related Share Option Scheme, was introduced. Employees in Hong Kong, Malaysia and Singapore were invited to join and just over 30 per cent of employees in those countries currently participate in the Scheme.

The board of the corporate trustee of the Prudential Staff Pension Scheme includes directors elected by the members of the Scheme in accordance with the Pensions Act 1995.

Donations
Charitable donations made by the Group in 2000 were £2.0 million. It is Group policy not to make political donations and no such donations were made in 2000.

Auditors
A resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be put to the Annual General Meeting.

Shareholders
The number of accounts on the share register at 31 December 2000 was 88,603 (89,051). Further information about shareholdings in the Company is given on page 88. At 1 March 2001 the Company had received notification in accordance with Sections 198 to 202 of the Companies' Act 1985 from CGNU plc of a holding of 3.9 per cent of the Company's share capital.

On behalf of the Board of directors

Peter Maynard

Peter Maynard, Company Secretary
15 March 2001

Summary of Statutory Basis Results

The following table shows the statutory basis results reported in the profit and loss account on pages 42 to 44. It does not form part of the statutory financial statements.

	2000 £m	1999 £m
Operating profit before tax (based on longer-term investment returns) before amortisation of goodwill		
General business:		
UK Prudential Insurance Services	33	61
Re-engineering costs*	–	(12)
Balance on the general business technical account (analysed on page 42)	33	49
Long-term business:		
UK Operations		
Prudential Insurance Services	313	317
Prudential Intermediary Business	127	101
Prudential Financial Services	28	36
UK Insurance Operations	468	454
M&G	35	17
US Operations	459	457
Asia (net of development expenses of £17m (£12m))	22	15
Europe (net of development expenses of £18m (£nil))	(10)	6
Long-term business re-engineering costs attributable to shareholders*	–	(48)
Balance on the long-term business technical account before tax (analysed on pages 43 and 44)	974	901
Investment management and products:		
M&G	90	70
Re-engineering costs*	–	(10)
	90	60
US broker dealer and fund management	7	(6)
Egg	(155)	(150)
Other Income and Expenditure (analysed on page 58)	(109)	(78)
Group operating profit before amortisation of goodwill	840	776
Items excluded from operating profit before amortisation of goodwill:		
Amortisation of goodwill	(84)	(54)
Short-term fluctuations in investment returns	(48)	28
Profit on sale and flotation of holding in Egg	119	–
Share of exceptional gain of associate company	21	–
Profit on sale of holding in associate company	99	–
Total	107	(26)
Statutory basis profit on ordinary activities before tax (analysed on page 44)	947	750
Tax on profit on ordinary activities:		
Tax on operating profit before amortisation of goodwill	(235)	(209)
Tax on items excluded from operating profit before amortisation of goodwill	(49)	1
Total tax on profit on ordinary activities	(284)	(208)
Minority interests	25	–
Statutory basis profit for the financial year after minority interests:		
Operating profit after tax and related minority interests before amortisation of goodwill	617	567
Items excluded from operating profit after tax before amortisation of goodwill	71	(25)
Total statutory basis profit for the financial year after minority interests	688	542
Earnings per share		
Based on operating profit after tax and related minority interests before amortisation of goodwill	31.5p	29.1p
Based on total statutory profit for the financial year after minority interests – basic	35.1p	27.8p
Dividend per share	24.5p	23.0p

* Part of re-engineering costs of £70m borne by shareholders' funds

Consolidated Profit and Loss Account

Year ended 31 December 2000

General Business Technical Account	Note	2000 £m	1999 £m
Gross premiums written	6	**333**	318
Outwards reinsurance premiums		**(12)**	(12)
Premiums written, net of reinsurance		**321**	306
Change in the gross provision for unearned premiums		**(10)**	(5)
Change in the provision for unearned premiums, reinsurers' share		**1**	1
Earned premiums, net of reinsurance		**312**	302
Allocated investment return transferred from the non-technical account	9(a)	**47**	40
Claims paid:			
Gross amount		**(215)**	(227)
Reinsurers' share		**7**	9
Net of reinsurance		**(208)**	(218)
Change in the provision for claims:			
Gross amount		**(31)**	35
Reinsurers' share		**0**	(10)
Net of reinsurance		**(31)**	25
Claims incurred, net of reinsurance		**(239)**	(193)
Net operating expenses (including re-engineering costs of £nil (£12m))	13	**(79)**	(93)
Change in the equalisation provision		**(8)**	(7)
Balance on the general business technical account	7,9(a)	**33**	49

Gross premiums written and the balance on the general business technical account relate to continuing operations.

Long-term Business Technical Account

	Note	2000 £m	1999 £m
Gross premiums written	6	**14,173**	14,826
Outwards reinsurance premiums		**(109)**	(75)
Earned premiums, net of reinsurance		**14,064**	14,751
Investment income	11	**13,835**	10,817
Unrealised (losses) gains on investments		**(8,922)**	6,239
Claims paid:			
Gross amount		**(13,936)**	(10,518)
Reinsurers' share		**95**	89
Net of reinsurance		**(13,841)**	(10,429)
Change in the provision for claims:			
Gross amount		**(128)**	(153)
Reinsurers' share		**3**	6
Net of reinsurance		**(125)**	(147)
Claims incurred, net of reinsurance		**(13,966)**	(10,576)
Change in long-term business provision:			
Gross amount		**(6,239)**	(6,778)
Reinsurers' share		**123**	33
Net of reinsurance		**(6,116)**	(6,745)
Change in provisions for linked liabilities, net of reinsurance		**554**	(4,830)
Change in other technical provisions, net of reinsurance		**(5,562)**	(11,575)
Net operating expenses (including re-engineering costs of £nil (£48m))	13	**(1,743)**	(1,603)
Investment expenses and charges	14	**(421)**	(299)
Tax attributable to the long-term business	15	**(680)**	(803)
Allocated investment return transferred from the non-technical account		**57**	14
Transfer from (to) the fund for future appropriations		**4,027**	(6,325)
Balance on the long-term business technical account		**689**	640

Gross premiums written and the balance on the long-term business technical account relate to continuing operations.

Year ended 31 December 2000

Non-technical Account

Non-technical Account	Note	2000 £m	1999 £m
Balance on the general business technical account	7	33	49
Balance on the long-term business technical account		689	640
Tax credit attributable to balance on the long-term business technical account	15	285	261
Balance on the long-term business technical account before tax	7	974	901
Profit on insurance activities		1,007	950
Other activities			
Investment income	11	140	162
Unrealised (losses) gains on investments		(7)	14
Allocated investment return transferred to the long-term business technical account		(57)	(14)
Investment expenses and charges	14	(144)	(132)
Allocated investment return transferred to the general business technical account		(47)	(40)
Other income:			
UK investment management and products result (including re-engineering costs of £nil (£10m))		90	60
US broker dealer and fund management		7	(6)
Profit on sale and flotation of holding in Egg		119	–
Share of exceptional gain of associate company		21	–
Profit on sale of holding in associate company		99	–
Other charges:			
Corporate expenditure		(42)	(40)
Banking	9(b)	(155)	(150)
Amortisation of goodwill	16	(84)	(54)
Profit on other activities	7	(60)	(200)
Profit on ordinary activities before tax	7	947	750
Tax on profit on ordinary activities	15	(284)	(208)
Profit for the financial year before minority interests		663	542
Minority interests		25	–
Profit for the financial year after minority interests		688	542
Dividends:			
Interim (at 8.2p (7.7p) per share)		(162)	(150)
Final (at 16.3p (15.3p) per share)		(322)	(299)
Total dividends		(484)	(449)
Retained profit for the financial year		204	93
Reconciliation of operating profit before amortisation of goodwill to profit on ordinary activities			
Operating profit before amortisation of goodwill based on longer-term investment returns	7	840	776
Amortisation of goodwill	16	(84)	(54)
Short-term fluctuations in investment returns	7	(48)	28
Profit on Egg flotation and business disposals	7	239	–
Profit on ordinary activities before tax	7	947	750
Basic earnings per share			
Based on operating profit after tax and related minority interests before amortisation of goodwill of £617m (£567m) and 1,959m (1,947m) shares	4	31.5p	29.1p
Adjustment for amortisation of goodwill	4	(4.3)p	(2.8)p
Adjustment from post-tax longer-term to post-tax actual investment returns (after related minority interests)	4	(1.4)p	2.3p
Adjustment in respect of profit on Egg flotation and business disposals (1999 tax paid on prior year disposal)	4	9.3p	(0.8)p
Based on profit for the financial year after minority interests of £688m (£542m) and 1,959m (1,947m) shares	4	35.1p	27.8p
Diluted earnings per share			
Based on profit for the financial year after minority interests of £688m (£542m) and 1,968m (1,959m) shares	4	35.0p	27.7p
Dividend per share		24.5p	23.0p

Consolidated Statement of Total Recognised Gains and Losses

Year ended 31 December 2000

	2000 £m	1999 £m
Profit for the financial year after minority interests	**688**	542
Currency translation adjustment movements	**118**	48
Total recognised gains relating to the financial year	**806**	590

Reconciliation of Movements in Consolidated Shareholders' Capital and Reserves

Year ended 31 December 2000

	Ordinary share capital (note 26) £m	Share premium (note 26) £m	Retained profit and loss reserve £m	Total £m
1 January 1999	98	221	2,930	3,249
Total recognised gains relating to 1999			590	590
Dividends			(449)	(449)
New share capital subscribed		34		34
Transfer for shares issued in lieu of cash dividends		(15)	15	
Charge in respect of shares issued to qualifying employee share ownership trust		9	(9)	
31 December 1999	98	249	3,077	3,424
Total recognised gains relating to 2000			806	806
Dividends			(484)	(484)
Goodwill on sale of holding in associate company			90	90
New share capital subscribed	1	183		184
Transfer for shares issued in lieu of cash dividends		(20)	20	
Charge in respect of shares issued to qualifying employee share ownership trust		46	(46)	
31 December 2000	**99**	**458**	**3,463**	**4,020**

Consolidated Balance Sheet

31 December 2000

Assets	Note	2000 £m	1999 £m
Intangible assets			
Goodwill	16	1,611	1,582
Investments			
Land and buildings	21	10,303	8,763
Investments in participating interests	22	83	105
Other financial investments	23	108,125	105,778
		118,511	114,646
Assets held to cover linked liabilities	24	18,323	18,643
Reinsurers' share of technical provisions			
Provision for unearned premiums		5	4
Long-term business provision		353	215
Claims outstanding		62	57
Technical provisions for linked liabilities		396	400
		816	676
Debtors			
Debtors arising out of direct insurance operations:			
Policyholders		237	261
Intermediaries		2	3
Debtors arising out of reinsurance operations		14	30
Other debtors:			
Tax recoverable		50	330
Other		574	465
		877	1,089
Other assets			
Banking business assets:			
Egg	9(b)	7,895	8,852
US Operations		708	93
Tangible assets	25	288	239
Cash at bank and in hand		1,402	788
Own shares (ordinary shares of parent company)	26	31	29
Present value of acquired in force long-term business	17	133	170
Present value of future margins relating to advances from reinsurers		148	55
		10,605	10,226
Prepayments and accrued income			
Accrued interest and rent		1,150	988
Deferred acquisition costs:			
Long-term business		2,935	2,726
General business		17	15
Other prepayments and accrued income		105	52
		4,207	3,781
Total assets		154,950	150,643

Liabilities	Note	2000 £m	1999 £m
Capital and reserves			
Share capital	26	**99**	98
Share premium	26	**458**	249
Profit and loss account		**3,463**	3,077
Shareholders' funds – equity interests		**4,020**	3,424
Minority interests		**137**	–
Fund for future appropriations		**23,267**	27,262
Technical provisions			
Provision for unearned premiums		**175**	164
Long-term business provision		**91,052**	84,476
Claims outstanding		**1,022**	827
Equalisation provision		**38**	30
	12	**92,287**	85,497
Technical provisions for linked liabilities	12	**18,719**	19,043
Provision for other risks and charges			
Deferred tax	15	**332**	575
Deposits received from reinsurers		**323**	101
Creditors			
Creditors arising out of direct insurance operations		**213**	217
Creditors arising out of reinsurance operations		**21**	18
Debenture loans	30	**1,585**	1,546
Amounts owed to credit institutions	30	**909**	1,111
Other creditors including taxation and social security:			
Banking business liabilities:			
Egg	9(b)	**7,386**	8,436
US Operations		**654**	89
Tax		**661**	533
Final dividend		**322**	299
Other creditors		**3,694**	2,112
		15,445	14,361
Accruals and deferred income		**420**	380
Total liabilities		**154,950**	150,643

Balance Sheet of the Company

31 December 2000

	Note	2000 £m	1999 £m
Fixed assets			
Investments:			
Shares in subsidiary undertakings	27	**4,972**	5,023
Loans to subsidiary undertakings	27	**1,673**	1,531
		6,645	6,554
Current assets			
Debtors:			
Amounts owed by subsidiary undertakings		**307**	295
Tax recoverable		**–**	95
Other debtors		**6**	14
Other investments		**–**	81
Cash at bank and in hand		**35**	29
		348	514
Less liabilities: amounts falling due within one year			
Bank loans and overdrafts		**(20)**	–
Commercial paper		**(160)**	–
Amounts owed to subsidiary undertakings		**(260)**	(527)
Tax payable		**(20)**	–
Final dividend		**(322)**	(299)
Accruals and deferred income		**(47)**	(46)
		(829)	(872)
Net current liabilities		**(481)**	(358)
Total assets less current liabilities		**6,164**	6,196
Less liabilities: amounts falling due after more than one year			
Debenture loans	30	**(967)**	(955)
Amounts owed to subsidiary undertakings		**(3,206)**	(3,252)
		(4,173)	(4,207)
Total net assets		**1,991**	1,989
Capital and reserves			
Share capital	26	**99**	98
Share premium	26	**458**	249
Profit and loss account	28	**1,434**	1,642
Shareholders' funds		**1,991**	1,989

The financial statements on pages 42 to 74 and the supplementary information on pages 79 to 85 were approved by the Board of directors on 15 March 2001.

Sir Roger Hurn, Chairman

Jonathan Bloomer, Group Chief Executive

Philip Broadley, Group Finance Director

Consolidated Cash Flow Statement

Year ended 31 December 2000

	Note	2000 £m	1999 £m
Operations			
Net cash inflow from operations	32	**398**	42
Servicing of finance			
Interest paid		**(119)**	(82)
Tax			
Tax recovered		**138**	62
Acquisitions and disposals			
Net cash (outflow) inflow from:			
Acquisition of subsidiary undertakings	32	**(167)**	(1,984)
Flotation of Egg and business disposals	32	**195**	–
Net cash inflow (outflow) from acquisitions and disposals		**28**	(1,984)
Equity dividends			
Equity dividends paid		**(461)**	(421)
Net cash outflow before financing		**(16)**	(2,383)
Financing			
Issue of debenture loans	30	**–**	500
(Redemption) issue of loan notes	30	**(114)**	168
Movement on credit facility utilised by investment subsidiaries managed by US fund management operation	32	**(31)**	103
Issues of ordinary share capital (net of expenses and related transfer to share ownership trust)	32	**184**	34
Net cash inflow from financing		**39**	805
Net cash inflow (outflow) for the year		**23**	(1,578)
The net cash inflow (outflow) was invested (financed) as follows:			
Portfolio investments			
Purchases:			
Ordinary shares		**9**	46
Fixed income securities		**146**	62
		155	108
Sales:			
Ordinary shares		**(71)**	(82)
Fixed income securities		**(246)**	(1,701)
		(317)	(1,783)
Net sales of portfolio investments	32	**(162)**	(1,675)
Increase in cash and short-term deposits	32	**185**	97
		23	(1,578)

In accordance with FRS1, this statement shows only the cash flows of general business and shareholders' funds.

1 Nature of Operations

Prudential plc (the 'Company') together with its subsidiaries (collectively, the 'Group' or 'Prudential') is an international financial services group with its principal operations in the United Kingdom ('UK'), the United States ('US'), Asia and continental Europe. The Group operates in the UK through its subsidiaries, primarily The Prudential Assurance Company Limited ('PAC'), Prudential Annuities Limited ('PAL'), Scottish Amicable Life plc ('SAL'), M&G Group plc ('M&G'), and Egg plc; in the US through Jackson National Life Insurance Company ('Jackson National Life'). The Group also has operations in Singapore, Hong Kong, Malaysia, Taiwan and other Asian countries. In Europe, the Group has operations in Ireland, France and Germany. Prudential offers a full range of retail financial products and services and fund management services throughout these territories. The retail financial products and services principally include life insurance, pensions, annuities and personal lines of general (property and casualty) insurance as well as collective investments and deposit and mortgage banking services.

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

2 Basis of Presentation

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

The consolidated financial statements are prepared in accordance with applicable accounting standards under UK Generally Accepted Accounting Practice ('UK GAAP'), including the Statement of Recommended Practice, 'Accounting for Insurance Business', issued in December 1998 by the Association of British Insurers (the 'ABI SORP').

FRS No 16, 'Current Tax', was issued in 1999. This standard, which specifies how current tax, in particular withholding tax and tax credits from franked investment income should be reflected in the financial statements, was effective for accounting periods ended on or after 23 March 2000. The adoption of the Standard in these financial statements did not have a material impact.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Prudential has a controlling interest. The results of subsidiaries are included in the financial statements from the date acquired to the effective date of disposal. All intercompany transactions are eliminated on consolidation except for investment management fees charged by M&G to long-term business funds.

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

In accordance with Financial Reporting Standard ('FRS') No. 1 (Revised), 'Cash Flow Statements', long-term business cash flows are included in the statement of cash flows only to the extent of cash transferred to and available to meet the obligations of the Group. The statement of cash flows reflects only the cash flows of general business, the Group's other non-insurance businesses included in the non-technical account, and amounts transferred to shareholders' funds from the Group's long-term businesses.

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

3 Significant Accounting Policies

Long-term Business

The results are prepared in accordance with the modified statutory basis of reporting as set out in the Statement of Recommended Practice issued by the Association of British Insurers in December 1998.

Premiums and Claims

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

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

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

Deferred Acquisition Costs

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

Long-term Business Provision

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

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

In the UK and Asia, the future policyholder benefit provisions on conventional with-profits and other protection-type policies are calculated using the net premium method. The net premium reserves are calculated using assumptions for interest, mortality, morbidity and expense, but without assumptions for withdrawals. These assumptions are determined as prudent best estimates at the date of valuation. Interest rates used in establishing policyholder benefit provisions for conventional with-profits policies in the consolidated financial statements range from 3.0% to 5.35%. The interest rate used in establishing policyholder benefit provisions for pension annuities in the course of payment is adjusted each year and ranged from 5.0% to 6.0% and 4.75% to 6.00%, for 2000 and 1999 respectively. Mortality rates used in establishing policyholder benefit provisions are based on published mortality tables adjusted to reflect actual experience. For unitised with-profits policies, the policyholder benefit provisions are based on the policyholder account balance.

The future policyholder benefit provisions for Jackson National Life's conventional protection-type policies are determined using the net level premium method, with an allowance for surrenders and claims expenses. Rates of interest used in establishing the policyholder benefit provisions range from 6.0% and 9.5%. Mortality assumptions are based on published mortality tables adjusted to reflect actual experience. For investment-type products sold by Jackson National Life, the policyholder benefit provision included within technical provisions in the consolidated balance sheets is the policyholder account balance.

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

Fund for Future Appropriations

The fund for future appropriations ('FFA') represents the excess of assets over policyholder liabilities for the Group's with-profits funds. The annual excess of income over expenditures of the with-profits fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to the FFA each year through a charge to the profit and loss account. The balance retained in the FFA represents cumulative retained earnings arising on the with-profits business that has not been allocated to policyholders or shareholders.

Overseas Subsidiaries

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

In the case of Jackson National Life, US GAAP results are adjusted to comply with UK GAAP in respect of deferred tax. Also on adjustment to UK GAAP, fixed income securities have been included at amortised cost in the balance sheet. Further details are shown in note 10 on page 61.

General Insurance

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

Revenue Recognition

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

Deferred Acquisition Costs

Direct and indirect costs associated with the writing of new general insurance policies are deferred and amortised in a manner consistent with the method used for premium recognition described above.

Claims

Claims incurred include settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions. Outstanding claims include claims incurred up to, but not paid, at the end of the accounting period, whether or not reported.

An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and investment returns. The assessment of expected claims involves consideration of claims experience up to the end of the accounting period. No specific provision is made for major events occurring after this date. In addition to the liability for outstanding claims, an equalisation provision has been established in accordance with the requirements of the UK Insurance Companies (Reserves) Act 1995 to reduce the impact of claims volatility. Increases in the equalisation provision are limited to certain percentages of premiums written for different lines of business as specified by statute and are charged to claims incurred.

Investment Returns

Investment returns comprise investment income, realised gains and losses and changes in unrealised gains and losses, except for changes in unrealised gains and losses on debt securities held by Jackson National Life which are carried at amortised cost. For debt and other fixed income securities held by Jackson National Life, purchase premiums and discounts are amortised based on the underlying investments' call or maturity dates and this amortisation is included in investment returns. Realised gains and losses are recognised in income on the date of sale as determined on a specific identification basis for Jackson National Life and on an average cost basis elsewhere.

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

Investment returns are allocated from the non-technical account to the general business technical account using the longer-term rate of return on assets supporting the general business technical account, liabilities and solvency capital. Investment returns are also allocated between the long-term business technical account and the non-technical account for the difference between the actual investment rate of return of the long-term business technical account and the longer-term rate of return on the assets backing shareholder financed long-term business (primarily Jackson National Life). The longer-term rate of return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts.

Reinsurance

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

Certain reinsurance contracts include significant financing elements. For these contracts the financing liability is recorded as a deposit due to the reinsurer. An asset representing the present value of future margins on the ceded business from which the financing will be repaid is also recognised on the consolidated balance sheet to the extent the reinsurer has assumed the risk that such margins will emerge.

Tax

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

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual company are not offset in any one year they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company. Deferred tax assets and liabilities generally are recorded based on the differences between financial statement carrying amounts and tax bases of assets and liabilities for those differences which are considered likely to reverse in the foreseeable future and for net operating losses carried forward, if any. Net deferred tax assets are not recognised, except to the extent that they are expected to be recoverable without replacement by equivalent deferred tax assets arising in the future. Deferred tax assets for tax losses carried forward can be recognised if it is assured beyond reasonable doubt that future taxable profits will be sufficient to offset the loss. Deferred tax assets and liabilities are calculated using currently enacted tax rates and laws expected to be applicable when such differences reverse.

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

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

Stock-based Compensation

The Group offers share award and option plans for certain key employees and a Save As You Earn plan ('SAYE plan') for all UK employees. Compensation costs for non-SAYE plans are recorded over the periods during which share awards or options are earned. Compensation costs are based on the quoted market prices of the shares at the grant date less any amounts paid or payable by employees in respect of the awards. In addition shares are issued to a qualifying share ownership trust with the excess of the market price subscribed at the date of transfer by the trust over nominal value recorded by the Company in its share premium account. This amount includes the difference between the market price at the date of transfer to the trust and amounts payable by employees. A cost equal to this amount is charged directly to the profit and loss account reserve within shareholders' funds.

Pension Costs

Contributions to the Group's defined benefit plans are calculated and expensed on a basis that spreads the costs over the service lives of participants. Further details are provided in note 18 on page 66. Contributions in respect of defined contribution plans are accrued by the Group when incurred.

Land and Buildings

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

In accordance with Statement of Standard Accounting Practice ('SSAP') No. 19, 'Accounting for Investment Properties', no depreciation is provided on investment properties as the Group's directors consider that these properties are held for investment purposes, and to depreciate them would not give a true and fair view of the Group's financial position or profit for the financial year.

Investments in Associates and Other Participating Interests

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

Other participating interests, where significant influence is not exercised, are carried as investments on the consolidated balance sheets at fair value.

Other Financial Investments

Other financial investments include equity securities; debt and other fixed income securities; mortgage and other loans; loans to policyholders and deposits with credit institutions.

Equity Securities and Debt and Other Fixed Income Securities

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

For unlisted securities, market value is estimated by the directors.

Mortgage and Other Loans

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

Loans to Policyholders

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

Deposits with Credit Institutions

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

Shares in Subsidiary Undertakings

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

Derivatives

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes. The Group's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value included in investment returns. For other derivative instruments, various methods of hedge accounting are used.

Securities Lending

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

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

Linked Business Funds

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

Tangible Assets

Tangible assets, principally computer equipment, software development expenditure, and furniture and fixtures, are capitalised and depreciated on a straight-line basis over their estimated useful lives, generally 3 to 10 years. Assets held under finance leases are capitalised at their fair value.

Banking Business Assets and Liabilities

Banking business assets consist primarily of certificates of deposit and short-term deposits with credit institutions carried at fair value and mortgage loans carried at outstanding principal balances, net of allowances for loan losses, which approximates fair value. Loan provisions are recorded for the overall loan portfolio to cover bad debts which have not been separately identified but which are known from experience to be present in the portfolio. For loans in default specific loan provisions are recorded. Changes in loan provisions during the year are included in the consolidated profit and loss accounts.

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

Further details of UK banking business assets and liabilities are contained in note 9(b) on page 60.

Business Acquisitions

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The difference between the fair value of the net assets of the acquired company and the fair value of the consideration given represents goodwill. Revenues and expenses of acquired entities are included in the consolidated profit and loss account from the date of acquisition in the year acquired. Gross premiums of the entities are separately presented in the consolidated profit and loss account.

Effective 1 January 1998, goodwill arising from acquisitions is reflected as an asset on the consolidated balance sheets and is amortised through the consolidated profit and loss accounts on a straight-line basis over its estimated useful life, not exceeding 20 years. Prior to 1 January 1998, goodwill relating to acquisitions was charged directly to shareholders' funds. As permitted under the transitional arrangements of FRS No. 10, 'Goodwill and Intangible Assets', amounts previously charged to shareholders' funds have not been reinstated as assets. Upon disposal of a business acquired prior to 1 January 1998 to which goodwill relates, the original goodwill balance is charged to the consolidated profit and loss accounts in determining the gain or loss on the sale.

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

Shareholders' Dividends

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

Share Premium

Share premium represents the difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of the shares issued.

Foreign Currency Translation

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

Assets and liabilities denominated in other than functional currencies are converted at closing exchange rates at the balance sheet date with the related foreign currency exchange gains or losses reflected in the profit and loss account for the year.

4 Supplemental Earnings Information

In accordance with FRS 3 'Reporting financial performance' and the ABI SORP, the Group uses operating profit based on longer-term investment returns before amortisation of goodwill and before tax as a supplemental measure of its results. For the purposes of measuring operating profit, investment returns on general business and other shareholder business are based on the expected longer-term rates of return. The expected longer-term rates of return are based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The only general business and shareholder investments that require calculation of an expected longer-term rate of return are UK equity securities. For these investments the longer-term rate of return is estimated at 8.0% (8.0%). The longer-term dividend yield has been assumed to be 2.75% (2.75%). For the purposes of determining the longer-term investment returns, the realised gains of Jackson National Life, which invests principally in fixed income securities, are averaged over five years and combined with actual interest and dividends.

For the Group's continuing operations with investment portfolios that are both attributable to shareholders and subject to short-term volatility, a comparison of actual and longer-term gains is as follows:

	1996 to 2000 £m	1995 to 1999 £m
Actual gains attributable to shareholders:		
Jackson National Life	**70**	160
General business and shareholders	**264**	359
	334	519
Longer-term gains credited to operating results:		
Jackson National Life	**152**	179
General business and shareholders	**158**	177
	310	356

In addition, operating profit excludes gains on business disposals and similar exceptional items.

In accordance with FRS 3, the presentation of additional supplementary earnings per share information is permitted provided the earnings basis used is applied consistently over time and is reconciled to consolidated profit for the financial year. In determining operating profit, the Group has used the expected longer-term investment return excluding exceptional items as management believe that such presentation better reflects the Group's underlying financial performance.

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

	Before tax (note 7)	Tax (note 15)	Minority interests	Net	Basic earnings per share
		(£ millions except per share amounts)			
2000					
Operating profit based on longer-term investment returns before amortisation of goodwill	**840**	**(235)**	**12**	**617**	**31.5p**
Amortisation of goodwill	**(84)**	**–**	**–**	**(84)**	**(4.3)p**
Short-term fluctuations in investment returns*	**(48)**	**8**	**13**	**(27)**	**(1.4)p**
Profit on Egg flotation and business disposals	**239**	**(57)**	**–**	**182**	**9.3p**
Profit on ordinary activities	**947**	**(284)**	**25**	**688**	**35.1p**
1999					
Operating profit based on longer-term investment returns before amortisation of goodwill	776	(209)	–	567	29.1p
Amortisation of goodwill	(54)	–	–	(54)	(2.8)p
Short-term fluctuations in investment returns	28	16	–	44	2.3p
Adjustment in respect of tax paid on prior year disposals	–	(15)	–	(15)	(0.8)p
Profit on ordinary activities	750	(208)	–	542	27.8p

* The adjustment from post-tax longer-term investment returns to post-tax actual investment returns includes investment return that is attributable to external equity investors in two investment funds of the US fund management operation. These two funds are consolidated as quasi-subsidiaries but have no net impact on pre-tax or post-tax operating profit. Total profit, before and after tax, incorporating the adjustment from longer-term investment returns to actual investment returns, includes losses of £13m attributable to these minority interests.

4 Supplemental Earnings Information continued

A reconciliation of the weighted average number of ordinary shares used for calculating basic and diluted earnings per share is set out below:

	2000 (millions)	1999 (millions)
Weighted average shares for basic earnings per share	1,959	1,947
Shares under option at end of year (note 26)	20	26
Assumed number of shares that would have been issued at fair value on assumed option exercise	(11)	(14)
Weighted average shares for diluted earnings per share	1,968	1,959

5 Segmental Information – New Business Premiums by Product Distributor

	Single		Regular		Annual Premium Equivalents	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
UK Operations						
Prudential Intermediary Business						
Individual pensions	196	173	54	34	74	51
Corporate pensions	94	110	15	14	24	25
Life	1,660	2,070	36	68	202	275
Annuities	652	1,658	–	–	65	166
Investment products	101	49	3	3	13	8
	2,703	4,060	108	119	378	525
Department of Social Security rebate business	59	64	–	–	6	7
Total	2,762	4,124	108	119	384	532
Prudential Financial Services						
Individual pensions	30	35	34	51	37	55
Corporate pensions	751	487	93	120	168	168
Life	534	883	28	49	82	137
Annuities	602	681	–	–	60	68
Investment products	43	40	12	7	16	11
	1,960	2,126	167	227	363	439
Department of Social Security rebate business	175	175	–	–	18	18
Total	2,135	2,301	167	227	381	457
M&G						
Individual pensions	28	39	2	2	5	6
Life	1	8	0	1	0	2
Investment products	1,050	523	16	10	121	62
Total	1,079	570	18	13	126	70
Total UK Operations	5,976	6,995	293	359	891	1,059
Jackson National Life						
Fixed annuities	1,056	826	–	–	106	83
Equity linked index annuities	409	431	–	–	41	43
Variable annuities	1,709	1,187	–	–	171	119
Guaranteed Investment Contracts	365	994	–	–	36	99
GIC – European Medium Term Notes	1,291	624	–	–	129	62
Life	–	–	25	24	25	24
Total	4,830	4,062	25	24	508	430
Prudential Asia						
Insurance products	275	183	229	106	256	124
Investment products	2,259	582	–	–	226	58
Total	2,534	765	229	106	482	182
Prudential Europe						
Insurance products	14	12	22	20	23	21

5 Segmental Information – New Business Premiums by Product Distributor continued

	Single		Regular		Annual Premium Equivalents	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Group Total						
Insurance products	9,901	10,640	538	489	1,528	1,553
Investment products	3,453	1,194	31	20	376	139
Total	13,354	11,834	569	509	1,904	1,692

Single new business premiums include increments under existing group pension schemes and pensions vested into annuity contracts (at the annuity purchase price). Regular new business premiums are determined on an annualised basis.

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

6 Segmental Information – Gross Premiums Written by Product Provider

	Long-term business		Investment products		General business		Total	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
UK Insurance Operations	7,469	9,331	–	–	333	318	7,802	9,649
M&G	239	223	1,328	725	–	–	1,567	948
Total UK Operations	7,708	9,554	1,328	725	333	318	9,369	10,597
Jackson National Life	5,223	4,449	–	–	–	–	5,223	4,449
Prudential Asia	1,076	655	2,259	582	–	–	3,335	1,237
Prudential Europe	166	168	–	–	–	–	166	168
Total	14,173	14,826	3,587	1,307	333	318	18,093	16,451

The geographical analysis of premiums is based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different.

7 Segmental Information – Profit on Ordinary Activities Before Tax

	Balance on general business technical account		Balance on long-term business technical account before tax		Other activities		Total	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
(a) Summary								
Operating profit before amortisation of goodwill (note (b))	**33**	49	**974**	901	**(167)**	(174)	**840**	776
Items excluded from operating profit before amortisation of goodwill (note (c))					**107**	(26)	**107**	(26)
Statutory basis profit on ordinary activities before tax	**33**	49	**974**	901	**(60)**	(200)	**947**	750
(b) Operating Profit Before Amortisation of Goodwill by Product Provider								
UK Operations								
Prudential Insurance Services	**33**	61	**313**	317			**346**	378
Prudential Intermediary Business			**127**	101			**127**	101
Prudential Financial Services			**28**	36			**28**	36
UK Insurance Operations	**33**	61	**468**	454			**501**	515
M&G			**35**	17	**90**	70	**125**	87
Egg					**(155)**	(150)	**(155)**	(150)
Total UK Operations	**33**	61	**503**	471	**(65)**	(80)	**471**	452
US Operations			**459**	457	**7**	(6)	**466**	451
Asia (net of development expenses of £17m (£12m))			**22**	15			**22**	15
Europe (net of development expenses of £18m (£nil))			**(10)**	6			**(10)**	6
Other Income and Expenditure								
Investment return (longer-term):								
Investment income (including realised gains)					**140**	162	**140**	162
Unrealised (losses) gains on investments					**(7)**	14	**(7)**	14
Allocations to technical accounts					**(104)**	(54)	**(104)**	(54)
Investment management expenses					**(1)**	(1)	**(1)**	(1)
Short-term fluctuations in investment returns (note (c))					**48**	(28)	**48**	(28)
Investment return and other income					**76**	93	**76**	93
Interest payable					**(143)**	(131)	**(143)**	(131)
Corporate expenditure					**(42)**	(40)	**(42)**	(40)
Total					**(109)**	(78)	**(109)**	(78)
Re-engineering costs attributable to shareholders		(12)		(48)		(10)		(70)
Group operating profit before amortisation of goodwill	**33**	49	**974**	901	**(167)**	(174)	**840**	776
(c) Items excluded from Operating Profit Before Amortisation of Goodwill								
Amortisation of goodwill (note 16)					**(84)**	(54)	**(84)**	(54)
Short-term fluctuations in investment returns (note (b))					**(48)**	28	**(48)**	28
Profit on sale and flotation of holding in Egg (note 33)					**119**	–	**119**	–
Share of exceptional gain of associate company*					**21**	–	**21**	–
Profit on sale of holding in associate company (note 33)					**99**	–	**99**	–
					107	(26)	**107**	(26)

* The gain relates to the Company's share of the profit realised by St James's Place Capital plc, an associate company at the time of sale, on the disposal of its interest in Global Asset Management, a Bermuda based fund manager

8 Segmental Information – Net Assets and Shareholders' Funds

(a) Net Assets

A segmental analysis of the fund for future appropriations and the technical provisions net of reinsurance is set out below which, although liabilities, provides a more useful indication of the assets supporting the business:

Fund for future appropriations and net technical provisions	2000 £m	1999 £m
Fund for Future Appropriations:		
Scottish Amicable Insurance Fund of Prudential Assurance Company		
(closed to new business and wholly attributable, but not allocated to policyholders)*	3,082	3,699
Other Group companies (principally the with-profits fund of Prudential Assurance Company)	20,185	23,563
	23,267	27,262
Technical provisions (net of reinsurance)	110,190	103,864
Total	133,457	131,126
Comprising:		
UK Operations	105,939	105,966
Jackson National Life	23,585	21,783
Prudential Asia	3,340	2,848
Prudential Europe	593	529
	133,457	131,126

* The Scottish Amicable Insurance Fund ('SAIF') is a separate sub-fund within the PAC long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred from the Scottish Amicable Life Assurance Society to PAC in 1997. No new business will be written in the sub-fund. The SAIF sub-fund will be managed to ensure that all the invested assets of SAIF are distributed to SAIF policyholders over the lifetime of the SAIF policies. With the exception of certain amounts in respect of unitised with-profits life business, all future earnings arising in SAIF are retained for existing SAIF with-profits policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period will be offset by a transfer to (from) the SAIF Fund for Future Appropriations. Shareholders have no interest in the profits of SAIF, although they are entitled to the investment management fees paid on this business. SAIF with-profits policies do not guarantee minimum rates of return to policyholders

(b) Shareholders' Funds

Analysis of shareholders' capital and reserves	Net assets before core shareholder borrowings 2000 £m	Core structural borrowings of shareholder financed operations (note 30) 2000 £m	Shareholders' funds 2000 £m	Net assets before core shareholder borrowings 1999 £m	Core structural borrowings of shareholder financed operations (note 30) 1999 £m	Shareholders' funds 1999 £m
UK Operations:						
Long-term business operations (excluding M&G)	344		344	243		243
General business solvency capital*	206		206	261		261
M&G	336		336	312		312
Egg (note 9(b))	417		417	467		467
Total	1,303		1,303	1,283		1,283
US Operations:**						
Jackson National Life (note 10)	2,408	(167)	2,241	1,942	(155)	1,787
Other US operations*** (note 10)	85		85	124		124
Total	2,493	(167)	2,326	2,066	(155)	1,911
Prudential Asia	315		315	217		217
Prudential Europe	60		60	53		53
Other operations:						
Goodwill**	1,546		1,546	1,582		1,582
Holding company net borrowings	38	(1,568)	(1,530)	78	(1,760)	(1,682)
Other assets	0		0	60		60
Total other operations	1,584	(1,568)	16	1,720	(1,760)	(40)
Total	5,755	(1,735)	4,020	5,339	(1,915)	3,424

* The 1999 figure for general business solvency capital has been restated to £261m from £127m. The restatement has been made to be consistent with a change in allocation of capital and related investments made in January 2000

** Total goodwill at 31 December 2000 comprises:

	£m
Held within US operations relating to purchase of broker dealer and banking businesses	65
Other operations principally relating to M&G	1,546
	1,611

*** Other US operations relate to broker dealer, fund management, intragroup funding arrangements and certain tax balances

9 Segmental Information – UK Operations

(a) General Business	Gross premiums written 2000 £m	Gross premiums written 1999 £m	Underwriting result 2000 £m	Underwriting result 1999 £m	Investment return 2000 £m	Investment return 1999 £m	Operating profit (based on longer-term investment returns) 2000 £m	Operating profit (based on longer-term investment returns) 1999 £m
Continuing operations								
Home	**276**	274	**0**	35	**28**	23	**28**	58
Motor	**57**	44	**(3)**	(3)	**8**	6	**5**	3
Re-engineering costs	**–**	–	**–**	–	**–**	–	**–**	(12)
Total continuing operations	**333**	318	**(3)**	32	**36**	29	**33**	49
Discontinued operations	**0**	0	**(11)**	(11)	**11**	11	**0**	0
Total	**333**	318	**(14)**	21	**47**	40	**33**	49

(b) Banking	Operating loss 2000 £m	Operating loss 1999 £m
Interest receivable from:		
Loans and advances to banks	**79**	159
Loans and advances to customers	**211**	84
Debt securities	**249**	142
Other	**118**	79
	657	464
Interest payable on:		
Customer accounts	**(451)**	(362)
Other	**(126)**	(78)
	(577)	(440)
Net interest income	**80**	24
Administrative expenses	**(193)**	(150)
Provision for bad and doubtful debts	**(37)**	(9)
Other	**(5)**	(15)
Net operating loss before tax	**(155)**	(150)

	Balance sheet 2000 £m	Balance sheet 1999 £m
Assets		
Loans and advances to banks	**238**	2,613
Loans and advances to customers	**3,736**	2,046
Debt securities	**3,686**	3,971
Other banking assets	**235**	222
Total banking assets	**7,895**	8,852
Intragroup balances	**–**	58
Other assets including tax	**39**	26
Total	**7,934**	8,936
Liabilities		
Customer accounts	**7,128**	8,157
Other banking liabilities	**258**	279
Total banking liabilities	**7,386**	8,436
Intragroup liabilities	**1**	4
Tax balances	**23**	29
	7,410	8,469
Shareholders' funds:		
Group share	**417**	467
Minority interests	**107**	–
Total	**7,934**	8,936

10 Segmental Information – US Operations

The results of US operations, mainly Jackson National Life, are consolidated into the Group accounts based on US Generally Accepted Accounting Principles (US GAAP). However, certain adjustments are made to the US GAAP results to comply with UK GAAP and the Group's accounting policies as set out below:

(i) For Group reporting purposes, all fixed income securities are carried at amortised cost subject to provision for permanent diminution in value. Under US GAAP, fixed income securities classified as 'available for sale' are carried at market value with movements in unrealised gains and losses, including related changes in deferred acquisition costs and applicable tax, recognised as movements in shareholders' reserves.

(ii) For the purposes of determining Group operating profit, realised investment gains and losses are recognised on a longer-term basis. Under US GAAP, these items are not included in operating income but are included in profit before tax.

(iii) Under US GAAP, deferred tax provisions are generally established in respect of all timing differences whereas, under UK SSAP15, provision is made only for timing differences which are expected to reverse in the foreseeable future.

Reconciliations between the US GAAP and Group reporting bases are shown below:

	2000 US$m	1999 US$m	2000 £m	1999 £m
Profit Before Tax				
Jackson National Life US GAAP operating income	672	661	443	408
Longer-term investment gains	23	52	16	32
Cumulative effect of change in accounting for guarantee fund assessments (and related deferred acquisition costs)	–	28	–	17
Broker dealer and fund management operating profit (loss)	10	(10)	7	(6)
Operating profit per Group accounts	705	731	466	451
Adjustment from longer-term to actual investment gains	(79)	(24)	(52)	(15)
Amortisation of goodwill	(2)	–	(1)	–
Profit before tax included in Group accounts and in accordance with US GAAP	624	707	413	436
Represented by:				
Jackson National Life	614	717	406	442
Broker dealer and fund management	10	(10)	7	(6)
	624	707	413	436

Jackson National Life, the Prudential Assurance Company long-term fund and external investors have interests in two investment funds managed by the US fund management operation which are consolidated in the financial statements of Jackson National Life and the Prudential Group. Accordingly, the financial statements include all of the results of the two funds with appropriate disclosure of minority interests. For Prudential Group reporting purposes the segmental result for Jackson National Life reflects its proportion of the income and realised losses of the two funds.

	2000 US$m	1999 US$m	2000 £m	1999 £m
Shareholders' Funds				
Jackson National Life US GAAP shareholders' funds	2,930	2,461	1,962	1,527
Investment value and related adjustments	432	500	289	311
Deferred tax eliminated	(8)	(29)	(5)	(18)
Other items	119	148	80	91
Shareholders' funds included in Group accounts	3,473	3,080	2,326	1,911
Represented by:				
Jackson National Life (including banking business assets and liabilities)	3,346	2,879	2,241	1,787
Other (relating to funding arrangements, broker dealer and fund management operations)	127	201	85	124
	3,473	3,080	2,326	1,911
Exchange rates used for translation were:				
Average rate for the year for profit before tax			1.52	1.62
Year-end rate for shareholders' funds			1.49	1.61

11 Investment Income

	Long-term business technical account		Non-technical account	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Income from:				
Land and buildings	**750**	660	**–**	–
Listed investments	**4,695**	4,426	**24**	49
Other investments	**811**	645	**84**	51
	6,256	5,731	**108**	100
Gains on the realisation of investments	**7,579**	5,086	**32**	62
Total	**13,835**	10,817	**140**	162

12 Long-term Business Provisions, Premiums, and Policyholders' Bonuses

(a) Technical Provisions and Technical Provisions for Linked Liabilities

The following table provides an analysis of technical provisions between with-profits and non-participating business:

	2000	1999
Scottish Amicable Insurance Fund*	**11%**	11%
Financed by with-profits funds:		
With-profits business	**43%**	42%
Non-participating business**	**8%**	8%
Shareholder financed business:		
Non-participating	**21%**	21%
Linked business	**17%**	18%
Total	**100%**	100%

(b) Gross Premiums

The following table provides an analysis of gross premiums between with-profits and non-participating business:

	2000	1999
Scottish Amicable Insurance Fund*	**4%**	4%
Financed by with-profits funds:		
With-profits business	**32%**	37%
Non-participating business**	**4%**	10%
Linked business	**1%**	1%
Shareholder financed business:		
Non-participating	**45%**	36%
Linked business	**14%**	12%
Total	**100%**	100%

* The Scottish Amicable Insurance Fund is closed to new business. The assets and liabilities of the fund are wholly attributable to the policyholders of the Fund

** Annuity business written by a subsidiary of the PAC with-profits fund, Prudential Annuities Limited, and a separate fund of the PAC with-profits fund, which comprises non-participating and linked business purchased from the Scottish Amicable Life Assurance Society prior to the transfer to PAC in 1997

(c) Policyholders' Bonuses

Bonuses declared for the year in respect of the Group's with-profits business are included in the the change in long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of policyholders' bonuses was £3,454m (£3,395m).

13 Net Operating Expenses

	Long-term business technical account		General business technical account	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Acquisition costs	**1,126**	928	**31**	26
Change in deferred acquisition costs	**(119)**	(88)	**(1)**	0
Administrative expenses	**660**	719	**49**	68
Reinsurance commissions and profit participation	**11**	22	**0**	(1)
Amortisation of present value of acquired in force business	**65**	22	**–**	–
Total	**1,743**	1,603	**79**	93

Net operating expenses in the consolidated profit and loss accounts also include corporate expenditure of £42m (£40m) in the non-technical account.

14 Investment Expenses and Charges

	Long-term business technical account		Non-technical account	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Interest on bank loans and overdrafts	**33**	29	**3**	2
Interest on other loans	**116**	26	**140**	129
Total interest payable	**149**	55	**143**	131
Investment management expenses	**272**	244	**1**	1
Total	**421**	299	**144**	132

Long-term business interest payable includes £102m (£18m) in respect of funding arrangements entered into by Jackson National Life.

Interest payable in the non-technical account includes £12m (£9m) in respect of non-recourse borrowings of the US fund management operation.

Further details on borrowings are included in note 30.

Long-term business investment management expenses include management fees charged by M&G and fees paid to external property managers.

15 Tax

(i) Profit and Loss Account Tax Charge

The tax expense calculated on the long-term business fund is attributable to shareholders and policyholders. The shareholders' portion of tax is determined using the long-term effective tax rate of the underlying business applied to the profits transferred to the non-technical account. A summary of the tax expense attributable to the long-term business technical account and shareholders' profits in the consolidated profit and loss accounts is shown below:

	Long-term business technical account (attributable to long-term funds) 2000 £m	1999 £m	Non-technical account (attributable to shareholders' profits) 2000 £m	1999 £m
(a) Between UK and Foreign Tax				
UK tax expense (benefit):				
Current	**780**	534	**145**	117
Deferred	**(271)**	101	**22**	(34)
	509	635	**167**	83
Foreign tax expense (benefit):				
Current	**170**	168	**116**	125
Deferred	**1**	0	**1**	0
	171	168	**117**	125
Total	**680**	803	**284**	208
(b) By Category of Tax Expense (Benefit)				
UK corporation tax	**798**	503	**6**	(48)
Double tax relief	**(12)**	(12)	**0**	0
Tax on franked investment income	**0**	3	**0**	2
Overseas tax	**170**	168	**(22)**	(15)
Prior year adjustments	**(6)**	40	**(8)**	42
	950	702	**(24)**	(19)
Deferred tax	**(270)**	101	**23**	(34)
	680	803	**(1)**	(53)
Shareholder tax attributable to balance on the long-term business technical account			**285**	261
Total	**680**	803	**284**	208
(c) By Source of Profit				
Tax on operating profit (based on longer-term investment returns)				
Long-term business (excluding tax on 1999 re-engineering costs borne directly by shareholders' funds):				
UK Operations*			**125**	137
Jackson National Life			**132**	130
Prudential Asia**			**4**	4
Prudential Europe**			**(2)**	0
Total long-term business			**259**	271
General business and shareholders (including tax on 1999 re-engineering costs borne directly by shareholders' funds)			**(24)**	(62)
Total tax on operating profit			**235**	209
Tax on short-term fluctuations in investment returns			**(8)**	(16)
Tax on profit on Egg flotation and business disposals			**57**	15
Tax on profit on ordinary activities (including tax on actual investment returns)			**284**	208

* Excluding M&G long-term business
** Including tax relief on development expenses

15 Tax continued

(ii) Deferred Tax

The components of the net deferred tax liability and the net liability not provided are as follows:

	Liability provided (asset recognised)		Liability not provided (asset not recognised)	
	2000 £m	1999 £m	**2000 £m**	1999 £m
(a) By Category of Timing Difference				
Unrealised gains on investments	**299**	515	**2,542**	3,189
Deferred acquisition costs	**391**	375	**–**	–
Short-term timing differences	**(335)**	(296)	**(17)**	(30)
Long-term business technical provisions and other insurance items	**9**	8	**127**	122
Capital allowances	**(32)**	(27)	**(8)**	(4)
Total	**332**	575	**2,644**	3,277
(b) By Fund				
Scottish Amicable Insurance Fund	**247**	434	**–**	–
PAC with-profits fund*	**16**	95	**2,543**	3,090
Jackson National Life	**–**	–	**–**	(18)
Other long-term business operations	**39**	43	**49**	57
Other operations	**30**	3	**52**	148
Total	**332**	575	**2,644**	3,277

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

The Group has elected not to implement FRS 19 on deferred tax for the 2000 financial statements. The amounts shown in the table above have been prepared in accordance with the requirements of SSAP15.

16 Goodwill

	2000 £m	1999 £m
Balance at beginning of year	1,582	59
Adjustment in respect of 1999 acquisitions	5	–
Additions in respect of the acquisition of:		
Taiwanese operations (note 33)	67	50
M&G	–	1,527
US banking and broker dealer operations (note 33)	63	–
Charges to profit and loss account:		
In respect of the disposal of M&G institutional fund management business (note 33)	(22)	–
Amortisation expense	(84)	(54)
Balance at end of year	1,611	1,582

17 Present Value of Acquired In Force Long-term Business

	2000 £m	1999 £m
Balance at beginning of year	170	138
Exchange adjustment	9	0
Addition in respect of M&G	–	47
Amortisation:		
Pre-tax	(65)	(22)
Tax	19	7
Net	(46)	(15)
Balance at end of year	133	170

18 Information on Staff

The average numbers of staff employed by the Group during the year were:	2000	1999
UK Operations	16,652	18,885
US Operations	2,250	1,640
Asia	2,635	1,535
Europe	405	312
Total	21,942	22,372

The costs of employment were:	2000 £m	1999 £m
Wages and salaries	656	637
Social security costs	55	51
Other pension costs	46	47
Total	757	735

The Group operates a number of pension schemes around the world. The largest scheme is the Prudential Staff Pension Scheme which is the Group's main UK scheme and covers approximately 57% of members of all Group pension schemes. This scheme is of the defined benefit type with scheme assets held in separate trustee administered funds and was last valued as at 5 April 1999 by P N Thornton, a qualified actuary and a partner in the firm of Watson Wyatt Partners.

The projected accrued benefits method was used and the principal actuarial assumptions adopted were investment return 7.1% per annum, pensionable earnings growth 5% per annum, increases to pensions in payment 3% per annum and dividend growth 3.5% per annum.

The market value of scheme assets as at that date was £4,504m and the actuarial value of the assets was sufficient to cover 116% of the benefits that had accrued to members, allowing for expected future increases in earnings. As a result of the actuarial valuation, the employers' contribution rate continued at the minimum prescribed under the scheme rules currently equivalent to 10.6% of pensionable earnings.

The employers' contribution is required to be paid as a minimum in future years irrespective of the excess of assets in the scheme and, under the current scheme rules, access to the surplus through refunds from the scheme is not available. Accordingly the surplus is not recognised as an asset in the Group's financial statements and the pension cost charge has been determined on an accrued payable basis without regard to the spreading of the surplus in the fund that would normally be appropriate under the requirements of SSAP24.

£7m (£4m) of the pension costs related to overseas schemes.

19 Directors' Remuneration

Information on directors' remuneration is given in the Remuneration Report on pages 33 to 39. No director had an interest in shares, transactions or arrangements which requires disclosure, other than those given in the above Report.

20 Fees Payable to Audit Firms

	KPMG 2000 £m	KPMG 1999 £m	PwC 1999 £m	Total 1999 £m
Statutory audit fees	**1.9**	1.2	0.4	1.6
Audit related services:				
Regulatory returns and achieved profits basis audits	**0.4**	0.2	0.1	0.3
Tax and accounting advice	**0.3**	0.2	0.4	0.6
US GAAP work including work in connection with the listing of shares on the New York Stock Exchange	**0.7**	–	–	–
Acquisitions	**0.3**	–	–	–
Consultancy services:				
Regulatory reviews	**13.9**	1.2	–	1.2
Other services	**4.4**	3.9	6.0	9.9
Total	**21.9**	6.7	6.9	13.6

In October 1999 KPMG Audit Plc (KPMG) replaced PricewaterhouseCoopers (PwC) as auditors of the Company and its subsidiaries with the exception of companies managed by Egg which changed auditors in 2000. KPMG were already engaged in performing regulatory reviews prior to their appointment as auditors of the Group.

Statutory audit fees include £0.1m (£0.1m) in respect of the Company. Audit related and consultancy fees payable to KPMG include £18.8m (£5.1m) for work performed in the UK.

21 Land and Buildings

	2000 £m	1999 £m
Current value:		
Freehold	**6,111**	5,291
Leasehold with a term of over 50 years	**4,033**	3,362
Leasehold with a term of less than 50 years	**159**	110
Total	**10,303**	8,763

The cost of land and buildings was £6,970m (£5,804m). The value of land and buildings occupied by the Group was £230m (£177m).

22 Investments in Participating Interests

	Cost		Carrying value	
	2000 £m	1999 £m	2000 £m	1999 £m
Interests in associate undertakings	**15**	146	**13**	61
Interests in joint ventures	**34**	20	**34**	20
Other participating interest	**24**	24	**36**	24
Total	**73**	190	**83**	105

A summary of the movement in interests in associate undertakings is set out below:

Movement in interests in associate undertakings	Share of capital 2000 £m	Share of reserves 2000 £m	Goodwill 2000 £m	Total carrying value 2000 £m
Operating profit for the year after tax	**–**	**3**	**–**	**3**
Share of exceptional gain after tax	**–**	**14**	**–**	**14**
Dividends received	**–**	**(1)**	**–**	**(1)**
Additions	**1**	**3**	**11**	**15**
Disposals	**(16)**	**(63)**	**–**	**(79)**
Movements in year	**(15)**	**(44)**	**11**	**(48)**
Balance at beginning of year	**16**	**45**	**–**	**61**
Balance at end of year	**1**	**1**	**11**	**13**

The associate undertaking at the end of the year is IFonline plc, a company whose principal activity is mortgage intermediation. Egg plc has a 39.6% share in the total issued share capital of IFonline plc.

During the year the Group disposed of its associated interest in St James's Place Capital plc. The proportion of ordinary shares held by shareholders' funds was 25% and all shares were held by a subsidiary company.

Interests in joint ventures reflect amounts contributed in respect of ventures with the Bank of China in Hong Kong, ICICI in India, CITIC in China and Signal Iduna in Germany. The differences between the investments on a gross and net equity basis are not material. The other participating interest relates to the Group's interest in Life Assurance Holding Corporation Limited, a holding company for UK life assurance companies.

23 Other Financial Investments

	Cost 2000 £m	Cost 1999 £m	Current value 2000 £m	Current value 1999 £m
Shares and other variable yield securities and units in unit trusts	**27,542**	25,650	**51,232**	57,692
Debt securities and other fixed income securities – carried at market value	**28,476**	21,980	**30,105**	23,035
Debt securities and other fixed income securities – carried at amortised cost	**18,548**	16,779	**18,489**	16,783
Loans secured by mortgages	**2,865**	2,432	**2,895**	2,458
Loans to policyholders secured by insurance policies	**758**	681	**758**	681
Other loans	**85**	98	**104**	135
Deposits with credit institutions	**3,875**	4,413	**3,875**	4,413
Other	**659**	562	**667**	581
Total	**82,808**	72,595	**108,125**	105,778

	2000 £m	1999 £m
Amounts included in the above relating to listed investments were:		
Shares and other variable yield securities and units in unit trusts	**50,785**	56,406
Debt securities and other fixed income securities – carried at market value	**26,516**	20,530
Debt securities and other fixed income securities – carried at amortised cost	**15,090**	14,093
Total	**92,391**	91,029

The market value of debt securities and other fixed income securities valued at amortised cost was £17,884m (£16,127m). All debt securities carried at amortised cost are held by long-term business operations.

For those debt securities and other fixed income securities valued at amortised cost where the maturity value exceeded purchase price, the unamortised difference at the year end was £186m (£26m). There were no investments valued at amortised cost where the purchase price exceeded maturity value.

24 Assets Held to Cover Linked Liabilities

	Cost 2000 £m	Cost 1999 £m	Current value 2000 £m	Current value 1999 £m
Assets held to cover linked liabilities	**16,080**	13,511	**18,323**	18,643

Current value includes £4,030m (£4,246m) in respect of managed funds.

25 Tangible Assets

	2000 £m	1999 £m
Cost:		
Balance at beginning of year	**395**	266
Additions	**122**	144
Arising on acquisition of subsidiaries	**6**	44
Disposals	**(44)**	(59)
Balance at end of year	**479**	395
Depreciation:		
Balance at beginning of year	**(156)**	(125)
Provided during year	**(62)**	(47)
Arising on acquisition of subsidiaries	**(5)**	(30)
Disposals	**32**	46
Balance at end of year	**(191)**	(156)
Net book value at end of year	**288**	239
Net book value at beginning of year	**239**	141

26 Share Capital and Share Premium

The authorised share capital of the Company is £120m comprising 2,400,000,000 shares of 5p each.

Issued shares of 5p each fully paid	Number of shares	Share capital 2000 £m	Share premium 2000 £m
At beginning of year	1,953,930,435	97.7	249.6
Shares issued following listing of shares on the New York Stock Exchange:			
Arising on issue of shares	17,250,000	0.9	158.0
Related expenses	–	–	(19.4)
Shares issued under share option schemes and to qualifying share ownership trust	8,228,066	0.4	69.8
Shares issued in lieu of cash dividends	1,997,681	0.1	19.9
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	–	(19.9)
At end of year	1,981,406,182	99.1	458.0

At 31 December 2000 there were options subsisting under share option schemes to subscribe for 19,816,460 (26,212,009) shares at prices ranging from 201 pence to 759 pence (193 pence to 759 pence) and exercisable by the year 2007 (2006).

The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 31 December 2000, 7.2m Prudential plc shares with a market value of £78m were held in such trusts.

The arrangements for distribution to employees of shares held in trusts relating to employee incentive plans and for entitlement to dividends depend upon the particular terms of each plan. The cost of share awards under the plans are charged to the profit and loss account over the period of service to which awards are made. Shares held in these trusts are conditionally gifted to employees. At 31 December 2000, the 5.2m shares held by trusts under employee incentive plans have been accounted for in the consolidated balance sheet as own shares. The carrying value of the shares is £24m which represents the cost of purchase less the cumulative amounts charged to the profit and loss account.

In addition to the 5.2m shares in respect of incentive plans, 2.0m shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed after 1 June 2001 on maturity of a savings-related share option scheme. The exercise price under this scheme is 344 pence and the expected proceeds of £7m relating to these shares have also been included in the consolidated balance sheet.

27 Investments of the Company

	Shares in subsidiary undertakings 2000 £m	Loans to subsidiary undertakings 2000 £m
At beginning of year	5,023	1,531
Investments in subsidiary undertakings	22	–
Disposal of part of investment in Egg plc	(73)	–
Exchange rate movements	–	15
Advances of new loans	–	127
At end of year	4,972	1,673

28 Profit of the Company

The profit of the Company for the year was £256m (£530m). After dividends of £484m (£449m) and a transfer from the share premium account of £20m (£15m) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 2000 amounted to £1,434m (£1,642m).

29 Subsidiary Undertakings

The principal subsidiary undertakings of the Company at 31 December 2000 were:

	Main activity	Country of incorporation
Jackson National Life Insurance Company*	Insurance	USA
Prudential Annuities Limited*	Insurance	England and Wales
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
Prudential Banking plc*	Banking	England and Wales
M&G Investment Management Limited*	Investment Management	England and Wales
Scottish Amicable Life plc*	Insurance	Scotland

* Owned by a subsidiary undertaking of the Company

Each subsidiary has one class of ordinary shares and operates mainly in its country of incorporation.

Prudential Banking plc is a subsidiary of Egg plc, a listed subsidiary of the Company. The ordinary shares of Egg plc, of which there is only one class, are 79% owned by the Company. 21% of the shares are owned by shareholders external to the Prudential Group.

30 Borrowings	Debenture loans 2000 £m	Debenture loans 1999 £m	Amounts owed to credit institutions 2000 £m	Amounts owed to credit institutions 1999 £m	Other borrowings included in other creditors 2000 £m	Other borrowings included in other creditors 1999 £m	Total 2000 £m	Total 1999 £m
(a) By Fund								
Core structural borrowings of shareholder financed operations								
Holding company and finance subsidiaries:								
Bank loans and overdrafts repayable on demand			20				20	
US$300m 8.25% Guaranteed Bonds 2001	201	186					201	186
US$250m 7.125% Bonds 2005*	167	155					167	155
£150m 9.375% Guaranteed Bonds 2007	150	150					150	150
£250m 5.5% Bonds 2009*	250	250					250	250
£300m 6.875% Bonds 2023*	300	300					300	300
£250m 5.875% Bonds 2029*	250	250					250	250
Floating Rate Guaranteed Unsecured Loan Notes 2004					54	168	54	168
Commercial paper 2001					176	301	176	301
Jackson National Life:								
US$250m 8.15% Surplus Notes 2027	167	155					167	155
Total core structural borrowings of shareholder financed operations	1,485	1,446	20		230	469	1,735	1,915
Other borrowings of general insurance and shareholders' funds:								
Bank loans and overdrafts repayable on demand			20	58			20	58
Total borrowings of shareholder financed operations	1,485	1,446	40	58	230	469	1,755	1,973
Non-recourse borrowings of investment subsidiaries managed by US fund management operation (note (ii)):								
Secured senior and subordinated debt			47	44			47	44
Senior secured revolving credit			79	103			79	103
Borrowings of operations financed by with-profits operations:								
Scottish Amicable Finance plc (a subsidiary of the Scottish Amicable Insurance Fund of The Prudential Assurance Company Limited) £100m 8.5% undated Guaranteed Bonds (note (iii))	100	100					100	100
Total borrowings	1,585	1,546	166	205	230	469	1,981	2,220
(b) By Maturity								
Borrowings are repayable as follows:								
Within one year or on demand							417	359
Between one and two years							–	186
Between two and five years							347	299
After five years							1,217	1,376
Total borrowings							1,981	2,220
(c) Reconciliation to Cash Flow Statement Disclosures (note 32)								
General insurance and shareholders' funds	1,318	1,291	166	205	230	469	1,714	1,965
Long-term business operations	267	255					267	255
Total borrowings	1,585	1,546	166	205	230	469	1,981	2,220

* Debenture loans issued by the holding Company

(i) Amounts owed to credit institutions	2000 £m	1999 £m
Borrowings (per table above)	166	205
Obligations of Jackson National Life under sale and repurchase agreements	733	893
Obligations under finance leases	10	13
Total	909	1,111

30 Borrowings continued

(ii) The senior debt issued by investment subsidiaries managed by the US fund management operation is secured on the investments held by the relevant subsidiaries. The interests of the holders of the subordinated debt issued by these subsidiaries are subordinate to the entitlements of the holders of the senior debt. The terms of the revolving credit facility include a cross default provision with the subordinated notes. In addition to the debt of these subsidiaries, the US fund management operation manages investment companies with liabilities of £1,030m (£322m) pertaining to debt instruments issued to external parties. In all instances the holders of the debt instruments issued by these subsidiaries and other companies do not have recourse beyond the assets of those subsidiaries.

(iii) The interests of the holders of the bonds issued by Scottish Amicable Finance plc are subordinate to the entitlements of the policyholders of the Scottish Amicable Insurance Fund.

(iv) Jackson National Life has entered into a programme of funding arrangements under contracts which, in substance, are almost identical to Guaranteed Investment Contracts. The liabilities of £1,920m (£619m) under these funding arrangements are included in the consolidated balance sheet in other creditors.

(v) Jackson National Life, through its subsidiary Jackson Federal Savings Bank, has bank borrowings of £157m (£21m). The advances are secured by mortgage loans and mortgage backed securities.

(vi) Under the terms of the Group's arrangements with its main United Kingdom banker, the bank has a right of set off between credit balances (other than those of long-term funds) and all overdrawn balances of those Group undertakings with similar arrangements.

31 Contingencies

Litigation

The Group has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom. Some of the actions and proceedings have been brought on behalf of various alleged classes of claimants and certain of these claimants seek damages of unspecified amounts. Whilst the outcome of such matters cannot be predicted with certainty, it is the opinion of management that the ultimate outcome of such litigation will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

On 14 December 2000, proceedings were issued against Prudential Assurance by a policyholder. These proceedings relate to the surplus assets in Prudential Assurance's long-term fund and they essentially ask the Court to decide whether and, if so, to what extent the surplus assets should be paid out to or applied for the benefit of policyholders and/or shareholders. We are considering the proceedings and the issues raised by them with our legal advisers. Further details on the issue of surplus assets are given in the paragraph on the Prudential Assurance Long-term Fund on the following page.

Jackson National Life has been named in civil litigation proceedings which appear to be substantially similar to other class action litigation brought against many life insurers alleging misconduct in the sale of insurance products. At this time, it is not possible to make a meaningful estimate of the amount or range of loss, if any, that could result from an unfavourable outcome in such actions. In addition, Jackson National Life is a defendant in several individual actions that involve similar issues, including a 1999 verdict against Jackson National Life for US$32.5m (£21.8m) in punitive damages. Jackson National Life has appealed the verdict on the basis that it is not supported by the facts or the law and a ruling reversing the judgement is expected.

Pension Mis-selling

The costs associated with the review of personal pension mis-selling in the UK have been met from the free assets of the long-term fund of The Prudential Assurance Company Limited. Given the strength of the long-term fund, the directors are of the opinion that charging the costs to the free assets of the fund will not have an adverse effect on the level of bonuses paid to policyholders or their reasonable expectations. In the unlikely event of this proving not to be the case, the directors' intention would be that an appropriate contribution to the long-term fund would be made from shareholders' funds. In view of the uncertainty, it is not practicable to estimate the level of the potential contribution.

Provisions in respect of the costs associated with the review have been included in the change in the long-term business provision in the Group's profit and loss account. The transfer from the fund for future appropriations has been determined accordingly.

A summary of the changes in the pension mis-selling liability is set out below:

	2000 £m	1999 £m
At beginning of year	1,700	1,100
Cases added due to expanded scope of the review	–	202
Changes to actuarial assumptions and method of calculation	(117)	261
Increase in provision for administrative expenses	50	190
Discount accretion	102	66
Redress to policyholders	(134)	(73)
Payments of administrative expenses	(126)	(46)
At end of year	1,475	1,700

31 Contingencies continued

Pension Mis-selling continued

In 1999 the scope of the pension mis-selling review in respect of Phase 2 cases was expanded by the UK regulator. Phase 2 cases, originally referred to as non-priority cases, are primarily younger investors who have retirement dates which are not near term. The increase in the provision as a result of this expansion in scope was £202m. There were no changes in scope in 2000. Also in 1999 the provision was increased by £261m to reflect changes in the method of calculation resulting from new requirements issued by the UK regulator and changes in the interest rate and mortality assumptions used. In 2000 changes to these assumptions resulted in a reduction of £117m in the provision.

The increase in the provision for administrative expenses reflects the additional administrative costs the Group expected to incur predominantly due to the shortening of the deadline for completing the Phase 2 cases by the UK regulator from December 2004 to June 2002.

The pension mis-selling liability represents the discounted value of future expected payments, including benefit payments and all internal and external legal and administrative costs of adjudicating, processing and settling those claims and, as a consequence, to the extent that amounts have not been paid, the provision increases each year reflecting the accretion of the discount.

Prudential Assurance Long-term Fund

The Prudential Assurance long-term fund retains the annual profit and loss activity of with-profits business in excess of bonus distributions and associated shareholders' distribution for the year within the fund for future appropriations. The balance of the fund has accumulated over many years and has come from a variety of sources. Management believes that the balance of the fund is greater than the amounts anticipated to be distributed as benefits and future annual and terminal bonuses on policies currently in force. The Company is currently discussing the attribution of unallocated assets in the fund with the Financial Services Authority, the UK insurance regulator. The amount and timing of any attribution to shareholders is sufficiently uncertain that it is not possible to accurately estimate any potential attribution. In addition, it is likely that if any surplus assets are attributed to shareholders, they will remain in Prudential Assurance's long-term fund to support the long-term business and accordingly they are unlikely to be distributed to shareholders for some considerable period of time, if at all.

32 Cash Flow

Reconciliation of Operating Profit to Net Cash Inflow from Operations

	2000 £m	1999 £m
Operating profit before tax before amortisation of goodwill	840	776
Add back interest charged to operating profit	143	131
Adjustments for non-cash items:		
Tax on long-term business profits and franked investment income	(285)	(263)
General business and shareholder long-term investment gains	(28)	(33)
Increase (decrease) in general business technical provisions	71	(33)
Amounts retained and invested in long-term business operations	(449)	(332)
Decrease (increase) in net banking assets	76	(286)
Other items	30	82
Net cash inflow from operations	398	42

Changes in Investments Net of Financing

	2000 £m	1999 £m
Increase in cash and short-term deposits	185	97
Net sales of portfolio investments	(162)	(1,675)
Decrease (increase) in loans	114	(668)
Movement on credit facility utilised by investment subsidiaries managed by US fund management operation	31	(103)
Share capital issued	(184)	(34)
Movements arising from cash flow	(16)	(2,383)
Investment appreciation	22	76
Investments and cash acquired with purchase of businesses	16	214
Exchange translation and other	9	37
Transfer to retained profit in respect of shares issued in lieu of cash dividends	20	15
Portfolio investments net of financing at beginning of year	(1,025)	1,016
Portfolio investments net of financing at end of year	(974)	(1,025)
Represented by:		
Investments (including short-term deposits)	983	1,078
Cash at bank and in hand	209	150
Borrowings (per note 30)	(1,714)	(1,965)
Share capital and share premium	(557)	(347)
Cumulative charge to Group profit and loss account reserve in respect of shares issued to qualifying employee share ownership trust	105	59
	(974)	(1,025)

32 Cash Flow continued

Reconciliation of Investments to Balance Sheet

	2000 £m	1999 £m
General business and shareholders (as above)	983	1,078
Long-term business	117,445	113,463
Total portfolio investments per balance sheet	118,428	114,541

Reconciliation of Cash to Balance Sheet

	2000 £m	1999 £m
General business and shareholders (as above)	209	150
Long-term business	1,193	638
Total cash at bank and in hand per balance sheet	1,402	788

Reconciliation of Borrowings

	2000 £m	1999 £m
General business and shareholders (as above)	1,714	1,965
Long-term business	267	255
Total borrowings per note 30	1,981	2,220

Acquisitions, Disposals and Flotation of Holding in Egg	Acquisitions 2000 £m	Flotation of holding in Egg and disposals of businesses 2000 £m	Total 2000 £m	Total 1999 £m
Net assets acquired (disposed of):				
Goodwill on acquisitions (disposals)	130	(22)	108	1,577
Investments	–	–	–	187
Cash and short-term deposits	16	–	16	27
Banking business assets	565	149	714	–
Banking business liabilities	(535)	–	(535)	–
Interest in associate undertaking	–	(79)	(79)	–
Net assets held in long-term business operations	–	184	184	213
Minority interests in Egg	–	(120)	(120)	–
Other net assets	7	(31)	(24)	7
Net assets acquired (disposed of)	183	81	264	2,011
Cash consideration (paid) received after expenses	(183)	195	12	(2,011)
Net impact on shareholders' funds	–	276	276	–
Comprising:				
Short-term fluctuations in investment returns after tax	–	19	19	–
Profit on business disposals after tax	–	167	167	–
Goodwill credited to reserves	–	90	90	–
	–	276	276	–

33 Acquisitions, Disposals and Flotation of Holding in Egg

(a) Acquisitions

Acquisitions in 2000 principally relate to the purchase in September of the whole of Highland Bancorp Inc, a publicly listed California savings company, and the purchase in October of an 89% interest in Core Pacific Securities Investment Trust Enterprise, a Taiwanese mutual fund provider. In September 2000, the Group also increased its holding in its Taiwanese life insurance operation.

The effect of these transactions which have been accounted for as acquisitions was:

	US operations 2000 £m	Taiwanese operations 2000 £m	Total 2000 £m
Fair value of consideration (including expenses)	110	73	183
Net assets acquired:			
Cash and short-term investments	16	–	16
Banking business assets	565	–	565
Banking business liabilities	(535)	–	(535)
Other net assets	1	6	7
Book and fair value of assets at acquisition	47	6	53
Goodwill recognised on acquisitions	63	67	130

The amounts included in the profit and loss account for 2000 in respect of these operations are not material. The goodwill is being amortised from the date of acquisition over a period of 20 years.

(b) Disposals

Profit on Sale of Holding in Associate Company

In March 2000 the Company announced the disposal of part of its 25% shareholding in its associate company, St James's Place Capital plc to Halifax Group plc. The profit arising on disposal was first reported as part of the Company's interim results. At 30 June, an initial 68% of this shareholding had been sold by a combination of the offer arrangements from Halifax and market sales. Proceeds from the disposal of the part of the shareholding that had been sold by 30 June amounted to £213m. After taking into account attributable net assets of £53m and attributable goodwill of £61m charged to reserves on acquisition, the profit on disposal was £99m.

Subsequently the remainder of the shareholding was sold in tranches in the market for £79m. After taking into account attributable net assets of £26m and goodwill of £29m, a net credit of £24m has been accounted for within short-term fluctuations in investment returns.

The goodwill total of £90m has been credited back to reserves.

Sale of Institutional Fund Management Business

In March 2000 the Company announced the sale of £12 billion of UK institutional fund management business. After taking account of the goodwill of £22m attached to this business, there was zero profit on disposal.

(c) Profit on Sale and Flotation of Holding in Egg

In June 2000 the Company undertook an Initial Public Offering of part of its holding in Egg plc, its wholly owned UK banking subsidiary, and at the same time Egg issued new shares to the market. Total proceeds, net of expenses, amounted to £239m. After taking account of minority interests of £120m arising as a result of this transaction, the profit to the Group was £119m.

34 Post Balance Sheet Events

(a) Acquisition of Orico Life Insurance Company Limited

In January 2001 the Company announced that it had signed an agreement to acquire Orico Life Insurance Company Limited of Japan for £133m. The transaction was completed in February.

(b) Restructuring of UK Insurance Operations

In February 2001 the Company announced the restructuring of the direct sales force and customer service channels in the UK Insurance Operations. The Company expects to incur a restructuring charge of £110m from these changes of which £13m will impact directly on shareholders.

(c) Merger with American General Corporation

On 12 March 2001 the Company announced the terms of a recommended merger with American General Corporation, a US investment, life insurance and consumer finance group. The merger terms include the issue of 3.6622 Prudential shares for each American General share. The merger is targeted for completion in the third quarter of 2001 subject to shareholder approvals and regulatory consents. On completion of the merger Prudential shareholders would own approximately 50.5% and American General shareholders approximately 49.5% of the enlarged Group on a fully diluted basis. The following financial information produced on a US GAAP basis has been extracted from American General Corporation's 2000 financial statements:

	US$m
Revenue and deposits	22,368
Operating earnings	1,310
Net income	1,003
Total assets	120,360

Auditors' Report to the Members of Prudential plc

We have audited the financial statements on pages 42 to 74.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 31 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 30 to 32 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
15 March 2001

Group Summary	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Results for the Year					
Long-term business including investment products					
New business of continuing operations:					
Single	13,354	11,834	7,189	6,780	6,119
Regular	569	509	468	487	448
Premium income:					
Continuing operations	17,760	16,133	11,009	9,989	8,926
Discontinued operations	–	–	456	788	2,046
General business premiums written:					
Continuing operations	333	318	310	306	303
Discontinued operations	–	–	–	–	304
Operating profit before amortisation of goodwill:					
Long-term business	974	949	832	764	670
General business	33	61	39	38	69
Investment management and products	90	70	28	20	28
US broker dealer and fund management	7	(6)	–	–	–
Banking	(155)	(150)	(77)	(22)	(54)
Shareholders' investment return and other income	76	93	189	141	30
Interest payable	(143)	(131)	(105)	(75)	(61)
Corporate expenditure	(42)	(40)	(46)	(32)	(24)
Re-engineering costs	–	(70)	–	–	–
Continuing operations	840	776	860	834	658
Discontinued operations	–	–	8	30	196
Total operating profit (based on longer-term investment returns) before amortisation of goodwill	840	776	868	864	854
Amortisation of goodwill	(84)	(54)	–	–	–
Short-term fluctuations in investment returns	(48)	28	24	83	(37)
Profit on business disposals	239	–	249	18	797
Reclassification of shareholder reserves of discontinued Australian operation	–	–	–	204	–
Profit on ordinary activities before tax (including actual investment returns)	947	750	1,141	1,169	1,614
Profit after tax and minority interests:					
Operating profit (including post-tax longer-term investment returns)	617	567	654	618	636
Profit for the year (including post-tax actual investment returns)	688	542	880	837	1,407
Shareholders' Funds and Borrowings					
Statutory basis:					
Employed in business units	4,004	3,464	2,249	1,996	1,398
Retained centrally	1,584	1,720	2,223	1,789	2,027
	5,588	5,184	4,472	3,785	3,425
Borrowings of holding company and related finance subsidiaries	(1,568)	(1,760)	(1,223)	(1,002)	(668)
Total statutory basis capital and reserves	4,020	3,424	3,249	2,783	2,757
Additional achieved profits basis retained profit	4,813	4,918	4,261	4,129	3,816
Achieved profits basis capital and reserves	8,833	8,342	7,510	6,912	6,573
Insurance and Investment Funds under Management (£bn)	165	170	128	119	91
Share Statistics					
Earnings per share:					
Based on operating profit after tax and related minority interests before amortisation of goodwill	31.5p	29.1p	33.7p	32.0p	33.2p
Based on profit for the year after tax and minority interests	35.1p	27.8p	45.3p	43.3p	73.4p
Dividend per share	24.5p	23.0p	21.0p	19.1p	17.3p
Market price at 31 December	1,077p	1,220p	908p	734p	492p
Average number of shares	1,959m	1,947m	1,942m	1,932m	1,917m

Analysis by Business Area

Analysis by Business Area	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
UK Operations					
Long-term business including investment products					
New business :					
Single	**5,976**	6,995	4,230	3,638	3,569
Regular	**293**	359	350	328	303
Premium income	**9,036**	10,279	7,114	5,969	5,532
General business premiums written	**333**	318	310	306	303
Operating profit:					
Long-term business	**503**	471	404	385	330
General business	**33**	61	39	38	69
Investment management and products	**90**	70	28	20	28
Banking	**(155)**	(150)	(77)	(22)	(54)
Total operating profit	**471**	452	394	421	373
Statutory basis capital and reserves	**1,303**	1,283	525	398	259
Additional achieved profits basis retained profit	**3,883**	3,884	3,386	3,321	3,007
Achieved profits basis capital and reserves	**5,186**	5,167	3,911	3,719	3,266
Insurance and Investment Funds under Management (£bn)	**129**	142	105	93	68
US Operations					
Long-term business					
New business:					
Single	**4,830**	4,062	2,835	2,914	2,462
Regular	**25**	24	28	37	42
Premium income	**5,223**	4,449	3,237	3,340	2,928
Operating profit (including averaged realised gains)	**459**	457	411	367	328
US broker dealer and fund management	**7**	(6)	–	–	–
US GAAP profit (including actual realised gains)	**413**	436	413	377	300
Statutory basis capital and reserves	**2,326**	1,911	1,564	1,300	1,017
Additional achieved profits basis retained profit	**430**	622	602	546	519
Achieved profits basis capital and reserves	**2,756**	2,533	2,166	1,846	1,536
Insurance and Investment Funds under Management (£bn)	**30**	25	21	19	16
Asia					
Long-term business including investment products					
New business:					
Single	**2,534**	765	114	226	88
Regular	**229**	106	79	120	103
Premium income	**3,335**	1,237	532	653	466
Operating profit before development expenses	**39**	27	23	20	20
Development expenses	**(17)**	(12)	(10)	(9)	(8)
Net operating profit	**22**	15	13	11	12
Statutory basis capital and reserves	**315**	217	123	46	38
Additional achieved profits basis retained profit	**478**	376	255	214	209
Achieved profits basis capital and reserves	**793**	593	378	260	247
Insurance and Investment Funds under Management (£bn)	**5.6**	2.7	1.7	1.5	1.5
Europe					
Long-term business					
New business:					
Single	**14**	12	10	2	–
Regular	**22**	20	11	2	–
Premium income	**166**	168	126	27	–
Operating profit before development expenses	**8**	6	4	1	–
Development expenses	**(18)**	0	0	0	–
Net operating profit	**(10)**	6	4	1	–
Statutory basis capital and reserves	**60**	53	37	29	–
Additional achieved profits basis retained profit	**22**	15	9	2	–
Achieved profits basis capital and reserves	**82**	68	46	31	–
Insurance and Investment Funds under Management (£bn)	**0.6**	0.5	0.4	0.3	–

Achieved Profits Basis Supplementary Information

Year ended 31 December 2000

Results Analysis by Business Area	Note	2000 £m	1999 £m
UK Operations			
New business	7	**230**	308
Business in force	8	**478**	327
Long-term business		**708**	635
General business		**33**	61
M&G		**125**	87
Egg		**(155)**	(150)
Total		**711**	633
US Operations			
New business	7	**221**	198
Business in force	8	**(2)**	277
Long-term business		**219**	475
Broker dealer and fund management		**7**	(6)
Total		**226**	469
Asia			
New business	7	**153**	90
Business in force	8	**60**	35
Long-term business		**213**	125
Development expenses		**(17)**	(12)
Total		**196**	113
Europe			
New business	7	**9**	7
Business in force	8	**8**	6
Long-term business		**17**	13
Development expenses		**(18)**	0
Total		**(1)**	13
Other Income and Expenditure			
Investment return and other income		**82**	111
Interest payable		**(143)**	(131)
Corporate expenditure		**(42)**	(40)
Total		**(103)**	(60)
Re-engineering costs		**–**	(70)
Total operating profit (based on longer-term investment returns) before amortisation of goodwill		**1,029**	1,098

Summarised Consolidated Profit and Loss Account – Achieved Profits Basis
Year ended 31 December 2000

	Note	2000 £m	1999 £m
Operating profit (based on longer-term investment returns)			
New business	7	613	603
Business in force (net of development expenses)	8	509	633
Long-term business		1,122	1,236
General business		33	61
M&G		125	87
Egg		(155)	(150)
US broker dealer and fund management		7	(6)
Other income and expenditure		(103)	(60)
Re-engineering costs		–	(70)
Operating profit before amortisation of goodwill		1,029	1,098
Amortisation of goodwill		(84)	(54)
Short-term fluctuations in investment returns		(440)	637
Profit on sale and flotation of holding in Egg		119	–
Share of exceptional gain of associate company		21	–
Profit on sale of holding in associate company		83	–
Profit on ordinary activities before tax (including actual investment returns)		728	1,681
Tax	9	(239)	(519)
Profit for the financial year before minority interests		489	1,162
Minority interests		25	–
Profit for the financial year after minority interests		514	1,162
Dividends		(484)	(449)
Retained profit for the financial year		30	713

Earnings per Share – Achieved Profits Basis
Year ended 31 December 2000

	2000	1999
Based on operating profit after tax and related minority interests before amortisation of goodwill of £749m (£762m)	38.2p	39.1p
Adjustment for amortisation of goodwill	(4.3)p	(2.8)p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	(16.2)p	24.2p
Adjustment for profit on flotation of Egg and business disposals (1999 tax paid on prior year disposal)	8.5p	(0.8)p
Based on profit for the year after tax and minority interests of £514m (£1,162m)	26.2p	59.7p
Average number of shares	1,959m	1,947m

Statement of Total Recognised Gains and Losses – Achieved Profits Basis
Year ended 31 December 2000

	2000 £m	1999 £m
Profit for the financial year after minority interests	514	1,162
Currency adjustment translation movements	187	85
Total recognised gains relating to the financial year	701	1,247

Summarised Consolidated Balance Sheet – Achieved Profits Basis

31 December 2000

	Note	2000 £m	1999 £m
Investments		118,511	114,646
Assets held to cover linked liabilities		18,323	18,643
Banking business assets		8,603	8,945
Other assets		9,513	8,409
Total assets		154,950	150,643
Less banking business liabilities		(8,040)	(8,525)
Less other liabilities		(8,617)	(6,892)
Total assets less liabilities		138,293	135,226
Less insurance funds			
Technical provisions		111,006	104,540
Fund for future appropriations		23,267	27,262
Less shareholders' accrued interest in the long-term business		(4,813)	(4,918)
		129,460	126,884
Achieved profits basis net assets	10	8,833	8,342
Shareholders' capital and reserves			
Share capital and share premium		557	347
Statutory basis retained profit		3,463	3,077
Additional achieved profits basis retained profit		4,813	4,918
Achieved profits basis capital and reserves		8,833	8,342

Reconciliation of Movement in Shareholders' Capital and Reserves – Achieved Profits Basis

Year ended 31 December 2000

	Note	2000 £m	1999 £m
Total recognised gains relating to the financial year		701	1,247
New share capital subscribed		184	34
Goodwill on sale of holding in associate company		90	–
Dividends		(484)	(449)
Net increase in shareholders' capital and reserves	11	491	832
Shareholders' capital and reserves at beginning of year		8,342	7,510
Shareholders' capital and reserves at end of year	10,11	8,833	8,342

1 Basis of Presentation

The achieved profits basis results have been prepared in accordance with the draft 'Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business' issued by the Association of British Insurers in July 1995. The information is supplementary to the financial statements on pages 42 to 74.

2 Assumptions

(i) Methodology

The achieved profits basis results incorporate best estimate forecasts of future rates of investment return, proprietor's spread (in the case of Jackson National Life), policy discontinuances, mortality, expenses, expense inflation, taxation, bonus rates, surrender and paid up bases, and statutory valuation bases. In preparing these forecasts, account has been taken of recent experience and general economic conditions, together with inherent uncertainty. It has been assumed that the bases and rates of taxation, both direct and indirect, will not change materially in the countries in which the Group operates.

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. In the UK, Department of Social Security rebate business has been treated as single premium business.

(ii) Expected rates of future investment return and spread assumptions

Expected future rates of investment return reflect prevailing interest rates, the outlook for inflation and the mix of the portfolio.

In determining the 2000 and 1999 results for UK operations the key assumptions were:

Real pre-tax rates of investment return		Nominal pre-tax rates of investment return	
UK equities	5.5%	Gilts	6.0%
Overseas equities	5.5%	Corporate bonds	7.0%
Property	5.5%	PAC with-profits fund	
Expense inflation (per policy)		(applying the rates listed	
Ordinary branch	2.5%	left and above to the investments	
Industrial branch	4.5%	held by the fund)	8.0%

For Jackson National Life, the absolute level of rates of future return is less important than the spread achieved between the earned rate and the rates credited to policyholders. In determining the results for both 2000 and 1999, a spread of 1.90% for the single premium deferred annuity product has been assumed.

3 Discount Rates

The shareholders' interests in the future net of tax cash flows of the UK long-term businesses and Jackson National Life at 31 December 2000 and 1999 have been discounted to present values using a discount rate of 8.5%. For Prudential Asia different discount rates are applied in each territory and the weighted average rate applying to new business written in 2000 was 10.4%.

The discount rate represents the best estimate of the shareholders' long-term risk free rate of return on appropriate government securities plus a margin to allow for adverse fluctuations and the risks borne.

The unwind of discount rate on the present value of future statutory profits is included in profits from business in force.

4 Investment Return

(i) Profit before tax

With the exception of fixed interest investments held by Jackson National Life, investment gains during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included in the profit for the year and shareholders' funds as they arise.

In the case of Jackson National Life, it is assumed that fixed income investments will normally be held until maturity. Therefore unrealised gains are not reflected in either the achieved profits or statutory basis results and, except on realisation of investments, only income received and the amortisation of the difference between cost and maturity values are recognised to the extent attributable to shareholders.

(ii) Operating profit

Except for Jackson National Life, investment returns, including investment gains, in respect of long-term insurance business are recognised in operating results at the expected long-term rate of return. For the purposes of calculating investment return to be recognised in operating results, values of assets at the beginning of the reporting period, to which the expected long-term rates of return are applied, are adjusted to be consistent with long-term expected income yields. This adjustment is most significant for the results of the UK operations.

For Jackson National Life some investments are realised before maturity, mainly through early redemption by issuers or mortgage holders. Gains made on realisation are spread forward over five years for the purposes of calculating operating results.

For the purpose of determining operating profit, management charges on unit linked business are projected using smoothed unit prices.

5 Cost of Capital

On the achieved profits basis, a charge is deducted from the annual result and the balance sheet value for the cost of capital supporting solvency requirements for the Group's long-term business. This cost is the difference between the nominal value of solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital.

The annual result is impacted by the movement in this cost from year to year which comprises a charge against new business profit with a partial offset for the release of capital requirements for business in force.

Where solvency capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of solvency capital.

However, where business is funded directly by shareholders, principally at Jackson National Life, the solvency capital requires adjustments to reflect the cost of that capital.

In determining the cost of capital of Jackson National Life, it has been assumed that an amount equal to 200% of the risk based capital required by the US supervisory authorities must be retained. The impact of the related capital charge is to reduce Jackson National Life's shareholders' funds by £222m (£234m).

6 Foreign Currency Translation

Foreign currency revenue has been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year-end rates of exchange.

7 Operating Profit from New Business

	Pre-tax 2000 £m	Tax 2000 £m	Post-tax 2000 £m	Pre-tax 1999 £m	Tax 1999 £m	Post-tax 1999 £m
UK Operations	230	(69)	161	308	(92)	216
Jackson National Life*	221	(101)	120	198	(88)	110
Asia	153	(44)	109	90	(24)	66
Europe	9	(3)	6	7	(2)	5
Total	613	(217)	396	603	(206)	397

	2000 £m	1999 £m
* Jackson National Life net of tax profit		
Before capital charge	155	141
Capital charge (note 5)	(35)	(31)
After capital charge	120	110

8 Operating Profit from Business in Force	2000 £m	1999 £m
UK Operations		
Unwind of discount on smoothed opening net shareholder assets (including smoothed return on surplus assets retained within the PAC with-profits fund and shareholders assets held in long-term business operations)*	429	384
Results of service companies	0	(1)
Experience variances against assumptions used for year end valuation:		
Persistency	0	43
Other	19	(7)
	448	419
Costs of pension mis-selling	–	(92)
Change of persistency assumption	30	–
	478	327
Jackson National Life		
Unwind of discount on opening net assets including target surplus	218	201
Return on surplus assets over target surplus	34	26
Averaged realised gains**	19	37
Experience variances against current assumptions:		
Spread	39	32
Persistency	(24)	(38)
Mortality and morbidity	(10)	11
Expenses	(37)	(8)
Other	17	16
Loss from strengthening persistency and expense assumptions	(258)	–
	(2)	277
Asia		
Unwind of discount on smoothed opening net assets*	58	43
Experience variances against current assumptions:		
Persistency	(7)	(19)
Other	9	11
	60	35
Development expenses	(17)	(12)
	43	23
Europe		
Unwind of discount	8	6
Experience variances against current assumptions	0	0
	8	6
Development expenses	(18)	0
	(10)	6
Total	509	633

* Smoothed assets represent the opening assets adjusted to reflect the difference between actual and assumed long-term dividend yields

** Averaged realised gains differ from those reported on the statutory basis (see page 61) for the impact of amortisation of policy acquisition costs attributable to realised gains. These have been included in the statutory basis gains averaging calculation for the years 1998 to 2000. On the achieved profits basis deferred acquisition costs do not feature as part of the methodology. Accordingly the realised gains included in the averaging process are exclusive of the amortisation of policy acquisition costs attributable to realised gains

9 Tax

The profit for the year is in most cases calculated initially at the post-tax level. The post-tax profit is then grossed up for presentation purposes at the effective rates of tax applicable to the countries and periods concerned. For Jackson National Life the profit is calculated at the pre-tax level and the effective tax rate is the rate expected to be applicable on average over the remaining life times of the policies.

The tax charge comprises:

	2000 £m	1999 £m
Charge on operating profit (based on longer-term investment returns)		
Long-term business (excluding tax on 1999 re-engineering costs borne directly by shareholders' funds):		
UK Operations (excluding M&G long-term business)	212	187
Jackson National Life	44	173
Asia (including tax relief on development expenses)	57	29
Europe (including tax relief on development expenses)	0	4
	313	393
General insurance and shareholders (including tax relief on 1999 re-engineering costs borne directly by shareholders' funds)	(21)	(57)
Total tax on operating profit	292	336
Tax on items not included in operating profit:		
Tax on short-term fluctuations in investment returns	(110)	168
Tax on profit on Egg flotation and business disposals	57	15
Total tax on items not included in operating profit	(53)	183
Total tax on profit on ordinary activities	239	519

10 Shareholders' Funds – Segmental Analysis

	2000 £m	1999 £m
UK Operations:		
Long-term business operations	4,227	4,127
General business solvency capital*	206	261
M&G	336	312
Egg	417	467
	5,186	5,167
US Operations:**		
Jackson National Life (net of surplus note borrowings of £167m (£155m)):		
Before charge for cost of capital	2,893	2,643
Capital charge (note 5)	(222)	(234)
After charge for cost of capital	2,671	2,409
Other operations***	85	124
	2,756	2,533
Asia	793	593
Europe	82	68
Other operations:		
Goodwill**	1,546	1,582
Holding company net borrowings	(1,530)	(1,682)
Other assets	0	81
	16	(19)
Total	8,833	8,342

* The 1999 figure for general business solvency capital has been restated to £261m from the previously published figure of £127m. The restatement has been made to be consistent with a change in allocation of capital and related investments made in January 2000

** Total goodwill at 31 December 2000 was £1,611m and comprises £65m held within US Operations, relating to broker dealer and banking business, and £1,546m held centrally

*** Other US operations relate to broker dealer, fund management, intragroup funding arrangements and certain tax balances

11 Reconciliation of Movement in Shareholders' Funds

	UK long-term business 2000 £m	Jackson National Life 2000 £m	Asia 2000 £m	Europe 2000 £m	Other operations 2000 £m	Group total 2000 £m
Operating profit (including investment return based on longer-term rates of return)						
Long-term business:						
New business	230	221	153	9		613
Business in force	478	(2)	60	8		544
Asia and Europe development expenses			(17)	(18)		(35)
Other operating profits					(93)	(93)
Total operating profit before amortisation of goodwill	708	219	196	(1)	(93)	1,029
Amortisation of goodwill		(1)			(83)	(84)
Short-term fluctuations in investment returns	(218)	(171)	(46)	(3)	(2)	(440)
Profit on sale and flotation of holding in Egg					119	119
Share of exceptional gain of associate company					21	21
Profit on sale of holding in associate company					83	83
Profit on ordinary activities before tax (including actual investment gains)	490	47	150	(4)	45	728
Tax:						
Tax on operating profit	(212)	(44)	(57)	0	21	(292)
Tax on items not included in operating profit	65	48	7	0	(67)	53
Total tax charge	(147)	4	(50)	0	(46)	(239)
Minority interests					25	25
Profit for the financial year	343	51	100	(4)	24	514
Exchange movements		187	27		(27)	187
Development expenses (net of tax) borne centrally			12	6	(18)	
Investments in operations	95		61	7	(163)	
Intragroup dividends (including accrued statutory transfers)*	(333)	24			309	
Adjustment for European new business sold by Prudential Intermediary Business	(5)			5		
External dividends					(484)	(484)
New share capital subscribed					184	184
Goodwill credited to reserves on disposal of holding in associate company					90	90
Net increase in shareholders' capital and reserves	100	262	200	14	(85)	491
Shareholders' capital and reserves at 1 January 2000	4,127	2,409	593	68	1,145	8,342
Shareholders' capital and reserves at 31 December 2000	4,227	2,671	793	82	1,060	8,833
Analysed as:						
Statutory basis shareholders' funds	344	2,241	315	60	1,060	4,020
Additional shareholders' interest on achieved profits basis	3,883	430	478	22		4,813
Achieved profits basis shareholders' funds	4,227	2,671	793	82	1,060	8,833

* The intragroup dividend of £24m for Jackson National Life is determined after a waiver of intragroup debt payable to Jackson's holding company in respect of funding arrangements

12 Alternative Assumptions

The discount rate appropriate to any investor will depend on the investor's own requirements, tax and perception of the risks associated with the anticipated cash flows to shareholders. The table below shows the effect on achieved profits basis shareholders' funds at 31 December 2000 of alternative discount rates:

	Increase in rates £m	Decrease in rates £m
1% change in risk discount rate for all operations	(560)	530

The achieved profits basis of financial reporting is based on conventional accounting principles and recognises profit as it accrues over the life of an insurance contract. Although total profit from each contract calculated under this method is the same as under the modified statutory basis of reporting used for the main accounts, the timing of profit recognition is advanced.

The achieved profits basis can be illustrated by considering an individual contract. Using prudent best estimate assumptions of the main elements of future income and expenditure – investment return, claims, lapses, surrenders and administration expenses – the total profit expected to be earned from the contract can be estimated at the time of its sale. The total profit expected to be earned is then allocated to individual financial years by application of a discount rate which allows for both the time value of money and the risk associated with the future shareholder cash flows.

Provided that the actual outcome is in line with the original assumptions, profits will be earned in each accounting period as the discount rate unwinds. The balance of profit not allocated to future years is recognised in the year of sale and is known as the profit from new business. The unwind of the discount rate and variances between actual and assumed experience during the remainder of the contract period produce the profit on business in force.

The additional profit recognised at an earlier stage under the achieved profits method is retained within the long-term funds and is known as the shareholders' accrued interest in the long-term business.

The achieved profits basis is designed to report profit which reflects business performance during the year under review, particularly new business sales and fluctuations between actual and assumed experience.

The use of the achieved profits basis does not affect either the cash surpluses which are released to shareholders' funds from the long-term funds, which continue to be determined by the directors following statutory actuarial valuations of the funds, or amounts available for dividend payments to shareholders.

The additional profit recognised using the achieved profits basis is represented by the shareholders' accrued interest in the long-term business and, when combined with shareholders' funds reported on the statutory basis, provides an improved measure of total shareholders' funds of the Group.

Auditors' Report on the Achieved Profits Basis Supplementary Information

to the Members of Prudential plc

We have reviewed the supplementary information on pages 79 to 85, which have been prepared on the basis set out in note 1 on page 81.

Respective Responsibilities of Directors and Auditors

The directors are responsible for the preparation of the Annual Report, including as described on page 31, the financial statements and supplementary information. Our responsibilities are outlined on page 75.

Basis of Opinion

Our review included examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also included tests of calculation and of the extraction of data from the underlying records.

Opinion

In our opinion, the achieved profits basis Group profit for the year ended 31 December 2000 and shareholders' interest in the long-term business at that date have been properly prepared on the basis of the assumptions on page 81 and are in accordance with the methodology and disclosure requirements contained in the draft 'Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business' issued by the Association of British Insurers in July 1995.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
15 March 2001

Shareholder Information

Financial Calendar

Annual General Meeting	10 May 2001
Payment of 2000 final dividend	30 May 2001
Announcement of 2001 interim results	26 July 2001
Payment of 2001 interim dividend	29 November 2001

Analysis of Registered Shareholder Accounts

31 December 2000

Size of shareholding	Number of shareholder accounts	%	Number of shares	%
Over 10,000,000	34	0.04	789,359,057	39.84
1,000,001 – 10,000,000	250	0.28	677,006,792	34.17
500,001 – 1,000,000	158	0.18	112,498,215	5.68
100,001 – 500,000	707	0.80	156,909,093	7.92
50,001 – 100,000	518	0.58	36,885,287	1.86
10,001 – 50,000	3,655	4.13	73,023,819	3.68
5,001 – 10,000	5,470	6.17	38,551,174	1.94
1,001 – 5,000	33,190	37.46	74,854,321	3.78
1 – 1,000	44,621	50.36	22,318,424	1.13
Total	**88,603**	**100.00**	**1,981,406,182**	**100.00**

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Sharedealing Facilities

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