

### 1. BASIS OF PREPARATION OF RESULTS

The achieved profits basis results include the results of the Group's long-term business operations on the achieved profits basis. These results are combined with the statutory basis results of the Group's other operations including banking and fund management business. The achieved profits basis results for long-term business for 2004 and 2003 have been prepared in accordance with the guidance issued by the Association of British Insurers (ABI) in December 2001 'Supplementary Reporting for Long-Term Insurance Business (the Achieved Profits Method)'. The information is supplementary to the financial statements on pages 56 to 95.

### 2. METHODOLOGY

The achieved profits basis results incorporate best estimate assumptions 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 adopting these assumptions, 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 Work and Pensions rebate business has been treated as single premium business.

### 3. ECONOMIC ASSUMPTIONS

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

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

The key economic assumptions are described below:

	2004	2003
<b>UK and Europe Insurance Operations</b>		
Pre-tax expected long-term nominal rates of investment return:		
UK equities	7.1%	7.3%
Overseas equities	6.8% to 7.8%	6.6% to 7.9%
Property	6.3%	6.6%
Gilts	4.6%	4.8%
Corporate bonds	5.5%	5.8%
Assets of the Prudential Assurance Company with-profits fund (applying the rates listed above to the investments held by the fund)	6.5%	6.8%
Expected long-term rate of inflation	2.9%	3.1%
Post-tax expected long-term nominal rate of return:		
Pension business (where no tax applies)	6.5%	6.8%
Life business	5.7%	5.9%
Risk margin included within the risk discount rate	2.6%	2.6%
Risk discount rate <sup>(i)</sup>	7.2%	7.4%
<b>US Operations (Jackson National Life)</b>		
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	1.75%	1.75%
US 10 year treasury bond rate at end of year	4.3%	4.3%
Risk margin included within the risk discount rate	3.1%	3.1%
Risk discount rate <sup>(i)</sup>	7.4%	7.4%
<b>Asian Operations<sup>(ii)</sup></b>		
Weighted pre-tax expected long-term nominal rates of investment return <sup>(iii)</sup>	6.6%	7.4%
Weighted expected long-term rate of inflation	3.0%	3.4%
Weighted risk discount rate <sup>(i)</sup>	9.6%	10.4%

(i) For all operations, a discount rate is applied to post-tax cash flows to determine post-tax results. For most operations, these results are then grossed up for the effective rate of tax to derive the pre-tax results. For Jackson National Life, pre-tax results are determined by applying the risk discount rate to pre-tax cash flows adjusted for the impact of capital charges.

(ii) The economic assumptions for the Asian Operations shown above have been determined by weighting each country's economic assumptions by reference to the achieved profits basis operating result for new business written in the relevant year.

(iii) Consistent with prior periods, for the Taiwan operation, the projections include an assumption of phased progression from current rates to the long-term expected rates over a remaining period of eight years. This takes into account the effect on bond values of rising interest rates.

## 4. INVESTMENT RETURN

### (i) Profit Before Tax

With the exception of fixed income investments held by Jackson National Life, investment gains and losses 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 and losses on these securities are not reflected in either the achieved profits or statutory basis results and, except on realisation or impairment 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

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 of UK operations, where equity holdings are a significant proportion of investment portfolios, values of assets at the beginning of the reporting period are adjusted to remove the effects of short-term market volatility.

For the purposes of determining the long-term returns, realised gains and losses arising (including impairment losses) on debt securities of Jackson National Life have been averaged over five years and combined with actual interest income and dividends. For equity-related investments of Jackson National Life, a long-term rate of return of 8.0% has been assumed. This has been applied to the monthly average carrying value of such investments after excluding the estimated effect of short-term market movements.

## 5. SUPPLEMENTAL EARNINGS INFORMATION

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

	Before tax £m	Tax £m	Post-tax £m	Minority interests £m	Net £m	Basic earnings per share <sup>(ii)</sup> Pence
<b>2004</b>						
Based on operating profit after tax and minority interests before amortisation of goodwill	1,104	(315)	789	2	791	37.2p
Adjustment for amortisation of goodwill	(97)	–	(97)	–	(97)	(4.6)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests) <sup>(i)</sup>	679	(212)	467	(9)	458	21.5p
Effect of changes in economic assumptions	(100)	29	(71)	–	(71)	(3.4)p
Adjustment for post-tax profit on business disposals	48	(19)	29	–	29	1.4p
Adjustment for post-tax Egg France closure cost	(113)	32	(81)	17	(64)	(3.0)p
Based on profit for the financial year after minority interests	1,521	(485)	1,036	10	1,046	49.1p
<b>2003 (Restated)<sup>(ii)</sup></b>						
Based on operating profit after tax and minority interests before amortisation of goodwill	794	(273)	521	6	527	25.4p
Adjustment for amortisation of goodwill	(98)	–	(98)	–	(98)	(4.7)p
Adjustment from post-tax long-term investment returns to post-tax actual investment returns (after related minority interests) <sup>(i)</sup>	682	(212)	470	(4)	466	22.4p
Effect of changes in economic assumptions	(540)	130	(410)	–	(410)	(19.7)p
Based on profit for the financial year after minority interests	838	(355)	483	2	485	23.4p

(i) The adjustment from post-tax long-term returns to post-tax actual investment returns includes investment returns that are attributable to external equity investors in two investment funds managed by PPM America. These two funds are consolidated as quasi-subidiaries but, except to the extent of Group participation in the funds, they have no net impact on pre-tax or post-tax operating profit. Total profit, before and after tax, incorporating the adjustment from long-term to actual investment returns includes gains of £9m (£4m) attributable to the minority interests in these funds.

(ii) The average number of shares for 2004 is 2,129m. As a result of the Rights Issue in 2004, the average number of shares for 2003 has been restated to 2,076m and earnings per share have been restated accordingly.

## 6. COST OF CAPITAL

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 National Association of Insurance Commissioners at the Company Action Level must be retained. The impact of the related capital charge is to reduce Jackson National Life's result by £21m (£19m) and its shareholders' funds by £166m (£164m).

## 7. PENSION COSTS

The impact of pension costs on the achieved profits basis results of long-term business has been determined in the context of the methodology described in note 2. Accordingly, for long-term business, the achieved profits basis value of new business written in the reporting period and the value of in-force business at the balance sheet date have been determined after incorporating projections of attributable pension costs into the estimates of future cash flows for the contracts concerned. Experience variances for expenses include any difference between the actual and assumed contributions to defined benefit pension schemes. The achieved profits basis results and shareholders' funds for long-term business are, therefore, not affected by whether or not the Group has adopted FRS 17 'Retirement benefits' in preparing its achieved profits basis results.

On the achieved profits basis of reporting, the impact of adoption of FRS 17 for long-term business would be limited to:

- (i) balance sheet recognition of the FRS 17 basis net pensions scheme asset or liability;
- (ii) for that element of the net pensions scheme asset or liability that is attributable to the PAC with-profits fund, an adjustment of the Group's Fund for Future Appropriations by an equal but opposite amount; and
- (iii) for shareholder financed long-term business, an adjustment of the composition of achieved profits basis shareholders' funds between the components of the modified statutory basis shareholders' funds and additional shareholders' reserves (reflecting the additional shareholders' interest recognised on the achieved profits basis).

As explained in note 1, the achieved profits basis results include statutory basis results for operations other than those conducting long-term business. In preparing results for these operations the Group has continued to apply SSAP 24.

Further details are shown in note 17 on pages 81 to 83 of the Group's financial statements.

## 8. OPERATING PROFIT FROM NEW BUSINESS

	2004			2003		
	Pre-tax £m	Tax £m	Post-tax £m	Pre-tax £m	Tax £m	Post-tax £m
UK and Europe Insurance Operations <sup>(i)</sup>	220	(66)	154	166	(50)	116
Jackson National Life <sup>(ii)</sup>	156	(82)	74	148	(72)	76
Asian Operations	312	(78)	234	291	(80)	211
<b>Total</b>	<b>688</b>	<b>(226)</b>	<b>462</b>	<b>605</b>	<b>(202)</b>	<b>403</b>

(i) The 2003 UK new business result includes £9m in respect of certain investment mandates previously reported as UK Corporate Pensions but now included as M&G institutional investment flows.

(ii) Jackson National Life net of tax profit:

Before capital charge	95	95
Capital charge (note 6)	(21)	(19)
<b>After capital charge</b>	<b>74</b>	<b>76</b>

In determining the achieved profits basis value of new business written in the year the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out on page 73.

## 9. OPERATING PROFIT FROM BUSINESS IN FORCE

Operating profit from new business is measured using the revised economic assumptions shown in note 3 and after applying any revised operating assumptions. The profit and loss account impact for revised operating assumptions is shown below:

	2004 £m	2003 £m
<b>UK and Europe Insurance Operations</b>		
Unwind of discount <sup>(i)</sup>	330	343
Cost of strengthened persistency assumption <sup>(ii)</sup>	(66)	(50)
Other items <sup>(ii)</sup>	(34)	(100)
	<b>230</b>	<b>193</b>
<b>Jackson National Life</b>		
Unwind of discount	139	145
Return on surplus assets (over target surplus)	36	33
Averaged realised losses on bonds in excess of long-term default assumption <sup>(iii)</sup> (note 10)	(56)	(66)
Experience variances against current assumptions:		
Spread <sup>(iii) (iv)</sup>	43	(17)
Persistency	(6)	10
Expenses	(4)	(8)
Loss from strengthening of operating assumptions	(3)	(21)
Other	12	(27)
	<b>161</b>	<b>49</b>
<b>Asian Operations</b>		
Unwind of discount	122	115
Change in operating assumptions <sup>(v)</sup>	(56)	(27)
Other items and experience variances	3	(14)
	<b>69</b>	<b>74</b>
<b>Total</b>	<b>460</b>	<b>316</b>

(i) The unwind of discount for UK and Europe Insurance Operations represents the unwind of discount on the value of in-force business at the beginning of the year (adjusted for the effect of current year assumption changes), the expected return on smoothed surplus assets retained within the main with-profits fund (see note 13), and the expected return on shareholders' assets held in other UK and Europe long-term business operations. Surplus assets retained within the main with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility.

(ii) The £66m (£50m) cost of strengthened persistency assumption relates to the closed book of personal pension policies sold by the now discontinued direct salesforce. The £34m charge for other items in 2004 includes £21m of costs associated with complying with new regulatory requirements and restructuring and £13m of negative experience variances. The £100m charge for other items for 2003 includes a £35m adverse experience variance for persistency; a £29m restructuring charge; an adverse annuitant mortality assumption change of £18m; a strengthening of renewal expense assumptions of £29m; other positive assumption changes of £30m; and £19m of other negative items and experience variances.

(iii) The charge for average realised losses shown above is as compared to the long-term default assumption for fixed income securities, which is now presented as part of the determination of spread variance. The charge for the default assumption is calculated using a weighted risk margin reserve (RMR) approach. An RMR charge is individually assigned to asset classes based on credit ratings and, where necessary, credit analysis. This is then weighted by reference to the carrying value of the investments.

The spread variance comprises:

	2004 £m	2003 £m
Variance excluding long-term default assumption	100	54
Less: Long-term default assumption (note 10)	(57)	(71)
As reported above	<b>43</b>	<b>(17)</b>

(iv) The spread variance shown above has been determined after including long-term returns on equity based investments. This treatment is consistent with the inclusion of long-term investment returns within operating profit. Short-term fluctuations in investment returns, including those for equity based investments, are excluded from operating profit but included within the total profit or loss for the reporting period. An analysis of the short-term fluctuations in investment returns is shown in note 10.

(v) The 2004 £56m charge for changes to operating assumptions primarily relates to Singapore, mainly for persistency, and a strengthening of renewal expense assumptions in Vietnam. The £27m charge in 2003 for changes to operating assumptions primarily reflects expense assumption changes in Japan.

## 10. SHORT-TERM FLUCTUATIONS IN INVESTMENT RETURNS

	2004 £m	2003 £m
Long-term business:		
UK and Europe Insurance Operations <sup>(i)</sup>	402	531
Jackson National Life <sup>(ii)</sup>	207	132
Asian Operations <sup>(v)</sup>	48	1
Share of investment return of funds managed by PPM America that are consolidated into Group results but attributable to external investors (note 5)	9	4
Other Operations	13	14
<b>Total</b>	<b>679</b>	<b>682</b>

(i) Short-term fluctuations in investment returns represent for UK and Europe Insurance Operations the difference between actual investment returns attributable to shareholders on the achieved profits basis and the expected returns as described in note 3. The £402m of positive fluctuations in 2004 reflect the difference between the PAC with-profits fund actual investment return of 13.4% and the long-term assumed rate of 6.5%.

(ii) Short-term fluctuations for Jackson National Life comprise:

	2004 £m	2003 £m
Actual investment returns on investments less long-term returns included within operating profit <sup>(iii)</sup>	183	96
Investment return related gain due primarily to changed expectation of profitability on variable annuity business arising from current year equity returns*	24	36
	<b>207</b>	<b>132</b>

\* This adjustment arises due to market returns for 2004 and 2003 being higher than the assumed long-term rate of return. This gives rise to higher than expected year end values of variable annuity assets under management with a resulting effect on the projected value of future account values, and hence future profitability.

(iii) Jackson National Life – Actual investment returns on investments less long-term returns comprise:

	2004 £m	2003 £m
Actual less averaged realised gains and losses (including impairments) for fixed income securities <sup>(iv)</sup>	161	98
Actual less long-term return on equity-based investments	23	0
Investment depreciation on preference shares	(1)	(2)
	<b>183</b>	<b>96</b>

(iv) Jackson National Life – Actual less averaged realised gains and losses (including impairments) for fixed income securities

	US\$m	£m equivalent
Gains (losses) arising in years 2000 to 2004	2000 (90)	
	2001 (532)	
	2002 (435)	
	2003 (65)	
	2004 88	48
Five year total	(1,034)	(564)
Five year average included in operating result	(207)	(113)
Representing:		
Long-term default assumption (note 9)	(104)	(57)
Averaged losses in excess of the long-term default assumption (note 9)	(103)	(56)
	(207)	(113)
Actual less averaged losses excluded from operating result but included in profit before tax	295	161

Exchange rate 1.83

Averaged realised gains differ from those reported on the statutory basis for the impact of amortisation of policy acquisition costs attributable to realised gains and losses. These have been included in the statutory basis gains averaging calculation for the years 2000 to 2004. On the achieved profits basis deferred acquisition costs do not feature as part of the methodology. Accordingly the realised gains and losses included in the averaging process are exclusive of the amortisation of policy acquisition costs attributable to realised gains and losses.

(v) Short-term fluctuations for Asian Operations for 2004 of £48m primarily reflect bond value movements and rising equity markets.

## 11. EFFECT OF CHANGES IN ECONOMIC ASSUMPTIONS

The losses on changes in economic assumptions included within the profit on ordinary activities before tax arise as follows:

	2004 £m	2003 £m
UK and Europe Insurance Operations <sup>(i)</sup>	(19)	(122)
Jackson National Life <sup>(ii)</sup>	(53)	(263)
Asian Operations <sup>(iii)</sup>	(28)	(155)
<b>Total</b>	<b>(100)</b>	<b>(540)</b>

(i) The £19m charge for 2004 for UK and Europe Insurance Operations reflects a reduction in the risk discount rate of 0.2% and a reduction in the investment return assumptions of 0.3%.

(ii) The £53m charge for 2004 for Jackson National Life primarily reflects reductions in the projected fund earned and crediting rates on in-force business which result in lower projected policyholder liabilities on which future spread will be earned.

(iii) The £28m charge for 2004 for Asian Operations reflects the net impact of revisions to the underlying long-term investment return assumptions and discount rates.

## 12. TAXATION CHARGE

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. In the UK this is the UK corporation tax rate of 30%. For Asia, similar principles apply subject to the availability of taxable profits. 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 lifetimes of the policies.

The tax charge comprises:

	2004 £m	2003 £m
<b>Tax on operating profit</b>		
Long-term business:		
UK and Europe Insurance Operations	134	133
Jackson National Life	103	67
Asian Operations <sup>(i)</sup>	96	117
	<b>333</b>	<b>317</b>
Other Operations	(18)	(44)
<b>Total tax charge on operating profit</b>	<b>315</b>	<b>273</b>
<b>Tax on items not included in operating profit</b>		
Tax charge on short-term fluctuations in investment returns	212	212
Tax credit on effect of changes in economic assumptions	(29)	(130)
Tax charge on profit on business disposals	19	–
Tax credit on Egg France closure cost	(32)	–
<b>Total tax charge on items not included in operating profit</b>	<b>170</b>	<b>82</b>
<b>Tax charge on profit on ordinary activities (including tax on actual investment returns)</b>	<b>485</b>	<b>355</b>

(i) Including tax relief on development expenses.

### 13. SHAREHOLDERS' FUNDS – SEGMENTAL ANALYSIS

	2004 £m	Restated 2003 £m
<b>UK and Europe Operations</b>		
Long-term business operations:		
Smoothed shareholders' funds <sup>(i)</sup>	3,894	3,469
Actual shareholders' funds less smoothed shareholders' funds	157	(45)
	4,051	3,424
M&G	312	336
Egg <sup>(ii)</sup>	269	348
	4,632	4,108
<b>US Operations<sup>(ii)</sup></b>		
Jackson National Life (net of core structural borrowings of £130m (£140m)) <sup>(iii)</sup>		
Before capital charge:		
Excluding assets in excess of target surplus	1,749	1,741
Assets in excess of target surplus	949	842
	2,698	2,583
Capital charge (note 6)	(166)	(164)
After capital charge	2,532	2,419
Broker-dealer and fund management	64	71
	2,596	2,490
<b>Asian Operations</b>		
Long-term business operations	1,672	1,358
Fund management operations	66	61
	1,738	1,419
<b>Other Operations</b>		
Goodwill <sup>(ii)</sup>	1,352	1,445
Holding company net borrowings <sup>(iii)</sup>	(1,106)	(1,995)
Other assets <sup>(iv)</sup>	(616)	(462)
	(370)	(1,012)
Total <sup>(iv)</sup>	8,596	7,005

(i) UK long-term business smoothed shareholders' funds reflect an adjustment to PAC life fund assets, for the purposes of determining the unwind of discount included in operating profits, to remove the effects of short-term volatility in market values of assets.

(ii) Total goodwill comprises the following amounts:

	2004 £m	2003 £m
Held within Other Operations relating to M&G and acquired Asian businesses	1,352	1,445
Held within US Operations	15	53
Held within Egg	–	6
	1,367	1,504

(iii) Borrowings comprise the following amounts:

	2004 £m	2003 £m
Holding company cash and short-term investments	1,561	432
Core structural borrowings – central funds	(2,667)	(2,427)
Holding company net borrowings	(1,106)	(1,995)
Core structural borrowings – Jackson National Life	(130)	(140)
	(1,236)	(2,135)

(iv) The 2003 figures for these lines have been restated for the implementation of UITF Abstract 38 'Accounting for ESOP Trusts'.

## 14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Long-term business operations			Total long-term business operations £m	Other operations £m	Group total £m
	UK and Europe Insurance Operations £m	Jackson National Life £m	Asian Operations £m			
<b>Operating profit (including investment return based on long-term rates of returns)</b>						
Long-term business:						
New business (note 8)	220	156	312	688		688
Business in-force (note 9)	230	161	69	460		460
	450	317	381	1,148		1,148
Asia development expenses			(15)	(15)		(15)
M&G					136	136
Egg - continuing operations					43	43
Asia fund management					19	19
US broker-dealer and fund management					(14)	(14)
Other income and expenditure					(193)	(193)
<b>Operating profit (loss) from continuing operations</b>	450	317	366	1,133	(9)	1,124
Operating profit (loss) from discontinued operations		17		17	(37)	(20)
<b>Operating profit (loss) before amortisation of goodwill</b>	450	334	366	1,150	(46)	1,104
Amortisation of goodwill		(3)		(3)	(94)	(97)
Short-term fluctuations in investment returns (note 10)	402	207	48	657	22	679
Effect of changes in economic assumptions (note 11)	(19)	(53)	(28)	(100)		(100)
Profit on business disposals		41		41	7	48
Egg France closure cost					(113)	(113)
<b>Profit (loss) on ordinary activities before tax (including actual investment returns)</b>	833	526	386	1,745	(224)	1,521
Tax (note 12):						
Tax on operating profit	(134)	(103)	(96)	(333)	18	(315)
Tax on short-term fluctuations in investment returns	(121)	(73)	(12)	(206)	(6)	(212)
Tax on effect of changes in economic assumptions	6	19	4	29		29
Tax on profit on business disposals		(16)		(16)	(3)	(19)
Tax on Egg France closure cost					32	32
Total tax (charge) credit	(249)	(173)	(104)	(526)	41	(485)
Minority interests					10	10
<b>Profit (loss) for the financial year</b>	584	353	282	1,219	(173)	1,046
Exchange movements, net of related tax of £12m		(177)	(73)	(250)	21	(229)
Development costs included above (net of tax) borne centrally			2	2	(2)	
Intragroup dividends (including statutory transfer)	(130)	(66)	(44)	(240)	240	
External dividends					(362)	(362)
Investment in operations <sup>(i)</sup>	173	15	147	335	(335)	
Adjustment for net of tax losses of Curian subsidiary owned by Jackson National Life		(12)		(12)	12	
Consideration paid for own shares					(4)	(4)
Proceeds from issues of share capital by parent company					1,140	1,140
Net increase in shareholders' capital and reserves	627	113	314	1,054	537	1,591
Shareholders' capital and reserves at 1 January 2004:						
As originally reported	3,424	2,419	1,358	7,201	(158)	7,043
Prior year adjustment on implementation of UITF 38					(38)	(38)
As restated	3,424	2,419	1,358	7,201	(196)	7,005
<b>Shareholders' capital and reserves at 31 December 2004</b> (note 13)	4,051	2,532	1,672	8,255	341	8,596



#### 14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS CONTINUED

	Long-term business operations			Total long-term business operations £m	Other operations £m	Group total £m
	UK and Europe Insurance Operations £m	Jackson National Life £m	Asian Operations £m			
Analysed as:						
Statutory basis shareholders' funds	889	2,298	753	3,940	341	4,281
Additional shareholders' interest on achieved profits basis	3,162	234	919	4,315		4,315
Achieved profits basis shareholders' funds	4,051	2,532	1,672	8,255	341	8,596
Components of achieved profits basis shareholders' funds:						
Net worth <sup>(ii)</sup>	607	1,755	498	2,860	341	3,201
Value of in-force business <sup>(iii)</sup>	3,444	777	1,174	5,395		5,395
Achieved profits basis shareholders' funds	4,051	2,532	1,672	8,255	341	8,596

(i) Investment in operations reflects increases in share capital. This includes certain non-cash items as a result of timing differences.

(ii) Net worth consists of statutory solvency capital and unencumbered capital.

(iii) Value of in-force business includes the value of future margins from current in-force business less the cost of holding statutory solvency capital.

#### 15. RESULTS SENSITIVITY TO ALTERNATIVE ASSUMPTIONS

##### (i) Estimated Results for 2003 Based on Economic Assumptions Applied for the 2004 Results

	Memorandum only			Estimated pre-tax unwind of discount £m
	Estimated profit from new business			
	Pre-tax £m	Tax £m	Post-tax £m	
<b>Operating profit</b>				
UK and Europe Insurance Operations	178	(53)	125	332
Jackson National Life <sup>(i)</sup>	143	(75)	68	141
Asian Operations	280	(84)	196	113
Total	601	(212)	389	586

(i) Jackson National Life:

Before capital charge

92

Capital charge

(24)

After capital charge

68

##### Shareholders' funds

If the economic assumptions applied for 2004 had been in place at 31 December 2003, the achieved profits basis shareholders' funds at that date would have been lower by £72m. This represents a pre-tax loss of £100m less related tax credit of £29m (as analysed by business operation in note 14) and an adjustment for exchange losses to reflect rates at 31 December 2003 of £(1)m.

##### (ii) Estimated impact on 2004 and 2003 results based on alternative assumptions

The key assumptions that affect the Group's results are economic, in particular expected rates of investment return and risk discount rates. The sensitivities of the 2004 and 2003 results to changes in these assumptions are set out below:

	2004 £m	2003 £m
Pre-tax operating profit from new business for the year		
Pre-tax expected long-term nominal rates of investment return:		
Increase in rates of 1%	79	75
Decrease in rates of 1%	(82)	(81)
Risk discount rates:		
Increase in rates of 1%	(86)	(74)
Decrease in rates of 1%	102	87
Shareholders' funds at the year end		
Pre-tax expected long-term nominal rates of investment return:		
Increase in rates of 1%	907	897
Decrease in rates of 1%	(984)	(930)
Risk discount rates:		
Increase in rates of 1%	(524)	(488)
Decrease in rates of 1%	615	572

#### 16. 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.