Group overview

Results highlights

		CER		RER[4]	
	2006 £m	2005 £m	Percentage change	2005 £m	Percentage change
Annual premium equivalent (APE) sales[1]	**2,470**	2,134	16%	2,138	16%
Present value of new business premiums (PVNBP)[1]	**18,947**	16,860	12%	16,892	12%
Net investment flows	**8,633**	5,183	67%	5,189	66%
External funds under management	**57,199**	45,378	26%	46,329	23%
New business profit (NBP)[1]	**1,039**	869	20%	867	20%
NBP Margin (% APE)[1]	**42%**	41%		41%	
NBP Margin (% PVNBP)[1]	**5.5%**	5.2%		5.1%	
EEV basis operating profit from long-term business from continuing operations[2, 3]	**2,209**	1,722	28%	1,723	28%
Total EEV basis operating profit from continuing operations[3]	**1,976**	1,711	15%	1,712	15%
Total IFRS operating profit from continuing operations[3]	**893**	958	(7)%	957	(7)%
EEV basis shareholders' funds (£bn)	**11,883**	9,991	19%	10,301	15%
IFRS shareholders' funds (£bn)	**5,488**	4,986	10%	5,194	6%
Holding company cash flow	**(104)**	(298)	65%	(298)	65%

(1) The details shown include the effect of the bulk annuity transfer from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Limited, a shareholder-owned subsidiary of the Group.

SAIF is a closed ring-fenced sub-fund of the PAC long-term fund established by a court approved scheme of arrangement in September 1997, whose results are solely for the benefit of SAIF policyholders.

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

(3) Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions, actuarial gains and losses on defined benefit pension schemes, the mark to market value movements on borrowings and goodwill impairment charges.

(4) Reported exchange rate (RER).

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

The Group has delivered a strong set of results for 2006 as illustrated in the table above.

The Group delivered record total APE sales of £2,470 million (2005: £2,134 million) and for the first time generated NBP in excess of £1 billion.

This, together with the significant increase in contributions from the in-force business, drove a record EEV basis operating profit from the long-term business to £2.2 billion.

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

The EEV basis result before tax and minority interests was a profit of £3,072 million up 37 per cent on 2005.

Within this, short-term fluctuations in investment return were £745 million (2005: £1,068 million), mainly driven by positive variances in the UK (£378 million) and Asia (£286 million).

Changes in economic assumptions were negative £1 million (2005: negative £349 million). They include a positive change in the UK (£182 million), a negative change in the US (£51 million), and a negative change in Asia (£132 million).

EEV basis shareholders' funds were £11.9 billion (2005: £10.3 billion), an increase of £1.6 billion over last year, driven by a strong operating performance from all insurance and asset management business units.

Earnings per share, based on EEV operating profit after tax and related minority interests, were 57.6 pence, compared with 56.6 pence in 2005.

On an IFRS basis, operating profits (before tax) were £893 million (2005: £957 million), down seven per cent on last year principally due to the £145 million loss incurred by Egg.

The Group delivered strong growth of 66 per cent in total net investment flows from its asset management businesses of £8.6 billion (2005: £5.2 billion). This performance contributed to the growth in total external investment funds under management that grew from £46.3 billion in 2005 to £57.2 billion in 2006.

Earnings per share, based on total IFRS operating profit after tax and minority interests, were 26.4 pence compared with 32.2 pence in 2005.

Holding company cash flow improved significantly from a cash outflow of £298 million in 2005 to a cash outflow of £104 million in 2006, reflecting higher capital remittances, and lower capital invested in the UK reflecting the benefit from a change in the Financial Services Authority (FSA) reserving regulations.

The capital position of Prudential plc, measured under the Financial Conglomerate Directive (FCD) basis, will be submitted to the FSA by 30 April 2007 but is currently estimated to be in the region of £1.0 billion.

The total capital invested by the Group to support new business sales, in terms of both initial strain and required capital, was £554 million in 2006. This represents £22.4 million per £100 million sales in terms of APE and £2.9 million per £100 million in terms of PVNBP sales.

On 29 January 2007 Prudential announced that it had entered into a binding agreement to sell Egg to Citi for a consideration of £575 million, subject to adjustment to reflect any change in net asset value between 31 December 2006 and completion.

Impact of currency movements

Prudential has a diverse international mix of businesses with a significant proportion of its profit generated outside the UK. In 2006, 74 per cent of NBP and 67 per cent of IFRS operating profit was delivered from overseas operations.

In preparing the Group's consolidated accounts, results of overseas operations are converted at rates of exchange based on the average of the year, whilst shareholders' funds are converted at year end rates of exchange.

Changes in exchange rates from year to year have an impact on the Group's results when these are converted into pounds sterling for reporting purposes. In some cases these exchange rate fluctuations can mask underlying business performance. Consequently, the Board has for a number of years reviewed the Group's international performance on a CER basis. This basis eliminates the impact from conversion, the effects of which do not alter the long-term value of shareholders' interests in Prudential's non-UK businesses.

Basis of preparation of results

The European Union (EU) requires that all listed European groups prepare their financial statements in accordance with EU approved IFRS. Since 1 January 2005, Prudential has been reporting its primary results on an IFRS basis and 2006 represents the second year end of financial statements prepared under IFRS for the Group.

In addition, as a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential has also been reporting supplementary results on an EEV basis for the Group's long-term business since 2005. These results are combined with the IFRS basis results of the Group's other businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on longer-term investment returns that excludes goodwill impairment charges, short-term fluctuations in investment returns, the mark to market movement on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the effect of changes in economic assumptions and changes in the time value of options and guarantees caused by economic factors.

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

In preparing its IFRS basis results the Group continues to provide supplementary analysis of the profit before shareholder tax so as to distinguish operating results based on longer-term investment returns, actuarial gains and losses on defined benefit pension schemes, and exceptional items.

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

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

Sales and funds under management

Prudential delivered strong sales growth during 2006 with total new insurance sales up 11 per cent to £15.1 billion at CER. This resulted in record insurance sales of £2.5 billion on the APE basis, an increase of 16 per cent on 2005. At RER, APE was up 16 per cent on 2005. Strong growth came from the US, with APE up on 2005 by 21 per cent, and in Asia with APE up 30 per cent at CER.

Sales under the PVNBP basis in 2006 increased by 12 per cent to £19 billion at CER.

Total gross investment sales for 2006 were £33.9 billion, up 31 per cent on 2005 at CER. Net investment flows of £8.6 billion were up 67 per cent on last year at CER.

Total external funds under management in 2006 increased by 23 per cent from £46.3 billion in 2005 to £57.2 billion at RER, reflecting net investment flows of £8.6 billion, and net market and other movements of £2.2 billion.

At 31 December 2006, total insurance and investment funds under management were £251 billion, an increase of seven per cent from 2005 at RER.

EEV basis operating profit from continuing operations

Total EEV basis operating profit from continuing operations based on longer-term investment returns was £1,976 million, up 15 per cent from 2005 at CER. At RER, the result was up 15 per cent. This result reflects profitable growth in the insurance and funds management businesses.

Prudential's insurance businesses achieved significant growth, both in terms of NBP and in-force profit, resulting in a 28 per cent increase in operating profit over 2005 at CER.

In 2006, the Group generated record NBP from insurance business of £1,039 million, which was 20 per cent above 2005 at CER, driven by strong sales momentum in the US and Asia, achieved without compromising margins. At RER, NBP was up 20 per cent. The average Group NBP margin was 42 per cent (2005: 41 per cent) on an APE basis and 5.5 per cent

Group overview continued

EEV basis operating profit on continuing operations	2006 £m	CER 2005 £m	CER Percentage change	RER 2005 £m	RER Percentage change
Insurance business:					
UK	**686**	426	61%	426	61%
US	**708**	731	(3)%	741	(4)%
Asia	**829**	585	42%	576	44%
Long-term business	**2,223**	1,742	28%	1,743	28%
Development expenses	**(15)**	(20)	(175)%	(20)	(75)%
Fund management business:					
M&G	**204**	163	25%	163	25%
US broker-dealer and fund management	**18**	24	(25)%	24	(25)%
Curian	**(8)**	(10)	20%	(10)	20%
Asia fund management	**50**	11	355%	12	317%
	264	188	40%	189	40%
Banking:					
Egg	**(145)**	44	(430)%	44	(430)%
Other income and expenditure	**(298)**	(243)	(23)%	(244)	(22)%
Total EEV basis operating profit on continuing operations	**2,029**	1,711	19%	1,712	19%
Restructuring costs	**(53)**	0		0	
Total EEV basis operating profit on continuing operations after restructuring costs	**1,976**	1,711	15%	1,712	15%

(2005: 5.2 per cent at CER) on a PVNBP basis. The overall margin has increased mainly driven by profitable sales of individual annuities in the UK and of variable annuities in the US. In-force profit increased 36 per cent on 2005 at CER to £1,184 million. At RER, in-force profit was up 35 per cent. In aggregate, net assumption changes were £38 million positive, and experience variances and other items were £111 million positive.

The in-force profit in 2005 included a £148 million charge in respect of a persistency assumption change in the UK, and a credit in the US of £140 million reflecting an operating assumption change following price increases introduced on two blocks of in-force term life business.

Asia's development expenses (excluding the regional head office expenses) were £15 million, (2005: £20 million at CER).

Results from the fund management business were £264 million (2005: £188 million), up 40 per cent on 2005 at CER.

Egg losses were £145 million (2005: profit £44 million).

Other income and expenditure totalled a net expense of £298 million compared with £244 million in 2005 at RER. This result includes £36 million of costs for the Asia head office costs (2005: £30 million); £83 million for the Group head office costs (2005: £70 million); net interest expense on central borrowings of negative £169 million (2005: £133 million); and a charge for share-based payments for Prudential schemes of £10 million (2005: £11 million).

Total EEV basis operating profit includes £53 million in restructuring costs (nil in 2005), primarily related to the costs associated with the UK and Egg cost saving initiatives announced in July 2006.

EEV basis profit before tax and minority interests from continuing operations

	2006 £m	RER 2005 £m
Total EEV basis operating profit on continuing operations after restructuring costs	**1,976**	1,712
Short-term fluctuations in investment returns:	**745**	1,068
UK	**378**	994
US	**64**	67
Asia	**286**	41
Other	**17**	(34)
Actuarial gains and losses on defined benefit pension schemes	**207**	(47)
Effect of change in economic assumptions:	**(1)**	(349)
UK	**182**	(81)
US	**(51)**	(3)
Asia	**(132)**	(265)
Effect of change in time value of cost of options and guarantees:	**60**	47
UK	**40**	31
US	**6**	11
Asia	**14**	5
Movement in mark to market value of core borrowings:	**85**	(67)
US	**3**	(2)
Other	**82**	(65)
Goodwill impairment charge	**0**	(120)
Profit from continuing operations before tax	**3,072**	2,244

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

The EEV basis result before tax and minority interests was a profit of £3,072 million up 37 per cent on 2005.

This reflects in part an increase in operating profit from £1,712 million in 2005 to £1,976 million in 2006.

The profit before tax also includes £745 million in short-term fluctuations in investment returns (2005: £1,068 million), negative changes in economic assumptions of £1 million (2005: negative £349 million) and the effect of change in time value of options and guarantees of positive £60 million (2005: positive £47 million).

The UK long-term business component of short-term fluctuations in investment returns of £378 million (2005: £994 million) primarily reflects the difference between the actual investment return for the with-profits life fund of 12.4 per cent (2005: 20 per cent) and the long-term assumed return of 7.5 per cent.

The US short-term fluctuations in investment returns of £64 million primarily include a positive £46 million in respect of the difference between actual investment returns and long-term returns included in operating profit in respect of fixed income securities, related swap transactions and equity-based investments. It also includes a positive £17 million in relation to changed expectations of future profitability on variable annuity business in force due to the actual variable annuity investment account ('separate account') return exceeding the long-term return reported within operating profit, offset by the impact of the associated hedging position.

In Asia, long-term business short-term investment fluctuations were £286 million, compared to £41 million last year. This reflects strong market performance across the region particularly in Vietnam, Hong Kong, Singapore and Taiwan.

An actuarial gain on the defined benefit pension schemes was recorded in 2006 for £207 million (2005: loss £47 million). This gain primarily represents the difference between actual and expected investment returns for the schemes and the reduction in liabilities due to an increase in the risk discount rate resulting from increases in corporate bond returns.

Negative economic assumption changes of £1 million in 2006 compared with negative economic assumption changes of £349 million in 2005. Economic assumption changes in 2006 comprised positive £182 million in the UK, negative £51 million in the US and negative £132 million in Asia.

In the UK, economic assumption changes of positive £182 million reflect the impact of the increase in the future investment return assumption offset by the increase in the risk discount rate.

In the US, economic assumption changes of negative £51 million primarily reflect increases in the risk discount rates following an increase in the US 10-year Treasury rate, partially offset by an increase in the separate account return assumption.

In Asia, negative economic assumption changes were £132 million, of which £101 million is due to Taiwan. This primarily reflects the effect of delaying for a further year Prudential's assumption of a gradual rise in interest rates. The economic scenarios used to calculate 2006 EEV basis results reflect the assumption of a phased progression of the bond yields from the current rates to the long-term expected rates. The projections assume that, in the average scenario, the current bond yields of around 2 per cent trend towards 5.5 per cent at 31 December 2013. Allowance is made for the mix of assets in the fund, the future investment strategy and the market value depreciation of the bonds as a result of the assumed yield increases. This gives rise to an average assumed fund earned rate that trends from 2.1 per cent to 5.7 per cent in 2014. The assumed fund earned rate falls to 1.4 per cent in 2007 and remains below 2.1 per cent for a further five years due to the depreciation of bond values as yields rise. Thereafter, the fund earned rate fluctuates around a target of 5.9 per cent. For the 2005 results the grading of bond yields, in the average scenario, was around 2 per cent towards 5.5 per cent at 31 December 2012. Consistent with the Group's EEV methodology, a constant discount rate has been applied to the projected cash flows.

The change in the time value of cost of options and guarantees was positive £60 million for the year (2005: positive £47 million), consisting of £40 million, £6 million and £14 million for the UK, the US and Asia, respectively.

The mark to market movement on core borrowings (excluding Egg) was a positive £85 million (2005: negative £67 million) reflecting the reduction in fair value of core borrowings due to increases in interest rates.

EEV basis profit after tax and minority interests

	2006 £m	RER 2005 £m
Profit from continuing operations before tax	**3,072**	2,244
Tax	**(859)**	(653)
Profit from continuing operations for the financial year after tax before minority interests	**2,213**	1,591
Discontinued operations (net of tax)	**0**	3
Minority interests	**(1)**	(12)
Profit for the year attributable to equity holders of the Company	**2,212**	1,582

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

Profit after tax and minority interests was £2,212 million (2005: £1,582 million). The tax charge of £859 million compares with a tax charge of £653 million in 2005. Minority interests in the Group results were £1 million (2005: £12 million).

The effective tax rate at an operating tax level was 30 per cent (2005: 21 per cent), generally reflecting expected tax rates. The effective tax rate in 2005 was unusually low due to a number of factors, including favourable settlements reached with the tax authorities, and being able to take credit for Egg's French losses. The effective tax rate at a total EEV level was 28 per cent (2005: 29 per cent) on a profit of £3,072 million. The higher rate of effective tax at a total level for 2005 was primarily due to the effect of impairment of goodwill (which does not attract tax relief) and the impact of short-term fluctuations and changes in economic assumptions not all of which are tax affected.

Group overview continued

Return on embedded value

Prudential's return on embedded value for 2006 was 13.5 per cent (2005: 15.5 per cent). This reduction is due to an increase in the opening shareholders' funds at 1 January 2006, mainly affected by the UK short-term investment fluctuations in 2005, which was higher than the corresponding growth in after-tax operating profit.

The return is based on EEV operating profit from continuing operations after tax and minority interests as a percentage of opening embedded value (shareholders' funds on a EEV basis).

IFRS basis operating profit (based on longer-term investment returns)

Group operating profit before tax from continuing operations on the IFRS basis after restructuring costs was £893 million, a reduction of seven per cent on 2005 at CER. This figure includes £50 million of restructuring costs. Group operating profit before tax from continuing operations before restructuring costs was £943 million, a reduction of two per cent on 2005 at CER. This reduction is mainly caused by the loss of £145 million in Egg (2005: £44 million profit).

At RER, operating profit before restructuring costs was down one per cent on the prior year.

In the UK, IFRS operating profit for the long-term business increased 25 per cent to £500 million in 2006. This primarily reflected a 22 per cent increase in profits attributable to the with-profits business, a consequence of bonus declarations announced in February 2006 and 2007 and a benefit of £46 million from a change in reserving requirements. This was due to the FSA's relaxation of reserving requirements under the policy statement that effected the proposal in CP 06/16. The result of £500 million excludes restructuring costs of £31 million in respect of implementation costs associated with Prudential UK and Egg cost saving initiatives announced in July 2006.

In the US, total IFRS operating profit of £408 million was up 14 per cent on 2005 at CER. IFRS operating profit for long-term business was £398 million, up 16 per cent from £344 million in 2005 at CER. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS as the Group's basis of presenting operating profit is based on longer-term investment returns. In determining the operating profit for US operations, longer-term returns for fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. The growth in Jackson's IFRS operating profit mainly reflects increased fee and spread income. The fee income was driven by a 51 per cent increase in separate account assets held at year end, and improved returns on these assets. One-off items affecting the spread-based income were £33 million (2005: £44 million), net of DAC amortisation. The operating profit from non-long-term business was £10 million, a reduction on 2005 (2005: £14 million). The 2005 result, however, benefited from a one-off £5 million revaluation of an investment vehicle managed by PPM America (PPMA). Curian recorded losses of £8 million in 2006, down from £10 million in 2005, as the business continues to build scale.

Asia's operating profit for long-term business before development expenses of £15 million was £189 million, a six per cent decrease on 2005 at CER. However, this result was 11 per cent above prior year excluding a net positive £30 million contribution from exceptional items in 2005. Operating profit continues to be driven mainly by the established markets of Singapore, Malaysia and Hong Kong which represent £139 million of the total operating profit in 2006. There was an increased contribution from Indonesia and Vietnam as these operations continue to build scale. Four life

		CER		RER	
IFRS basis operating profit based on longer-term investment returns	**2006 £m**	2005 £m	Percentage change	2005 £m	Percentage change
Insurance business:					
UK	**500**	400	25%	400	25%
US	**398**	344	16%	348	14%
Asia	**189**	201	(6)%	195	(3)%
Long-term business	**1,087**	945	15%	943	15%
Development expenses	**(15)**	(20)	(25)%	(20)	(25)%
Fund management business:					
M&G	**204**	163	25%	163	25%
US broker-dealer and fund management	**18**	24	(25)%	24	(25)%
Curian	**(8)**	(10)	20%	(10)	20%
Asia fund management	**50**	11	355%	12	317%
	264	188	40%	189	40%
Banking:					
Egg	**(145)**	44	(430)%	44	(430)%
Other income and expenditure	**(248)**	(198)	(25)%	(199)	(25)%
Total IFRS basis operating profit based on longer-term investment returns	**943**	959	(2)%	957	(1)%
Restructuring costs	**(50)**	0		0	
Total IFRS basis operating profit based on longer-term investment returns after restructuring costs	**893**	959	(7)%	957	(7)%

operations made IFRS losses: China, India and Korea which are relatively new businesses rapidly building scale and Thailand which is marginally loss making. Within the net positive £30 million of exceptional items in 2005 there was a write-off of deferred acquisition costs (DAC) in Taiwan of £21 million. No write-off was required in 2006. The profits and recoverability of DAC in Taiwan are dependent on the rates of return earned and assumed to be earned on the assets held to cover liabilities and on future investment income and contract cash flows for traditional whole of life policies. If interest rates were to remain at current levels in 2007 the premium reserve, net of DAC, would be broadly sufficient. If interest rates were to remain at current levels in 2008 then some level of write-off of DAC may be necessary. However, the amount of the charge currently estimated to be £70-90 million is sensitive to the above mentioned variables.

The Asian fund management operations reported an 85 per cent growth in operating profits to £50 million (2005: £11 million), excluding negative £16 million of exceptional items recorded in 2005, driven by strong contributions from the established markets of Singapore and Hong Kong.

IFRS basis profit before tax from continuing operations

	2006 £m	RER 2005 £m
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	**893**	957
Goodwill impairment charge	**0**	(120)
Short-term fluctuations in investment returns	**162**	211
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**167**	(50)
Profit before tax from continuing operations attributable to shareholders	**1,222**	998

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

Total IFRS basis profits before tax and minority interests were £1,222 million in 2006, compared with £998 million for 2005. The increase reflects: a reduction in operating profit of £64 million; a decrease in short-term fluctuations in investment return, down £49 million from 2005; and a £217 million positive movement from the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes. In addition, in 2006 there is no goodwill impairment charge (2005: £120 million).

IFRS basis profit after tax

	2006 £m	RER 2005 £m
Profit before tax from continuing operations	**1,222**	998
Tax	**(347)**	(241)
Profit from continuing operations for the financial year after tax	**875**	757
Discontinued operations (net of tax)	**0**	3
Minority interests	**(1)**	(12)
Profit for the year attributable to equity holders of the Company	**874**	748

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

Profit after tax and minority interests was £874 million compared with £748 million in 2005. The effective rate of tax on operating profits, based on longer-term investment returns, was 29 per cent (2005: 19 per cent). The effective rate of tax at the total IFRS profit level for continuing operations for 2006 was 28 per cent (2005: 24 per cent). The effective tax rate in 2006 was close to the expected tax rate of 31 per cent (which reflects the geographic split of profits). The effective tax rate in 2005 was unusually low due to a number of factors, including favourable settlements reached with the revenue authorities, and being able to take credit for Egg's losses in France.

Earnings per share

Earnings per share, based on EEV basis operating profit from continuing operations after tax and related minority interests, were 57.6 pence, compared with 56.6 pence in 2005.

Earnings per share, based on IFRS operating profit from continuing operations after tax and related minority interests, were 26.4 pence, compared with 32.2 pence in 2005.

Basic earnings per share, based on total EEV basis profit after minority interests, were 91.7 pence, compared with 66.9 pence in 2005.

Basic earnings per share, based on IFRS profit after minority interests, were 36.2 pence, compared with 31.6 pence in 2005.

Dividend per share

The Board has reviewed its longer-term dividend policy in light of its expectation that the overall operating cash flow of the Group will be positive from 2008.

The directors recommend a final dividend for 2006 of 11.72 pence per share payable on 22 May 2007 to shareholders on the register at the close of business on 13 April 2007. The interim dividend for 2006 was 5.42 pence per share. The total dividend for the year, including the interim dividend and the recommended final dividend, amounts to 17.14 pence per share compared with 16.32 pence per share for 2005, an increase of five per cent. The total cost of dividends in respect of 2006 was £418 million.

The full-year dividend is covered 1.5 times by post-tax IFRS operating profit from continuing operations.

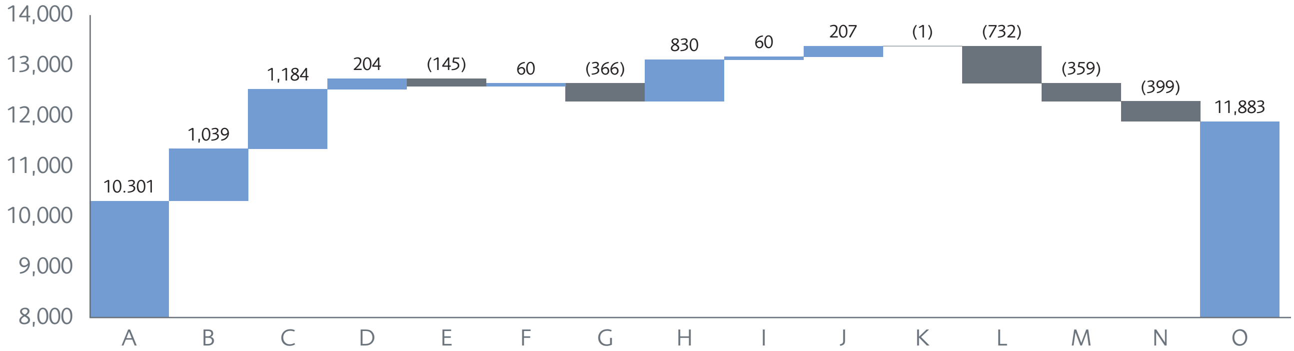
Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

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

Group overview continued

EEV basis shareholders' funds £m

Analysis of movement 2006



A – 2006 opening shareholders' funds
B – Life new business profit
C – Life in-force profit
D – M&G
E – Egg operating profit
F – Other non-life operations
G – Other income and expenditure (including Asia development expense and restructuring)
H – Short-term fluctuations in investment returns
I – Time value of cost of options and guarantees
J – Actuarial Gains and losses on DB schemes
K – Economic Assumption changes
L – Tax, minority interest and others
M – FX movements
N – External dividends
O – 2006 closing shareholders' funds

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 31 December 2006 were £11.9 billion, an increase of £1.6 billion from the 2005 year-end level (2005: £10.3 billion). This 15 per cent increase primarily reflects: total EEV basis operating profit of £1,976 million; a £745 million favourable movement in short-term fluctuations in investment returns; a £59 million positive movement due to changes in economic assumptions and in time value of options and guarantees; a positive movement on the mark to market of core debt of £85 million; the proceeds for the share capital issue of the parent company for £336 million, and a positive movement in the actuarial gains on the defined benefit pension schemes of £207 million. These were offset by: a tax charge of £859 million; the negative impact of £359 million for foreign exchange movements; the impact of the acquisition of the minority interest in Egg for £167 million, and dividend payments of £399 million made to shareholders.

At year end 2006, the embedded value for the Asian long-term business was £2.5 billion. The established markets of Hong Kong, Singapore and Malaysia contribute £2.0 billion to the embedded value generated across the region with Korea (£191 million) and Vietnam (£198 million) making further substantial contributions. Prudential's other markets of China, India, Indonesia, Japan, Thailand and the Philippines in aggregate contribute £336 million in embedded value. Growth in embedded value for the Asian business as a whole has been partially offset by a negative embedded value in Taiwan of £216 million. This is an improvement from the reported negative £311 million in 2005, which includes the associated cost of economic capital*, and reflects the impact of the low interest rate environment in Taiwan on the in-force business.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 58 per cent and 17 per cent of new business APE in 2006, respectively. As a result, interest rates have little effect on new business profitability and a one per cent reduction in assumed interest rates would reduce new business margins in Taiwan by only two percentage points. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a £165 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by £107 million. On the assumption that bond yields remained flat during 2007 and then trended towards 5.5 per cent in 2014 this would have reduced the 2006 Taiwan embedded value by £88 million. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a five per cent decrease to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 31 December 2006 were £5.5 billion. This compares with £5.2 billion at 31 December 2005. The increase primarily reflects: profit after tax and minority interests of £874 million, the proceeds from the share capital issue of the Company for £336 million, offset by the impact of the acquisition of Egg's minority interests for £167 million, negative foreign exchange movements of £224 million, dividend payments to shareholders of £399 million, and the impact of unrealised holding losses on available-for-sale investments of £210 million.

*Economic capital is broadly considered to be the amount of capital a financial services firm's own internal risk assessment determines it should hold to remain solvent following events that might be considered as unexpected, yet not so unlikely that they might never occur in practice.

Holding company cash flow

	2006 £m	2005 £m
Cash remitted by business units:		
UK life fund transfer**	**217**	194
UK other dividends (including special dividend)	**0**	103
US	**110**	85
Asia	**175**	73
M&G	**94**	62
Total cash remitted to Group	**596**	517
Net interest paid	**(128)**	(115)
Dividends paid	**(399)**	(378)
Scrip dividends and share options	**91**	55
Cash remittances after interest and dividends	**160**	79
Tax received	**122**	107
Corporate activities	**(67)**	(66)
Cash flow before investment in businesses	**215**	120
Capital invested in business units:		
UK	**(172)**	(249)
Asia	**(147)**	(169)
Total capital invested in business units	**(319)**	(418)
Decrease in cash	**(104)**	(298)

**In respect of current and prior year's bonus declarations.

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

The Group holding company received £596 million in cash remittances from business units in 2006 (2005: £517 million) comprising the shareholders' statutory life fund transfer of £217 million relating to the 2005 and 2006 bonus declarations from the UK, and remittances of £110 million, £175 million and £94 million from the US, Asia and M&G respectively.

The last of three special dividends of £100 million was paid from the Prudential Assurance Company (PAC) shareholders' funds in 2005 to the Group holding company in respect of profit arising from earlier business disposals.

After net dividends and interest paid, there was a net cash inflow of £160 million (2005: £79 million).

During 2006, the Group holding company paid £67 million in respect of corporate activities and received £122 million (2005: £107 million) in respect of Group relief on taxable losses. The Group invested £319 million (2005: £418 million) in its business units, comprising £172 million in the UK and £147 million in Asia. In 2006, Asia became a net contributor to the Group holding company cash flow for the first time, with a net remittance of £28 million.

The capital investment in the UK was lower than planned reflecting a capital benefit from the FSA's change of reserving requirements. Without this reserving change the UK would have required capital of approximately £230 million.

In aggregate this gave rise to a decrease in cash of £104 million (2005: £298 million decrease).

In 2007, the Group cash flow is expected to be positive including the cash proceeds from the sale of Egg. At an operational level the cash outflow is expected to be greater than in 2006, given the benefit this year of the regulatory change to the FSA reserving requirements in the UK.

In 2007, the UK shareholders' statutory transfer relating to the bonus declarations made in February 2006 and 2007 will be £261 million.

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

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

New business capital usage

	2006 Free surplus £m	2006 Required capital £m	2006 Net worth £m	2006 Value in force £m
UK	**(221)**	**176**	**(45)**	**231**
US	**(228)**	**196**	**(32)**	**200**
Asia	**(105)**	**11**	**(94)**	**467**
	(554)	**383**	**(171)**	**898**

The Group wrote £2,470 million of sales on an APE basis and £18,947 million on a PVNBP basis in 2006. In support of this amount of new business sales, the Group invested £554 million of capital. This amount covers both new business acquisition expenses, including commission, statutory reserves and the required capital, and amounts to approximately £22.4 million per £100 million of APE sales and £2.9 million per £100 million of sales on a PVNBP basis.

In the UK, £221 million of capital was invested in 2006 to support APE sales of £900 million and PVNBP sales of £7,712 million. This amounts to approximately £24.6 million per £100 million of APE sales and £2.9 million per £100 million of sales on a PVNBP basis.

In the US, £228 million of capital was invested in 2006 to support APE sales of £614 million and PVNBP sales of £6,103 million. This amounts to approximately £37.1 million per £100 million of APE sales and £3.7 million per £100 million of sales on a PVNBP basis.

In Asia, £105 million of capital was invested in 2006 to support APE sales of £956 million and PVNBP sales of £5,132 million. This amounts to approximately £11 million per £100 million of APE sales and £2.0 million per £100 million of sales on a PVNBP basis.