Financial review

Sales and funds under management

Prudential delivered overall sales growth during the first half of 2006 with total new insurance sales up three per cent, on a present value of new business premium (PVNBP) basis, to £9.8 billion at constant exchange rates (CER). This resulted in insurance sales of £1.3 billion on the annual premium equivalent (APE) basis, an increase of nine per cent on 2005. At reported exchange rates (RER), APE sales were up 12 per cent on the half year of 2005.

Total gross investment sales were £16.8 billion, up 27 per cent on 2005 at CER. Net investment sales of £5.3 billion were more than double net investment sales in 2005 at CER.

Total investment funds under management increased by 10 per cent at RER from £46.3 billion at 31 December 2005, to £51.1 billion at 30 June 2006, reflecting net investment flows of £5.3 billion and net market and other movements of negative £0.6 billion.

At 30 June 2006, funds under management were £237.5 billion, an increase of one per cent from 2005 year end at RER.

European Embedded Value (EEV) basis results

EEV basis operating profits

Total EEV basis operating profit from continuing operations of £962 million was up 15 per cent on a CER basis and up 20 per cent on a RER basis reflecting strong growth from Prudential's insurance and fund management businesses.

Group new business profit (NBP) from long-term business of £504 million was up 17 per cent on the prior year at CER, reflecting strong growth in Asia and the US, up 34 per cent and up 35 per cent respectively. The Group's new business margin, on a PVNBP basis, increased from 4.5 per cent for the first half of 2005 to 5.2 per cent for the first half of 2006.

Total in-force profit of £537 million was up 28 per cent on 2005 on a CER basis. This resulted from strong growth in the UK and Asian operations offset by a fall in the US.

In aggregate net operating assumption changes were small at negative £8 million while experience variances and other items together were a positive £18 million.

UK insurance operations

EEV basis operating profit of £336 million was up 133 per cent on 2005.

New business profit of £138 million was down 13 per cent on the first half of 2005, reflecting both a decline in sales volumes and a fall in NBP margin on an APE basis from 30 per cent in the first half of 2005 to 29 per cent in 2006. The PVNBP margin remained in line with 2005 at 3.3 per cent.

The decrease in APE margin primarily reflects a shift in sales mix with a lower proportion of bulk annuity sales and a negative effect from economic assumption changes partly offset by an increase in annuity yield margins. The bulk annuity margin fell from 2005 due to increased competitiveness in the market. This was offset by an increase in the retail margin.

The weighted average post-tax Internal Rate of Return (IRR) on the capital allocated to new business growth in the UK was unchanged from the first half of 2005, at 13 per cent.

In-force profit of £198 million was up on the first half of 2005 reflecting an increase in unwind (due to increase in equity risk premium from three per cent to four per cent, an increase in the opening embedded value and an increase in the risk free rate) offset by a number of other items including service company losses, continued regulatory costs, losses in PruHealth and £24 million for tax related items. The 2005 result included a charge of £148 million in respect of a persistency assumption change. There were no operating assumption changes in 2006. Prudential continues to closely monitor mortality and persistency experience and during the first half of 2006 these performed in line with our assumptions.

US operations

In the US, EEV basis operating profit from long-term operations was £346 million, down 21 per cent at CER and down 17 per cent at RER from the prior year.

At CER, NBP increased by 35 per cent, and at RER by 41 per cent, to £134 million, reflecting a 12 per cent increase in PVNBP sales and an increase in margin on a PVNBP basis from 3.5 per cent at half year 2005 to 4.2 per cent at the half year 2006.

APE sales also improved by 12 per cent at CER, and the margin on an APE basis improved from 35 per cent to 41 per cent. The increase in margin from prior year reflects a favourable business mix; economic assumption changes, including an increase in the equity risk premium; and positive effects from the increase in election of high margin guaranteed benefit options on variable annuity contracts.

For Jackson National Life (JNL), the average IRR on new business in the first half of 2006 was 17 per cent.

EEV basis operating profits

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
New business profit (NBP)	**504**	431	17%	416	21%
Business in force	**537**	420	28%	399	35%
Long-term business	**1,041**	851	22%	815	28%
Asia development expenses	**(7)**	(8)	13%	(8)	13%
Other operating results	**(54)**	(6)		(8)	
UK restructuring costs	**(18)**	–		–	
Total	**962**	837	15%	799	20%

At CER, the in-force profit for the half year decreased from £339 million in the prior year to £212 million. At RER, in-force profit decreased from £324 million to £212 million. This decrease is primarily due to an operating assumption change in 2005 following price increases introduced on two older books of term life business (£142 million), partially offset by an increase in the unwind of the in-force book, and an improved spread variance. The 50 per cent increase in the unwind at CER is primarily due to an increase in the risk discount rate. At CER the spread variance is up 20 per cent to £60 million at half year 2006, primarily reflecting achieved spreads in excess of the current weighted portfolio target on the regular portfolio. Also included within the spread variance is £16 million of non-recurring items including mortgage prepayment fees, make-whole payments and total return swap income. JNL expects to continue to achieve spread income ahead of target in the second half, although at lower levels than achieved in the first half.

Asia operations

EEV basis operating profit from long-term operations (excluding development and regional head office costs) was £359 million for the half year, up 33 per cent at CER and 42 per cent at RER on half year 2005.

NBP increased by 34 per cent, at CER, over the first half of 2006 to £232 million compared to the same period in 2005, reflecting the strong sales increase and the maintained NBP margin on an APE basis of 52 per cent compared to the same period in 2005. The margin remained constant as a positive effect due to product mix was offset by the negative impact of country mix with a higher proportion of new business being from the relatively lower margin markets of Korea and India, which now contribute 37 per cent of APE sales. Margin on a PVNBP basis at half year 2006 is 10.0 per cent compared to 9.4 per cent in 2005.

In-force operating profits (excluding development expenses and regional head office costs) in Asia of £127 million for the first half of 2006 represent an increase of 32 per cent over the same period for 2005 at CER, which included changes of assumptions.

In Asia, IRRs on new business at a country level are targeted to be 10 per cent over the country risk discount rate. Risk discount rates vary from 5 to 18 per cent depending upon the risk in each country market. These target rates of return are average rates and individual products could be above or below the target. In aggregate, IRR on new business exceeded 20 per cent on average new business discount rates for the first half of 2006 of 9.9 per cent. However, Thailand and Japan which have yet to reach scale, did not exceed their target.

Asset management, banking and other

M&G

M&G's total operating profit was £100 million, an increase of £17 million (20 per cent) on the first half of 2005. This growth in profits, which has resulted in M&G achieving interim operating profits of £100 million for the first time, continues to be driven by higher revenue from both existing and new business lines. Strong net sales have been consistently delivered from retail and institutional customers which, when combined with higher market levels, has resulted in assets under management growing from £126 billion at the end of 2004 to £155 billion at June 2006, an increase of 23 per cent.

Underlying profits of M&G increased to £91 million, a 34 per cent increase on 2005. Underlying profits better reflect the improving performance of the business as they are stated before more volatile performance related fees (PRFs) and carried interest, the latter of which fell sharply in the first half of 2006 following two years in which significant but unsustainable income has been delivered. In the first half of 2006, M&G earned PRFs of £6 million (first half 2005: £3 million) and carried interest of £3 million (first half 2005: £12 million).

US broker-dealer and fund management businesses

The broker-dealer and fund management operations reported a total profit of £8 million, compared with £19 million in the first half of 2005. This reflects a decrease in profits from PPM America (PPMA), arising primarily due to an £8 million reduction in investment related income primarily due to a one-off revaluation in 2005 of an investment vehicle managed by PPMA, and an increase in long-term incentive plan expense in 2006.

National Planning Holdings recorded profits of £4 million for the first half of 2006, an increase of 33 per cent from the prior year.

Curian

Curian provides innovative fee-based separately managed accounts. Curian incurred losses of £4 million compared to a loss £6 million in the prior year, as the business continues to build scale. At 30 June 2006, Curian had assets under management of £1.07 billion compared to £731 million in the prior year, an increase of 46 per cent at CER.

Asian fund management business

The fund management business in Asia has expanded into new markets in the past few years and is now in 10 markets across Asia. Geographic diversification along with this growth in scale has resulted in a strong upward trend in profits.

Profit from Asia fund management operations was £22 million for the half year, up 633 per cent from 2005 on CER, or 69 per cent on CER basis excluding the one-off charge of £10 million in 2005. This was driven from a 12 per cent increase in retail funds under management with significant contributions to the growth coming from Japan and Korea; the latter also achieving a higher average fee rate.

Egg

Egg's total continuing operating result for the first half of 2006 was a loss of £39 million, compared with a £13 million profit in the same period of last year. This loss was driven by a significant increase in bad debt charges (£49 million higher than the first half of 2005) in line with the rest of the unsecured lending industry. Within the Egg book, the higher charge also reflects the above average bad debt emerging from a specific cohort of the loan portfolio written in 2004. In the first quarter of the year, Egg acquired a record 153,000 new credit cards. This has resulted in a net cost of £10 million in the profit and loss account, compared to the first half of 2005, for the interest rate incentive offers associated with the card campaign. This will reverse in the second half of 2006 in accordance with the accounting policy required under International Financial Reporting Standards (IFRS).

Revenue generated from the associated insurance on loans was lower than the first half of 2005, reflecting Egg's strategic move to reduce new loan volumes. This followed a raising of the threshold for new applicants to raise the credit quality of the loan book consistent with its desire to ensure it only writes new business that meets its hurdle return on capital threshold.

Other

Asia's development expenses (excluding the regional head office expenses) for the half year decreased by 13 per cent at CER to £7 million, compared with £8 million in 2005. These development expenses primarily relate to our newer operations and establishing our services hub in Malaysia.

Other net expenditure of £141 million compared to £118 million in 2005 at CER. This reflected higher interest payable and head office costs. Interest payable increased £5 million to £89 million in 2006 primarily due to foreign exchange movements and a rise in US interest rates. Head office costs (including Asia regional head office costs of £19 million) were £65 million, up £15 million on 2005 at CER.

In 2006, restructuring costs of £18 million were incurred in the UK and Egg. Total UK and Egg pre-tax cost savings are expected to be £150 million per annum by 2009 and the cost of implementing these measures is expected to be £110 million pre-tax, of which £70 million relates to the shareholder and £40 million to the policyholder. The shareholder charge for restructuring costs for the full year 2006 are expected to be £55 million.

Total EEV basis – result before tax for continuing operations

(Period-on-period comparisons below are based on RER)

Total EEV basis before tax, and minority interests was £1,429 million up 72 per cent from £831 million in the first half of 2005. This reflects an increase in operating profit from £799 million to £962 million together with a favourable movement in actuarial gains and losses on defined benefit pension schemes of £254 million; economic assumption and time value of cost of options and guarantees changes of £164 million; and the mark to market movement on core borrowings of £197 million; offset by a negative movement in short-term fluctuations in investment returns of £275 million. The 2005 result also included a goodwill impairment charge of £95 million.

The UK component of short-term fluctuations in investment returns of £34 million in 2006 reflects the difference between an actual investment return delivered in the first half of 2006 for the with-profits life fund of 4.2 per cent and the long-term assumed return of 3.8 per cent for the half year.

The US long-term business short-term fluctuations in investment returns of £12 million in 2006 include a positive £15 million in respect of the difference between actual investment returns and long-term returns included in operating profit. For the first half of 2006, the primary factor was a return in excess of assumptions on limited partnership investments.

In Asia, long-term business short-term investment fluctuations were negative £34 million, compared with positive £24 million for 2005 half year. This negative result was primarily due to rising interest rates over the period, though this was mitigated by strong equity gains in Vietnam.

The mark to market movement on core borrowings of £168 million in 2006, compared to negative £29 million in 2005 reflects the reduction in fair value of core borrowings due to increases in interest rates.

Negative economic assumption changes of £1 million in 2006 compared with negative economic assumption changes of £145 million in 2005. Positive economic assumption changes in the UK were offset by adverse changes in the US and Asia.

In the UK, economic assumption changes of positive £163 million in 2006 reflects an increase in the future investment return assumption offset by the increase in the risk discount rate. The increases in future investment return assumptions and risk discount rate were due to an increase in the risk free rate from 4.1 per cent to 4.7 per cent.

In the US, economic assumption changes of negative £100 million in 2006 primarily reflect the increase in the risk discount rate following a rise in the 10-year treasury bond rate, partially offset by an increase in the assumed separate account return assumption, also driven by the change in the 10-year treasury bond rate.

Asia's negative economic assumption change of £64 million in 2006 primarily relates to the established markets, in particular Hong Kong which suffered from the effect of a higher risk discount rate, due to a rise in interest rates. Taiwan interest rate changes were in line with our assumptions.

The increase in actuarial gains and losses of £254 million between half year 2005 and half year 2006 reflects the increase in discount rate applied to projected pension payments resulting from increased yields on AA corporate bonds.

The increase in the change in time value of cost of options and guarantees was positive £20 million for the first half of the year consisting of, positive £3 million, positive £18 million and negative £1 million for the UK, the US and Asia respectively.

Total EEV basis – result after tax for continuing operations

Profit after tax and minority interests for continuing operations was £1,052 million compared with £489 million in 2005. The tax charge of £376 million compares with a tax charge of £337 million in the first half of 2005.

The effective tax rate at an operating profit level was 30 per cent. This compares with effective rates on the operating profits for the 2005 half year and full year of 28 per cent and 21 per cent respectively. The low rate at full year 2005 at the operating level reflects a number of factors including settlement of a number of outstanding issues with HMRC and benefit for losses incurred in France. The effective tax rate at the total EEV profit level of 26 per cent compared to 41 per cent at the 2005 half year and 29 per cent at the 2005 full year. Variations in the rate on total EEV profit primarily reflect the movement in the mark to market value of core borrowings and, for 2005, the goodwill impairment charge and change of economic assumptions in certain Asia operations. For each of these items there is either no or only a limited tax effect.

International Financial Reporting Standards (IFRS) basis results

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

Total operating profit before tax, based on longer-term investment returns for continuing operations on the IFRS basis was £453 million, £36 million down on the IFRS result for the first half of 2005 at CER. At RER, operating profit was down £16 million.

In the UK, IFRS operating profit was £205 million in 2005, an increase of 10 per cent on 2005. This primarily reflected an increase in profit from the with-profits fund, reflecting bonus rates announced in February 2005 and an increase in profits arising from the annuities business.

The US operations' operating profit result of £227 million, which is based on US GAAP, adjusted where necessary to comply with IFRS and the Group's basis of presenting operating profit based on longer-term investment returns, was up 28 per cent on the 2005 result at CER. At RER, operating profit based on longer-term investment returns for continuing operations was 34 per cent higher than the 2005 result.

The US operating result of £227 million, reflects increased spread and fee income partially offset by reduced profits from PPMA. The increased spread income primarily reflects achieved spreads in excess of the current weighted portfolio target on the regular portfolio, and contains non-recurring spread items totalling £16 million, including mortgage prepayment, make-whole payments and total return swap income. Increased fee income was driven by higher separate account assets as a result of stronger variable annuity sales, and improved average fees on those assets given the increase in election of high margin guaranteed benefit options.

The reduction in PPMA profits primarily arises from an £8 million reduction in investment related income primarily due to a one-off revaluation in 2005 of an investment vehicle managed by PPMA, and an increase in long-term incentive plan expense in 2006.

In Asia, IFRS operating profits decreased to £110 million from £129 million at CER in 2006 (excluding development and regional head office costs). Half year 2005 results included a contribution of £34 million from exceptional items. Excluding these items, IFRS operating profits rose by 16 per cent driven by continued profitable growth, and the increasing scale of the inforce books where the largest of these, Hong Kong, Singapore and Malaysia contributed £73 million. There was also a large rise in fund management profits driven from a 12 per cent increase in retail funds under management with significant contributions to the growth coming from Japan and Korea; the latter also achieving a higher average fee rate.

IFRS basis – total profit before tax for continuing operations

(Period-on-period comparisons below are based on RER)
Total IFRS basis profit before tax and minority interests for 2006 was £692 million. This compares with £460 million for the half year 2005. The increase reflects: a reduction in operating profit of £16 million; a reduction in short-term fluctuations in investment returns of £55 million from the first half of 2005 to positive £39 million; offset by an increase of £208 million in actuarial gains and losses on the groups defined benefit pensions schemes reflecting an increase to 5.5 per cent in the discount rate applied to projected pension payments.

The 2005 result included a goodwill impairment charge of £95 million in respect of the Japanese business.

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

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
Insurance business:					
UK	**205**	187	10%	187	10%
US	**223**	165	35%	157	42%
Asia	**88**	126	(30)%	116	(24)%
Asia development expenses	**(7)**	(8)	13%	(8)	13%
	509	470	8%	452	13%
Fund management business:					
M&G	**100**	83	20%	83	20%
US broker-dealer and fund management	**8**	19	(58)%	18	(56)%
Curian	**(4)**	(6)	33%	(6)	33%
Asia fund management	**22**	3	633%	2	1,000%
	126	99	27%	97	30%
Banking:					
Egg (UK)	**(39)**	13	(400)%	13	(400)%
Other income and expenditure	**(126)**	(93)	(35)%	(93)	(35)%
UK restructuring costs	**(17)**	–		–	
Operating profits from continuing operations	**453**	489	(7)%	469	(3)%

IFRS basis – total profit after tax and minority interests for continuing operations

Profit after tax and minority interests for continuing operations was £449 million compared with £299 million in 2005. The effective rate of tax on operating profits, based on longer-term investment returns, was 33 per cent. This compares with an effective rate of 29 per cent for half year 2005 and 19 per cent for full year 2005. The full year 2005 rate was unusually low reflecting a number of factors including settlement of a number of outstanding issues with HMRC and benefit taken for losses incurred in France.

The effective rate of tax at the total IFRS profit level for 2006 was 35 per cent. This compares with an effective rate of 34 per cent for half year 2005 and 24 per cent for full year 2005.

Earnings per share

Earnings per share based on EEV basis operating profit after tax and related minority interests were 28.0 pence, compared with 24.4 pence for the 2005 half year. Earnings per share on an IFRS operating profit basis after tax and related minority interests were 12.7 pence compared with 14.0 pence for the 2005 half year.

Basic earnings per share, based on total EEV basis profit, were 43.8 pence compared with 20.7 pence for the 2005 half year. Basic earning per share, based on total IFRS profit were 18.7 pence compared with 12.7 pence for the 2005 half year.

Dividend per share

The interim dividend per share of 5.42 pence represents a 2.3 per cent increase on the 2005 interim dividend of 5.30 pence and will be paid on 27 October 2006. We intend to maintain our current dividend policy, with the level of dividend growth being determined after considering the opportunities to invest in those areas of our business offering attractive growth prospects, our financial flexibility and the development of our statutory profits over the medium to long term.

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 30 June 2006 were £10.9 billion, an increase of £0.6 billion from the 2005 year end level. This six per cent increase primarily reflects total EEV profit after tax and minority interest of £1,052 million, offset by negative exchange movements of £217 million and dividend payments to shareholders of £267 million.

Statutory IFRS basis shareholders' funds at 30 June 2006 were £5.0 billion. This compares with £5.2 billion at 31 December 2005. The reduction primarily reflects: profit after tax and minority interests of £449 million offset by negative foreign exchange movements of £134 million, dividend payments to shareholders of £267 million and negative movements on unrealised appreciation of securities classified as available-for-sale, net of related adjustments to amortisation of deferred acquisition costs and deferred tax, of £259 million.

On both bases the effect of purchasing the minority interest in Egg increased shareholders' equity by £78 million.

Cash flow

The table below 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.

	Half year 2006 £m	Half year 2005 £m
Cash remitted by business units:		
UK life fund transfer*	**217**	194
JNL	**68**	–
Asia	**66**	58
M&G	**38**	27
Total cash remitted to Group	**389**	279
Net interest paid	**(90)**	(54)
Dividends paid	**(267)**	(252)
Scrip dividends and share options	**18**	40
Cash remittances after interest and dividends	**50**	13
Tax received	**88**	36
Corporate activities	**(24)**	(36)
Cash flow before investment in businesses	**114**	13
Capital invested in business units:		
UK and Europe	**(147)**	(9)
Asia	**(61)**	(80)
Decrease in cash	**(94)**	(76)

*In respect of prior year's bonus declarations.

The Group holding company received £389 million in cash remittances from business units in the first half of 2006 (2005: £279 million) comprising the shareholders' statutory life fund transfer of £223 million relating to the 2005 and 2006 bonus declarations, of which £217 million was remitted from the UK and £6 million from Asia, together with other remittances from subsidiaries of £166 million. Prudential expects the life fund transfer to continue broadly at this level.

JNL has remitted US$118 million in this half year. An estimated total payment of US$180 million is expected from JNL for the full year.

After net dividends and interest paid, there was a net cash inflow of £50 million (2005: £13 million).

The Group holding company paid £24 million in respect of corporate activities during the first half of 2006 and received £88 million in respect of tax. The Group invested £208 million (2005: £89 million) during the first half of the year, including £147 million in its UK operations and £61 million in Asia.

The capital requirement for the UK business is planned to be up to £230 million for 2006 and up to £150 million in 2007. Capital injections into the UK business are anticipated to decrease thereafter as the shareholder book continues to grow. This will depend on the mix of business written and the opportunities available. From 2008 the UK is expected to receive approximately £30 million a year from commission payment in respect of general insurance, this will depend on the new business volumes and persistency rates. Prudential transferred its personal lines general insurance to Winterthur in 2002 and formed a strategic alliance with Churchill, now part of RBS Group. Under the terms of the agreement Prudential receives commission which is offset against payments received at the time of the transaction. Total commission levels are expected to exceed the upfront payments from 2008 onwards.

In the first half of 2006, Asia became a net contributor to the holding company's cash flow for the first time, with a net remittance of £5 million. Asia is expected to remain a contributor for the full year.

In aggregate, the first six months of 2006 saw a decrease in cash of £94 million (2005: £76 million).

Shareholders' borrowings and financial flexibility

Net core structural borrowings at 30 June 2006 were £1,588 million compared with £1,611 million at 31 December 2005. This reflects the net cash outflow of £94 million, exchange conversion gains of £71 million and gains on forward currency contracts of £46 million.

The Group also has access to £1,500 million committed bank facilities provided by 15 major international banks, and a £500 million committed securities lending liquidity facility.

The Group's insurance and asset management operations are funded centrally. Egg, as a separate bank, is currently responsible for its own financing. The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 30 June 2006, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 12.7 per cent compared with 13.5 per cent at 31 December 2005.

Prudential plc enjoys strong debt ratings from both Standard & Poor's and Moody's. Prudential long-term senior debt is rated A+ (stable outlook) and A2 (stable outlook) from Standard & Poor's and Moody's respectively, while short-term ratings are A1 and P-1.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 11.8 times in the first half of 2006 compared with 10.5 times in the first half of 2005.

Regulatory capital

Following the acquisition by Prudential of the entire share capital of Egg plc, completed in May 2006, Prudential has reorganised its corporate structure. We expect the reorganisation to provide a regulatory capital benefit of about £120 million.

Including this benefit Prudential currently estimates its capital surplus under the Financial Conglomerates Directive at the end of 2006 will be over £800 million.

Funds under management

Funds under management across the Group at 30 June 2006 totalled £238 billion compared with £234 billion at 31 December 2005. The total includes £192 billion of Group internal funds under management and £46 billion of external funds under management.

Financial strength of the UK long-term fund

United Kingdom

The fund is very strong with an inherited estate measured on an essentially deterministic valuation basis estimated to be around £9.7 billion as at 30 June 2006 compared with approximately £9.0 billion at the end of 2005. On a realistic basis, with liabilities recorded on a market consistent basis, the free assets of the fund are estimated to be valued at around £8.7 billion before a deduction for the risk capital margin.

The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

The Company believes that it would be beneficial if there were greater clarity as to the status of the inherited estate. In due course, after discussions with the Financial Services Authority, the Company may therefore take steps to achieve that clarity, whether through guidance from the court or otherwise. In any event the Company expects that the entire inherited estate will need to be retained within the long-term fund for the foreseeable future to provide working capital, and so it is not considering any distribution of the inherited estate to policyholders and shareholders.

The Prudential Assurance Company long-term fund is rated AA+ by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch Ratings.

Philip Broadley

Philip Broadley
Group Finance Director
27 July 2006