Business unit review
Insurance operations

United Kingdom

1. Market review and summary of strategy

During the first half of 2007 Prudential UK pursued its retirement-led strategy, focusing on profitable opportunities in its chosen product areas and distribution channels, and declining to write low margin or low persistency business. The success of this strategy is reflected in the financial performance for the first six months of the year with APE Retail sales increasing by 10 per cent at a new business margin of 32 per cent.

The business is continuing to target capital efficient returns through selective participation in the retail retirement and wholesale markets while delivering embedded value through its Mature Life and Pensions business.

The UK continues to be an attractive market for long-term savings, fuelled by an ageing demographic profile and increased life expectancy. The proportion of the UK's population aged 65 and over is expected to grow by some two million over the next 10 years, while the average life expectancy of a 65 year old man has improved by 3.5 years to 82 compared with a 65 year old man retiring 20 years ago. In addition, much of the nation's wealth is concentrated in older segments of the population, with many having benefited from rising property prices over the last 30 years. However, the majority still have insufficient savings to provide for the same standard of living during retirement as they have enjoyed while working.

Growth in equity markets recently and simpler pension regulation following A-Day in April 2006, have created positive conditions for growth in the Life and Pensions market.

Prudential's UK insurance operations are structured into three business areas: Retail Retirement, Wholesale and Mature Life and Pensions.

The Retail Retirement business aims to grow a profitable and sustainable franchise focused on retirement leadership. By building on Prudential UK's brand strength and core capabilities in multi-asset management and asset allocation, providing strong investment performance at lower volatility, and longevity risk management, it is able to offer unique solutions to customers who are saving for retirement and seeking to turn their wealth into income in retirement.

Prudential UK has a significant pipeline of customers with maturing pensions business over the next 25 years from policies sold through, among other channels, its direct sales force prior to 2001 and under the old Scottish Amicable brand. By providing competitive annuities to these existing customers and to new customers from financial advisers and partnership arrangements, Prudential UK has built a leading presence in the retirement income market. It is at the forefront of the development of asset-backed retirement income solutions, building on the success of its with-profits annuity, which provides customers with an income linked to potential growth from equity investment but without the volatility. In the first half of 2007, Prudential UK added an option to accept pensions with protected rights and will continue to develop new solutions in this important market.

Prudential UK is also developing its capability in the lifetime mortgage market, for customers who want to remain in the family home while drawing additional income to support their retirement. In building its proposition in this market, Prudential has established a dedicated sales force (there are currently 30 fully trained advisers with a plan to increase this further), as well as selling this product via financial advisers. The UK will continue to extend its capabilities in this market through further product innovation in the fourth quarter of this year. Prudential now has outstanding loans of over £160 million on its balance sheet and has grown its market share to 12.5 per cent at the end of the first quarter.

Prudential UK is continuing to deliver significant volume and hence operational scale in the corporate pensions market as it also reduces the costs associated with the distribution and administration of this business. Business volume in corporate pensions has increasingly been delivered in recent years through larger scheme wins and Prudential is now more selective, choosing not to write lower margin business.

Within retirement savings, Prudential is building on its market leading propositions. These provide access to strong investment returns with lower volatility, by adding guarantees that help consumers, particularly those approaching or at retirement, to safeguard their savings while still benefiting from investment growth, such as the capital guarantee offered on PruFund.

The Wholesale operation, which has been in operation for over 10 years, has around 1,100 people years of experience and more than 400 bulk buy-outs already written, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment and longevity liabilities. In the first quarter of 2007, Prudential reached agreement in principle with Equitable to acquire Equitable's book of in-force with-profit annuities. The transaction is expected to complete in the fourth quarter of 2007. Prudential UK will continue to compete selectively in this market, only writing business at prices that deliver an adequate return. The UK business remains

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confident in the long-term outlook in the bulk and back-book wholesale market where nearly £900 billion of assets are held in defined benefit schemes and insurers' back-book annuities.

Prudential UK is continuing to deliver embedded value through its Mature Life and Pensions business. It has set a target to reduce per policy unit processing costs over and above the cost reduction required to reduce costs in line with the expected run-off of policies on these closed books of business and is evaluating the best route for achieving this which will include one or all of internal cost cutting, further off-shoring or out-sourcing.

Prudential welcomes the Retail Distribution Review Discussion Paper, which has recently been published by the Financial Services Authority. This is in line with Prudential's strategy which is focused on building strong longer-term relationships with advisers and offering market-leading retirement solutions. Prudential has already taken significant steps to improve its distribution model by moving some of its products to a 'factory gate price' basis, where the costs for intermediary services are separated from the costs of the product. As the advice costs are negotiated and paid separately, this method of pricing has also been termed Customer Agreed Remuneration. Factory gate pricing delivers more capital efficient volume through intermediary partners as the commission costs are no longer funded at outset from shareholder capital. Prudential has re-aligned its account managers to provide an even more focused service across accounts seeking to build deeper relationships with those distributors who are moving to 'wealth adviser' models. More than half of Prudential UK's top 100 advisers have changed compared to last year, reflecting our focus on switching to value-creating accounts.

Through PruHealth, its joint venture with Discovery, the leading South African health insurer, Prudential UK is building a health insurance business which rewards those customers who lead healthier lives through the 'Vitality' points system. PruHealth is on track to meet its target of becoming a significant player in the private healthcare market with insured lives of more than 117,000 up 31 per cent on the 2006 year-end position.

The joint venture is being expanded to include Prudential UK's protection product, expanding 'Vitality' across both health and life insurance products later in 2007.

2. Financial results and performance

Prudential UK delivered a strong performance in the first half of 2007 including:

- Retail sales were up 10 per cent on the first half of 2006;
- new business Retail profits increased 21 per cent on the first half of 2006;
- Retail new business margins were strong at 32 per cent;
- the Wholesale business announced an agreement in principle to acquire Equitable's portfolio of in-force with-profits annuities;
- in-force profits increased 79 per cent on first half of 2006;
- IFRS profits increased by 22 per cent on first half of 2006; and
- the initial phase of the cost reduction programme to deliver annual savings of £115 million is on schedule to be achieved by the end of 2007. An update on the second phase (£80 million) will be given in the fourth quarter of 2007.

Retail APE sales of £358 million were 10 per cent higher than during the same period in 2006. This growth was driven by strong performance in individual annuities, corporate pensions and with-profits bonds. Total UK APE sales in the first half were £363 million, a decrease of 25 per cent year-on-year. However, the first half of 2006 included two large back book annuity deals totalling £128 million and also £31 million of credit life sales under a contract with Lloyds TSB that was not renewed in 2007. On a PVNBP basis, new business sales were £2.9 billion compared with £4.2 billion in the same period last year.

Individual annuities continued the strong performance experienced in the first quarter with total sales for the half year of £140 million, up 23 per cent on the same period last year. This performance was driven by the strength of Prudential's internal vestings (up 11 per cent) with sales from its direct channel and partnership deals with Zurich, Pearl and Royal London gathering momentum (up 59 per cent compared with the same period in 2006). Prudential and Save & Prosper signed an agreement in 2006 under which Save & Prosper will offer Prudential's conventional annuity product to customers with maturing Save & Prosper pensions. The five-year agreement went live on 18 June 2007.

		CER		RER	
United Kingdom	**Half year 2007 £m**	Half year 2006 £m	Percentage change	Half year 2006 £m	Percentage change
Sales					
APE retail sales	**358**	325	10%	325	10%
APE total sales	**363**	484	(25)%	484	(25)%
PVNBP	**2,905**	4,224	(31)%	4,224	(31)%
NBP retail	**115**	95	21%	95	21%
NBP total	**108**	138	(22)%	138	(22)%
NBP retail margin (% APE)	**32%**	29%		29%	
NBP total margin (% APE)	**30%**	29%		29%	
Operating profits					
Total EEV basis operating profit*	**462**	336	38%	336	38%
Total IFRS operating profit*	**251**	205	22%	205	22%

*Based on longer-term investment returns.

The with-profits annuities market continues to grow with increased consumer recognition for the need to protect retirement income against inflation during increasingly longer retirement periods. Prudential UK remains the leading player in this market with APE sales 51 per cent higher than for the same period last year. This was aided by strong relationships with Openwork. The new enhancements Prudential UK made to the product in the first quarter (adding the facility to accept Protected Rights monies, which was a first in the with-profit annuity market) has been well received and has delivered more than expected.

The UK business continues to increase its presence in the lifetime mortgage market. Illustrations and applications continued to increase with £67 million of new loans advanced to customers in the first six months of 2007. This represents a 123 per cent increase on the £30 million advanced for the same period in 2006.

With-profits bond sales continue to increase on the back of continued strong investment performance. At the half year, APE sales of £17 million were 47 per cent higher than during the same period in 2006. The overall with-profits bond market has been steadily increasing since the fourth quarter of 2005 (fourth quarter 2005 sales through financial advisers of £6.7 million compared with £15.7 million APE in first quarter 2007) and Prudential UK continues to write approximately half of with-profits bonds sold through financial advisers in the UK. Approximately 45 per cent of sales have been made with a capital guarantee, for which an additional charge is made.

APE sales of corporate pensions grew to £124 million, a rise of 28 per cent on the £97 million written in the first half of 2006. Sales of the shareholder-backed defined contribution proposition grew to £40 million, while sales of the legacy DC and AVCs grew 16 per cent to £71 million as AVC sales continued to flourish on the back of A-day. Prudential continues to be a market leader in AVCs, supporting major customers through its comprehensive sales capability existing in the work-place. Corporate pensions also continue to be an important source for Prudential's future annuity business.

PruHealth has continued to make encouraging progress during the first half of 2007. Gross written premiums have increased by 91 per cent to £32 million compared with the comparative period last year. PruHealth has extended its distribution footprint through a partnership with Boots the Chemist, and quotes and applications under this agreement have been building steadily during the second quarter. Importantly, PruHealth's lapse and claim ratios are in line with expectations.

Retail new business profits increased by 21 per cent to £115 million. Retail performance was driven by increased sales of high margin business, predominately of individual annuity business, and the cessation of writing low margin business. This has led to overall margins increasing to 30 per cent, with a Retail margin of 32 per cent being achieved. Total new business profits for the first half of £108 million were 22 per cent below the level achieved over the same period in 2006. However, 2006 included significant profits relating to the Royal London and SAIF back-book transactions, and Lloyds TSB credit life profits.

A 15 per cent average IRR was achieved on new business written for the first half of 2007.

EEV basis operating profit based on longer-term investment returns of £462 million, were 38 per cent up on the same period last year. In-force profits were 79 per cent higher than 2006, primarily due to the increase in profits arising from the unwind of the discount from the in-force book and the effect of the change in the UK corporation tax rate. The unwind of the discount increase of £59 million reflects a higher opening embedded value and increases in risk discount rates.

Changes to operating assumptions of £68 million included a benefit of £67 million being the effect of a reduction in the corporation tax rate from 30 per cent to 28 per cent.

Prudential UK continues to progress its cost saving programme and by the end of 2007 the initiatives will be in place to deliver the initial £115 million of annual savings (of the total of £195 million target), which is already reflected in the current assumptions. Prudential UK continues to actively manage the retention of the in-force book. Following the strengthening of persistency assumptions in 2005, overall experience continues to be in line with assumptions.

Other charges of £30 million were below those incurred in the same period of 2006. These are mainly costs associated with new product and distribution development and certain costs associated with complying with regulatory change.

IFRS profits of £251 million increased by 22 per cent. This reflected a 15 per cent increase in profits attributable to the with-profits business, to £195 million, representing the continued strong investment performance of the life fund and its impact on terminal bonuses.

Financial strength of the UK long-term fund

The fund is very strong. On a realistic basis, with liabilities recorded on a market consistent basis, the inherited estate of the fund is estimated to be valued at around £9.5 billion before a deduction for the risk capital margin.

In the first half of the year, the performance of the Prudential's with-profits life fund has benefited from its exposure to strongly performing equity markets around the world at the expense of global bond markets. The fund returned 5.8 per cent gross in the first half of the year.

Recently, the decision was taken by the fund's investment managers to partially hedge its exposure to credit risk. Since 2002, the fund has taken a strategic exposure devoid of government bonds and encompassing a sizeable low investment grade and high yield credit component. This has proved a very successful strategy.

Given the stretched level of credit spreads around mid-year, the decision was taken to hedge the entirety of the fund's High Yield and a substantial proportion of its Sterling, Euro and Dollar BBB credit exposure, using highly liquid iTraxx and CDX index credit default swap (CDS) contracts. Around £4 billion nominal contracts were transacted in the second half of June in respect of the Prudential and Scottish Amicable Funds. Although, given recent

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market events, these derivative positions are well in the money, it is the intention to hold them for some time.

The PAC long-term fund is rated AA+ (stable outlook) by Standard & Poor's, Aa1 (negative outlook) by Moody's and AA+ (stable outlook) by Fitch Ratings.

3. Outlook and forthcoming objectives

As announced in the first quarter of 2007, an agreement in principle was reached for Prudential to acquire Equitable's portfolio of in-force with-profit annuities, a book of 62,000 policies with assets as at 31 December 2006 of approximately £1.7 billion. This transaction demonstrates Prudential's ability to grow its with-profits fund to create value for both its policyholders and shareholders. This transaction, which is subject to certain conditions including a vote among Equitable's policyholders as well as regulatory and court approval, is expected to complete in the fourth quarter at which time the sale and associated profit will be recognised.

Prudential UK has entered into an agreement with Barclays under which it will be the preferred supplier of conventional annuity products to Barclays' retail customers in the UK. Prudential will establish an annuities desk within its PruDirect distribution business through which Barclays customers can enquire about the range of annuity options and product features that are available to them. The agreement will take effect later in 2007 and run for five years.

In addition Prudential UK has been chosen as the main provider on Thinc group's new adviser-service, Annuity Desk. The service will allow Thinc advisers, who do not advise on annuity business, to refer their customers' annuity needs to PruDirect.

In line with our strategy of building on the core capability of asset allocation which has driven the exceptional investment performance for the Life Fund over recent years, Prudential UK has launched two multi-asset funds during the first half of 2007 – the Cautious Managed Growth Fund and the Managed Defensive Fund. These two new funds are available within Prudential's collectives, pension, onshore and offshore bond product ranges.

As Prudential has avoided business with lower expected persistency, to increase profitability, unit-linked bond sales remained subdued, with Prudential signalling its intention to progressively withdraw from the traditional provider funded commission arena to improve the quality of its book. A new factory gate priced onshore bond will be available during August.

Prudential has committed to a £195 million cost saving programme. Much of this cost will be saved within Mature Life and Pensions, which encompasses products that are not actively marketed to customers and in long term decline. As explained above, plans to achieve these cost savings are being developed both internally and with third parties, with the expectation that significant savings will be delivered through a decision to either outsource or offshore roles in operations and overhead areas and simplify the systems and technology required to manage these policies. Together these actions will ensure that Prudential continues to deliver in-force profit at least in line with current assumptions. As previously announced, the savings, net of restructuring costs, are expected to result in a small positive assumption change on an EEV basis, estimated to be around £60 million. A decision on the option selected to deliver the further £80 million cost savings is scheduled to be made during the fourth quarter of 2007.

By the end of 2007, the initiatives will be in place to deliver the initial £115 million of this annual target which is already reflected in the current assumptions.

Total restructuring costs of £57 million have been incurred in 2006 in respect of the annual £115 million savings target (£34 million of the costs related to shareholders on an EEV basis). Further costs of approximately £18 million are expected to be incurred by the end of 2007, bringing the total cost to approximately £75 million.

Prudential UK will continue to focus on growth opportunities to deliver capital efficient returns and will seek to maintain an aggregate IRR of at least 14 per cent on new business.

United States

1. Financial results and performance

Jackson National Life Insurance Company (Jackson), Prudential's US insurance business, provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to near and post-retirees. The US is the largest retirement savings market in the world, and as 78 million baby boomers born between 1946 and 1964 begin to move into retirement, annual retirement distributions are expected to increase to more than US$1 trillion per year by 2012.

Jackson's primary focus is manufacturing high-margin, capital-efficient products, such as variable annuities (VA), and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings,

		CER		RER	
United States	**Half year 2007 £m**	Half year 2006 £m	Percentage change	Half year 2006 £m	Percentage change
PVNBP	**3,490**	2,915	20%	3,209	9%
APE sales	**352**	294	20%	323	9%
NBP	**144**	122	18%	134	7%
NBP margin (% APE)	**41%**	41%		41%	
Total EEV basis operating profit*	**344**	316	9%	346	(1)%
Total IFRS operating profit*	**218**	203	7%	223	(2)%

*Based on longer-term investment returns and excluding broker-dealer and fund management operations and Curian.

Jackson leverages its low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson had a strong first half of the year delivering APE sales of £352 million, up 20 per cent on last year with strong new business profit margins at 41 per cent. PVNBP sales were £3.5 billion.

Jackson again delivered record variable annuity sales of £2.2 billion during the first half of 2007, up 31 per cent on last year and, in the first quarter of 2007, recorded its twelfth consecutive quarter of variable annuity market share growth. This reflects its distinct competitive advantages of an innovative product offering, a relationship-driven distribution model, award-winning service as well as an efficient and flexible technology platform.

Jackson's variable annuity sales result was achieved in a market that grew six per cent year-on-year through the first quarter of 2007. Jackson increased its variable annuity market share to 5.1 per cent as at the end of the first quarter of 2007, up from 4.6 per cent at the end of 2006, and maintained its ranking of 12th in total variable annuity sales. In the independent broker-dealer distribution channel, Jackson's variable annuity sales during the first quarter of 2007 increased 32 per cent over the same period in 2006, while industry sales grew 16 per cent. Jackson maintained its number two ranking in the channel at the end of March 2007 and increased its market share to 11.7 per cent from 10.8 per cent at year end 2006.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness. In April, Jackson added a number of features to its variable annuity key offering: three new guaranteed minimum withdrawal benefits (GMWBs), a new guaranteed minimum accumulation benefit (GMAB), and several new portfolio investment options.

In the first quarter of 2007, Jackson continued its track record of product innovation by launching a set of retail mutual funds for distribution by existing wholesalers. Jackson's new mutual funds are marketed as an additional option for financial advisors selling variable annuity products.

At the 2007 half year, Jackson had £39.8 billion in US GAAP assets, an increase of £2.7 billion at CER compared to 2006 year end and up from £35.2 billion twelve months ago. Total assets include £13.6 billion in the separate accounts that back the variable portion of variable life and annuity contracts, an increase of £2.5 billion compared to the 2006 year end and up from £8.8 billion twelve months ago, further diversifying Jackson's earnings towards fee-based income. At 30 June 2007, Jackson's investment portfolio of £23.3 billion included asset-backed securities with a total of £252 million exposure to sub prime residential mortgages, including £8 million held within collateralised debt obligation (CDO) structures. All of these securities are triple-A rated.

The increased variable annuity APE sales more than offset a reduction in APE sales of fixed index annuities, which were down 19 per cent to £22 million. Fixed annuity APE sales increased four per cent to £29 million.

Entry spreads for fixed annuities continued to be challenging during the first half of the year, which limited the attractiveness of the market to Jackson. To the end of March 2007 the traditional deferred fixed annuity market was down 25 per cent from the same point in the prior year while Jackson's market share grew from 2.8 per cent to 3.6 per cent over the same period.

Fixed index annuity sales continued to be impacted by the uncertain regulatory environment in the US, with total market sales to March 2007 down 9.5 per cent from the prior year while Jackson's market share grew from 3.4 per cent to 3.5 per cent over the same period.

Institutional APE sales of £67 million, a market in which Jackson participates on an opportunistic basis, were up 14 per cent from the prior year.

New business profit of £144 million was 18 per cent above the prior year, reflecting a 20 per cent increase in APE sales with margins of 41 per cent in line with the prior year figure.

Total EEV basis operating profit for the US insurance operations at the half year 2007 was £344 million compared to £316 million in the prior year at CER. In-force EEV profits of £200 million were three per cent higher than prior year profit, primarily reflecting an increase in the unwind of the in-force business during the first half of 2007 resulting from a higher opening embedded value and a higher aggregate risk discount rate on the in-force business. Spread variance of £53 million is broadly in line with that of prior year (£55 million at CER) and includes £23 million of non-recurring items (2006: £28 million at CER).

Jackson's IFRS operating profit was £218 million, up seven per cent on the prior year. The driver of this growth was higher fee income from the variable annuity business driven by higher separate account assets given the growth in variable annuity sales and market appreciation. While the fee-based business represents the key driver of growth in IFRS operating profit, the in-force block of spread-based business continues to deliver the majority of profits. Profits from the annuity spread-based business were broadly in line with prior year.

2. Outlook and forthcoming objectives

Jackson continues to deliver profitable growth in the attractive US market and enhance its competitive advantages in the variable annuity market. With a continued focus on product innovation, a proven relationship-based distribution model, award winning service and excellence in execution, Jackson is well positioned to take advantage of the changing demographics and resulting opportunities in the US market.

Asia

1. Financial results and performance

Prudential has increased the pace of growth in Asia delivering strong, broad based and profitable growth from its Asian life operations through a combination of freshly invigorated multi-channel distribution, innovative product design and insightful marketing.

Average new business growth accelerated to 48 per cent, up on the first half of 2006 on an APE basis at £619 million and this boosted the five year compound annual growth rate (CAGR)

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Asia	CER Half year 2007 £m	CER Half year 2006 £m	CER Percentage change	RER Half year 2006 £m	RER Percentage change
PVNBP	**3,286**	2,161	52%	2,328	41%
APE sales	**619**	418	48%	448	38%
NBP	**282**	216	31%	232	22%
NBP margin (% APE)	**46%**	52%		52%	
Total EEV basis operating profit*	**493**	334	48%	359	37%
Total IFRS operating profit*	**76**	83	(8)%	88	(14)%

* Based on longer-term investment returns and excluding fund management operations, development and Asia regional head office expenses.

to 29 per cent. The second quarter included the impact of an exceptionally successful retirement campaign in Taiwan. This is not expected to generate the same level of growth over the full year. Average new business profit margin on APE at 46 per cent compares to 52 per cent for the same period last year with the change being principally driven by a shift in geographic mix accounting for four per cent of the change and product mix the remaining two per cent. Profit margin for the full year is expected to remain at or around this level. The proportion of linked business remains high at 72 per cent and, as has been the case in the past, this has been unaffected by the equity market fluctuations seen earlier on this year.

In-force EEV profits at £211 million are increasing steadily with the realisation of value inherent in the business; operating variances remain small, but the first half of 2007 saw positive assumption changes of £34 million primarily following corporation tax changes in Singapore and China. On the IFRS basis operating profits for the half year of £76 million are down eight per cent on the first half 2006, due to increased losses in India and to a lesser extent China, as Prudential continues to invest in building the branch networks, offsetting profits from the more established operations including a particularly strong result from Taiwan. Korea continues to record IFRS losses as a result of new business strain. Continuing the trend seen in 2006, Prudential received a net remittance of £16 million capital in the first half of 2007 from Asia after including injections totalling £40 million into China, India and Korea.

A key driver of the new business growth in the first half was the launch of a new variable annuity product and the very successful launch of the 'What's Your Number?' retirement planning initiative in Taiwan, replicating the success of this initiative in Hong Kong and Korea. New business APE for Taiwan in the second quarter was exceptional and 246 per cent higher than the same period last year. New business volumes are expected to revert to more normal levels during the second half of 2007. The new business profit margin on the VA products is lower than regular unit-linked business and, together with the launch incentives, this has lowered the average margin from 52 per cent for the first half last year to 42 per cent.

Prudential's Indonesian life business continues to maintain its robust growth with a 57 per cent increase in first half new business. Since 2002 this business has been growing at a CAGR of 54 per cent. With APE of £47 million for the half year the operation is becoming a material contributor to total new business. The business now has 40,000 agents and is currently growing this base at around a net 1,000 per month. The life insurance market in Indonesia is still very much in its infancy and this business has considerable long term potential. This business made an IFRS profit during the first half and remitted £11 million of surplus capital.

In China, growth remains on track at 57 per cent with APE of £22 million, although agency recruitment is currently challenging, particularly in Guangzhou and Beijing. China is also a recipient of capital from the Group to support growth and geographic expansion. China's new business profit margin in the first half of 2007 decreased by two percentage points to 44 per cent compared to 46 per cent in 2006 due to a higher proportion of unit-linked business.

The life joint venture with ICICI in India continues to grow apace with new business APE for the first half 2007 of £83 million for Prudential's 26 per cent stake, up 54 per cent compared to the same period in 2006, with the number of branches now 583 compared to 256 this time last year. Agent numbers have similarly increased and there are now over 244,000 agents across the country. The CAGR for this business over the last five years has been 107 per cent and it now has 3.4 million customers. New business profit margins in India remain the lowest in the region and averaged 20 per cent for the first half 2007. This pace of growth is capital intensive and the lower margin products means more shareholder support is required than in other markets. In the first half of 2007 India incurred IFRS operating losses of £17 million. Investment in India will continue throughout the remainder of 2007.

In Hong Kong, despite this market being deemed mature and competitive, new business growth continues to accelerate, up 45 per cent on the same period last year. This is in part driven by successful marketing campaigns with the continuation of 'What's

Your Number?' and the 'Double Treasure Income Plan' bancassurance promotion with Standard Chartered Bank (SCB). Average new business margins remain satisfactory at 62 per cent, down from 67 per cent in 2006 due to a higher proportion of unit-linked business as a result of the 'What's Your Number?' retirement campaign. IFRS profits were in line with 2006 reflecting higher new business strain from a higher proportion of linked business.

Singapore's first half new business growth in 2007 on an APE basis was 27 per cent. Two new pilot health products were successfully launched in Singapore in May as part of Prudential's regional initiative in this area and so far 15,000 proposals have been received.

Korea had a slower first half in 2007 compared to previous years with new business growth at a modest 18 per cent principally due to the first quarter where, as previously reported, there were some market related issues around unit-linked products, increased competition in the general agent channel and lower agent recruitment. During the second quarter, the business improved strongly, being up 31 per cent on the same quarter last year. A new distribution agreement with Korea Bank got underway in the second quarter. New business profit margins in Korea are relatively low and were 33 per cent compared to 38 per cent at the same time last year as a result of product mix changes. Korea is a recipient of capital injections to fund its growth.

Malaysia grew at 10 per cent for the first half of 2007, however senior management remain confident the business will continue to accelerate during the second half following a second quarter that was up 25 per cent on the first quarter.

Japan Life reported new business APE of £16 million, up around five times the half year 2006 level. New business profit margins in Japan are currently negative as the expense base remains high relative to the current scale of the business. As previously reported, Prudential continues to look for opportunities to increase the scale and profitability of its Japanese life business over the long term.

Prudential's other markets of the Philippines, Thailand and Vietnam collectively grew by 29 per cent with some encouraging signs of growth in Vietnam up six per cent after several years of decline and strong growth in Thailand at 78 per cent with the success of the call centre.

In summary, Prudential continues its excellent track record of building a profitable business in Asia.

2. Outlook and forthcoming objectives

Prudential continues to deliver strong, broad based and profitable growth in Asia from its well established platform. The demographics and environment in Asia remain as compelling as ever and the business is expected to carry on growing at a fast pace.

The objectives going ahead are to continue to focus on building agency scale, particularly in the huge markets of India, China and Indonesia, and to increase productivity in other markets. Prudential remains unique amongst the regional players in Asia with a proven approach to partnership distribution and this will continue to be expanded.

There is also the opportunity to deepen and strengthen relationships with the over 8.5 million customers already on the books using a disciplined and systematic approach. Work is already underway in this area and pilot schemes are scheduled for later this year in a number of markets.

The retirement opportunity is clear and Prudential has already demonstrated its ability to successfully package and promote retirement accumulation products through the 'What's your number?' campaign. The next stage is to build on this with a retirement solution that covers not just accumulation, but also drawdown and associated protection needs.

Prudential has not leveraged its strengths to building scale direct distribution as yet and this will be a priority in the future. A new regional team is being assembled to drive this initiative.

Prudential will also be re-examining its approach to health products as there are significant opportunities to create value to shareholders and customers above and beyond what is already being done. A new regional team is developing the approach and has already piloted initiatives in Singapore and most recently India.

The business remains well on track to deliver its target of at least doubling 2005 new business profits of £413 million by 2009.

Business unit review continued
Asset management

Global

The Prudential Group's asset management businesses are contributing to the Group in two ways. Not only do they provide value to the insurance businesses within the Group, but also are important profit generators in their own right, with low capital requirements and generating significant cash flow for the Group.

The asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services (RFS) markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths, but are increasingly working together by managing money for each other with clear regional specialism, distributing each others' products and sharing knowledge and expertise, such as credit research.

Each business and its performance for the first half of 2007 is summarised below.

M&G

1. Financial results and performance

M&G is Prudential's UK and European fund management business and has £168 billion of funds under management, of which £119 billion relates to Prudential's long-term business funds. M&G aims to maximise profitable growth by operating in areas of the retail and wholesale markets where it has a leading position and competitive advantage, including retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

M&G is made up of three distinct and autonomous businesses – Retail, Wholesale and Prudential Capital – each with its own strategy for the markets in which it operates. M&G's retail strategy is to maximise the leverage of its strong investment performance, efficient operating platform and multi-channel distribution in the UK, Europe and Asia. M&G's wholesale strategy is twofold: to add value to its internal clients through investment performance, liability matching and investment in innovative and attractive areas of capital markets and to utilise the skills developed primarily for internal funds to build new business streams and diversify revenues. Prudential Capital manages Prudential's balance sheet for profit.

M&G delivered significant profit growth during the first six months of 2007. Operating profits, which include performance related fees (PRF), increased 40 per cent to £140 million compared to the same period last year. Underlying profits, excluding PRF, were £127 million, an increase of 40 per cent. This continues M&G's strong profit growth that has seen underlying profits increase fourfold over the past five years. Profit growth in the first half was generated on the back of rising market levels, strong net inflows across the UK and international markets and improved deal flow in Prudential Capital. First half profits were boosted by £5 million of non-recurring items and M&G also expects to incur a number of anticipated project costs in the second half. PRF and carried interest during the first six months was £13 million, an increase of 51 per cent on last year.

Strong fund performance led to record gross fund inflows of £7.5 billion, up 11 per cent on the same period last year. Net fund inflows of £3.4 billion were the second highest ever achieved in a first half, but were slightly down on last year largely due to reduced inflows into lower margin institutional areas such as traditional segregated bond funds. External funds under management grew by eight per cent to £49 billion from the end of 2006 and represent over a quarter of M&G's total funds under management.

In the retail marketplace, continued high demand for M&G's high alpha equity and competitive fixed income and property offerings led to record gross fund inflows of £4.5 billion, up 26 per cent on the first half last year. Net fund inflows in the first six months were £1.7 billion, equalling last year's record.

Excellent retail sales momentum continued in the UK, with gross fund inflows increasing by 23 per cent and net inflows up seven per cent compared with the same period last year. M&G was also named Best Overall Large Group at the 2007 Lipper Awards.

Growth was also strong in international markets. In Europe, where M&G is maximising the opportunity created by the continued opening of markets to foreign players, gross fund inflows increased by 15 per cent. While net fund inflows reduced by 25 per cent as a result of asset allocation shifts by European investors in the wake of equity market falls in late February, sales in May and June have been exceptionally strong. Asian markets, where M&G distributes funds in partnership with Prudential Corporation Asia, also saw significant growth with net inflows up 56 per cent in the first half

		CER		RER	
M&G	**Half year 2007 £m**	Half year 2006 £m	Percentage change	Half year 2006 £m	Percentage change
Net investment flows	**3,367**	3,595	(6)%	3,595	(6)%
Total IFRS operating profit	**140**	100	40%	100	40%

compared to 2006. M&G's international markets now account for some 70 per cent of net retail fund inflows.

In its wholesale markets, M&G saw a continued shift towards higher margin products during the first half of 2007 and a fall in lower margin business such as traditional segregated bond funds. As a result, total gross institutional fund inflows fell by six per cent to £3.0 billion and net inflows fell 13 per cent to £1.6 billion.

However, gross fund inflows into higher margin products, such as leveraged loans, collateralised debt obligations (CDOs), infrastructure finance and the Episode global macro hedge fund, more than doubled during the first six months of the year and represented over half of all institutional flows. Net fund inflows into these areas more than tripled compared to the same period last year, producing a more profitable sales mix. The first half of the year has also seen M&G's infrastructure fund, InfraCapital, grow substantially, completing purchases of the Isle of Wight ferry business, Red Funnel, and investing in Zephyr, one of the UK's largest wind farm operators.

2. Outlook and forthcoming objectives

Looking ahead, M&G's priorities continue to be to deliver investment outperformance to its clients, extend distribution through existing channels and exploit new opportunities, and to leverage its scale and capabilities to develop innovative products for the retail and wholesale marketplaces.

Asia

1. Financial results and performance

The Asian asset management business continues to deliver record net inflows. Net inflows of £1.7 billion were up four per cent on the same period in 2006. Of the £1.7 billion in net inflows, £1.3 billion was in longer term equity and fixed income products and £0.4 billion was in shorter term money market funds. Third party funds under management in Asia at the half year were £14.6 billion, up 42 per cent compared to the end of the first half of 2006. The main contributors to the growth were Japan, India, Korea and Taiwan.

PCA Asset Management Korea successfully launched the China A-Share fund under the Qualified Foreign Institutional Investor (QFII) scheme and raised over £50 million in the second quarter of 2007. Introduced in May 2002, the QFII scheme allows qualified foreign institutional investors direct participation in China's domestic 'A' share equity and fixed income markets.

Our innovative product strategy continues to deliver strong growth in net inflows for our operation in Japan. We have reached a significant milestone with our PCA India Infrastructure Equity Fund, which has now become our third POIT (Publicly Offered Investment Trust) crossing the Yen 100 billion mark (£400 million). This makes us one of only three foreign asset management companies that have attained this achievement in Japan.

In Taiwan, PCA Securities Investment Trust (PSIT) had a successful launch of the Asian Infrastructure Fund, raising over £210 million. This is PSIT's third consecutive fund launch that has hit the fund cap and the success of these fund launches is evidence that the combination of providing innovative products together with a sound distribution strategy is working well in Taiwan. Following the successful product launches, PSIT's retail FUM has grown to over £1.9 billion up 68 per cent on the first half of 2006. In terms of overall domestic fund market ranking, PSIT's ranking has improved from ninth to fifth in the overall market. This increased the number of our funds operations in top five market positions from four to five as at the end of May 2007.

Our fund management businesses in India (ICICI Prudential Asset Management) and Singapore (Prudential Asset Management Singapore) both won Gold Awards in the Reader's Digest Trusted Brand Awards 2007. The top award being Gold for brands which score clearly above their competitors based on consumers' surveys. This achievement represents consumers' confidence in our brand and services in both markets.

Total funds under management as at 30 June 2007 were £32.8 billion, up 34 per cent on the first half of 2006. Operating profits grew 65 per cent, compared to the first half of 2006, to £33 million (HY 2006: £20 million) driven by strong contributions from the established markets of Hong Kong and Singapore. Hong Kong and Singapore account for 49 per cent of profit compared to 60 per cent a year ago, as newer operations such as India, Japan and Korea begin to make meaningful contributions.

2. Outlook and forthcoming objectives

Prudential remains confident that its fund management business is ideally positioned to capitalise on the opportunities to grow this business strongly and profitably.

		CER		RER	
Asia	**Half year 2007 £m**	Half year 2006 £m	Percentage change	Half year 2006 £m	Percentage change
Net investment flows	**1,662**	1,603	4%	1,709	(3)%
Total IFRS operating profit	**33**	20	65%	22	50%

Business unit review continued
Asset management

United States

US broker-dealer, fund management and Curian Capital (Curian)

1. Financial results and performance

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides investment services to other affiliated and unaffiliated institutional clients including CDOs, private investment funds, institutional accounts and mutual funds. PPMA's strategy is focused on effectively managing existing assets, maximising synergies with international asset management affiliates and leveraging investment management capabilities across the Prudential Group. PPMA also opportunistically pursues third party mandates. During the first half of 2007 PPMA raised over £0.5 billion of third party funds under management, with the opportunity to increase such mandates during the second half of the year.

PPMA's IFRS operating profit in the first half of 2007 was £4 million, in line with the prior year figure.

National Planning Holdings (NPH), Jackson's independent broker-dealer network, had a strong first half to the year with profits up 67 per cent to £5 million. NPH, which is a network of four independent broker-dealers, increased product sales to £3.5 billion in the six months ending June 2007, an increase of 14 per cent over the prior year. NPH also increased the number of registered advisors in its network to 2,819 at the half year, up from 2,628 at year end, further expanding Jackson's access to independent broker-dealer distribution.

Curian, which offers innovative fee-based customised separately managed accounts, recorded improved results with losses of £2 million in the first half compared to losses of £3 million in the first half of the prior year at CER, as it continues to build scale in assets under management. At 30 June 2007, Curian had £1.5 billion of assets under management compared with £1.2 billion at 31 December 2006.

2. Outlook and forthcoming objectives

PPMA expects a positive outlook for the rest of 2007, driven by current momentum, favourable economic and market conditions, and growth prospects.

NPH expects to continue its track record of profitable growth driven by its strong operating model and opportunities in the US retirement market.

Curian expects to continue growing its assets under management, driven by favourable market conditions and opportunities in the US retirement market.

		CER		RER	
United States	**Half year 2007 £m**	Half year 2006 £m	Percentage change	Half year 2006 £m	Percentage change
Funds under management (£bn):					
Fund Management (PPMA)	**39**	35	11%	38	3%
Curian	**1.5**	1.0	50%	1.1	36%
Total IFRS operating profit (£m):					
US broker-dealer	**5**	3	67%	4	25%
Fund Management (PPMA)	**4**	4	–	4	–
Curian	**(2)**	(3)	33%	(4)	50%
Total	**7**	4	75%	4	75%