Other corporate information

Shareholders' borrowings and financial flexibility

Core structural borrowings of shareholder-financed operations at 30 June 2007 totalled £2,413 million, compared with £2,612 million at the end of 2006 (excluding Egg). This decrease reflected repayment of the £150 million 9.375 per cent guaranteed bonds, exchange translation gains of £23 million and other adjustments of £26 million.

After adjusting for holding company cash and short-term investments of £1,546 million, net core structural borrowings at 30 June 2007 were £867 million. This compared with £1,493 million at 31 December 2006, mainly reflecting the net cash inflow of £561 million (including £527 million net proceeds from the sale of Egg) and exchange translation gains of £30 million.

Core structural borrowings at 30 June 2007 included £1,470 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. £841 million of the core borrowings were denominated in US dollars, to hedge partially the currency exposure arising from the Group's investment in Jackson.

Prudential has in place an unlimited global commercial paper programme. At 30 June 2007, commercial paper of £95 million, US$3,517 million and €212 million has been issued under this programme. Prudential also has in place a £5,000 million medium-term note (MTN) programme. At 30 June 2007, subordinated debt outstanding under this programme was £435 million and €520 million, and senior debt outstanding was €65 million, US$12 million and £5 million. In addition, the holding company has access to £1,600 million committed revolving credit facilities, provided by 16 major international banks, and a £500 million committed securities lending liquidity facility. These facilities have not been drawn on during the first half of the year. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are available for general corporate purposes and to support the liquidity needs of the parent company.

The Group's insurance and asset management operations are funded centrally. The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 30 June 2007, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 6.1 per cent compared with 11.2 per cent at 31 December 2006.

Prudential plc enjoys strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential long-term senior debt is rated A+ (stable outlook), A2 (stable outlook) and AA- (stable outlook) from Standard & Poor's, Moody's and Fitch respectively, while short-term ratings are A-1, P-1 and F1+.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 16.1 times in the first half of 2007 compared with 12.3 times in the first half of 2006.

Regulatory capital

In May 2007, Prudential completed the sale of Egg to Citi. As a result of this transaction Prudential expects a regulatory capital benefit of around £300 million.

Including this benefit Prudential currently estimates its Financial Conglomerates Directive (FCD) capital position at the end of 2007 will be a surplus of over £1 billion.

Inherited estate of Prudential Assurance

The assets of the main with-profits fund within the long-term insurance fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the inherited estate and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. 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.

PAC believes that it would be beneficial if there were greater clarity as to the status of the Inherited Estate. As a result PAC has announced that it has begun a process to determine whether it can achieve that clarity through a reattribution of the inherited estate. As part of this process a Policyholder Advocate has been nominated to represent policyholders' interests. This nomination does not mean that a reattribution will occur.

Given the size of the Group's with-profits business any proposal is likely to be time consuming and complex to implement and is likely to involve a payment to policyholders from shareholders' funds. If a reattribution is completed the inherited estate will continue to provide working capital for the long-term insurance fund.

Philip Broadley
Group Finance Director
31 July 2007