EEV basis results

Summary consolidated income statement

	Half year 2007 £m	Half year 2006 £m	Full year 2006 £m
UK insurance operations	**462**	336	686
M&G	**140**	100	204
UK operations	**602**	436	890
US operations	**351**	350	718
Asian operations	**520**	374	864
Other income and expenditure	**(147)**	(141)	(298)
UK restructuring costs	**0**	(12)	(41)
Operating profit from continuing operations based on longer-term investment returns	**1,326**	1,007	2,133
Short-term fluctuations in investment returns	**241**	73	738
Mark to market value movements on core borrowings	**113**	168	85
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	**125**	246	207
Effect of changes in economic assumptions and time value of cost of options and guarantees	**275**	(20)	59
Profit from continuing operations before tax	**2,080**	1,474	3,222
Shareholder tax	**(545)**	(387)	(904)
Profit from continuing operations for the period after tax before minority interests	**1,535**	1,087	2,318
Discontinued operations (net of tax)	**241**	(34)	(105)
Profit for the period	**1,776**	1,053	2,213
Attributable to:			
Equity holders of the Company	**1,775**	1,052	2,212
Minority interests	**1**	1	1
Profit for the period	**1,776**	1,053	2,213

Earnings per share (in pence)

	Half year 2007	Half year 2006	Full year 2006
Continuing operations			
From operating profit, based on longer-term investment returns, after related tax and minority interests	**39.4p**	29.3p	62.1p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after minority interests)	**7.0p**	1.7p	21.8p
Adjustment for mark to market value movements on core borrowings	**4.6p**	7.0p	3.5p
Adjustment for post-tax effect of shareholders' share of actuarial gains and losses on defined benefit pension schemes	**3.7p**	7.2p	6.0p
Adjustment for post-tax effect of changes in economic assumptions and time value of cost of options and guarantees	**8.2p**	(0.1)p	2.6p
Based on profit from continuing operations after minority interests	**62.9p**	45.1p	96.0p
Discontinued operations			
Based on profit (loss) from discontinued operations after minority interests	**9.9p**	(1.3)p	(4.3)p
Based on profit for the period after tax and minority interests	**72.8p**	43.8p	91.7p
Average number of shares (millions)	**2,437**	2,403	2,413

Dividends per share (in pence)

	Half year 2007	Half year 2006	Full year 2006
Dividends relating to the reporting period:			
Interim dividend (2007 and 2006)	**5.70p**	5.42p	5.42p
Final dividend (2006)	**–**	–	11.72p
Total	**5.70p**	5.42p	17.14p
Dividends declared and paid in the reporting period:			
Current year interim dividend	**–**	–	5.42p
Final dividend for prior year	**11.72p**	11.02p	11.02p
Total	**11.72p**	11.02p	16.44p

Operating profit from continuing operations based on longer-term investment returns*

Results analysis by business area

	Half year 2007 £m	Half year 2006 £m	Full year 2006 £m
UK operations			
New business	**108**	138	266
Business in force	**354**	198	420
Long-term business	**462**	336	686
M&G	**140**	100	204
Total	**602**	436	890
US operations			
New business	**144**	134	259
Business in force	**200**	212	449
Long-term business	**344**	346	708
Broker-dealer and fund management	**9**	8	18
Curian	**(2)**	(4)	(8)
Total	**351**	350	718
Asian operations			
New business	**282**	232	514
Business in force	**211**	127	315
Long-term business	**493**	359	829
Fund management	**33**	22	50
Development expenses	**(6)**	(7)	(15)
Total	**520**	374	864
Other income and expenditure			
Investment return and other income	**13**	18	8
Interest payable on core structural borrowings	**(88)**	(89)	(177)
Corporate expenditure:			
Group Head Office	**(50)**	(46)	(83)
Asia Regional Head Office	**(17)**	(19)	(36)
Charge for share-based payments for Prudential schemes	**(5)**	(5)	(10)
Total	**(147)**	(141)	(298)
UK restructuring costs	**0**	(12)	(41)
Operating profit from continuing operations based on longer-term investment returns	**1,326**	1,007	2,133
Analysed as profits (losses) from:			
New business	**534**	504	1,039
Business in force	**765**	537	1,184
Long-term business	**1,299**	1,041	2,223
Asia development expenses	**(6)**	(7)	(15)
Other operating results	**33**	(15)	(34)
UK restructuring costs	**0**	(12)	(41)
Total	**1,326**	1,007	2,133

* EEV basis operating profit from continuing operations based on longer-term investment returns excludes short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial gains and losses on defined benefit pension schemes, the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. The amounts for these items are included in total EEV profit. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit on ordinary activities and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout this Interim Report.

For half year 2007, the EEV basis operating profit from continuing operations based on longer-term investment returns before tax of £1,326m includes a credit of £92m that arises from including the benefits, grossed up for notional tax, of altered corporate tax rates for the UK, Singapore and China. Further details are explained in note 7 to the EEV basis supplementary information.

The results for continuing operations shown above exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg Banking plc. Accordingly, the presentation of the comparative results for half year and full year 2006 has been adjusted from those previously published.

EEV basis results continued

Movement in shareholders' equity (excluding minority interests)

	Half year 2007 £m	Half year 2006 £m	Full year 2006 £m
Profit for the period attributable to equity holders of the Company	**1,775**	1,052	2,212
Items taken directly to equity:			
Exchange movements	**(65)**	(217)	(359)
Unrealised valuation movements on Egg securities classified as available-for-sale	**(2)**	(4)	(2)
Movement on cash flow hedges	**(3)**	4	7
Related tax	**(11)**	(39)	(74)
Dividends	**(288)**	(267)	(399)
Acquisition of Egg minority interests	**–**	(167)	(167)
New share capital subscribed	**117**	253	336
Reserve movements in respect of share-based payments	**9**	6	15
Treasury shares:			
Movement in own shares in respect of share-based payment plans	**11**	9	6
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	**1**	1	0
Mark to market value movement on Jackson assets backing surplus and required capital*	**(15)**	–	7
Net increase in shareholders' equity	**1,529**	631	1,582
Shareholders' equity at beginning of period (excluding minority interests)	**11,883**	10,301	10,301
Shareholders' equity at end of period (excluding minority interests)	**13,412**	10,932	11,883
Comprising:			
UK operations:			
Long-term business	**6,308**	5,370	5,813
M&G:			
Net assets	**287**	273	230
Acquired goodwill	**1,153**	1,153	1,153
Egg	**–**	360	292
	7,748	7,156	7,488
US operations	**3,544**	3,379	3,360
Asian operations:			
Net assets	**3,012**	2,159	2,637
Acquired goodwill	**172**	172	172
Holding company net borrowings (at market value)	**(811)**	(1,558)	(1,542)
Other net liabilities	**(253)**	(376)	(232)
Shareholders' equity at end of period (excluding minority interests)	**13,412**	10,932	11,883
Representing shareholders' equity for:			
Long-term business operations	**12,690**	10,756	11,664
Other operations	**722**	176	219
	13,412	10,932	11,883

* The mark to market value movement on Jackson assets backing surplus and required capital for full year 2006 represents the cumulative adjustment as at 31 December 2006.

Summarised consolidated balance sheet

	30 Jun 2007 £m	30 Jun 2006 £m	31 Dec 2006 £m
Total assets less liabilities, excluding insurance funds	**189,436**	175,456	183,130
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	**(183,531)**	(170,407)	(177,642)
Less shareholders' accrued interest in the long-term business	**7,507**	5,883	6,395
	(176,024)	(164,524)	(171,247)
Total net assets	**13,412**	10,932	11,883
Share capital	**123**	121	122
Share premium	**1,823**	1,808	1,822
IFRS basis shareholders' reserves	**3,959**	3,120	3,544
Total IFRS basis shareholders' equity	**5,905**	5,049	5,488
Additional EEV basis retained profit	**7,507**	5,883	6,395
Shareholders' equity (excluding minority interests)	**13,412**	10,932	11,883

*Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Net asset value per share (in pence)

	30 Jun 2007	30 Jun 2006	31 Dec 2006
Based on EEV basis shareholders' equity of £13,412m (£10,932m, £11,883m)	**545p**	450p	486p
Number of issued shares at end of reporting period (millions)	**2,460**	2,430	2,444

Notes on the EEV basis results

1. Basis of preparation of results

The EEV basis results have been prepared in accordance with the EEV Principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results for the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal fund management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of two of the Group's defined benefit pension schemes. A very small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund. In 2006, a bulk annuity arrangement between SAIF and Prudential Retirement Income Limited (PRIL), a shareholder-owned subsidiary, took place as explained in the notes to the schedule of new business within this Interim Report. Reflecting the altered economic interest for SAIF policyholders and Prudential shareholders, this arrangement represents a transfer from long-term business of the Group that is not 'covered' to business that is 'covered' with consequential effect on the EEV basis results.

As regards the Group's defined benefit pension schemes, the surplus or deficit attaching to the Prudential Staff Pension Scheme (PSPS) and Scottish Amicable Pension scheme are excluded from the EEV value of UK operations and included in the total for Other operations. The surplus and deficit amounts are partially attributable to the PAC with-profits fund and shareholder-backed long-term business and partially to other parts of the Group. In addition to the IFRS surplus or deficit, the shareholders' 10 per cent share of the PAC with-profits sub-fund's interest in the movement on the financial position of the schemes is recognised for EEV reporting purposes.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The EEV basis results for the 2007 and 2006 half years are unaudited. The 2006 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2006. The supplement included an unqualified audit report from the auditors.

2. Economic assumptions

(a) Deterministic assumptions

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

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

Expected returns on equity and property asset classes are derived by adding a risk premium, also based on the long-term view of Prudential's economists in respect of each territory, to the risk-free rate. In the UK and the US, the equity risk premium is 4.0 per cent above risk-free rates for all periods for which results are prepared in this report. In Asia, equity risk premiums range from 3.0 per cent to 5.8 per cent for all periods for which results are prepared in this report. Best estimate assumptions for other asset classes, such as corporate bond spreads, are set consistently.

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

2. Economic assumptions continued

The table below summarises the principal financial assumptions:

	30 Jun 2007 %	30 Jun 2006 %	31 Dec 2006 %
UK insurance operations			
Risk discount rate:			
New business	**8.7**	8.0	7.8
In force	**8.6**	8.2	8.0
Pre-tax expected long-term nominal rates of investment return:			
UK equities	**9.3**	8.7	8.6
Overseas equities	**9.6 to 10.6**	8.7 to 9.4	8.6 to 9.3
Property	**7.8**	7.2	7.1
Gilts	**5.3**	4.7	4.6
Corporate bonds	**6.0**	5.4	5.3
Expected long-term rate of inflation	**3.1**	3.0	3.1
Post-tax expected long-term nominal rate of return for the with-profits fund:			
Pension business (where no tax applies)	**8.3**	7.7	7.5
Life business	**7.4**	6.85	6.6
US operations (Jackson)			
Risk discount rate:			
New business (note)	**7.9**	8.0	7.6
In force (note)	**7.3**	7.1	6.7
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	**1.75**	1.75	1.75
US 10 year treasury bond rate at end of period	**5.1**	5.2	4.8
Pre-tax expected long-term nominal rate of return for US equities	**9.1**	9.2	8.8
Expected long-term rate of inflation	**2.4**	2.7	2.5

Note:

US operations – risk discount rates

The risk discount rates at 30 June 2007 for new business and business in force for US operations reflect weighted rates based on underlying rates of 8.8% for variable annuity business and 5.9% for other business. The increase in the weighted discount rate for business in force from 31 December 2006 of 6.7% to 30 June 2007 of 7.3% reflects the increase in the US 10-year treasury bond rate and the increasing proportion of variable annuity business.

Notes on the EEV basis results continued

2. Economic assumptions continued

Asian operations

30 Jun 2007	China %	Hong Kong (notes iii, iv,v) %	India %	Indonesia %	Japan %	Korea %	Malaysia (notes iv,v) %	Philippines %	Singapore (notes iv,v) %	Taiwan (notes ii,v) %	Thailand %	Vietnam %
Risk discount rate:												
New business	**12.0**	**6.5**	**16.5**	**17.5**	**5.3**	**10.1**	**9.7**	**16.5**	**7.1**	**8.6**	**13.75**	**16.5**
In force	**12.0**	**6.7**	**16.5**	**17.5**	**5.3**	**10.1**	**9.3**	**16.5**	**6.3**	**9.3**	**13.75**	**16.5**
Expected long-term rate of inflation	**4.0**	**2.25**	**5.5**	**6.5**	**0.0**	**2.75**	**3.0**	**5.5**	**1.75**	**2.25**	**3.75**	**5.5**
Government bond yield	**9.0**	**5.1**	**10.5**	**11.5**	**2.2**	**5.6**	**7.0**	**10.5**	**4.5**	**5.5**	**7.75**	**10.5**

30 Jun 2006	China %	Hong Kong (notes iii, iv,v) %	India %	Indonesia %	Japan %	Korea %	Malaysia (notes iv,v) %	Philippines %	Singapore (notes iv,v) %	Taiwan (notes ii,v) %	Thailand %	Vietnam %
Risk discount rate:												
New business	12.0	6.6	16.5	17.5	5.3	9.7	9.5	16.5	6.7	8.9	13.75	16.5
In force	12.0	6.9	16.5	17.5	5.3	9.7	9.1	16.5	6.8	9.5	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	9.0	5.3	10.5	11.5	2.1	5.2	7.0	10.5	4.5	5.5	7.75	10.5

31 Dec 2006	China %	Hong Kong (notes iii, iv,v) %	India %	Indonesia %	Japan %	Korea %	Malaysia (notes iv,v) %	Philippines %	Singapore (notes iv,v) %	Taiwan (notes ii,v) %	Thailand %	Vietnam %
Risk discount rate:												
New business	12.0	6.6	16.5	17.5	5.3	9.5	9.5	16.5	6.9	8.8	13.75	16.5
In force	12.0	6.8	16.5	17.5	5.3	9.5	9.2	16.5	6.9	9.3	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	9.0	4.7	10.5	11.5	2.1	5.0	7.0	10.5	4.5	5.5	7.75	10.5

	Asia total 30 Jun 2007 %	Asia total 30 Jun 2006 %	Asia total 31 Dec 2006 %
Weighted risk discount rate (note i)			
New business	**10.1**	9.9	9.8
In force	**8.7**	8.9	8.8

Notes:
Asian operations – economic assumptions
(i) The weighted risk discount rates for the Asian operations shown above have been determined by weighting each country's risk discount rates by reference to the EEV basis operating result for new business and the closing value of in-force business.

(ii) For traditional business in Taiwan, the economic scenarios used to calculate the half year 2007 EEV basis results continue to reflect the assumption of a phased progression of the bond yields from the current rates applying to the assets held to the long-term expected rates. The projections assume that in the average scenario, the current bond yields of around 2.5% trend towards 5.5% at 31 December 2013 (half year 2006: 2% towards 5.5% at 31 December 2012, full year 2006: 2% towards 5.5% at 31 December 2013).

The projections for the Fund Earned Rate reflect the same approach as applied for the full year 2006 results with allowance made for the mix of assets in the fund, future investment strategy and further market depreciation of bonds held as a result of assumed future yield increases. The projections for the Fund Earned Rate alter for changes to these factors and the effects of movements in interest rates from period to period.

After taking into account current bond yields, the assumption of the phased progression in bond yields and the factors described above, the average assumed Fund Earned Rate remains below 1.2% until 2010 (due to the depreciation of bond values as yields rise) and fluctuates around a target of 5.9% after 2013.

Consistent with EEV methodology, a constant discount rate has been applied to the projected cash flows.

(iii) The assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force Hong Kong business.

(iv) Assumed equity returns
The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	30 Jun 2007 %	30 Jun 2006 %	31 Dec 2006 %
Hong Kong	**9.1**	9.2	8.7
Malaysia	**12.8**	12.8	12.8
Singapore	**9.3**	9.3	9.3

To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.

(v) For Hong Kong, Malaysia, Singapore and Taiwan, bond yields have been used in setting the risk discount rates for half year 2007 reporting. For half year and full year 2006, cash rates were used in setting the risk discount rates for these operations.

2. Economic assumptions continued

(b) Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations such as the volatilities of asset returns reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

UK insurance operations

- Interest rates are projected using a two-factor model calibrated to actual market data;
- the risk premium on equity assets is assumed to follow a log-normal distribution;
- the corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- property returns are modelled in a similar fashion to corporate bonds, namely as the return on a riskless bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

The rates to which the model has been calibrated are set out below.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

Standard deviations have been calculated by taking the annualised variance of the returns over all the simulations, taking the square root and averaging over all durations in the projection. For bonds the standard deviations relate to the yields on bonds of the average portfolio duration. For equity and property, they relate to the total return on these assets. The standard deviations applied to all periods presented in these statements are as follows:

	%
Government bond yield	2.0
Corporate bond yield	5.5
Equities:	
UK	18.0
Overseas	16.0
Property	15.0

US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to actual market data;
- corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- variable annuity equity and bond returns have been stochastically generated using a regime-switching log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 19.2 per cent to 28.6 per cent, (half year 2006 and full year 2006: 18.6 per cent to 28.1 per cent) depending on risk class, and the volatility of bond funds ranges from 1.4 per cent to 2.0 per cent for all periods presented in this report.

Asian operations

The same asset return model, as used in the UK, appropriately calibrated, has been used for the Asian operations.

The stochastic cost of guarantees are only of significance for the Hong Kong, Malaysia, Singapore and Taiwan operations.

The mean stochastic returns are consistent with the mean deterministic returns for each country. The volatility of equity returns ranges from 18 per cent to 25 per cent, (half year 2006: 18 per cent to 26 per cent, full year 2006: 18 per cent to 25 per cent) and the volatility of government bond yields ranges from 1.4 per cent to 2.5 per cent (half year 2006: 1.2 per cent to 2.2 per cent, full year 2006: 1.4 per cent to 2.5 per cent).

Notes on the EEV basis results continued

3. Level of encumbered capital

In adopting the EEV Principles, the Company has based encumbered capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models, but when applying EEV Principles, no credit is taken for the significant diversification benefits that exist within the Group. For with-profits business written in a segregated life fund, as is the case in the UK and Asia, the capital available in the fund is sufficient to meet the encumbered capital requirements.

The table below summarises the level of encumbered capital as a percentage of the relevant statutory requirement.

	Capital as a percentage of relevant statutory requirement
UK insurance operations	100% of EU Minimum
Jackson	235% of Company Action Level
Asian operations	100% of Financial Conglomerates Directive requirement

4. Margins on new business premiums

Half year 2007	New business premiums Single £m	New business premiums Regular £m	Annual premium equivalent (APE) £m	Present value of new business premiums (PVNBP) £m	Pre-tax new business contribution £m	New business margin (APE) %	New business margin (PVNBP) %
UK insurance operations	**2,441**	**119**	**363**	**2,905**	**108**	**30**	**3.7**
US operations	**3,425**	**9**	**352**	**3,490**	**144**	**41**	**4.1**
Asian operations	**784**	**541**	**619**	**3,286**	**282**	**46**	**8.6**
Total	**6,650**	**669**	**1,334**	**9,681**	**534**	**40**	**5.5**

Half year 2006	New business premiums Single £m	New business premiums Regular £m	Annual premium equivalent (APE) £m	Present value of new business premiums (PVNBP) £m	Pre-tax new business contribution £m	New business margin (APE) %	New business margin (PVNBP) %
UK insurance operations	3,890	95	484	4,224	138	29	3.3
US operations	3,146	8	323	3,209	134	41	4.2
Asian operations	519	396	448	2,328	232	52	10.0
Total	7,555	499	1,255	9,761	504	40	5.2

Full year 2006	New business premiums Single £m	New business premiums Regular £m	Annual premium equivalent (APE) £m	Present value of new business premiums (PVNBP) £m	Pre-tax new business contribution £m	New business margin (APE) %	New business margin (PVNBP) %
UK insurance operations	6,991	201	900	7,712	266	30	3.4
US operations	5,964	17	614	6,103	259	42	4.2
Asian operations	1,072	849	956	5,132	514	54	10.0
Total	14,027	1,067	2,470	18,947	1,039	42	5.5

New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP). APEs are calculated as the aggregate of regular new business premiums on an annualised basis and one-tenth of single new business premiums. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business allowing for lapses and other assumptions made in determining the EEV new business contribution.

In determining the EEV basis value of new business written in the period the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business contributions represent profits determined by applying the economic and non-economic assumptions applying at the end of the reporting period.

5. UK insurance operations expense assumptions

The half year 2006 EEV basis financial statements included note disclosure which explained that in determining the appropriate expense assumptions account had been taken of the cost synergies that were expected to arise with some certainty from the initiative announced in December 2005 from UK insurance operations working more closely with Egg and M&G, and the effect of the end to end review of the UK business which was underway at the time. The disclosure noted that the half year 2006 basis results had been prepared on the same basis as the 2005 full year statements which had disclosed that without the anticipation of the cost synergies there would have been a charge for altered expense assumptions of approximately £55 million.

On 29 January 2007 the Company announced the agreement to sell Egg Banking plc to Citi. On 15 March 2007 the Company announced the actions necessary to implement the reassessed plans in light of this transaction and additional initiatives. In preparing the 2006 full year results, account was also taken of the effect of expense savings that were expected to arise with some certainty. Without this factor the effect on the full year 2006 results would have been a charge of £44 million for the net effect of revised assumptions in line with 2006 unit costs.

The half year 2007 results have been prepared using the same approach. Without the anticipation of expense savings there would have been an additional charge of £28 million for the net effect of revised assumptions in line with half year 2007 unit costs.

6. Taiwan – effect of altered economic assumptions and sensitivity of results to future market conditions

For the half year 2007 results, as explained in note 2 (a), the expected long-term bond yield has been maintained at 5.5 per cent to be achieved by 31 December 2013.

The sensitivity of the embedded value at 30 June 2007 of the Taiwan operation to altered economic assumptions and future market conditions to:

(a) a one per cent increase or decrease in the projected long-term bond yield, (including all consequential changes to investment returns for all classes, market values of fixed interest assets and risk discount rates), is £83 million and £(134) million respectively; and

(b) a one per cent increase or decrease in the starting bond rate for the progression to the assumed long-term rate is £92 million and £(100) million respectively.

If it had been assumed in preparing the half year 2007 results that interest rates remained at the current level of around 2.5 per cent until 31 December 2008 and the progression period in bond yields was delayed by a year so as to end on 31 December 2014, there would have been a reduction in the Taiwan embedded value of £90 million.

7. Effect of changes in corporate tax rates

At 30 June 2007, a change to reduce the UK corporate tax rate from 30 per cent to 28 per cent in 2008 had been substantively enacted in the legislative process. Accordingly, the half year 2007 results incorporate the effects of this change in projecting the tax cash flows attaching to in-force business. Under the convention applied for EEV basis reporting, profits are generally determined on a post-tax basis and then grossed up at the prevailing corporate tax rates to derive pre-tax results. The effect of the change in the UK rate is to give rise to a benefit to the value of business in force at 1 January 2007 of £48 million. After grossing up this amount for notional tax, the effect on the pre-tax operating results based on longer-term investment returns for UK insurance operations for half year 2007 is a credit of £67 million.

Similar considerations apply to corporate tax rate changes in Singapore and China giving rise to a benefit to the value of in-force business at 1 January 2007 of £20 million. After grossing up this amount for notional tax, the effect on the pre-tax operating results based on longer-term investment returns for Asian operations for half year 2007 is a credit of £25 million.

Notes on the EEV basis results continued

8. Short-term fluctuations in investment returns for half year 2006 comparative results

The analysis of the half year 2006 EEV basis results in this interim report incorporates a reallocation of £41 million from the amount shown for the effect of changes in economic assumptions and time value of cost of options and guarantees to the credit for short-term fluctuations in investment returns. The change, which has no effect on operating profit or profit before tax relates to asset related gains for Jackson and has been made to align with the full year 2006 and current presentation.

9. Holding company net borrowings (at market value)

Holding company net borrowings at market value comprise:

	30 Jun 2007 £m	30 Jun 2006 £m	31 Dec 2006 £m
Central funds borrowings:			
IFRS basis	**(2,289)**	(2,520)	(2,485)
Mark to market value adjustment	**(68)**	(105)	(176)
EEV basis	**(2,357)**	(2,625)	(2,661)
Holding company* cash and short-term investments	**1,546**	1,067	1,119
Holding company net borrowings	**(811)**	(1,558)	(1,542)

*Prudential plc and related finance subsidiaries.