Group overview

Results highlights	Half year 2008 £m	CER[note 4] Half year 2007 £m	Change %	RER[note 4] Half year 2007 £m	Change %
Annual premium equivalent (APE) sales	**1,513**	1,353	12	1,334	13
Present value of new business premiums (PVNBP)	**10,986**	9,785	12	9,681	13
Net investment flows	**4,091**	5,162	(21)	5,047	(19)
External funds under management	**67,447**	63,610	6	63,222	7
New business profit (NBP)	**602**	543	11	534	13
NBP Margin (% APE)	**40%**	40%		40%	
NBP Margin (% PVNBP)	**5.5%**	5.5%		5.5%	
EEV basis operating profit from long-term business notes 1,2	**1,408**	1,310	7	1,293	9
Total EEV basis operating profit from continuing operations notes 2,5	**1,430**	1,336	7	1,318	8
Total IFRS operating profit from continuing operations notes 3,5	**674**	598	13	593	14
EEV bass shareholders' funds	**13,977**	13,394	4	13,262	5
IFRS shareholders' funds	**5,552**	5,864	(5)	5,787	(4)
Holding company operating cash flow	**86**	34	153	34	153
Holding company operating cash flow plus proceeds for 2007 from the sale of Egg	**86**	561	(85)	561	(85)

Notes
1 Long-term business profits after deducting Asia development expenses and before restructuring costs.
2 Based on longer-term investment returns from continuing operations. EEV basis operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions and changes in the shareholder's share of time value of cost of options and guarantees arising from changes in economic factors, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.
3 Based on longer-term investment returns from continuing operations. IFRS basis operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, and the shareholder's share of actuarial gains and losses on defined benefit schemes.
4 Constant exchange rate (CER) and reported exchange rate (RER).
5 The comparative results for 2007 have been adjusted for the effects of an accounting policy change for pension costs to reflect the principles of IFRIC 14 as described in note 10 of the EEV financial statements and notes (B) and (O) of the IFRS financial statements.

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

These results show the robust performance of the Group in the first half of 2008 in a challenging economic and financial environment. The KPIs above show good growth in sales and profits and an improvement in operating cash flow. The year end 2007 surplus capital position of Prudential, measured under the Insurance Groups Directive basis, submitted to the Financial Services Authority (FSA) in April 2008 was £1.6 billion. The surplus at 30 June 2008 is estimated to be £1.4 billion.

Basis of preparation of results

The European Union (EU) requires that all listed European groups prepare their financial statements in accordance with EU adopted IFRS. Since 1 January 2005, Prudential has been reporting its primary results on an IFRS basis.

As a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential also reports supplementary results on an EEV basis for the Group's long-term business. These results are combined with the IFRS basis results of the non long-term businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on long-term investment returns. Under both EEV and IFRS, operating profits from continuing operations based on longer-term investment returns exclude short-term fluctuations in investment returns and shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under EEV, where additional profit and loss effects arise, operating profits based on longer-term investment returns also exclude the mark to market value movement on core borrowings and the effect of changes in economic assumptions and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

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

Sales and funds under management

Prudential delivered overall sales growth during the first half of 2008 with total new insurance sales up 12 per cent from the

Group overview
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first six months of 2007 to £1.5 billion on the annual premium equivalent (APE) basis. At reported exchange rates (RER), APE sales were up 13 per cent on the same period in 2007. This is equivalent to insurance sales of £11 billion on a present value of new business premiums basis (PVNBP), an increase of 12 per cent on 2007 at CER.

Total gross investment sales were £30.4 billion, up 18 per cent on the first half of 2007 at CER. Net investment sales of £4.1 billion were down 21 per cent from net investment sales in 2007 at CER.

Total external funds under management decreased by two per cent at RER from £69 billion at 31 December 2007, to £67 billion at 30 June 2008, reflecting net investment inflows of £4.1 billion, this was more than offset by net market and other movements.

At 30 June 2008, total funds under management were £256 billion, a decrease of four per cent from 2007 year end at RER.

EEV basis operating profit

EEV basis operating profit from continuing operations		CER		RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Insurance business:					
Asia	553	510	8	493	12
US	354	344	3	344	3
UK	504	462	9	462	9
Development expenses	(3)	(6)	50	(6)	50
Long-term business profit	**1,408**	**1,310**	**7**	**1,293**	**9**
Asset management business:					
M&G	146	140	4	140	4
Asia asset management	29	34	(15)	33	(12)
Curian	0	(2)	100	(2)	100
US broker-dealer and asset management	6	9	(33)	9	(33)
	181	181	0	180	1
Other income and expenditure	(144)	(155)	7	(155)	7
Total EEV basis operating profit from continuing operations	**1,445**	**1,336**	**8**	**1,318**	**10**
Restructuring costs	(15)	0	0	0	0
Total EEV basis operating profit from continuing operations after restructuring costs	**1,430**	**1,336**	**7**	**1,318**	**8**

Total EEV basis operating profit from continuing operations based on longer-term investment returns was £ 1,430 million up seven per cent from the first half of 2007 at CER and up eight per cent at RER.

In the first six months of 2008 the Group generated long-term business profits of £1,408 million comprised of new business profits £602 million (HY 2007: £543 million), in-force profits of £809 million (HY 2007: £773 million) and Asia development expenses of £(3) million (HY 2007: £(6) million). New business profit from insurance business of £602 million was 11 per cent higher than the first half of 2007, reflecting the growth in sales over the period with good growth from Asia and the UK and a resilient performance from the US. At RER, new business profit was up 13 per cent. The average Group new business profit margin was 40 per cent (HY 2007: 40 per cent) on an APE basis and 5.5 per cent (HY 2007: 5.5 per cent) on a PVNBP basis. In-force profits increased five per cent at CER, on the first half of 2007 to £809 million. In aggregate, net assumption changes were £59 million positive, and experience variances and other items were £42 million positive.

Operating profit from the asset management business was in line with the first half of 2007 at £181 million (HY 2007: £181 million), a very satisfactory performance following a strong performance from M&G in difficult trading conditions.

The charge for other income and expenditure of £144 million, an improvement of £11 million over the first half of 2007, included £47 million profits crystallised on the sale of a seed capital investment on an Indian mutual fund, and £28 million expenditure relating to the assessment of the reattribution of the inherited estate.

New business capital usage

	Half year 2008 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business	Total long-term business
Asia	(111)	13	(98)	347	249
US	(157)	140	(17)	106	89
UK	(93)	61	(32)	124	92
	(361)	214	(147)	577	430

The Group wrote £1,513 million of sales on an APE basis. To support these sales, the Group invested £361 million of capital. This amount covers both new business acquisition expenses, including commission of £147 million and the required capital of £214 million. The total investment of capital for new business amounts to approximately £24 million per £100 million of APE sales. These sales provided a post-tax new business contribution to embedded value of £430 million.

In Asia, capital was invested to support sales at an average rate of £15 million per £100million of APE sales.

In the US, capital was invested to support sales at an average rate of £44 million per £100million of APE sales.

In the UK, capital was invested to support sales at an average rate of £22million per £100million of APE sales.

In the calculation of EEV operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. Short-term fluctuations in investment returns are the difference between the actual investment return and the unwind of discount on the value of in-force and expected returns on net worth.

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

In Asia, long-term business short-term fluctuations in investment returns were negative £(536) million, which principally arose in Vietnam £(151) million, Singapore £(103) million, Taiwan £(84) million and Hong Kong £(59) million.

The Vietnam reduction primarily reflects a significant fall in the Vietnamese bond and equity markets, the latter falling by 58 per cent in the first half of 2008. The Singapore and Hong Kong reduction reflects the effect of market falls of 21 per cent and 15 per cent respectively on unit-linked and with-profit business. The Taiwan reduction principally reflects a 12 per cent equity market fall and a £29 million value reduction for an investment in a Collateralised Debt Obligation (CDO) fund.

The US business short-term fluctuations in investment returns of negative £(297) million is primarily as a result of: a negative £(85) million in respect of the difference between actual investment returns and longer-term returns included in operating profit in respect of fixed income securities (mainly as a result of impaired residential mortgage backed-securities); and a negative £(138)million in relation to changed expectations of fees to be earned on variable annuity business due to the actual variable investment account (separate account) return being lower than the long-term return reported within operating profit, offset by the impact of the associated hedging position and a negative £(74) million in respect of the difference between actual investment returns and longer-term returns included within operating profit for equity type investments and other items.

The UK business component of short-term fluctuations in investment returns of negative £(959) million primarily reflects the £(855) million effect of the difference between the actual investment return for the with-profits life fund of negative (6.8) per cent and the long-term assumed return of 4.1 per cent.

EEV basis profit after tax and minority interests

	2008 £m Half year	2007 £m Half year
Total EEV basis operating profit from continuing operations after restructuring costs	1,430	1,318
Short-term fluctuations in investment returns:	(1,949)	241
Asia	(536)	54
US	(297)	68
UK	(959)	98
Other	(157)	21
Actuarial gains and losses on defined benefit pension schemes:	(98)	39
Effect of change in economic assumptions:	(175)	253
Asia	(120)	18
US	23	(46)
UK	(78)	281
Effect of change in time value of cost of options and guarantees:	(14)	22
Asia	(14)	(1)
US	2	8
UK	(2)	15
Movement in mark to market value of core borrowings:	171	113
US	8	5
Other	163	108
Profit/(loss) from continuing operations before tax	(635)	1,986
Tax	162	(521)
Profit/(loss) from continuing operations after tax before minority interests	(473)	1,465
Discontinued operations (net of tax)	0	241
Minority interests	(2)	(1)
Profit/(loss) for the period	(475)	1,705

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The actuarial loss of £(98) million for the first half of 2008 (HY 2007: gain of £39 million) included in total profit reflects the shareholders' share of actuarial gains and losses on the Group's defined benefit pension schemes. On the EEV basis, this loss includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits sub-fund for the Scottish Amicable Pension Schemes. The half year 2008 shareholder actuarial losses reflect the shortfall of market returns over long-term assumptions and the effect of increases in inflation rates which more than offset the effect of an increase in risk discount rate.

In Asia, economic assumption changes were negative £(120) million, mainly due to a change in Taiwan of negative £(87) million arising from higher economic capital requirements. This was as a result of holding bonds with a longer duration.

In the US, economic assumption changes of positive £23 million primarily reflect the impact of increased credit spreads that allow for reinvestment of the cash flows at a higher rate.

In the UK, economic assumption changes of negative £(78) million primarily reflect the net effect of changes to the assumed fund earned rate and the risk discount rate. For with-profits business, the assumed rate for corporate bonds has not reflected the effect of the credit spread widening that has occurred in the first half of 2008. For shareholder-backed annuity business, assets are generally held to match long duration liabilities. Accordingly, after allowance for credit risk, a liquidity premium is included in the risk discount rate used. The allowance for credit risk at 30 June 2008 comprises 16 basis points for long-term expected defaults, eight basis points in respect of long-term credit risk premium, and 19 basis points for credit contingency that reflects 25 per cent of the increase in credit spreads over swaps that has occurred since 31 December 2006. The mark to market movement on core borrowings was a positive £171 million (HY 2007: positive £113 million) reflecting the continued reduction in the fair value of core borrowings due to increases in UK interest rates and further widening of credit spreads.

The effective tax rate at an operating tax level was 28 per cent (HY 2007: 28 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level was 26 per cent (HY 2007: 26 per cent) on a loss of £635 million.

The profit from discontinued operations in 2007 was £241 million. This was the profit on disposal of Egg net of the post-tax loss from 1 January 2007 to the date of sale.

IFRS basis operating profit

Group operating profit before tax from continuing operations based on longer-term investment returns on the IFRS basis after restructuring costs was £674 million an increase of 13 per cent on the first six months of 2007 at CER.

The increase in Asia's operating profit of 28 per cent for long-term business before development expenses primarily reflects improved profitability in Indonesia and Singapore which have increased by 41 per cent and 24 per cent respectively as a result of a significant increase in renewal premiums partially offset by lower investment returns. New business strain remained at approximately 10 per cent of APE in the first half of 2008.

In the US, IFRS operating profit of £232 million was up six per cent on the first half of 2007 at CER. This is mainly due to increasing fee income and higher derivative income on the variable annuity business reflecting the increase in the market

IFRS basis operating profit

IFRS basis operating profit based on longer-term investment returns from continuing operations		CER		RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Insurance business:					
Asia	**102**	80	28	76	34
US	**232**	218	6	218	6
UK	**286**	251	14	251	14
Development expenses	**(3)**	(6)	50	(6)	50
Long-term business profit	**617**	**543**	**14**	**539**	**14**
Asset management business:					
M&G	**146**	140	4	140	4
Asia asset management	**29**	34	(15)	33	(12)
Curian	**0**	(2)	100	(2)	100
US broker-dealer and asset management	**6**	9	(33)	9	(33)
	181	181	0	180	1
Other income and expenditure	**(110)**	(126)	13	(126)	13
Total IFRS basis operating profit based on longer-term investment returns before restructuring costs	**688**	**598**	**15**	**593**	**16**
Restructuring costs	**(14)**	0	0	0	0
Total IFRS basis operating profit based on longer-term investment returns after restructuring costs	**674**	**598**	**13**	**593**	**14**

value of the net short derivative positions due to falling equity prices. The decision to acquire additional hedging protection in the derivative markets in 2007 at favourable prices demonstrated its value in the IFRS operating profit in the context of falling equity markets experienced in the first half of 2008. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS, with the Group's basis of presenting operating profit is based on longer-term investment returns. Longer-term returns for the US operations' fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses.

In the UK, IFRS operating profit for the long-term business increased by 14 per cent to £286 million in the first half of 2008. This reflected increased annuity profits while profits attributable to the with-profits business were in line with prior year.

M&G's operating profit for the first half of 2008 was £146 million, an increase of four per cent over the first half of 2007. The negative impact from equity and property market declines, primarily on retail and PRUPIM revenues, was offset by incremental income from net investment flows in 2007 as well as encouraging growth in the Infracapital business within Fixed Income.

The Asian asset management operations reported operating profits of £29 million, a decline of (15) per cent, due to the volatility in equity and bond markets which affected assets under management and net flows, coupled with a shift in asset mix to bond and money market funds, which attract a lower fee rate.

The operating profit from the US broker-dealer and asset management businesses was £6 million.

The charge for other income and expenditure of £110 million, an improvement of £16 million over the first half of 2007, included £47 million profit crystallised on the sale of a seed capital investment in an Indian mutual fund offset by £28 million

IFRS basis profit after tax

	RER	
	Half year 2008 £m	Half year 2007 £m
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	**674**	**593**
Short-term fluctuations in investment returns	(684)	24
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	(92)	38
Profit/(Loss) before tax from continuing operations attributable to shareholders	**(102)**	**655**
Tax	(12)	(234)
Profit/(Loss) from continuing operations for the financial year after tax	**(114)**	**421**
Discontinued operations (net of tax)	0	241
Minority interests	(2)	(1)
Profit/(Loss) for the year attributable to equity holders of the Company	**(116)**	**661**

expenditure relating to the assessment of the reattribution of the inherited estate.

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

Total IFRS basis loss before tax and minority interests was £(102) million in the first half of 2008, compared with a profit of £655 million for the first half of 2007. The decrease reflects adverse short-term fluctuations in investment returns of £(684) million and a negative movement against the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

In the calculation of IFRS operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. The actual movements in asset values beyond the longer-term assumptions appear in the profit and loss account as short-term fluctuations in investment returns, with the exception of Jackson where unrealised gains or losses on debt securities feature directly as movements to shareholder reserves.

Short-term fluctuations in investment returns are the difference between the actual investment return for shareholder-backed business and the longer-term investment return assumed in operating profit.

The £(684) million charge for short-term fluctuations in investment returns comprises £(264) million, £(181) million and £(82) million from the Asian operations, US operations and UK operations respectively. In addition, there was a charge of £157 million for other short-term fluctuations in investment returns; £24 million unrealised losses on an Indian mutual fund investment: the subsequent sale of the investment resulting in a transfer of £47 million to operating profits. £49 million of the £157 million charge relates to value movements on swaps held centrally to manage Group's assets and liabilities. £26 million of the charge reflects value movements, net of hedge effects on Prudential Capital's bond portfolio. The residual £11 million charge relates to a value movement on a centrally held investment.

The fluctuations for the Asian operations primarily reflect £(149) million for Vietnam reflecting a significant fall in the Vietnamese bond and equity markets, the latter falling by 58 per cent in the first half of the year and £69 million for Taiwan which reflects the decrease of 12 per cent in the Taiwanese equity market, and a £29 million reduction in the value of an investment in a CDO fund.

In the US the charge for short-term fluctuations in investment returns was £(181) million. During the first half of 2008 the US life insurance operations recorded net credit losses of £(108) million. This charge is reflected in two parts of the accounting presentation of the results. Included within the IFRS operating profit based on longer-term investment returns is a risk margin reserve (RMR) charge, representing long-term expected credit defaults, of £23 million. After deducting the RMR charge and related charges in amortisation of deferred acquisition costs, the difference between the credit related losses and the RMR charge in the year was a charge of £(73) million which is recorded within short-term fluctuations in investment returns. The other £(108) million of charge for short-term fluctuations for the US

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primarily relates to equity type investment, derivatives used to hedge the fixed annuity and other general account business.

The fluctuations for the UK operations primarily reflect reduced asset values in Prudential Retirement Income Limited (PRIL), the shareholder-backed annuity business, from widened credit spreads on corporate bond securities.

The loss after tax and minority interests was £(116) million compared with a profit of £661 million in the first half of 2007. The effective rate of tax on operating profits, based on longer-term investment returns, was 29 per cent (HY 2007: 34 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 12 per cent (HY 2007: 36 per cent). The effective tax rates in the first half of 2008 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

Earnings per share

	2008 p Half year	2007 p Half year
EPS based on operating profit from continuing operations after tax and minority interest:		
EEV	41.6	39.1
IFRS	19.4	16.0
Basic EPS based on total profit/(loss) after minority interest		
EEV	(19.3)	69.9
IFRS	(4.7)	27.1

Dividend per share

The Board has agreed an interim dividend of 5.99 pence per share to be paid on 23 September 2008 to shareholders on the register at the close of business on 15 August 2008. The interim dividend for 2007 was 5.70 pence per share.

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

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 30 June 2008 were £14 billion, a decrease of £0.6 billion from the 31 December 2007 level. This reduced level of shareholders' funds results from: total EEV basis operating profit of £1,430 million; a £(1.9) billion unfavourable movement in short-term fluctuations in investment returns; a £189 million negative movement due to changes in economic assumptions and in time value of cost of options and guarantees; a positive movement on the mark to market of core debt of £171 million; a negative movement in the actuarial gains on the defined benefit pension schemes of £98 million; and dividend payments of £(177) million net of scrip dividend take-up, made to shareholders.

The £(1.9) billion of unfavourable short-term fluctuations were made up of: £(959) million in the UK life business due primarily to a negative return of 6.8 per cent in the with-profits fund over the period (the FTSE 100 fell 13 per cent in the first six months of the year) against an expected return of 4.1 per cent; £(297) million in the US primarily due to variable annuity equity and fixed interest performance below the long-term assumption; and £(536) million in Asia primarily due to investment returns below long-term assumptions, including Vietnam, Singapore, Hong Kong and Taiwan.

The shareholders' funds at the end of first half of 2008 of £14 billion comprise of £3.7 billion for the Asian long-term business operations, £3.6 billion for the US long-term business operations, £6.0 billion for the UK long-term business operations and £0.7 billion for other operations.

At the year end the embedded value for the Asian long-term business was £3.7 billion. The established markets of Hong Kong, Singapore and Malaysia contribute £2,806 million to the embedded value generated across the region, with Korea at £312 million and Indonesia at £211 million making further substantial contributions. Prudential's other markets, excluding Taiwan, in aggregate contribute £505 million in embedded value. Taiwan has a negative embedded value of £128 million, this positive movement against prior year (the first half of 2007: negative £157 million) is a reflection of an increase in new business and a change in economic assumptions.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 65 per cent and 15 per cent of new business APE in the first half of 2008, respectively. As a result, interest rates have little effect on new business profitability and a one per cent reduction in assumed interest rates would reduce new business margins in Taiwan by less than one percentage point. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a £96 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by £58 million. On the assumption that bond yields remained flat during the first half of 2008 and then trended towards 5.5 per cent in December 2014, this would have reduced the first half of the 2008 Taiwan embedded value by £61 million. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a negligible percentage change to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 30 June 2008 were £5.6 billion. This compares with £6.1 billion at 31 December 2007 at RER after adjusting for the £(139) million reduction on a change in accounting policy for pension costs. This decrease primarily reflects: operating profit of £674 million, offset by an unfavourable movement in short-term fluctuations in investment return of £(684) million; unrealised value change on Jackson debt securities of £(433) million; and dividend payments to shareholders net of scrip take-up of £(177) million.

Shareholders' borrowings and financial flexibility

Core structural borrowings of shareholder-financed operations at 30 June 2008 totalled £2,526 million, compared with £2,492 million at the end of 2007. This increase reflected exchange movements of £30 million and other adjustments of £4 million.

After adjusting for holding company cash and short-term investments of £1,498 million, net core structural borrowings at 30 June 2008 were £1,028 million compared with £1,036 million at 31 December 2007. This reflects the net cash inflow of £86 million, exchange movements of £74 million and other adjustments of £4 million.

Core structural borrowings at 30 June 2008 included £2,115 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. Of the core borrowings, £890 million 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 2008, commercial paper of £280 million, US$3,361 million and €436 million was in issue under this programme. Prudential also has in place a £5,000 million medium-term note (MTN) programme. At 30 June 2008, subordinated debt outstanding under this programme was £435 million and €520 million, and senior debt outstanding was US$12 million. In addition, the holding company has access to £1,600 million committed revolving credit facilities, provided in equal tranches of £100 million by 16 major international banks, renewable in December 2009, and an annually renewable £500 million committed securities lending liquidity facility. Apart from a small test drawdown, these facilities have not been drawn on during the first half of the year. There are no amounts outstanding under the committed credit facilities at 30 June 2008. 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 holding company.

The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 30 June 2008, the gearing ratio (core debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus core debt) was 6.9 per cent compared with 6.6 per cent at 31 December 2007.

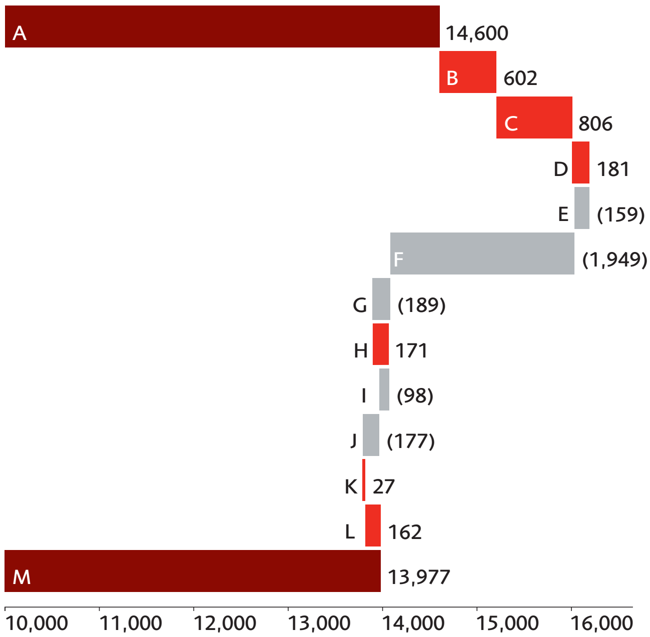
Prudential plc enjoys strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential long-term senior debt is rated A+ (stable outlook), A2 (stable outlook) and AA- (stable outlook) from Standard & Poor's, Moody's and Fitch respectively, while short-term ratings are A-1, P-1 and F1+.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 18.4 times in the first half of 2008 compared with 16.1 times in the first half of 2007.

Regulatory capital requirements

Prudential's Insurance Groups Directive (IGD) capital position at the end of 2007 was a surplus of £1.6 billion. The surplus at half year 2008 is estimated to be £1.4 billion.

Analysis of movement in EEV shareholders' funds £m 31 December 2007 to 30 June 2008



A Opening shareholders' funds
B New business operating profits
C In-force operating profits including Asian development costs
D Asset management and other operating profit
E Other income and expenditure
F Short-term fluctuations in investment returns
G Effect of changes in economic assumptions
H Change in mark to market value of external borrowings
I Actuarial gains and losses on defined benefit pension schemes
J Dividends, net of scrip dividend take-up
K Other
L Tax
M Closing shareholders' funds

The half year 2008 IGD surplus capital position is very resilient to extreme stresses from financial risks (interest rates, equity markets and credit). Prudential estimates that a 150bps reduction in interest rates has an adverse impact of £550 million on the IGD surplus capital, a 40 per cent fall on the current equity markets has an adverse impact of £260 million on the IGD surplus capital and credit defaults at five times the expected level has an adverse impact of £220 million.

Economic capital

Prudential defines its economic capital requirements as the amount of capital that the Group needs to hold in order to remain solvent over a 25-year horizon, given a target probability of insolvency appropriate for AA-debt. At 30 June 2008, Prudential has an economic capital surplus of c. £1.0 billion before taking credit for diversification and £2.8 billion after. Economic capital is central in Prudential's decision-making process on allocating capital within the Group.

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continued

Unallocated surplus of with-profits

During the first half of 2008, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on a statutory basis, decreased from £ 14.0. billion at 1 January to £12.6 billion at 30 June 2008. This reflects a decrease in the cumulative retained earnings arising on with-profits business that have yet to be allocated to policyholders or shareholders.

Holding company cash flow

	2008 £m Half year	2007 £m Half year
Cash remitted by business units:		
UK life fund transfer	279	261
Asia	148	86
M&G	86	75
Total cash remitted to Group	513	422
Net interest paid	(80)	(76)
Dividends paid	(303)	(286)
Scrip dividends and share options	134	119
Cash remittances after interest and dividends	264	179
Tax received	87	24
Corporate activities	(86)	(30)
Cash flow before investment in businesses	265	173
Capital invested in business units:		
Asia	(137)	(70)
UK	(42)	(69)
Total capital invested in business units	(179)	(139)
Increase in operating cash	86	34
Egg sale net proceeds	0	527
Total holding company cash flow	86	561

The Group holding company received £513 million in cash remittances from business units in the first half of 2008 up from £422 million in 2007. This includes the shareholders' statutory life fund transfer of £279 million from the UK business.

After dividends and net interest paid, there was a net cash inflow of £ 264 million (HY 2007: £179 million). There was a high take-up of scrip dividends in the first half of 2008 and 2007.

Tax received of £87 million was £63 million higher than prior year, with the 2007 figure being exceptionally low as a result of foreign exchange gains, reducing the level of taxable losses. During the first half of 2008, the Group holding company paid £86 million in respect of corporate activities, including costs in respect of the process to consider a reattribution of the inherited estate.

In aggregate there is an improvement in operating cash inflow to £ 86 million from £34 million in the first half of 2007.

Depending on the mix of business written and the opportunities available, Prudential continues to expect that the UK shareholder-backed business will become cash positive in 2010.

We have previously indicated that the operating cash flow of the Group holding company is expected to be positive in 2008 and we are on target to meet this commitment.

Risk factors and contingencies

The Group published details of its risk factors and contingencies in its 2007 annual report. There have been no changes in the risk factors during the period. Note (M) of the IFRS interim report gives an update on the position for contingencies.