

European Embedded Value (EEV) basis supplementary information

Operating profit based on longer-term investment returnsⁱ

Results analysis by business area

Year ended 31 December 2009	Note	2009 £m	2008 £m ^{v,vi}
Asian operations			
New business	2	713	634
Business in force	3	392	579
Long-term business		1,105	1,213
Asset management		55	52
Development expenses		(6)	(26)
Total		1,154	1,239
US operations			
New business	2	664	293
Business in force	3	569	293
Long-term business		1,233	586
Broker-dealer and asset management ⁱⁱ		4	7
Total		1,237	593
UK operations			
New business	2	230	273
Business in force	3	640	764
Long-term business		870	1,037
General insurance commission		51	44
Total UK insurance operations		921	1,081
M&G		238	286
Total		1,159	1,367
Other income and expenditure			
Investment return and other income		22	89
Interest payable on core structural borrowings		(209)	(172)
Corporate expenditure:			
Group Head Office		(146)	(130)
Asia Regional Head Office		(57)	(41)
Charge for share-based payments for Prudential schemes		(5)	(6)
Charge for expected asset management margin ⁱⁱⁱ		(38)	(42)
Total		(433)	(302)
Restructuring costs ^{iv}		(27)	(32)
Operating profit based on longer-term investment returns^v		3,090	2,865
Analysed as profits (losses) from:			
New business	2	1,607	1,200
Business in force	3	1,601	1,636
Long-term business		3,208	2,836
Asset management		297	345
Other results		(415)	(316)
Total		3,090	2,865

Notes

- ⁱ EEV basis operating profit 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 and other gains and losses on defined benefit pension schemes, and 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. In addition, during the severe equity market conditions experienced in the first quarter of 2009, coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail events on the Group IGD capital position. These contracts were in addition to the Group's regular operational hedging programmes. It also disposed of its Taiwan agency business. The effect of these items has been shown separately from operating profit based on longer-term investment returns. The treatment of the Taiwan agency business within the comparatives is discussed below. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout this supplementary information.
- ⁱⁱ The US broker-dealer and asset management result includes losses for Curian of £6 million (2008: £3 million).
- ⁱⁱⁱ The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margin for the year on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.
- ^{iv} Restructuring costs comprise the charge of £23 million recognised on an IFRS basis and an additional £4 million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund.
- ^v In June 2009, the Group completed the previously announced sale of its Taiwan agency business. In order to facilitate comparisons of the results of the Group's retained businesses the effect of disposal and the results of the Taiwan agency business are shown separately. The presentation of the comparative results for full year 2008 has been adjusted accordingly as explained in note 18.
- ^{vi} Exchange translation
The comparative results have been prepared using previously reported exchange rates.

Summarised consolidated income statement

Year ended 31 December 2009	Note	2009 £m	2008 £m
Operating profit based on longer-term investment returns			
Asian operations		1,154	1,239
US operations		1,237	593
UK operations:			
UK insurance operations		921	1,081
M&G		238	286
		1,159	1,367
Other income and expenditure		(433)	(302)
Restructuring costs		(27)	(32)
Operating profit based on longer-term investment returns		3,090	2,865
Short-term fluctuations in investment returns	5	351	(4,967)
Mark to market value movements on core borrowings	9	(795)	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		(84)	(14)
Effect of changes in economic assumptions and time value of cost of options and guarantees	6	(910)	(398)
Profit on sale and results for Taiwan agency business	18	91	(248)
Profit (loss) from continuing operations before tax (including actual investment returns)		1,743	(2,106)
Tax attributable to shareholders' profit (loss)	11	(481)	771
Profit (loss) from continuing operations after tax before minority interests		1,262	(1,335)
Discontinued operations (net of tax)	4	(14)	–
Profit (loss) for the year		1,248	(1,335)
Attributable to:			
Equity holders of the Company		1,245	(1,338)
Minority interests		3	3
Profit (loss) for the year		1,248	(1,335)

Earnings per share (in pence)

Year ended 31 December 2009	Note	2009	2008
From operating profit based on longer-term investment returns, after related tax and minority interests of £2,221m (2008: £2,103m)	12	88.8p	85.1p
Based on profit (loss) after tax and minority interests of £1,245m (2008: £(1,338)m)	12	49.8p	(54.1)p

Dividends per share (in pence)

Year ended 31 December 2009	2009	2008
Dividends relating to reporting year:		
Interim dividend (2009 and 2008)	6.29p	5.99p
Final dividend (2009 and 2008)	13.56p	12.91p
Total	19.85p	18.90p
Dividends declared and paid in reporting year:		
Current year interim dividend	6.29p	5.99p
Final dividend for prior year	12.91p	12.30p
Total	19.20p	18.29p

Movement in shareholders' equity (excluding minority interests)

Year ended 31 December 2009	Note	2009 £m	2008 £m
Profit (loss) for the year attributable to equity shareholders		1,245	(1,338)
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		(761)	2,010
Related tax		11	119
Dividends		(481)	(453)
New share capital subscribed		141	170
Reserve movements in respect of share-based payments		29	18
Treasury shares:			
Movement in own shares held in respect of share-based payment plans		3	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		(3)	(25)
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		205	(228)
Related tax		(72)	80
Net increase in shareholders' equity	10	317	356
Shareholders' equity at beginning of year (excluding minority interests)	10	14,956	14,600
Shareholders' equity at end of year (excluding minority interests)	710	15,273	14,956

	31 Dec 2009 £m			31 Dec 2008 £m		
	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Comprising:						
Asian operations:						
Net assets of operation	5,781	161	5,942	5,264	167	5,431
Acquired goodwill	80	61	141	111	61	172
	5,861	222	6,083	5,375	228	5,603
US operations:						
Net assets of operation	4,122	95	4,217	4,339	98	4,437
Acquired goodwill	–	16	16	–	16	16
	4,122	111	4,233	4,339	114	4,453
UK insurance operations:						
Net assets of operation M&G	5,439	37	5,476	4,919	–	4,919
Net assets of operation	–	173	173	–	147	147
Acquired goodwill	–	1,153	1,153	–	1,153	1,153
	–	1,326	1,326	–	1,300	1,300
	5,439	1,363	6,802	4,919	1,300	6,219
Other operations:						
Holding company net borrowings at market value	–	(1,780)	(1,780)	–	(818)	(818)
Other net liabilities	–	(65)	(65)	–	(501)	(501)
	–	(1,845)	(1,845)	–	(1,319)	(1,319)
Shareholders' equity at end of year (excluding minority interests)	15,422	(149)	15,273	14,633	323	14,956
Representing:						
Net assets	15,342	(1,379)	13,963	14,522	(907)	13,615
Acquired goodwill	80	1,230	1,310	111	1,230	1,341
	15,422	(149)	15,273	14,633	323	14,956

	2009	2008
Net asset value per share (in pence)		
Based on EEV basis shareholders' equity of £15,273m (2008: £14,956m)	603p	599p
Number of issued shares at year end (millions)	2,532	2,497
Return on embedded value*	14.9%	14.4%

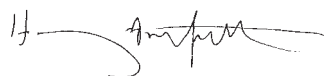
*Return on embedded value is based on EEV operating profit after tax and minority interests as a percentage of opening EEV basis shareholders' equity.

Summary statement of financial position

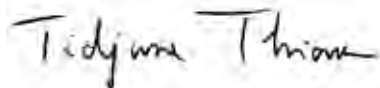
31 December 2009	Note	2009 £m	2008 £m
Total assets less liabilities, excluding insurance funds		201,501	186,209
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(195,230)	(181,151)
Less shareholders' accrued interest in the long-term business		9,002	9,898
		(186,228)	(171,253)
Total net assets	10	15,273	14,956
Share capital		127	125
Share premium		1,843	1,840
IFRS basis shareholders' reserves		4,301	3,093
Total IFRS basis shareholders' equity	7	6,271	5,058
Additional EEV basis retained profit	7	9,002	9,898
Shareholders' equity (excluding minority interests)	7,10	15,273	14,956

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

The supplementary information on pages 304 to 340 was approved by the Board of directors on 8 March 2010 and signed on its behalf.



Harvey McGrath
Chairman



Tidjane Thiam
Group Chief Executive



Nic Nicandrou
Chief Financial Officer