

## European Embedded Value (EEV) basis results

### Operating profit based on longer-term investment returns<sup>i</sup>

#### Results analysis by business area

	Note	2010 £m		2009 £m	
		Half year	Half year <sup>iwvi</sup>	Half year <sup>iwvi</sup>	Full year <sup>iwvi</sup>
<b>Asian operations</b>					
New business:					
Excluding Japan	2	396	286		725
Japan <sup>v</sup>		(1)	(9)		(12)
Total		395	277		713
Business in force	3	241	124		392
Long-term business		636	401		1,105
Asset management		36	21		55
Development expenses		(3)	(5)		(6)
Total		669	417		1,154
<b>US operations</b>					
New business	2	361	292		664
Business in force	3	306	209		569
Long-term business		667	501		1,233
Broker-dealer and asset management		15	2		4
Total		682	503		1,237
<b>UK operations</b>					
New business	2	135	122		230
Business in force	3	314	284		640
Long-term business		449	406		870
General insurance commission		23	27		51
Total UK insurance operations		472	433		921
M&G		143	102		238
Total		615	535		1,159
<b>Other income and expenditure</b>					
Investment return and other income		5	13		22
Interest payable on core structural borrowings		(129)	(84)		(209)
Corporate expenditure:					
Group Head Office		(86)	(74)		(146)
Asia Regional Head Office		(27)	(23)		(57)
Charge for share-based payments for Prudential schemes		(3)	(11)		(5)
Charge for expected asset management margins <sup>ii</sup>		(22)	(16)		(38)
Total		(262)	(195)		(433)
Solvency II implementation costs		(22)	–		–
Restructuring costs <sup>iii</sup>		(5)	(14)		(27)
<b>Operating profit based on longer-term investment returns<sup>v</sup></b>		<b>1,677</b>	<b>1,246</b>		<b>3,090</b>
Analysed as profits (losses) from:					
New business:					
Excluding Japan	2	892	700		1,619
Japan <sup>v</sup>		(1)	(9)		(12)
Total		891	691		1,607
Business in force	3	861	617		1,601
Long-term business		1,752	1,308		3,208
Asset management		194	125		297
Other results		(269)	(187)		(415)
Total		1,677	1,246		3,090

Operating profit based on longer-term investment returns<sup>1</sup> continued

## 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, in half year 2010 the Company incurred costs in relation to the termination of the agreement for the combination of Prudential with AIA Group Limited which have been shown separately from operating profit based on longer-term investment returns. In 2009, during the severe equity market conditions experienced in the first quarter, 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 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 these statements.
- ii 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 margins for the period 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.
- iii Restructuring costs comprise the charge of £(3) million recognised on an IFRS basis and an additional £(2) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund.
- iv In June 2009, the Group completed the 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.
- v New business profits for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.
- vi Exchange translation  
The comparative results have been prepared using previously reported exchange rates.

## Summary consolidated income statement

	Note	2010 £m	2009 £m	
		Half year	Half year	Full year
<b>Operating profit based on longer-term investment returns</b>				
Asian operations		669	417	1,154
US operations		682	503	1,237
UK operations:				
UK insurance operations		472	433	921
M&G		143	102	238
		615	535	1,159
Other income and expenditure		(262)	(195)	(433)
Solvency II implementation costs		(22)	–	–
Restructuring costs		(5)	(14)	(27)
<b>Operating profit based on longer-term investment returns</b>		<b>1,677</b>	<b>1,246</b>	<b>3,090</b>
Short-term fluctuations in investment returns	5	(227)	(707)	351
Mark to market value movements on core borrowings	9	(42)	(108)	(795)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		(25)	(71)	(84)
Effect of changes in economic assumptions and time value of cost of options and guarantees	6	(52)	(384)	(910)
Costs of terminated AIA transaction	4	(377)	–	–
Profit on sale and results for Taiwan agency business	17	–	91	91
<b>Profit from continuing operations before tax (including actual investment returns)</b>		<b>954</b>	<b>67</b>	<b>1,743</b>
Tax attributable to shareholders' profit	11	(140)	(52)	(481)
<b>Profit from continuing operations after tax before non-controlling interests</b>		<b>814</b>	<b>15</b>	<b>1,262</b>
Discontinued operations (net of tax)	1c	–	–	(14)
<b>Profit for the period</b>		<b>814</b>	<b>15</b>	<b>1,248</b>
Attributable to:				
Equity holders of the Company		812	14	1,245
Non-controlling interests		2	1	3
<b>Profit for the period</b>		<b>814</b>	<b>15</b>	<b>1,248</b>

## Earnings per share (in pence)

	Note	2010	2009	
		Half year	Half year	Full year
From operating profit based on longer-term investment returns, after related tax and non-controlling interests of £1,210m (half year 2009: £881m; full year 2009: £2,221m)	12	48.0p	35.4p	88.8p
Based on profit after tax and non-controlling interests of £812m (half year 2009: £14m; full year 2009: £1,245m)	12	32.2p	0.6p	49.8p

## Dividends per share (in pence)

	2010	2009	
	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2010 and 2009)	6.61p	6.29p	6.29p
Second interim dividend (2009)	–	–	13.56p
<b>Total</b>	<b>6.61p</b>	<b>6.29p</b>	<b>19.85p</b>
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	6.29p
Second interim/final dividend for prior year	13.56p	12.91p	12.91p
<b>Total</b>	<b>13.56p</b>	<b>12.91p</b>	<b>19.20p</b>

**Movement in shareholders' equity (excluding non-controlling interests)**

	Note	2010 £m	2009 £m	
		Half year	Half year	Full year
Profit for the period attributable to equity shareholders		812	14	1,245
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		806	(1,098)	(761)
Related tax		(8)	(6)	11
Dividends		(344)	(322)	(481)
New share capital subscribed		39	96	141
Reserve movements in respect of share-based payments		15	18	29
Treasury shares:				
Movement in own shares held in respect of share-based payment plans		8	7	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		4	(8)	(3)
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		103	97	205
Related tax		(36)	(34)	(72)
Net increase (decrease) in shareholders' equity	10	1,399	(1,236)	317
Shareholders' equity at beginning of period (excluding non-controlling interests)	710	15,273	14,956	14,956
Shareholders' equity at end of period (excluding non-controlling interests)	710	16,672	13,720	15,273

Comprising:	Note	30 Jun 2010 £m			30 Jun 2009 £m			31 Dec 2009 £m		
		Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Asian operations:										
Net assets of operation		6,736	180	6,916	5,164	144	5,308	5,781	161	5,942
Acquired goodwill		235	61	296	80	61	141	80	61	141
		6,971	241	7,212	5,244	205	5,449	5,861	222	6,083
US operations:										
Net assets of operation		4,984	111	5,095	3,852	85	3,937	4,122	95	4,217
Acquired goodwill		–	16	16	–	16	16	–	16	16
		4,984	127	5,111	3,852	101	3,953	4,122	111	4,233
UK insurance operations:										
Net assets of operation M&G		5,442	17	5,459	4,658	19	4,677	5,439	37	5,476
Net assets of operation		–	190	190	–	178	178	–	173	173
Acquired goodwill		–	1,153	1,153	–	1,153	1,153	–	1,153	1,153
		–	1,343	1,343	–	1,331	1,331	–	1,326	1,326
		5,442	1,360	6,802	4,658	1,350	6,008	5,439	1,363	6,802
Other operations:										
Holding company net borrowings at market value	9	–	(2,343)	(2,343)	–	(861)	(861)	–	(1,780)	(1,780)
Other net liabilities		–	(110)	(110)	–	(829)	(829)	–	(65)	(65)
		–	(2,453)	(2,453)	–	(1,690)	(1,690)	–	(1,845)	(1,845)
Shareholders' equity at end of period (excluding non-controlling interests)		17,397	(725)	16,672	13,754	(34)	13,720	15,422	(149)	15,273
Representing:										
Net assets		17,162	(1,955)	15,207	13,674	(1,264)	12,410	15,342	(1,379)	13,963
Acquired goodwill		235	1,230	1,465	80	1,230	1,310	80	1,230	1,310
		17,397	(725)	16,672	13,754	(34)	13,720	15,422	(149)	15,273

	30 Jun 2010	30 Jun 2009	31 Dec 2009
<b>Net asset value per share (in pence)</b>			
Based on EEV basis shareholders' equity of £16,672m (half year 2009: £13,720m; full year 2009: £15,273m)	657p	544p	603p
Number of issued shares at period end (millions)	2,539	2,524	2,532
<b>Annualised return on embedded value*</b>	16%	12%	15%

\*Annualised return on embedded value is based on EEV operating profit after tax and non-controlling interests as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

### Summary statement of financial position

	Note	2010 £m	2009 £m	
		30 Jun	30 Jun	31 Dec
<b>Total assets less liabilities, before deduction for insurance funds</b>		214,771	175,714	201,501
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(207,610)	(170,994)	(195,230)
Less shareholders' accrued interest in the long-term business		9,511	9,000	9,002
		(198,099)	(161,994)	(186,228)
<b>Total net assets</b>	7,10	16,672	13,720	15,273
Share capital		127	126	127
Share premium		1,856	1,840	1,843
IFRS basis shareholders' reserves		5,178	2,754	4,301
Total IFRS basis shareholders' equity	7	7,161	4,720	6,271
Additional EEV basis retained profit	7	9,511	9,000	9,002
<b>Shareholders' equity (excluding non-controlling interests)</b>	7,10	16,672	13,720	15,273

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