PRUDENTIAL PLC 2006 PRELIMINARY ANNOUNCEMENT

RESULTS SUMMARY

European Embedded Value (EEV) Basis Results*

	2006 £m	2005 £m
UK Insurance Operations	**686**	426
M&G	**204**	163
Egg	**(145)**	44
UK Operations	**745**	633
US Operations	**718**	755
Asian Operations	**864**	568
Other Income and Expenditure	**(298)**	(244)
UK restructuring costs	**(53)**	-
Operating profit from continuing operations based on longer-term investment returns	**1,976**	1,712
Goodwill impairment charge	**-**	(120)
Short-term fluctuations in investment returns	**745**	1,068
Mark to market value movements on core borrowings	**85**	(67)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**207**	(47)
Effect of changes in economic assumptions and time value of cost of options and guarantees	**59**	(302)
Profit from continuing operations before tax	**3,072**	2,244

Operating earnings per share from continuing operations after related tax and minority interests*	**57.6p**	56.6p
Basic earnings per share	**91.7p**	66.9p
Shareholders' funds, excluding minority interests	**£11.9bn**	£10.3bn

International Financial Reporting Standard (IFRS) Basis Results*

Statutory IFRS basis results	**2006**	2005
Profit after tax attributable to equity holders of the Company	**£874m**	£748m
Basic earnings per share	**36.2p**	31.6p
Shareholders' funds, excluding minority interests	**£5.5bn**	£5.2bn

Supplementary IFRS basis information		
Operating profit from continuing operations based on longer-term investment returns	**£893m**	£957m
Operating earnings per share from continuing operations after related tax and minority interests*	**26.4p**	32.2p

	2006	2005
Dividends per share declared and paid in reporting period	**16.44p**	15.95p
Dividends per share relating to reporting period	**17.14p**	16.32p
Funds under management	**£251bn**	£234bn

*Basis of preparation

The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. The basis of preparation of statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2005 full year results and financial statements.

Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other constituent elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits from continuing operations based on longer-term investment returns, after tax and minority interests. These profits exclude goodwill impairment charges, short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core borrowings 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. After adjusting for related tax and minority interests, the amounts for these items are included in the calculation of basic earnings per share.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARY CONSOLIDATED INCOME STATEMENT

	2006 £m	2005 £m
UK Insurance Operations	**686**	426
M&G	**204**	163
Egg	**(145)**	44
UK Operations	**745**	633
US Operations	**718**	755
Asian Operations	**864**	568
Other Income and Expenditure	**(298)**	(244)
UK restructuring costs	**(53)**	-
Operating profit from continuing operations based on longer-term investment returns	**1,976**	1,712
Goodwill impairment charge	**-**	(120)
Short-term fluctuations in investment returns	**745**	1,068
Mark to market value movements on core borrowings	**85**	(67)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**207**	(47)
Effect of changes in economic assumptions and time value of cost of options and guarantees	**59**	(302)
Profit from continuing operations before tax (including actual investment returns)	**3,072**	2,244
Tax	**(859)**	(653)
Profit from continuing operations for the financial year after tax before minority interests	**2,213**	1,591
Discontinued operations (net of tax)	**-**	3
Profit for the year	**2,213**	1,594
Attributable to:		
Equity holders of the Company	**2,212**	1,582
Minority interests	**1**	12
Profit for the year	**2,213**	1,594

Earnings per share (in pence)	**2006**	2005
From operating profit, based on longer-term investment returns, after related tax and minority interests	**57.6p**	56.6p
Adjustment for goodwill impairment charge	**-**	(5.1)p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**22.0p**	30.6p
Adjustment for mark to market value movements on core borrowings	**3.5p**	(2.8)p
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**6.0p**	(1.4)p
Adjustment for post-tax effect of changes in economic assumptions and time value of cost of options and guarantees	**2.6p**	(11.1)p
Based on profit from continuing operations after minority interests	**91.7p**	66.8p
Based on profit from discontinued operations after minority interests	**-**	0.1p
Based on profit for the year after minority interests	**91.7p**	66.9p
Average number of shares (millions)	**2,413**	2,365

Dividends per share (in pence)	**2006**	2005
Dividends relating to reporting period:		
Interim dividend (2006 and 2005)	**5.42p**	5.30p
Final dividend (2006 and 2005)	**11.72p**	11.02p
Total	**17.14p**	16.32p
Dividends declared and paid in reporting period:		
Current year interim dividend	**5.42p**	5.30p
Final dividend for prior year	**11.02p**	10.65p
Total	**16.44p**	15.95p

TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

INSURANCE PRODUCTS AND INVESTMENT PRODUCTS*

	Insurance Products*		Investment Products*		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
UK Operations	**7,192**	7,193	**13,486**	7,916	**20,678**	15,109
US Operations	**5,981**	5,023	**-**	-	**5,981**	5,023
Asian Operations	**1,921**	1,485	**20,408**	18,457	**22,329**	19,942
Group Total	**15,094**	13,701	**33,894**	26,373	**48,988**	40,074

INSURANCE PRODUCTS - NEW BUSINESS PREMIUMS AND CONTRIBUTIONS*

	Single		Regular		Annual Premium and Contribution Equivalents		Present Value of New Business Premiums	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
UK Insurance Operations								
Direct to customer								
Individual annuities	**816**	720	**-**	-	**82**	72	**816**	720
Individual pensions and life	**60**	29	**9**	11	**15**	14	**99**	70
Department of Work and Pensions rebate business	**161**	244	**-**	-	**16**	24	**161**	244
Total	**1,037**	993	**9**	11	**113**	110	**1,076**	1,034
Business to Business								
Corporate pensions	**536**	242	**162**	146	**216**	170	**1,071**	772
Individual annuities	**264**	212	**-**	-	**26**	21	**264**	212
Bulk annuities	**85**	511	**-**	-	**8**	51	**85**	511
Total	**885**	965	**162**	146	**250**	242	**1,420**	1,495
Intermediated distribution*								
Life	**961**	1,112	**5**	6	**101**	118	**995**	1,149
Individual annuities	**919**	995	**-**	-	**92**	100	**919**	995
Individual and corporate pensions	**130**	108	**22**	25	**35**	36	**228**	195
Total	**2,010**	2,215	**27**	31	**228**	254	**2,142**	2,339
Partnerships								
Life	**840**	814	**3**	3	**87**	84	**855**	835
Individual and bulk annuities								
Bulk annuity reinsurance from the Scottish Amicable Insurance Fund*	**560**	-	**-**	-	**56**	-	**560**	-
Individual and other bulk annuities	**1,500**	1,814	**-**	-	**150**	182	**1,500**	1,814
Total	**2,900**	2,628	**3**	3	**293**	266	**2,915**	2,649
Europe								
Life	**159**	201	**-**	-	**16**	20	**159**	201
Total UK Insurance Operations	**6,991**	7,002	**201**	191	**900**	892	**7,712**	7,718
US Operations								
Fixed annuities	**688**	788	**-**	-	**69**	79	**688**	788
Fixed index annuities	**554**	616	**-**	-	**55**	62	**554**	616
Variable annuities	**3,819**	2,605	**-**	-	**382**	261	**3,819**	2,605
Life	**8**	11	**17**	14	**18**	15	**147**	137
Guaranteed Investment Contracts	**458**	355	**-**	-	**46**	35	**458**	355
GIC - Medium Term Notes	**437**	634	**-**	-	**44**	63	**437**	634
Total US Operations	**5,964**	5,009	**17**	14	**614**	515	**6,103**	5,135
Asian Operations								
China	**27**	17	**36**	23	**39**	25	**198**	144
Hong Kong	**355**	289	**103**	83	**139**	112	**933**	741
India (Group's 26% interest)	**20**	4	**105**	57	**107**	57	**411**	215
Indonesia	**31**	42	**71**	42	**74**	46	**269**	186
Japan	**68**	30	**7**	4	**14**	7	**97**	50
Korea	**103**	29	**208**	132	**218**	135	**1,130**	578
Malaysia	**4**	9	**72**	66	**72**	67	**418**	383
Singapore	**357**	284	**72**	58	**108**	86	**803**	704
Taiwan	**92**	124	**139**	150	**148**	162	**743**	912
Other	**15**	9	**36**	33	**37**	34	**130**	126
Total Asian Operations	**1,072**	837	**849**	648	**956**	731	**5,132**	4,039
Group Total	**14,027**	12,848	**1,067**	853	**2,470**	2,138	**18,947**	16,892

INVESTMENT PRODUCTS - FUNDS UNDER MANAGEMENT *

2006	1 Jan 2006 £m	Gross inflows £m	Redemptions £m	Market and other movements £m	31 Dec 2006 £m
UK Operations	36,196	13,486	(7,385)	2,649	**44,946**
Asian Operations	10,132	20,408	(17,876)	(411)	**12,253**
Group Total	46,328	33,894	(25,261)	2,238	**57,199**

2005	1 Jan 2005 £m	Gross inflows £m	Redemptions £m	Market and other movements £m	31 Dec 2005 £m
UK Operations	28,705	7,916	(4,054)	3,629	**36,196**
Asian Operations	8,538	18,457	(17,130)	267	**10,132**
Group Total	37,243	26,373	(21,184)	3,896	**46,328**

* The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. Products categorised as "insurance" refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under FSA regulations.

Annual premium and contribution equivalents are calculated as the aggregate of regular new business amounts and one tenth of single new business amounts.

The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.

The tables above include a bulk annuity transaction with the Scottish Amicable Insurance Fund (SAIF) with a premium of £560m. The transaction reflects the arrangement entered into in June 2006 for the reinsurance of non-profit immediate pension annuity liabilities of SAIF to Prudential Retirement Income Limited (PRIL), a shareholder owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund established by a Court approved Scheme of Arrangement in October 1997, which is solely for the benefit of SAIF policyholders. Shareholders have no interest in the profits of this fund, although they are entitled to investment management fees on this business. Accordingly, it is not part of covered business for EEV reporting purposes. The inclusion of the transaction between SAIF and PRIL as new business in the tables above reflects the transfer from SAIF to Prudential shareholders' funds of longevity risk, the requirement to set aside supporting capital and the entitlement to surpluses arising on this block of business from the reinsurance arrangement.

Consistent with the transfer from uncovered to covered business and reflecting the transfers above, the transaction has been accounted for as new business for EEV basis reporting purposes.

The details shown above for insurance products include contributions for contracts that are classified under IFRS 4 "Insurance Contracts" as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK Insurance Operations and Guaranteed Investment Contracts and similar funding agreements written in US Operations.

New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

UK and Asian investment products referred to in the table for funds under management above are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classifed as "investment contracts" under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business. US investment products are no longer included in the table above as they are assets under administration rather than funds under management.

In previous periods new business premiums for intermediated distribution of UK Insurance Operations have included Department of Work and Pensions (DWP) rebate business for SAIF. As shareholders have no interest in SAIF, these are now excluded from the table above with comparatives restated accordingly. The amounts of new SAIF DWP rebate business written were £60m for 2006 and £83m for 2005.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

OPERATING PROFIT FROM CONTINUING OPERATIONS BASED ON LONGER-TERM INVESTMENT RETURNS*

Results Analysis by Business Area	2006 £m	2005 £m
UK Operations		
New business	**266**	243
Business in force	**420**	183
Long-term business	**686**	426
M&G	**204**	163
Egg	**(145)**	44
Total	**745**	633
US Operations		
New business	**259**	211
Business in force	**449**	530
Long-term business	**708**	741
Broker-dealer and fund management	**18**	24
Curian	**(8)**	(10)
Total	**718**	755
Asian Operations		
New business	**514**	413
Business in force	**315**	163
Long-term business	**829**	576
Fund management	**50**	12
Development expenses	**(15)**	(20)
Total	**864**	568
Other Income and Expenditure		
Investment return and other income	**8**	42
Interest payable on core structural borrowings	**(177)**	(175)
Corporate expenditure:		
Group Head Office	**(83)**	(70)
Asia Regional Head Office	**(36)**	(30)
Charge for share-based payments for Prudential schemes	**(10)**	(11)
Total	**(298)**	(244)
UK restructuring costs	**(53)**	-
Operating profit from continuing operations based on longer-term investment returns	**1,976**	1,712
Analysed as profits (losses) from:		
New business	**1,039**	867
Business in force	**1,184**	876
Long-term business	**2,223**	1,743
Asia development expenses	**(15)**	(20)
Other operating results	**(179)**	(11)
UK restructuring costs	**(53)**	-
Total	**1,976**	1,712

* EEV basis operating profit from continuing operations based on longer-term investment returns excludes goodwill impairment charges, 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, the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees caused by 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 preliminary announcement.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

MOVEMENT IN SHAREHOLDERS' CAPITAL AND RESERVES (excluding minority interests)

	2006 £m
Profit for the year attributable to equity holders of the Company	2,212
Items recognised directly in equity:	
Cumulative effect of changes in accounting policies on adoption of IAS 32, IAS 39 and IFRS 4, net of related tax, at 1 January 2005	-
Unrealised valuation movements on Egg securities classified as available-for-sale	(2)
Movement on cash flow hedges	7
Exchange movements	(359)
Related tax	(74)
Dividends	(399)
Acquisition of Egg minority interests	(167)
New share capital subscribed	336
Reserve movements in respect of share-based payments	15
Treasury shares:	
Movement in own shares in respect of share-based payment plans	6
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	0
Cumulative adjustment at 31 December 2006 net of related tax, for Jackson National Life assets backing surplus and required capital (note 8)	7
Net increase in shareholders' capital and reserves	1,582
Shareholders' capital and reserves at beginning of year (excluding minority interests)	10,301
Shareholders' capital and reserves at end of year (excluding minority interests)	11,883

Comprising:	
UK Operations:	
Long-term business	5,813
M&G:	
Net assets	230
Acquired goodwill	1,153
Egg	292
	7,488
US Operations	3,360
Asian Operations:	
Net assets	2,637
Acquired goodwill	172
Other Operations:	
Holding company net borrowings (at market value)	(1,542)
Other net liabilities	(232)
Shareholders' capital and reserves at end of year (excluding minority interests)	11,883

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARISED CONSOLIDATED BALANCE SHEET

Total assets less liabilities, excluding insurance funds
Less insurance funds*:
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds
Less shareholders' accrued interest in the long-term business
Total net assets
Share capital
Share premium
Statutory basis shareholders' reserves
Additional EEV basis retained profit
Shareholders' capital and reserves (excluding minority interests)

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

NET ASSET VALUE PER SHARE (in pence)

Based on EEV basis shareholders' funds of £11,883m (£10,301m)
Number of shares issued at year end (millions)

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 and expanded by the Additional Guidance on EEV Disclosures published in October 2005. 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 of 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 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 note 5. Reflecting the altered economic interest from SAIF policyholders to Prudential shareholders, this arrangement represents a transfer from 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 value of UK Operations and included in the total for Other Operations. The surplus and deficit amounts are partially attributable to the Prudential Assurance Company (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 2006 and 2005 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

Deterministic

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 the equity risk premium is 4.0 per cent (2005: 4.0 per cent) above risk-free rates. The equity risk premium in the US is 4.0 per cent (2005: 4.0 per cent). In Asia, equity risk premiums range from 3.0 per cent to 5.8 per cent (2005: 3.0 per cent to 5.75 per cent). 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.

The table below summarises the principal financial assumptions:

	2006	2005
	%	%
UK Insurance Operations		
Risk discount rate:		
New business	**7.8**	7.55
In force	**8.0**	7.7
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**8.6**	8.1
Overseas equities	**8.6 to 9.3**	8.1 to 8.75
Property	**7.1**	6.4
Gilts	**4.6**	4.1
Corporate bonds	**5.3**	4.9
Expected long-term rate of inflation	**3.1**	2.9
Post-tax expected long-term nominal rate of return for the with-profits fund:		
Pension business (where no tax applies)	**7.5**	7.1
Life business	**6.6**	6.3
US Operations (Jackson National Life)		
Risk discount rate:		
New business	**7.6**	6.9
In force	**6.7**	6.1
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	**1.75**	1.75
US 10 year treasury bond rate at end of period	**4.8**	4.4
Pre-tax expected long-term nominal rate of return for US equities	**8.8**	8.4
Expected long-term rate of inflation	**2.5**	2.4

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

Economic assumptions (continued)

Asian Operations

	China 31 Dec 2006 %	Hong Kong (notes iii, iv,v) 31 Dec 2006 %	India 31 Dec 2006 %	Indonesia 31 Dec 2006 %	Japan 31 Dec 2006 %	Korea 31 Dec 2006 %	Malaysia (notes iv,v) 31 Dec 2006 %	Philippines 31 Dec 2006 %	Singapore (notes iv,v) 31 Dec 2006 %	Taiwan (notes ii,v) 31 Dec 2006 %	Thailand 31 Dec 2006 %	Vietnam 31 Dec 2006 %
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**

	China 31 Dec 2005 %	Hong Kong (notes iii, iv,v) 31 Dec 2005 %	India 31 Dec 2005 %	Indonesia 31 Dec 2005 %	Japan 31 Dec 2005 %	Korea 31 Dec 2005 %	Malaysia (notes iv,v) 31 Dec 2005 %	Philippines 31 Dec 2005 %	Singapore (notes iv,v) 31 Dec 2005 %	Taiwan (notes ii,v) 31 Dec 2005 %	Thailand 31 Dec 2005 %	Vietnam 31 Dec 2005 %
Risk discount rate:												
New business	12.0	5.9	16.5	17.5	5.0	10.3	9.4	16.5	6.7	9.0	13.75	16.5
In force	12.0	6.15	16.5	17.5	5.0	10.3	9.0	16.5	6.8	9.4	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	4.8	10.5	11.5	1.8	5.8	7.0	10.5	4.5	5.5	7.75	10.5

	Asia total 31 Dec 2006 %	Asia total 31 Dec 2005 %
Weighted risk discount rate (note i)		
New business	**9.8**	9.8
In force	**8.8**	8.4

Notes

(i) The weighted discount rates for the Asian operations shown above have been determined by weighting each country's 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 2006 and 2005 EEV basis results 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 per cent trend towards 5.5 per cent at 31 December 2013 (2005: 2 per cent trend towards 5.5 per cent at 31 December 2012).

In projecting forward the Fund Earned Rate allowance is made for the mix of assets in the fund, future investment strategy, and further market value depreciation of bonds held as a result of assumed future yield increases. These factors, together with the assumption of the phased progression in bond yields give rise to an average assumed Fund Earned Rate that trends from 2.1 per cent for 2006 to 5.7 per cent in 2014. The assumed Fund Earned Rate falls to 1.4 per cent in 2007 and remains below 2.1 per cent for a further five years. This feature is due to the depreciation of bond values as yields rise. Thereafter, the assumed Fund Earned Rate fluctuates around a target of 5.9 per cent. This projection compares with that applied for the 2005 results of a grading from an assumed rate of 2.3 per cent for 2005 to 5.4 per cent for 2013. Consistent with the EEV methodology applied, a constant discount rate has been applied to the projected cashflows.

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

(iv) Assumed equity returns

The most significant equity holdings in the Asian operations are in Hong Kong, Singapore and Malaysia. The mean equity return assumptions for those territories at 31 December 2006 were 8.7 per cent (31 December 2005: 8.6 per cent), 9.3 per cent (31 December 2005: 9.3 per cent) and 12.8 per cent (31 December 2005: 12.8 per cent) respectively. 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 Singapore, Malaysia, Taiwan and Hong Kong, cash rates are used in setting the risk discount rates.

Stochastic

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.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

Economic assumptions (continued)

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 both years 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

Jackson National Life

• 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 18.6 per cent to 28.1 per cent (2005: 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 (2005: 1.4 per cent to 1.8 per cent).

Asian Operations

The same asset return model, as used in the UK, appropriately calibrated, has been used for the Asian operations. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property is not held as an investment asset.

The stochastic cost of guarantees is only of significance for the Hong Kong, Singapore, Malaysia 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 (2005: 18 per cent to 26 per cent), and the volatility of government bond yields ranges from 1.4 per cent to 2.5 per cent (2005: 1.3 per cent to 2.2 per cent).

(3) Level of encumbered capital

In adopting the EEV Principles, Prudential 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 the EEV princicals Prudential does not take credit 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 levels 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 National Life	235% of Company Action Level
Asian Operations	100% of Financial Conglomerates Directive requirement

(4) Margins on new business premiums and contributions

2006	**New Business Premiums**		**Annual Premium and Contribution Equivalents**	**Present value of New Business Premiums**	**Pre-Tax New Business Contribution**	**New Business Margin**	
	Single	**Regular**	**(APE)**	**(PVNBP)**	**Contribution**	**(APE)**	**(PVNBP)**
	£m	**£m**	**£m**	**£m**	**£m**	**%**	**%**
UK Insurance Operations	**6,991**	**201**	**900**	**7,712**	**266**	**30**	**3.4**
Jackson National Life	**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**

2005	**New Business Premiums**		**Annual Premium and Contribution Equivalents**	**Present value of New Business Premiums**	**Pre-Tax New Business Contribution**	**New Business Margin**	
	Single	**Regular**	**(APE)**	**(PVNBP)**	**Contribution**	**(APE)**	**(PVNBP)**
	£m	**£m**	**£m**	**£m**	**£m**	**%**	**%**
UK Insurance Operations	7,002	191	892	7,718	243	27	3.1
Jackson National Life	5,009	14	515	5,135	211	41	4.1
Asian Operations	837	648	731	4,039	413	56	10.2
Total	12,848	853	2,138	16,892	867	41	5.1

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

(4) Margins on new business premiums (continued)

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

The table of new business premiums and margins above excludes SAIF DWP rebate premiums. Comparatives for premiums for this business, which were previously included in the totals have been restated.

In determining the EEV basis value of new business written in the year 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) Bulk annuity reinsurance from the Scottish Amicable Insurance Fund to Prudential Retirement Income Limited

In June 2006 Prudential Retirement Income Limited (PRIL), a shareholder-backed subsidiary of the Company, entered into a bulk annuity reinsurance arrangement with the Scottish Amicable Insurance Fund (SAIF) for the reinsurance of non-profit immediate pension annuity liabilities with a premium of £560m. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund, which is solely for the benefit of SAIF policyholders. Shareholders have no interest in the profits of this sub-fund and, accordingly, it is not part of covered business for EEV reporting purposes.

Consistent with the transfer from uncovered to covered business and reflecting the transfer of longevity risk, requirement for capital support, and entitlement to surpluses on this block of business from SAIF to Prudential shareholders, the transaction has been accounted for as new business for EEV basis reporting purposes.

(6) UK restructuring costs

The charge of £53m for restructuring costs comprises £50m recognised on the IFRS basis and an additional £3m recognised on the EEV basis for the shareholders' share of costs incurred by the PAC with-profits sub-fund. The costs relate to the initiative announced in December 2005 for UK Insurance Operations to work more closely with Egg and M&G.

(7) UK Insurance Operations expense assumptions

The 2005 EEV basis financial statements included note disclosure explaining that in determining the appropriate expense assumptions for 2005 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. Without this factor there would have been a charge for altered expense assumptions of approximately £55m. The half year 2006 EEV basis results were prepared on the same basis.

The initiative was expected to provide annual savings to the cost base of UK Operations in aggregate of £40m. In addition, at the interim results stage, it was announced that an end to end review of the UK business, with the aim of reducing the overall cost base was underway. Total UK annual savings, including the £40m mentioned above, were noted as being expected to be £150m per annum comprising £100m for Egg and shareholder-backed business of UK Insurance Operations and £50m attaching to the with-profits sub-fund. The savings for the UK Insurance Operations cover both acquisition and renewal activity. Reflecting the underlying trend in unit costs, the interim results announcement noted that the element of the additional savings of £110m that relate to long-term business was expected to be neutral in its effect on EEV basis results.

With the agreement to sell Egg Banking Plc, the actions necessary to implement these plans have been reassessed and additional initiatives put in place, as announced on 15 March 2007.

In preparing the 2006 EEV basis results for UK Insurance Operations, account has been taken of the expense savings that are expected to arise from these initiatives. Without this factor the effect on the 2006 results would have been an additional charge of £44m for the net effect of revised assumptions in line with 2006 unit costs. The size of this change reflects the lagged effect of the implementation of the previously announced initiatives which have affected run-rate savings as at 31 December 2006 but not translated to the same extent in unit costs over 2006 as a whole.

(8) Cumulative adjustment at 31 December 2006 for Jackson National life (JNL) assets backing surplus and required capital

Previously the valuation placed on the JNL assets backing surplus and required capital reflected the fact that generally they are held for the longer-term and excluded the short-term differences between market value and amortised cost. For the balance sheet at 31 December 2006 and prospectively these short-term value adjustments are incorporated. At 31 December 2006 the balance sheet adjustment, net of related tax is an increase of £7m. For 31 December 2005 the adjustment, if it had been booked at that date, was an increase of £19m. Future movements for this item, consistent with the basis applied under IFRS for available-for-sale securities, will be booked in the statement of movement in shareholders' capital and reserves.

(9) Taiwan - effect of altered economic assumptions and sensitivity of results to future market conditions

In 2006, as explained in note 2, the expected long-term bond yield has been maintained at 5.5 per cent. However, the date at which the expected long-term yield is projected to be attained has been altered from 31 December 2012, as applied for the 2005 results, to 31 December 2013. This change of assumption together with the associated effect of the resulting change on the economic capital requirement has given rise to a pre-tax charge of £101m.

The sensitivity of the embedded value at 31 December 2006 of the Taiwan operation to altered economic assumptions and future market conditions to:

(a) A 1 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 £107m and £(165)m respectively (31 December 2005: £106m and £(174)m respectively); and

(b) A 1 per cent increase or decrease in the starting bond rate for the progression to the assumed long-term rate is £116m and £(125)m respectively (31 December 2005: £104m and £(108)m respectively).

If a delay of a further year to 31 December 2014 for the start and end of the progression period had been assumed in preparing the 2006 results, there would have been an additional charge of £(88)m.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

	2006 £m
Gross premiums earned	**16,157**
Outward reinsurance premiums	**(171)**
Earned premiums, net of reinsurance	**15,986**
Investment income	**17,904**
Other income	**2,055**
Total revenue, net of reinsurance (note B)	**35,945**
Benefits and claims and movement in unallocated surplus of with-profits funds	**(28,421)**
Acquisition costs and other operating expenditure	**(5,243)**
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(210)**
Goodwill impairment charge	**-**
Total charges (note B)	**(33,874)**
Profit before tax* (note B)	**2,071**
Tax attributable to policyholders' returns	**(849)**
Profit before tax attributable to shareholders (note C)	**1,222**
Tax expense (note E)	**(1,196)**
Less: tax attributable to policyholders' returns	**849**
Tax attributable to shareholders' profit (note E)	**(347)**
Profit from continuing operations after tax	**875**
Discontinued operations (net of tax)	**-**
Profit for the year	**875**
Attributable to:	
Equity holders of the Company	**874**
Minority interests	**1**
Profit for the year	**875**

Earnings per share (in pence)	**2006**
Basic (based on 2,413m and 2,365m shares respectively):	
Based on profit from continuing operations attributable to the equity holders of the Company (note F)	**36.2p**
Based on profit from discontinued operations attributable to the equity holders of the Company	**-**
	36.2p
Diluted (based on 2,416m and 2,369m shares respectively):	
Based on profit from continuing operations attributable to the equity holders of the Company	**36.2p**
Based on profit from discontinued operations attributable to the equity holders of the Company	**-**
	36.2p

Dividends per share (in pence)	**2006**
Dividends relating to reporting period:	
Interim dividend (2006 and 2005)	**5.42p**
Final dividend (2006 and 2005) (note G)	**11.72p**
Total	**17.14p**
Dividends declared and paid in reporting period:	
Current year interim dividend	**5.42p**
Final dividend for prior year	**11.02p**
Total	**16.44p**

* Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unall
of with-profits funds, unit-linked policies and shareholders' profits.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2006								
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Hedging reserve £m	**Shareholders' equity £m**	**Minority interests £m**	**Total equity £m**
Reserves									
Profit for the year			874				874	1	875
Items recognised directly in equity:									
Exchange movements				(224)			(224)		(224)
Movement on cash flow hedges						7	7		7
Unrealised valuation movements on securities classified as available-for-sale:									
Unrealised holding losses arising during the year					(210)		(210)		(210)
Less losses included in the income statement					7		7		7
Unrealised investment losses, net					(203)		(203)		(203)
Related change in amortisation of deferred income and acquisition costs					75		75		75
Related tax				(74)	50	(2)	(26)		(26)
Total items recognised directly in equity				(298)	(78)	5	(371)		(371)
Total income and expense for the year			874	(298)	(78)	5	503	1	504
Dividends			(399)				(399)		(399)
Reserve movements in respect of share-based payments			15				15		15
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and of other investment funds								43	43
Acquisition of Egg minority interests (note J)			(167)				(167)	(84)	(251)
Share capital and share premium									
New share capital subscribed (note H)	3	333					336		336
Transfer to retained earnings in respect of shares issued in lieu of cash dividends (note H)		(75)	75						
Treasury shares									
Movement in own shares in respect of share-based payment plans			6				6		6
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			0				0		0
Net increase (decrease) in equity	3	258	404	(298)	(78)	5	294	(40)	254
At beginning of year	119	1,564	3,236	173	105	(3)	5,194	172	5,366
At end of year	122	1,822	3,640	(125)	27	2	5,488	132	5,620

	2005								
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Hedging reserve £m	**Shareholders' equity £m**	**Minority interests £m**	**Total equity £m**
Reserves									
Profit for the year			748				748	12	760
Items recognised directly in equity:									
Exchange movements				268			268		268
Movement on cash flow hedges						(4)	(4)	1	(3)
Unrealised valuation movements on securities classified as available-for-sale:									
Unrealised holding losses arising during the year					(773)		(773)		(773)
Less losses included in the income statement					22		22		22
Unrealised investment losses, net					(751)		(751)		(751)
Related change in amortisation of deferred income and acquisition costs					307		307		307
Related tax				65	152	1	218		218
Total items recognised directly in equity				333	(292)	(3)	38	1	39
Total income and expense for the year			748	333	(292)	(3)	786	13	799
Cumulative effect of changes in accounting policies on adoption of IAS 32, IAS 39 and IFRS 4, net of applicable taxes at 1 January 2005 (note M)		2	(173)		397		226	(3)	223
Dividends			(380)				(380)		(380)
Reserve movements in respect of share-based payments			15				15	(1)	14
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund								26	26
Share capital and share premium									
New share capital subscribed	0	55					55		55
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(51)	51						
Treasury shares									
Movement in own shares in respect of share-based payment plans			0				0		0
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			3				3		3
Net increase (decrease) in equity		6	264	333	105	(3)	705	35	740
At beginning of year	119	1,558	2,972	(160)			4,489	137	4,626
At end of year	119	1,564	3,236	173	105	(3)	5,194	172	5,366

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED BALANCE SHEET

	2006 £m	2005 (note N) £m
Assets		
Intangible assets attributable to shareholders:		
Goodwill	**1,341**	1,341
Deferred acquisition costs and acquired in force value of long-term business contracts	**2,497**	2,405
	3,838	3,746
Intangible assets attributable to PAC with-profits fund (note N):		
In respect of venture fund investment subsidaries	**830**	679
Deferred acquisition costs	**31**	35
	861	714
Total	**4,699**	4,460
Other non-investment and non-cash assets:		
Property, plant and equipment	**1,133**	910
Reinsurers' share of policyholder liabilities	**945**	1,278
Deferred tax assets	**1,012**	755
Current tax recoverable	**404**	231
Accrued investment income	**1,900**	1,791
Other debtors	**1,052**	1,305
Total	**6,446**	6,270
Investments of long-term business, banking and other operations:		
Investment properties	**14,491**	13,180
Investments accounted for using the equity method	**6**	5
Financial investments:		
Loans and receivables	**11,573**	13,245
Equity securities and portfolio holdings in unit trusts	**78,892**	71,985
Debt securities	**81,719**	82,471
Other investments	**5,401**	3,879
Deposits	**7,759**	7,627
Total	**199,841**	192,392
Held for sale assets	**463**	728
Cash and cash equivalents	**5,071**	3,586
Total assets	**216,520**	207,436
Equity and liabilities		
Equity		
Shareholders' equity (note H)	**5,488**	5,194
Minority interests	**132**	172
Total equity	**5,620**	5,366
Liabilities		
Banking customer accounts	**5,554**	5,830
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	**123,213**	120,436
Investment contract liabilities with discretionary participation features	**28,733**	26,523
Investment contract liabilities without discretionary participation features	**13,042**	12,026
Unallocated surplus of with-profits funds	**13,599**	11,330
Total	**178,587**	170,315
Core structural borrowings of shareholder-financed operations:		
Subordinated debt (other than Egg)	**1,538**	1,646
Other	**1,074**	1,093
	2,612	2,739
Egg subordinated debt	**451**	451
Total	**3,063**	3,190
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations (note I)	**5,609**	6,432
Borrowings attributable to with-profits funds (note I)	**1,776**	1,898
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**4,232**	4,529
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,476**	965
Current tax liabilities	**1,303**	962
Deferred tax liabilities	**3,882**	3,077
Accruals and deferred income	**517**	506
Other creditors	**1,398**	1,478
Provisions	**464**	972
Other liabilities	**1,652**	1,770
Held for sale liabilities	**387**	146
Total	**16,311**	14,405
Total liabilities	**210,900**	202,070
Total equity and liabilities	**216,520**	207,436

CONSOLIDATED CASH FLOW STATEMENT

	2006 £m	2005 £m
Cash flows from operating activities		
Profit before tax (note i)	**2,071**	2,145
Changes in operating assets and liabilities:		
Investments	**(13,748)**	(21,462)
Banking customer accounts	**(276)**	(861)
Other non-investment and non-cash assets	**(232)**	(957)
Policyholder liabilities (including unallocated surplus)	**13,540**	21,113
Other liabilities (including operational borrowings)	**1,136**	180
Interest income and expense and dividend income included in profit before tax	**(10,056)**	(8,410)
Other non-cash items	**198**	0
Operating cash items:		
Interest receipts	**6,466**	5,946
Dividend receipts	**3,633**	2,680
Tax paid	**(523)**	(573)
Net cash flows from operating activities	**2,209**	(199)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(174)**	(160)
Proceeds from disposal of property, plant and equipment	**34**	6
Costs incurred on purchase of Egg minority interests	**(6)**	-
Acquisition of subsidiaries, net of cash balances (note ii)	**(70)**	(68)
Disposal of subsidiaries, net of cash balances (note ii)	**114**	252
Net cash flows from investing activities	**(102)**	30
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations (note iii):		
Issue	**-**	168
Redemption	**(1)**	(308)
Interest paid	**(204)**	(204)
With-profits operations (note iv):		
Interest paid	**(9)**	(9)
Equity capital (note v):		
Issues of ordinary share capital	**15**	3
Dividends paid to shareholders	**(323)**	(328)
Net cash flows from financing activities	**(522)**	(678)
Net increase (decrease) in cash and cash equivalents	**1,585**	(847)
Cash and cash equivalents at beginning of year	**3,586**	4,341
Effect of exchange rate changes on cash and cash equivalents	**(100)**	92
Cash and cash equivalents at end of year (note vi)	**5,071**	3,586

Notes

(i) Profit before tax represents income, net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits. It does not represent profit before tax attributable to shareholders.

(ii) Acquisitions and disposals of subsidiaries shown above include venture investment subsidiaries of the PAC with-profits fund as shown in note J. In 2005, this also includes the purchase of Life Insurance Company of Georgia.

(iii) Structural borrowings of shareholder-financed operations consist of the core debt of the parent company and related finance subsidiaries, Jackson National Life surplus notes and Egg subordinated debt. Core debt excludes borrowings to support short-term fixed income securities programmes and non-recourse borrowings of investment subsidiaries of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(iv) Structural borrowings of with-profits operations relate solely to the £100m 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows on other borrowings of with-profits funds, which principally relate to venture investment subsidiaries, are included within cash flows from operating activities.

(v) Cash movements in respect of equity capital exclude scrip dividends and share capital issued in respect of the acquisition of Egg minority interests.

(vi) Of the cash and cash equivalents amounts reported above, £437m (2005: £263m) represents cash and cash equivalents of the parent company and related finance subsidiaries.

NOTES ON THE STATUTORY IFRS BASIS RESULTS

A Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2006. These statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as required by EU law (IAS Regulation EC1606/2002).

The auditors have reported on the 2006 statutory accounts. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2006 or 2005 but is derived from those accounts. The auditors' report was (i) unqualified, (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

In 2005, the Group adopted the amendments to IAS 39, 'The Fair Value Option' and IAS 19, 'Employee Benefits' (as amended in 2004). These amendments were mandatory for accounting periods beginning on or after 1 January 2006.

There are no other new or revised accounting standards and interpretations issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, effective in 2006, that have an impact on the results of the Group.

The following amendments and interpretations to published standards were mandatory for accounting periods beginning on or after 1 January 2006 and are relevant to the Group's operations but their adoption did not have an impact on the Group's results:

(i) Amendment to IAS 39, 'Cash Flow Hedge Accounting of Forecast Intra-group Transactions'.

(ii) Amendment to IAS 39 and IFRS 4, 'Financial Guarantee Contracts'.

(iii) Amendments to IAS 21, 'Net Investment in a foreign operation'.

B Segment disclosure

	2006	2005
	£m	£m
Revenue		
Long-term business	**34,197**	39,296
Banking	**914**	1,115
Broker-dealer and fund management	**1,080**	895
Unallocated corporate	**38**	98
Intra-group revenue eliminated on consolidation	**(284)**	(279)
Total revenue, net of reinsurance, per income statement	**35,945**	41,125
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)		
Long-term business, including post-tax transfers to unallocated surplus of with-profits funds	**(32,162)**	(36,997)
Banking	**(1,064)**	(1,071)
Broker-dealer and fund management	**(797)**	(741)
Unallocated corporate	**(135)**	(450)
Intra-group charges eliminated on consolidation	**284**	279
Total charges per income statement	**(33,874)**	(38,980)
Segment results - revenue less charges (continuing operations)		
Long-term business	**2,035**	2,299
Banking*	**(150)**	44
Broker-dealer and fund management	**283**	154
Unallocated corporate	**(97)**	(352)
Profit before tax**	**2,071**	2,145
Tax attributable to policyholders' returns	**(849)**	(1,147)
Profit before tax attributable to shareholders	**1,222**	998
Tax attributable to shareholders' profits	**(347)**	(241)
Profit from continuing operations after tax	**875**	757
Segment results - discontinued operations (net of tax)		
Banking	-	3
Profit for the year	**875**	760

* The segment result for banking represents the operating profit based on longer-term investment returns net of restructuring costs, and short-term fluctuations in investment returns.

** Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

NOTES ON THE IFRS BASIS RESULTS (CONTINUED)

C Supplementary analysis of profit from continuing operations before tax attributable to shareholders

Results analysis by business area	2006 £m	2005 £m
UK Operations		
UK Insurance Operations (note D)	**500**	400
M&G	**204**	163
Egg	**(145)**	44
Total	**559**	607
US Operations		
Jackson National Life (note D)	**398**	348
Broker-dealer and fund management	**18**	24
Curian	**(8)**	(10)
Total	**408**	362
Asian Operations		
Long-term business (note D)	**189**	195
Fund management	**50**	12
Development expenses	**(15)**	(20)
Total	**224**	187
Other Income and Expenditure		
Investment return and other income	**58**	87
Interest payable on core structural borrowings	**(177)**	(175)
Corporate expenditure:		
Group Head Office	**(83)**	(70)
Asia Regional Head Office	**(36)**	(30)
Charge for share-based payments for Prudential schemes	**(10)**	(11)
Total	**(248)**	(199)
UK restructuring costs (note L)	**(50)**	-
Operating profit from continuing operations based on longer-term investment returns	**893**	957
Goodwill impairment charge (note i)	**-**	(120)
Short-term fluctuations in investment returns on shareholder-backed business (note ii)	**162**	211
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note iii)	**167**	(50)
Profit from continuing operations before tax attributable to shareholders	**1,222**	998

Notes

(i) Goodwill impairment charge

The charge for goodwill impairment in 2005 relates to the Japanese life business.

(ii) Short-term fluctuations in investment returns on shareholder-backed business	2006 £m	2005 £m
US Operations:		
Movement in market value of derivatives used for economic hedging purposes	**34**	122
Actual less longer-term investment returns for other items	**20**	56
Asian Operations	**134**	32
Other Operations	**(26)**	1
	162	211

(iii) Actuarial and other gains and losses on defined benefit pension schemes	2006 £m	2005 £m
Actuarial gains and losses		
Actual less expected return on scheme assets	**156**	544
Experience gains on liabilities	**18**	1
Gains (losses) on changes of assumptions for scheme liabilities*	**311**	(489)
	485	56
Less: amount attributable to the PAC with-profits fund	**(318)**	(58)
	167	(2)
Non-recurrent credit (charge)		
Shareholders' share of credit arising from reduction in assumed level of future discretionary increases for pensions in payment of the Prudential Staff Pension Scheme to 2.5%	**-**	35
Loss on re-estimation of shareholders' share of deficit on the Prudential Staff Pension Scheme at 31 December 2005 to 30%	**-**	(63)
Effect of strengthening in actuarial provisions for increase in ongoing contributions for future service of active scheme members	**-**	(20)
	-	(48)
	167	**(50)**

* The gains and losses on changes of assumptions for scheme liabilities primarily reflect movements in yields on good quality corporate bonds. These yields are used to discount the projected pension scheme benefit payments.

The discount rates applied for the Group's UK defined benefit schemes, and reflected in the gains and losses shown above, are as follows:

31 December 2006 5.2%

31 December 2005 4.8%

NOTES ON THE IFRS BASIS RESULTS (CONTINUED)

D Effect of changes in assumptions, estimates and bases used to measure insurance assets and liabilities

(a) UK Insurance Operations

2006

In 2006, the FSA made regulatory changes for UK regulated non-participating business. These changes were proposed in the consultative paper CP 06/16 and confirmed in December 2006 policy statement PS 06/14.

The changes to the FSA rules allow insurance technical provisions to incorporate more realism. In particular this is achieved by;

- Setting technical provisions for expenses not directly attributable to one particular contract at a homogenous risk level and not, as previously, at an individual contract level for all non-profit business.
- Recognising the economic effect of making a prudent lapse rate assumption. Previously, no lapses were assumed.

The effect of this change is accounted for as a change in estimate and there is a consequent increase in operating profit based on longer-term investment returns of £46m.

In addition, a charge of £4m was recognised in 2006 for the effect of change of assumption for renewal and termination expenses mainly in respect of PAC.

2005

For shareholder-backed non-participating business a number of changes of assumptions were made in 2005. Taken together these changes had the effect of reducing operating profit based on longer-term investment returns before shareholder tax by £36m with a consequent increase in liabilities.

(b) US Operations

2006

Several assumptions were modified in 2006 to conform to more recent experience resulting in a net decrease of £7m. These changes included revisions to the assumption regarding utilisation of free partial withdrawal options, resulting in a decrease in deferred acquisition costs of £12m. Other smaller changes included changes relating to lapse rates, mortality rates and other assumptions, which resulted in an increase of £6m in deferred acquisition costs.

2005

Several assumptions were modified in 2005 to conform to more recent experience resulting in a net decrease to pre-tax profits of £7m. The most significant changes included a write-down of deferred acquisition costs of £21m for Single Premium Deferred Annuities, partial withdrawal changes and a Universal Life SOP 03-1, ‘Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long Duration Contracts and for Separate Accounts’ reserve increase of £13m due to increasing the mortality assumption. Other smaller changes included changes relating to Single Premium Whole Life surrenders and annuity mortality and annuitisation rates, which resulted in a £19m benefit on adjusting amortisation of deferred acquisition costs.

(c) Asian Operations

2006

There are no changes of assumptions that had a material impact on the 2006 results of Asian operations.

2005

The 2005 results for Asian operations were affected in two significant ways for changes of basis or assumption.

For the Singapore life business, the adoption of the Singapore risk-based capital framework in 2005 resulted in a change of estimate and reduction in the liability of £73m.

The second item reflects the application of liability adequacy testing for the Taiwan life business which resulted in a write-off of deferred acquisition costs of £21m in 2005.

E Tax charge

The total tax charge of £1,196m for 2006 (2005: £1,388m) comprises £653m (2005: £1,119m) UK tax and £543m (2005: £269m) overseas tax. This tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £347m for 2006 (2005: £241m) comprises £97m (2005: £(21)m) UK tax and £250m (2005: £262m) overseas tax.

F Supplementary analysis of earnings per share from continuing operations

	2006 **£m**	2005 £m
Operating profit based on longer-term investment returns after related tax and minority interests	**26.4p**	32.2p
Adjustment for goodwill impairment charge	**-**	(5.1)p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**5.0p**	5.9p
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**4.8p**	(1.5)p
Based on profit from continuing operations after tax and minority interests	**36.2p**	31.5p

G Dividend

A final dividend of 11.72p per share was proposed by the directors on 14 March 2007. This dividend will absorb an estimated £287m of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 22 May 2007 to shareholders on the register at the close of business on 13 April 2007. A scrip dividend alternative will be offered to shareholders.

H Shareholders' equity

	2006 **£m**	2005 £m
Share capital	**122**	119
Share premium	**1,822**	1,564
Reserves	**3,544**	3,511
Total	**5,488**	5,194

NOTES ON THE IFRS BASIS RESULTS (CONTINUED)

I Other borrowings

	2006 £m	2005 £m
Operational borrowings attributable to shareholder-financed operations		
Borrowings in respect of short-term fixed income securities programmes	**2,032**	1,472
Non-recourse borrowings of investment subsidiaries managed by PPM America	**743**	1,085
Borrowings in respect of banking operations	**2,819**	3,856
Other borrowings	**15**	19
Total	**5,609**	6,432
Borrowings attributable to with-profits funds		
Non-recourse borrowings of venture fund investment subsidiaries of the PAC with-profits fund	**926**	988
Structural borrowings (subordinated debt of a subsidiary of the Scottish Amicable Insurance Fund)	**100**	100
Other borrowings (predominantly external funding of consolidated investment vehicles)	**750**	810
Total	**1,776**	1,898

J Acquisitions and disposals

(i) Shareholder acquisitions and disposals

In December 2005, the Company announced its intention to acquire the minority interests in Egg representing approximately 21.7 per cent of the existing issued share capital of Egg. The whole of the minority interests were acquired in the first half of 2006. Under the terms of the offer, Egg shareholders received 0.2237 new ordinary shares in the Company for each Egg share resulting in the issue of 41.6m new shares in the Company.

The Company accounted for the purchase of minority interests using the economic entity method. Accordingly, £167m has been charged to retained earnings representing the difference between the consideration paid (including expenses) of £251m and the share of net assets acquired of £84m.

On 29 January 2007, Prudential announced that it had reached agreement with Citi to sell Egg for £575m in cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion. The transaction is subject to regulatory approval and is expected to complete by the end of April 2007.

(ii) PAC with-profits fund acquisitions and disposals of venture fund investments subsidiaries

In 2006 the PAC with-profits fund acquired three new venture capital holdings through PPM Capital in which the Group is deemed to have a controlling interest, in aggregate with, if applicable, other holdings held by, for example, the Prudential Staff Pension Scheme. These acquisitions were for:

• 53 per cent of the voting equity interests of Histoire D'or, a jewellery retail company, in April 2006;

• 51 per cent of the voting equity interests of Azzuri Communications, a business IT services company, in June 2006: and

• 60 per cent of the voting equity interests of Paramount plc, a restaurant company, in September 2006.

The results of the aggregated venture acquisitions in 2006 have been included in the consolidated financial statements of the Group commencing on the respective dates of acquisition and contributed a loss of £7.7m within the income statement, which is also reflected as part of the movement in unallocated surplus of the with-profits fund.

The table below identifies the net assets of these acquisitions and minor business purchases by existing venture holdings. This reconciles the net assets to the consideration paid.

	Fair value on acquisition £m
Cash and cash equivalents	18
Other current assets	31
Property, plant and equipment	45
Intangible assets other than goodwill	139
Other non-current assets	100
Less liabilities, including current liabilities and borrowings	(581)
Net assets acquired	(248)
Goodwill	336
Cash consideration	88

Aggregate goodwill of £336m has been recognised for the excess of the cost over the Group's interest in the fair value of entities' net assets.

In 2006, Upperpoint Distribution Limited, Taverner Hotel Group Pty Ltd, Orefi, Aperio Group Pty Ltd and BST Safety Textiles Luxemborg S.a.r.l., all venture subsidiaries of the PAC with-profits fund, were disposed of for cash consideration of £133m. Goodwill of £46m and cash and cash equivalents of £19m were disposed of. In addition, one venture subsidiary was classified as held for sale at 31 December 2006.

K Bulk annuity reinsurance from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Income Limited (PRIL)

In June 2006, PRIL, a shareholder-backed subsidiary of the Group, entered into a bulk annuity reinsurance arrangement with SAIF for the reinsurance of non-profit immediate pension annuity liabiities with a premium of £560m. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund, established by a Court approved Scheme of Arrangement in 1997, which is solely for the benefit of SAIF policyholders. As explained in the notes to the tables for the supplementary transaction measure of new business, the economic substance of the arrangement is a transfer of risks and rewards attaching to this business from SAIF policyholders to Prudential shareholders. Accordingly, for the purpose of those tables the reinsurance transaction has been recorded as 'new business'. For Group reporting purposes the amounts recorded by SAIF and PRIL for the premium are eliminated on consolidation.

NOTES ON THE IFRS BASIS RESULTS (CONTINUED)

L UK restructuring costs

In December 2005, the Group announced an initiative for UK Insurance Operations to work more closely with Egg and M&G and in the process facilitate the realisation of substantial annualised pre-tax cost savings and opportunities for revenue synergies. The one-off restructuring cost of achieving the savings was estimated to be £50m.

In the first half of 2006 the level of current and projected restructuring activity increased as a result of an end to end review of the UK business, that was aimed at reducing the overall cost base. The total cost of implementing this and the previously announced restructuring (as noted above) was estimated at £110m to be incurred in 2006 and 2007, of which £70m was anticipated to be borne by the shareholder-backed UK Insurance Operations and Egg and £40m by the PAC with-profits fund.

As at 31 December 2006, £50m of cost attributable to shareholder-backed operations had been incurred.

UK restructuring costs have been incurred as follows:

	£m
UK Insurance Operations	31
M&G	2
Egg	12
Unallocated corporate	5
	50

M Effect of adoption of IAS 32, IAS 39, and IFRS 4

The impact on total equity of adopting IAS 32, IAS 39 and IFRS 4 at 1 January 2005 was as follows:

	Shareholders' equity £m	Minority interests £m	Total equity £m
Changes on adoption of IAS 32, IAS 39 and IFRS 4 relating to:			
UK Insurance Operations (note i)	(22)		(22)
Jackson National Life (note ii)	273		273
Banking and non-insurance operations (note iii)	(25)	(3)	(28)
Total	226	(3)	223

Notes

The changes shown above reflect the impact of re-measurement for :

(i) UK Insurance Operations

The reduction in shareholders' equity of £22m includes £20m relating to certain unit-linked and similar contracts that do not contain significant insurance risk and are therefore categorised as investment contracts under IFRS 4.

(ii) Jackson National Life

Under IAS 39, JNL's debt securities and derivative financial instruments are re-measured to fair value from the lower of amortised cost and, if relevant, impaired value. Fair value movements on debt securities, net of shadow changes to deferred acquisition costs and related deferred tax, are recognised directly in equity. Fair value movements on derivatives are recorded in the income statement.

(iii) Banking and non-insurance operations

Under IAS 39, for Egg, changes to opening equity at 1 January 2005 arise from altered policies for effective interest rate on credit card receivables, impairment losses on loans and advances, fair value adjustments on wholesale financial instruments and embedded derivatives in equity savings products. The net effect on shareholders' equity of these changes, after tax, is a deduction of £15m. A further £10m reduction in equity arises on fair valuation of certain centrally held financial instruments and derivatives.

N 2005 comparative balance sheet

Minor presentational adjustments have been made for refinements to the acquisition accounting for intangible assets of venture investment subsidiaries of the PAC with-profits fund. These adjustments affect the carrying value of goodwill and other intangible assets, with minor consequential effects on some other balance sheet categories. Shareholders' profit and equity are unaffected by these adjustments.

NOTES ON THE IFRS BASIS RESULTS (CONTINUED)

O Sensitivity of IFRS basis results for Taiwan life business to economic assumptions and market conditions

The in-force business of the Taiwan life operation includes traditional whole of life policies where the premium rates have been set by the regulator at different points for the industry as a whole. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included allowance for mortality and expenses. The required rates of guarantee have fallen over time as interest rates have reduced from a high of 8 per cent to current levels of around 2 per cent. The current low level of bond rates in Taiwan gives rise to a negative spread against the majority of these policies. The current cash costs of funding in force negative spread in Taiwan is around £40m a year.

The profits attaching to these contracts are particularly affected by the rates of return earned, and estimated to be earned, on the assets held to cover liabilities and on future investment income and contract cash flows. Under IFRS, the insurance contract liabilities of the Taiwan business are determined on the US GAAP basis as applied previously under UK GAAP. Under this basis the policy liabilities are calculated on sets of assumptions, which are locked in at the point of policy inception, and a deferred acquisition cost is held in the balance sheet.

The adequacy of the insurance contract liabilities is tested by reference to best estimates of expected investment returns on policy cash flows and reinvested income. The assumed earned rates are used to discount the future cash flows. The assumed earned rates consist of a long-term best estimate determined by consideration of long-term market conditions, and rates assumed to be earned in the trending period. For 2005, it was projected that rates of return for Taiwanese bond yields would trend from the then current levels of some 2 per cent to 5.5 per cent by 31 December 2012. For 2006, it has been assumed that the long-term bond rate will be attained one year later, ie by 31 December 2013.

The liability adequacy test results are sensitive to the attainment of the trended rates during the trending period. Based on the current asset mix, margins in other contracts that are used in the assessment of the liability adequacy tests, and currently assumed future rates of return, if interest rates were to remain at current levels in 2007, and the target date for attainment of the long-term bond yield deferred to 31 December 2014, the premium reserve, net of deferred acquisition costs, would be broadly sufficient. If interest rates were to remain at current levels in 2008 with a further one year delay in the progression period then some level of write-off of deferred acquisition costs may be necessary. However, the amount of the charge based on current in-force business which is estimated at between £70m and £90m, is sensitive for the previously mentioned variables.

Furthermore, the actual amount of any write-off would be afffected by the impact of new business written between 31 December 2006 and the future reporting dates to the extent that the business is taken into account as part of the liability adequacy testing calculations for the portfolio of contracts.

The adequacy of the liability is also sensitive to the level of the projected long-term rate. The current long-term assumption of 5.5 per cent has been determined on a prudent best estimate basis by reference to detailed assessments of the financial dynamics of the Taiwanese economy. In the event that the rate applied was altered the carrying value of the deferred acquisition costs and policyholder liabilities would be potentially affected.

At 31 December 2006, if the assumed long-term bond yield applied had been reduced by 0.5 per cent from 5.5 per cent to 5.0 per cent and continued to apply the same progression period to 31 December 2013, by assuming bond yields increase from current levels in equal annual instalments to the long-term rate, the premium reserve, net of deferred acquisition costs, would have been insufficient and there would have been a charge of some £60m to the income statement. The impact of reducing the long-term rate by a further 0.5 per cent to 4.5 per cent would have increased this charge by some £160m. The primary reason for the lower level of charge for the initial 0.5 per cent reduction is the current level of margins in the liability adequacy calculation. The effects of additional 0.5 per cent reductions in the assumed long-term rate below 4.5 per cent would be of a similar or slightly higher level to the £160m noted previously.

The effects of changes in any one year reflect the combination of the short-term and long-term factors described above.

P Inherited Estate of the PAC long-term fund

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

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

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

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