NEWS RELEASE

PRUDENTIAL

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PRUDENTIAL PLC DELIVERS OUTSTANDING 2007 FULL YEAR RESULTS

EEV operating profit up 25%, doubled over past three years

- New business APE of £2,874 million, up 21%
- EEV operating profit of £2,542 million, up 25%
- New business profit of £1,215 million, up 22%, with Group margin of 42% (2006: 42%)
- Asia new business profit up 34% at £653m
- Asia is expected to deliver doubling of 2005 EEV new business profit a year early
- Jackson new business profit up 19% at £285m
- UK retail new business profit up 17%, with total new business profit up 4% at £277m
- Asset management operating profit £334m up 28% on last year
- IFRS statutory operating profit of £1,213 million, up 20%
- EEV shareholders' funds up 24% to £14.8 billion
- 2007 dividend increased by 5% to 18 pence per share

All figures compared to 2006 at constant exchange rates

Commenting, Mark Tucker, Group Chief Executive said:

"These outstanding results, with new business profit up 22 per cent to £1,215 million, demonstrate excellent and continued momentum in the successful delivery of the Group's retirement led strategy. Group EEV operating profit has doubled over the past three years.

"Each of our businesses is performing strongly representing a powerful geographic spread to our growth platform. Spectacular growth in Asia has been accompanied by a very strong performance by the US and clear profit growth in the UK. Combined with our excellent performance in asset management across the Group, these results demonstrate the benefits of Prudential's diversified, international strategy.

"That strategy is focused on continued and profitable growth. Our market presence and product capability, coupled with strong management teams, puts us in a great position for continued value creation. Overall, the prospects for the Group in 2008 remain positive. Over the longer-term the demographic, economic and social factors driving our business will continue and we are well positioned to capture a greater share of that growth."

Group Chief Executive's Review

In 2007, the Group's operating performance was outstanding building on the very strong momentum established in 2005 and 2006.

The combination of our retirement-led strategy, a clear focus on generating profitable growth and excellence in the delivery of our plans are driving shorter-term performance and also placing the Group in a strong position from which to outperform in the longer-term.

The retirement market offers significant long-term sustainable growth opportunities as the biggest demographic wave in history transitions out of the work-force and into retirement. The Prudential Group has a strong presence in this sector based on our financial strength, our investment and risk management skills, our brands and our product and distribution expertise.

The Group has the flexibility to optimise its capture of the retirement opportunity as it develops in each of our chosen markets and our business model creates significant financial and operational synergies. Within each market our focus is to operate in areas where we see sustainable competitive advantage and in products and distribution channels that have sound and sustainable economics.

Group performance

Group operating profit before tax from continuing operations, on the European Embedded Value (EEV) basis increased by 25 per cent in the year to £2,542 million and has doubled over a three year period. The Group's return on embedded value was 15.4 per cent (2006: 14.5 per cent).

On the statutory IFRS basis, operating profit before tax from continuing operations was up 20 per cent to £1,213 million, almost doubling over a three year period.

Across the Group's insurance operations new business increased by 21 per cent to £2,874 million, on an APE basis and profit on new business was £1,215 million, up 22 per cent. Average margin across the Group was maintained at 42 per cent (2006: 42 per cent).

Operating profit in the Group's asset management operations increased by 28 per cent, to £334 million in what was an excellent year for these businesses in increasingly challenging conditions.

The cash flow position continued to improve and we are progressing well towards our target of being operating cash flow positive at the Group level in 2008. The Group's operating cash flow in 2007 was negative £82 million. During the year the Group received £527 million from the sale of Egg, the UK internet banking operation, this resulted in an overall Group cash inflow of £445 million.

The Group's balance sheet and regulatory capital position remain robust. In particular, across the Group we have been cautious on credit for some time and we have been increasingly moving the portfolio to a more defensive position. Outside the normal market value movements across the Group related to interest rates and widening credit spreads net credit losses on debt securities in the US were £78 million.

The Board has recommended a final dividend of 12.3 pence per share, bringing the full year dividend to 18 pence per share, an increase of 5 per cent. The dividend was covered 1.9 times by post-tax IFRS operating profit from continuing operations.

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

Insurance operations

In **Asia** we continue to power ahead with the region accounting for 54 per cent of new business profits. New business on an APE basis, increased by 44 per cent to £1,306 million and all businesses across the region grew by 15 per cent or more.

New business profit was £653 million, up 34 per cent. Having achieved compound growth of 26 per cent since 2005 we expect to deliver, one year earlier than previously stated, on our target of at least doubling 2005 new business profit by 2009. EEV operating profit in Asia exceeded £1 billion for the first time this year as the business goes from strength to strength.

Growth in our proprietary agency force, greater agency productivity and the continuing development of non-agency distribution, in particular bancassurance, remain central to our success.

The agency force across the region increased by 125,000 to 410,000 during the year and there was significant expansion in India where average agent numbers more than doubled to 238,000. Throughout the rest of the region the average number of agents increased by 10 per cent 112,000. Agency productivity has also moved ahead strongly in a number of markets including Singapore, Hong Kong and Vietnam. The continuing success of our multi-distribution approach led to sales through non-agency channels increasing by 44 per cent and we added a number of important new distribution relationships.

The retirement opportunity in the region is emerging rapidly and we are developing innovative integrated savings and protection solutions to meet consumers' increasingly sophisticated needs. Our retirement campaigns under the banner "What's your number?" have had considerable success in Korea, Taiwan and Hong Kong and we are now rolling this concept out into other markets.

There is also significant scope to develop our positioning in the health insurance market across the region and, with the launch of a number of new products, notably in Singapore and India, sales of health products in the year have increased by 45 per cent.

The **US** is the largest retirement market in the world and our long-term strategy has been to position Jackson to meet the pre and post-retirement needs of the baby boomer generation. In 2007, variable annuity new business increased by 29 per cent to £455 million, on an APE basis. Jackson has been the fastest growing variable annuity provider in the US over the past six years, clearly demonstrating the success of our strategy and our advice based approach.

The variable annuity product in the US is increasingly being used by the consumer to provide an income in retirement. In 2007, almost two-thirds of Jackson's customers were over 55 and two-thirds of all variable annuity sales included a guaranteed minimum withdrawal benefit. Jackson continues to innovate and develop its market leading Perspective II product, which has been the top-selling variable annuity contract in the fast growing Independent Broker channel for each of the last 5 years.

Overall new business in the US increased by 19 per cent to £671 million, on an APE basis, new business profit also increased by 19 per cent with margins maintained at 42 per cent and an internal rate of return of 19 per cent.

In 2007 we set out our strategy in the **UK** to focus primarily on the retirement income market based in particular on our strengths in the annuity market but also the developing lifetime mortgage and income drawdown markets. In the retirement savings market we have exited those product areas that are structurally unprofitable and launched a new range of factory gate priced savings products.

Retail new business increased by 4 per cent in a market where the competitive pressures increased still further during the year. In 2007 we also completed the transfer of Equitable Life's £1.7 billion in-force portfolio of with-profits annuities: however in general pricing across the bulk market was not adequate to meet our return on capital requirements and we chose not to write business at uneconomic levels.

The margin at 31 per cent (2006: 30 per cent) remained high in comparison to the overall UK market as did the internal rate of return which was 18 per cent including the Equitable Life transaction and 14 per cent excluding it. Our target internal rate of return in the UK is 14%.

By the end of 2007, £115 million of the cost saving target of £195 million had been delivered and plans are in place to deliver the additional £80 million. A key milestone this year in the UK was the signing of a major contract to outsource a large proportion of its back book and new business policy administration. The outsource agreement will allow us to remove fixed costs from our operations and to achieve significant operating efficiencies with an expected positive effect on embedded value estimated at £60 million by 2011.

The in-force profit for the UK business includes a charge in respect of a mortality assumption change on the annuity business of £312 million which is fully offset by a release of excess margins previously held.

In 2007 we announced that the Group would consider a reattribution of the inherited estate held in the with-profits sub fund of The Prudential Assurance Company Limited. We are continuing to explore the possibility of a reattribution and we aim to be in a position in the first half of 2008 to determine whether this would be in the best interests of policyholders and shareholders.

Asset management

The Group's asset management businesses had another excellent year. Our international investment management expertise continues to add value to our insurance operations and also supported the growth in external funds under management to £69 billion at the end of 2007 (2006: £57 billion).

M&G's net inflows were the second highest on record at £5 billion and profit increased by 25 per cent to £254 million. Our business in Asia continued its excellent growth record with net inflows of £3 billion and operating profit growing to £72 million, up 53 per cent.

Our skills in risk management and our strength across all asset classes in the UK, the US and in Asia combined with our multi-asset allocation capabilities, position us well to meet the diverse needs of our customers for savings, retirement income and protection products.

This is clearly evidenced in the UK where the main with-profits fund, with assets of over £74 billion, was ranked first in 2006 in the WM Company's survey of with-profits funds, based on gross investment performance over 1, 3, 5 and 10 years. In the US, one of the key drivers of our success is our ability to provide customised and highly flexible benefit options within our main variable annuity product that are individually priced for the customer and, in Asia we continue to see success in our targeted unit-linked and protection products.

Priorities for the Group in 2008

Our overriding objective for 2008 remains that of continuing to create value for our shareholders by fully exploiting the power of our retirement-led strategy and continuing to expand the excellent businesses that we have in place today.

Life insurance

In Asia:

- Expand the agency force and continue to improve productivity
- Maximise the potential from non-agency distribution and add new partners
- Further develop direct marketing channels and up-sell and cross-sell
- Increased focus on retirement services and health products

In the US:

- Continue to innovate around our key variable annuity product
- Enhance further our already world-class operating platform
- Expand retail distribution
- Selectively participate in the institutional market

In the UK:

- Build on our strengths in the retirement market and risk products
- Migrate to factory-gate cautiously managed asset accumulation products
- Deliver on the cost reduction program including the outsource program
- Selectively participate in the wholesale market
- Determine whether it is in the best interest of policyholders and shareholders to pursue a reattribution of the inherited estate

Asset management:

- Maintain superior investment performance for both internal and external funds
- Extend third party retail and institutional businesses

Outlook

There is significant volatility and nervousness in markets and it seems clear that there will be a period of less attractive economic growth trends in the US and in the UK than we have seen in recent years. Notwithstanding this, we believe that our strategy and our business model are very robust and will continue to deliver sustainable value.

In Asia, the fundamentals underpinning economic growth remain powerful and our businesses are very well placed to benefit. We expect to deliver, one year earlier than previously stated, on our target of at least doubling 2005 new business profit by 2009.

In the US, our record of out performance is set to continue and our value driven strategy in the UK is on track. In the UK we have already de-emphasised those products which might have been more sensitive to market conditions.

Our asset management businesses, although more directly influenced by market movements, are well placed to capitalise on their strong market positions and investment performance to deliver net flows and profit growth.

Overall the prospects for the Group in 2008 remain positive. Over the longer-term the demographic, economic and social factors driving our business will continue and we are ideally positioned to capture a greater share of that growth.

ENDS

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Notes to Editors:

1. In addition to the financial statements provided with this press release, additional financial schedules, including full details of the Group's investments, are available on the Group's website at www.prudential.co.uk

2. The results in this announcement are prepared on two bases: International Financial Reporting Standards ('IFRS') and European Embedded Value ('EEV'). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the 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 IFRS.

   Period on period percentage increases are stated on a constant exchange rate basis.

3. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

4. Present value of new business premiums (PVNBP) 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.

5. An interview with Mark Tucker, Group Chief Executive, (in video/audio/text) will be available on www.cantos.com and www.prudential.co.uk from 7.00am today.

6. There will be a conference call today for wire services at 7.30am (GMT) hosted by Mark Tucker, Group Chief Executive and Philip Broadley, Group Finance Director. Dial in telephone number: 020 8609 0793. Passcode: 155439#.

7. A presentation to analysts will take place at 9.30am (GMT) at Governor's House, Laurence Pountney Hill, London, EC4R 0HH. An audio cast of the presentation and the presentation slides will be available on the Group's website, www.prudential.co.uk

8. A media conference will take place at 11.30am (GMT) at 12 Arthur Street, London, EC4R 9AQ. To attend please call Claire Glover on 020 7548 2007.

9. High resolution photographs are available to the media free of charge at www.newscast.co.uk on +44 (0) 207 608 1000 or by calling Claire Glover on 020 7548 2007.

10. Total number of Prudential plc shares in issue as at 31 December 2007 was 2,470,017,240.

11. **Financial Calendar 2008**:

First Quarter New Business Results	17 April 2008
Annual General Meeting	15 May 2008
Interim Results	31 July 2008
Third Quarter 2008 New Business Results	21 October 2008
2007 Final Dividend	
Ex-dividend date	9 April 2008
Record date	11 April 2008
Payment of dividend	20 May 2008
2008 Interim Dividend	
Ex-dividend date	13 August 2008
Record date	15 August 2008
Payment of dividend	23 September 2008

About Prudential

Prudential plc is a company incorporated and with its principal place of business in England, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services directly and through its subsidiaries and affiliates throughout the world. It has been in existence since 1848 and has £267 billion in assets under management as at 31 December 2007. Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

Forward-Looking Statements

PRUDENTIAL PLC 2007 PRELIMINARY ANNOUNCEMENT

RESULTS SUMMARY

European Embedded Value (EEV) Basis Results*

	2007 £m	2006 £m
Asian operations	**1,103**	864
US operations	**635**	718
UK operations:		
UK insurance operations	**859**	686
M&G	**254**	204
	1,113	890
Other income and expenditure	**(289)**	(298)
Restructuring costs	**(20)**	(41)
Operating profit from continuing operations based on longer-term investment returns*	**2,542**	2,133
Short-term fluctuations in investment returns	**174**	738
Mark to market value movements on core borrowings	**223**	85
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	**116**	207
Effect of changes in economic assumptions and time value of cost of options and guarantees	**748**	59
Profit from continuing operations before tax (including actual investment returns)	**3,803**	3,222

	2007	2006
Operating earnings per share from continuing operations after related tax and minority interests*	**74.9p**	62.1p
Basic earnings per share	**125.2p**	91.7p
Shareholders' equity, excluding minority interests	**£14.8bn**	£11.9bn

International Financial Reporting Standards (IFRS) Basis Results*

Statutory IFRS basis results	2007	2006
Profit after tax attributable to equity holders of the Company	**£1,022m**	£874m
Basic earnings per share	**41.8p**	36.2p
Shareholders' equity, excluding minority interests	**£6.2bn**	£5.5bn

Supplementary IFRS basis information	2007	2006
Operating profit from continuing operations based on longer-term investment returns*	**£1,213m**	£1,050m
Operating earnings per share from continuing operations after related tax and minority interests*	**33.8p**	30.9p

	2007	2006
Dividends per share declared and paid in reporting period	**17.42p**	16.44p
Dividends per share relating to reporting period	**18.00p**	17.14p
Funds under management	**£267bn**	£251bn

***Basis of preparation**

Results bases
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 2006 results and financial statements.

Operating profit based on longer-term investment returns
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 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 related tax and minority interests. These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial 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.

Discontinued operations
The results for continuing operations shown above and throughout this preliminary announcement exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg. Accordingly, the presentation of the comparative results for 2006 has been adjusted from those published in March 2007.

REVIEW OF OPERATING AND FINANCIAL RESULTS

Results highlights

		CER		RER [(4)(5)]	
	2007	2006	Change	2006	Change
	£m	£m	%	£m	%
Annual premium equivalent (APE) sales	**2,874**	2,374	21%	2,470	16%
Present value of new business premiums (PVNBP)	**21,302**	18,192	17%	18,947	12%
Net investment flows	**7,975**	8,511	(6%)	8,633	(8%)
External funds under management	**68,669**	57,497	19%	57,199	20%
New business profit (NBP)	**1,215**	992	22%	1,039	17%
NBP Margin (% APE)	**42%**	42%		42%	
NBP Margin (% PVNBP)	**5.7%**	5.5%		5.5%	
EEV basis operating profit from long-term business from continuing operations [(1) (2)]	**2,517**	2,103	20%	2,208	14%
Total EEV basis operating profit from continuing operations [(2)]	**2,542**	2,030	25%	2,133	19%
Total IFRS operating profit from continuing operations [(3)]	**1,213**	1,008	20%	1,050	16%
EEV basis shareholders' funds (£bn)	**14,779**	11,910	24%	11,883	24%
IFRS shareholders' funds (£bn)	**6,201**	5,483	13%	5,488	13%
Holding company operating cash flow	**(82)**	(104)	21%	(104)	21%
Holding company operating cash flow plus proceeds from the sale of Egg	**445**	(104)	528%	(104)	528%
Return on Embedded Value [(6)]	**15.4%**			**14.5%**	6%

[(1)]Long-term business profits after deducting Asia development expenses and before restructuring costs.
[(2)] Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.
[(3)] Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.

[(4)] Prior year restated excludes Egg, and shows continuing operations only.

[(5)] Reported exchange rate (RER).

[(6)] Return on Embedded value is based on EEV operating profit from continuing operations after tax and minority interests as a percentage of opening embedded value (shareholder's funds on a EEV basis)

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

These results show the strong performance of the Group in 2007. The KPIs above show growth in sales and profits and an improvement in cashflow. The surplus capital position of Prudential plc, measured under the Insurance Group Directive basis, will be submitted to the FSA by 30 April 2008 but is currently estimated to be in the region of £ 1.4 billion. This includes a benefit of around £0.3 billion that arose during 2007 from the sale of Egg Banking plc.

At 31 December 2007, total insurance and investment funds under management are £267 billion up from £251 billion at the end of 2006, at RER.

Basis of preparation of results

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

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

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

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS does not, in Prudential's opinion, properly reflect the inherent value of these future profit streams.

Prudential believes that embedded value reporting provides investors with a better measure of underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

EEV basis operating profit

EEV basis operating profit from continuing operations	2007 £m	CER 2006 £m	CER Change %	RER[4][5] 2006 £m	RER[4][5] Change %
Insurance business:					
Asia	**1,046**	779	34%	829	26%
US	**627**	652	(4%)	708	(11%)
UK	**859**	686	25%	686	25%
Development expenses	**(15)**	(14)	(7%)	(15)	0%
Long-term business profit	**2,517**	**2,103**	**20%**	**2,208**	**14%**
Asset management business:					
M&G	**254**	204	25%	204	25%
Asia asset management	**72**	47	53%	50	44%
Curian	**(5)**	(7)	29%	(8)	38%
US broker-dealer and asset management	**13**	16	(19%)	18	(28%)
	334	260	28%	264	27%
Other income and expenditure	**(289)**	(292)	1%	(298)	3%
Total EEV basis operating profit from continuing operations	**2,562**	**2,071**	**24%**	**2,174**	**18%**
Restructuring costs	**(20)**	(41)	51%	(41)	51%
Total EEV basis operating profit from continuing operations after restructuring costs	**2,542**	**2,030**	**25%**	**2,133**	**19%**

Total EEV basis operating profit from continuing operations based on longer-term investment returns was £2,542 million, up 25 per cent from 2006 at CER and up 19 per cent at RER. This result reflects the significant growth of new business profit of £1,215 million and in-force profit of £1,317 million by insurance businesses, up 17 per cent over 2006, and strong asset management profit growth.

Record new business profit from insurance business of £1,215 million, was 22 per cent higher than in 2006, driven by strong sales momentum in Asia and the US. At RER, new business profit was up 17 per cent. The average Group new business profit margin was 42 per cent (2006: 42 per cent) on an APE basis and 5.7 per cent (2006: 5.5 per cent) on a PVNBP basis. This reflects an increase in the average UK margin offset by a fall in the average Asia margin. In-force profit increased 17 per cent on 2006 to £1,317 million. At RER, in-force profit was up 11 per cent. In aggregate, net assumption changes were £97 million positive, and experience variances and other items were £48 million positive.

The in-force profit in 2007 for the UK business included a charge in respect of a mortality operating assumption change on annuity and deferred annuity pension business of £312 million, which is fully offset by a release of excess margins previously held.

Asia's development expenses (excluding the regional head office expenses) were £15 million, (2006: £14 million).

Operating profit from the asset management business was £334 million (2006: £260 million), up 28 per cent on 2006, driven by growth in M&G and Asia Asset Management.

Other income and expenditure totalled a net expense of £289 million compared with £298 million in 2006 at RER. This result primarily includes interest expense on central borrowings of £168 million (2006: £177 million); £117 million of Group head office costs (2006: £83 million) and £38 million of costs for the Asia head office (2006: £36 million). The increase in Group head office costs reflects costs in respect of the process to consider a reattribution of the inherited estate.

New business capital usage

New business capital usage	2007 £m Free surplus	2007 £m Required capital	2007 £m Total net worth	2007 £m Value of in-force business	2007 £m Total long-term business
Asia	(194)	21	(173)	653	480
US	(200)	183	(17)	202	185
UK	(150)	104	(46)	246	200
	(544)	**308**	(236)	**1,101**	**865**

The Group wrote £2,874 million of sales on an APE basis. To support these sales, the Group invested £544 million of capital. This amount covers both new business acquisition expenses, including commission of £236 million and the required capital of £308 million. The total investment of capital for new business amounts to approximately £19 million per £100 million of APE sales. These sales provided a post-tax new business contribution to embedded value of £865 million.

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

In the US, capital was invested to support sales at an average rate of £30 million per £100 million of APE sales.

In the UK, capital was invested to support sales at an average rate of £17 million per £100 million of APE sales.

EEV basis profit after tax and minority interests

	RER(4)(5)		
	2007 £m	**2006 £m**	**Change %**
Total EEV basis operating profit from continuing operations after restructuring costs	**2,542**	**2,133**	**19%**
Short term fluctuations in investment returns:	***174***	*738*	
Asia	**226**	286	
US	**(8)**	64	
UK	**(42)**	378	
Other	**(2)**	10	
Actuarial gains and losses on defined benefit pension schemes:	***116***	*207*	
Effect of change in economic assumptions:	***748***	*(1)*	
Asia	**201**	(132)	
US	**81**	(51)	
UK	**466**	182	
Effect of change in time value of cost of options and guarantees:	***0***	***60***	
Asia	**9**	14	
US	**8**	6	
UK	**(17)**	40	
Movement in mark to market value of core borrowings:	***223***	*85*	
US	**9**	3	
Other	**214**	82	
Profit from continuing operations before tax	**3,803**	**3,222**	**18%**
Tax	(961)	(904)	
Profit from continuing operations after tax before minority interests	**2,842**	**2,318**	**23%**
Discontinued operations (net of tax)	241	(105)	
Minority interests	(21)	(1)	
Profit for the period	**3,062**	**2,212**	**38%**

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

In the calculation of EEV operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. Short-term fluctuations in investment returns are reported separately in the analysis of profit.

In Asia, long-term business short-term investment fluctuations were £226 million, compared to £286 million last year. This reflects favourable equity performance in most territories, principally Hong Kong, Vietnam and Singapore offset by an unfavourable valuation movement of £30 million on a Taiwan CDO.

The US business short-term fluctuations in investment returns of £(8) million primarily include: a negative £44 million in respect of the difference between actual investment returns and longer-term returns included in operating profit in respect of fixed income securities and related swap transactions; a negative £16 million in relation to changed expectations of future profitability on variable annuity business in force due to the actual variable investment account (“separate account”) return being lower than the long-term return reported within operating profit, offset by the impact of the associated hedging position; and a positive £51 million in respect of the difference between actual investment returns and long-term returns included within operating profit in respect of equity-based investments and other items.

The UK business component of short-term fluctuations in investment returns of negative £42 million primarily reflects reduced asset values in PRIL, the shareholder-backed annuity business, from widened credit spreads and the difference between the actual investment return for the with-profits life fund of 7.2 per cent and the long-term assumed return of 7.85 per cent.

The actuarial gain of £116 million (2006: £207 million) included in total profit reflects the shareholders' share of actuarial gains and losses on the Group's defined benefit pension schemes. On the EEV basis, this gain includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits sub-fund for the Prudential Staff and Scottish Amicable Pension Schemes. The full year 2007 gains mainly reflect changes in economic assumptions, partly offset by the effect of strengthened mortality assumptions. The very high level of gains in 2006 reflected the excess market returns over the long-term assumption and the increase in discount rate applied in determining the present value of projected pension payments from 4.8 per cent at 31 December 2005 to 5.2 per cent at December 2006.

In Asia positive economic assumption changes were £201 million, of which £110 million is due to Taiwan and £80 million is due to Hong Kong. The Taiwan credit primarily reflects a change of projected fund earned rate, offset by an increase in risk discount rate, whereas Hong Kong primarily reflects a decrease in the risk discount rate. Taiwan interest rates performed in line with the assumed EEV trended basis.
In the US, economic assumption changes of positive £81 million primarily reflect a reduction in the risk discount rates following a reduction in the US 10-year Treasury rate, partially offset by a reduction in the separate account return assumption.

In the UK, economic assumption changes of positive £466 million primarily reflect the impact of the increase in the investment return assumption and a decrease in the risk free rate.

The mark to market movement on core borrowings was a positive £223 million reflecting the reduction in fair value of core borrowings as the decrease in interest rates is more than offset by the widening of the credit spread, thereby increasing overall market yields on comparable debt securities.

The effective tax rate at an operating tax level was 27 per cent (2006: 30 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level was 25 per cent (2006: 28 per cent) on a profit of £3,803 million.

On 1 May 2007, Prudential completed the sale of Egg Banking plc to Citi for a consideration, net of transaction expenses, of £527 million. The profit from discontinued operations is £241 million being the profit on disposal of £290 million, net of the post-tax loss of £49 million from 1 January 2007 to the date of sale.

IFRS basis operating profit

		CER		RER [4][5]	
IFRS basis operating profit from longer term investment returns	**2007 £m**	**2006 £m**	**Change %**	**2006 £m**	**Change %**
Insurance business:					
Asia	**189**	177	7%	189	0%
US	**444**	367	21%	398	12%
UK	**528**	500	6%	500	6%
Development expenses	**(15)**	(14)	7%	(15)	0%
Long-term business profit	**1,146**	**1,030**	**11%**	**1,072**	**7%**
Asset management business:					
M&G	**254**	204	25%	204	25%
Asia asset management	**72**	47	53%	50	44%
Curian	**(5)**	(7)	29%	(8)	38%
US broker-dealer and asset management	**13**	16	(19%)	18	(28%)
	334	260	28%	264	27%
Other income and expenditure	**(248)**	(244)	(2%)	(248)	0%
Total IFRS basis operating profit based from longer term investment returns	**1,232**	**1,046**	**18%**	**1,088**	**13%**
Restructuring costs	**(19)**	(38)	(50%)	(38)	(50%)
Total IFRS basis operating profit based from longer term investment returns after restructuring costs	**1,213**	**1,008**	**20%**	**1,050**	**16%**

The increase in Prudential Corporation Asia's operating profit of seven per cent for long-term business before development expenses reflects improved profitability in mature markets with significant contributions to operating profit from Singapore, Malaysia and Hong Kong, representing £153 million of the total operating profit in 2007, up 15 per cent on 2006. There were increased contributions from each of Indonesia, Taiwan and Vietnam as these operations continue to build scale. Five life operations made IFRS losses: £43 million in India which is a relatively new business, incurring costs in rapidly building scale through its expansion strategy and losses of £16 million in Japan. Korea's loss reflects new business growth. China and Thailand are marginally loss making.

In the US, IFRS operating profit of £444 million was up 21 per cent on 2006 at CER. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS as the Group's basis of presenting operating profit is based on longer-term investment returns. Longer-term returns for the US operations' fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. The growth in the US operations' long-term IFRS operating profit mainly reflects increased fee income driven by a 34 per cent increase in separate account assets during the year and higher overall election of optional benefits. Profits from the annuities spread business were broadly in line with prior year and continue to represent the key contributor to overall IFRS operating profit. One-off items affecting the spread-based income were £26 million, net of DAC amortisation

In the UK, IFRS operating profit for the long-term business increased six per cent to £528 million in 2007. This reflected a seven per cent increase in profits attributable to the with-profits business to £394 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses. 2007 includes the net impact of the mortality strengthening and a release of excess margins previously held in other assumptions which was a positive £34 million.

M&G's operating profit for 2007 was £254 million, an increase of 25 per cent over 2006, due to strong net investment inflows and positive market conditions for the first three quarters of 2007.

The Asian asset management operations reported operating profits of £72 million, a growth of 53 per cent over 2006, driven by strong contributions from Vietnam, India and Taiwan.

The operating profit from the US broker-dealer and asset management businesses was £13 million, a 19 per cent decrease on 2006. Curian recorded losses of £5 million in 2007, up from losses of £7 million in 2006, as the business continues to build scale.

IFRS basis profit after tax

	RER(4)(5) 2007 £m	2006 £m	Change %
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	**1,213**	**1,050**	**16%**
Short-term fluctuations in investment returns	(137)	155	
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	90	167	
Profit before tax from continuing operations attributable to shareholders	**1,166**	**1,372**	**(15%)**
Tax	(382)	(392)	
Profit from continuing operations for the financial year after tax	**784**	**980**	**(20%)**
Discontinued operations (net of tax)	241	(105)	
Minority interests	(3)	(1)	
Profit for the year attributable to equity holders of the company	**1,022**	**874**	**17%**

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

Total IFRS basis profits before tax and minority interests were £1,166 million in 2007, compared with £1,372 million for 2006. The decrease reflects a reduction in short-term fluctuations in investment returns of £292 million and a reduced positive movement from the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

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

The £137 million charge for short-term fluctuations in investment returns comprises £71 million, £18 million and £47 million in respect of Asian operations, US operations and UK operations respectively.

The fluctuations for the Asian operations primarily reflect reduced values for debt securities in Taiwan and a £30 million reduction in the value of an investment in a CDO fund, partially offset by strong equity movements in Vietnam.

In the US there was a £18 million charge for short-term fluctuations in investment returns. During 2007 the US life insurance operations recorded net credit losses of £78 million (2006: £25 million). This charge is reflected in two parts of the accounting presentation of the results. Included within the IFRS operating profit based on longer-term investment returns is a risk margin reserve (RMR) charge, representing long-term expected credit defaults, of £48 million (2006: £54 million). The difference between the credit related losses and the RMR charge in the year was, therefore, a charge of £30 million (2006: £29 million credit) which is recorded within short-term fluctuations in investment returns, within the overall £18 million charge for US life insurance operations.

The fluctuations for the UK operations primarily reflect reduced asset values in PRIL, the shareholder-backed annuity business, from widened credit spreads on corporate bond securities.
Profit after tax and minority interests was £1,022 million compared with £874 million in 2006. The effective rate of tax on operating profits, based on longer-term investment returns, was 32 per cent (2006: 29 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 33 per cent (2006: 29 per cent). The effective tax rates in 2007 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

Earnings per share

Earnings per Share (EPS)

		2007 £p	2006 £p
EPS based on operating profit from continuing operations after tax and minority interest	EEV	74.9	62.1
	IFRS	33.8	30.9
Basic EPS based on total profit after minority interest	EEV	125.2	91.7
	IFRS	41.8	36.2

Dividend per share

The directors recommend a final dividend for 2007 of 12.30 pence per share payable on 20 May 2008 to shareholders on the register at the close of business on 11 April 2008. The interim dividend for 2007 was 5.70 pence per share. The total dividend for the year, including the interim dividend and the recommended final dividend, amounts to 18.00 pence per share compared with 17.14 pence per share for 2006, an increase of five per cent. The total cost of dividends in respect of 2007 was £444 million.

The full year dividend is covered 1.9 times by post-tax IFRS operating profit from continuing operations.

Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

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

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 31 December 2007 were £14.8 billion, an increase of £2.9 billion from the 2006 year-end level (2006: £11.9 billion at RER). This 24 per cent increase primarily reflects: total EEV basis operating profit of £2,542 million; a £174 million favourable movement in short-term fluctuations in investment returns; a £748 million positive movement due to changes in economic assumptions and in time value of cost of options and guarantees; a positive movement on the mark to market of core debt of £223 million; the proceeds for the share capital issue of the parent company for £182 million; a positive movement in the actuarial gains on the defined benefit pension schemes of £116 million and the positive impact of £64 million for foreign exchange movements. These were offset by: a tax charge of £961 million and dividend payments of £426 million made to shareholders.

The shareholders' funds at 2007 of £14.8 billion comprise, £3.7 billion for the Asian long-term business operations, £3.6 billion for the US long-term business operations, £6.5 billion for the UK long-term business operations and £1 billion for other operations.

At the year end the embedded value for the Asian long-term business was £3.7 billion. The established markets of Hong Kong, Singapore and Malaysia contribute £2,704 million to the embedded value generated across the region with Korea (£304 million) and Vietnam (£234 million) making further substantial contributions. Prudential's other markets, excluding Taiwan in aggregate contribute £496 million in embedded value. Taiwan has a negative embedded value of £12 million, this positive movement against prior year (2006: negative £216 million) is a reflection of an increase in new business and a change in economic assumptions.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 75 per cent and 15 per cent of new business APE in 2007, respectively. As a result, interest rates have little effect on new business profitability and a one per cent reduction in assumed interest rates would reduce new business margins in Taiwan by less than one percentage point. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a £91 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by £67 million. On the assumption that bond yields remained flat during 2008 and then trended towards 5.5 per cent in December 2014, this would have reduced the 2007 Taiwan embedded value by £70 million. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a negligible percentage change to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 31 December 2007 were £6.2 billion. This compares with £5.5 billion at 31 December 2006 at RER. The increase primarily reflects: profit after tax and minority interests of £1,022 million, the proceeds from the share capital issue of the Company for £182 million, offset by the impact of negative unrealised holding losses on available for sale investments of £231 million, and dividend payments to shareholders of £426 million.

Holding company cash flow

	2007 £m	2006 £m
Cash remitted by business units:		
UK life fund transfer	261	217
UK other	3	0
US	122	110
Asia	186	175
M&G	139	94
Total cash remitted to Group	**711**	**596**
Net interest paid	(96)	(128)
Dividends paid	(426)	(399)
Scrip dividends and share options	183	91
Cash remittances after interest and dividends	**372**	**160**
Tax received	40	122
Corporate activities	(200)	(67)
Cash flow before investment in businesses	**212**	**215**
Capital invested in business units:		
Asia	(149)	(147)
UK	(145)	(172)
Total capital invested in business units	**(294)**	**(319)**
Increase/(Decrease) in operating cash	**(82)**	**(104)**
Egg sale net proceeds	**527**	**0**
Total holding company cash flow	**445**	**(104)**

The Group holding company received £711 million in cash remittances from business units in 2007 including the shareholders' statutory life fund transfer of £261 million from the UK business.

After dividends and net interest paid, there was a net cash inflow of £372 million (2006: £160 million). There was a high take up of scrip dividends in 2007.

During 2007, the Group holding company paid £200 million in respect of corporate activities, which included costs in respect of the process to consider a reattribution of the inherited estate together with a repayment to HMRC in respect of tax recoveries in previous years following a change in tax legislation. Tax received of £40 million (2006: £122 million) was lower than prior year as a result of foreign exchange gains reducing the level of taxable losses and a payment to HMRC. Asia contributed a net remittance of £37 million to the holding company cash flow.

In aggregate this gave rise to an improvement in operating cash outflow to £82 million from £104 million in 2006.

The Group received £527 million from the disposal of Egg (net of expenses), and the reduction in net interest paid in 2007 includes the investment income earned on these proceeds.

In 2008, the UK shareholders' statutory transfer relating to the bonus declarations is expected to be £279 million.

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

Taking into account plans for future growth, our ability to surrender group tax relief, a normalised level of scrip dividend, the reducing UK capital requirement and increased remittances from the other life and asset management operations it is expected that the operating cash flow of the Group holding company will be positive in 2008.

BUSINESS UNIT REVIEW

Insurance Operations

Asia

Asia		CER		RER[5]	
	2007	**2006**	**Change**	**2006**	**Change**
	£m	**£m**	**%**	**£m**	**%**
APE sales	**1,306**	909	44%	956	37%
NBP	**653**	487	34%	514	27%
NBP margin (% APE)	**50%**	54%		54%	
NBP margin (% PVNBP)	**9.3%**	10.0%		10.0%	
Total EEV basis operating profit*	**1,046**	779	34%	829	26%
Total IFRS operating profit*	**189**	177	7%	189	0%

*Based on longer-term investment returns excluding fund management operations, development and regional head office expenses.

Prudential's strategy in Asia is to build quality, multi-channel distribution that delivers customer centric and profitable products in segments with the potential for sustained growth. By necessity, the approach to each market varies, but all operations are unified under the Prudence icon and common brand values and Prudential has the proven ability to leverage learning and expertise from within the region and the wider Group to accelerate the development of unique opportunities as they arise in each market.

The ability to execute the strategy is highly dependent on the strength and depth of the management talent pool in the region and consequently Prudential invests in continually strengthening and developing its teams. The operating model empowers local management teams with a regional team overseeing control functions such as risk management and providing strategic guidance and technical support in areas such as distribution optimization and product design.

Prudential has a market leading platform with top five market share positions, in terms of new business APE, in seven of its twelve markets. Prudential has the leading private sector life insurance joint ventures in China and India.

Current year initiatives

The core business priorities were outlined as:

- Building on existing strengths in agency
- Improving and extending partnership distribution
- Continuing product innovation
- Strengthening and deepening customer relationships
- Developing retirement solutions
- Starting work on direct distribution
- Re-examining approach to health products

Agency is the predominant distribution channel in Asia and for Prudential, the agency force again generated 70 per cent of new business volumes in 2007. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers whilst also providing the infrastructure to manage agent training and skills development to drive agency productivity. Prudential's agency priority depends on the stage of development of each individual market and Prudential's operation within it. For example in India, Prudential's joint venture with ICICI has been rapidly expanding, with the addition of 593 new branches during the year to give a total 1,065 and correspondingly average agent numbers in 2007 increased by 123 per cent and at 31 December there were 277,000 agents.
Similarly in China, although the rate of geographic expansion is slower as each new city requires separate regulatory approvals the emphasis is also on expanding the agency channel; average numbers were up 38 per cent and at 31 December there were 20,500 agents. In markets where we have sufficient agency scale, the emphasis is on helping those agents become more productive through intensified training and sales management support. Agent productivity, in terms of average APE per agent, increased by 67 per cent in Vietnam and 21 per cent in Singapore during 2007.

Prudential has a large partnership distribution network in Asia. During 2007, Prudential extended its agreements with Standard Chartered Bank to include Taiwan where it will exclusively provide bancassurance products in their newly acquired HsinChu International Bank with its 83 branches and 2.4 million customers. In Korea regulation states that a bank can only source a maximum of 25 per cent of its total insurance sales from any one insurer, and with Prudential's sales existing bank partners regularly reaching their maximum shares, adding new banks is a priority. In 2007 Prudential secured two major new banks, Industrial Bank of Korea and Kookmin Bank. Prudential's regional bancassurance relationship with Citibank also grew strongly with new business APE generated of £23 million being 12 per cent of total bank distribution for 2007.

In 2007 Prudential continued to broaden its range of linked products. These included the new Global Property Fund in Singapore and a new Takaful range in Indonesia, launched in September 2007. In Taiwan, a new variable annuity product and an agency incentive programme contributed to the growth in new business of 71 per cent for the year.

Good results were attained from systematic cross-sell campaigns across the region, contacting more than 2 million of our existing customers. These included the initiation of a regular up-sell in Hong Kong through the indexation of policy benefits and initiatives to capture maturity proceeds in Singapore and a targeted offer of guaranteed increases in protection benefits in Malaysia.

Although still small, new business from direct marketing grew by 65 per cent over 2006 with Thailand performing well and recording growth of 52 per cent. The regional Direct Marketing team has been strengthened and work is now underway on exploring further opportunities.

In Asia, there are very material opportunities arising in the provision of healthcare solutions. Prudential successfully piloted new supplemental health products in Singapore, India and Hong Kong during the year selling over 125,000 new policies.

Helping people address their financial needs for retirement is also a major growth opportunity and whilst Prudential already has a number of products designed to support the accumulation phase of a retirement fund, work is now underway on drawdown options and supporting related protection and health products. Prudential has already begun positioning itself as a provider of retirement solutions through the roll out of the successful 'What's your number?' campaigns in six countries that encourage people to think about what resources they are likely to need to finance their retirement aspirations.

Prudential has a unique position in Vietnam with its market leading life insurance business and well respected brand. To further leverage this platform, Prudential launched a consumer finance company in September 2007.

Financial performance

In 2007 Prudential delivered new business APE of £1,306 million from Asia representing very strong growth that averaged 44 per cent over 2006 and with all operations delivering double digit growth including Taiwan, India and Indonesia, up 71 per cent, 67 per cent and 75 per cent respectively.

New business profit increased by 34 per cent as the average profit margin reduced from 54 per cent to 50 per cent mainly due to a change in the country mix of the sales. China, Hong Kong, Korea and Taiwan all reported increases in new business profit margins compared to 2006. In India, the branch expansion programme, has led to an increase in policy acquisition and maintenance costs and therefore a rebasing of the expense assumptions. The reduction in average margin for the other countries was due to a change in country mix.

In-force embedded value profits of £393 million are driven principally by the unwind of discount, with net assumption changes of £54 million and net experience variances of £(1) million. Assumption changes were principally due to favourable changes in corporation tax and positive mortality assumption changes. Negative persistency assumption changes are offset by positive expense assumption changes. Experience variances mainly reflected positive mortality across all operations partially offset by expense overruns in the newer operations of China, India and Vietnam.

IFRS Profits		**CER**	
	2007	**2006**	**Change**
	£m	**£m**	**%**
Established markets (Hong Kong,Singapore, Malaysia)	153	134	15%
North Asia (Taiwan, Korea, Japan)	16	20	(20%)
Joint Venture markets (China, India)	(49)	(20)	(146%)
Other SE Asian markets (Indonesia, Vietnam, Thailand, Phillipines)	68	43	58%
Total Life IFRS Profits	189	177	7%

The total IFRS Operating profit of £189 million was up seven per cent on 2006. Within this, the Established markets (Singapore, Hong Kong and Malaysia) generated £153 million up 15 per cent from 2006. The North Asia markets (Taiwan, Japan, and Korea) generated £16 million, down 20 percent from last year reflecting increased losses in Japan. Excluding Japan, profits from North Asia almost doubled reflecting a strong increase in Taiwan of 47 per cent due to in-force profits, especially from long term health products and favourable other experience. Losses from the joint ventures in India increased to £43 million, reflecting the fast pace of new business growth and investment in growing the branch networks. Losses from the joint venture in China reduced to £6 million. In the other markets (Vietnam, Thailand, Indonesia and Philippines), profits grew by 58 per cent to £68 million reflecting the expected emergence of IFRS profits and a one off £16 million favourable item in Vietnam.

In 2007 the Asian Life operations were again net remitters of cash to the Group of £56 million. Remittances totalling £148 million were from Hong Kong, Indonesia, Malaysia, Singapore and included the first remittance from Vietnam. The Life operations received injections of £92 million, of which £49 million was injected into India to support branch expansion with the balance primarily injected into China and Korea to support solvency requirements as a result of new business growth.

IRR for Asia was in excess of 20 per cent for 2007. In Asia, Prudential targets IRRs on new business to be at least 10 percentage points over the country risk discount rate, where these vary from five per cent to 17 per cent. During 2007 all markets except India and Japan met this target.

Having achieved compound growth of 26 per cent since 2005, Asia expects to deliver doubling of 2005 EEV NBP a year early by 2008.

United States

United States		CER		RER(5)	
	2007	**2006**	**Change**	**2006**	**Change**
	£m	**£m**	**%**	**£m**	**%**
APE sales	**671**	565	19%	614	9%
NBP	**285**	239	19%	259	10%
NBP margin (% APE)	**42%**	42%		42%	
NBP margin (% PVNBP)	**4.3%**	4.2%		4.2%	
Total EEV basis operating profit*	**627**	652	(4%)	708	(11%)
Total IFRS operating profit*	**444**	367	21%	398	12%

*Based on longer-term investment returns excludes broker dealer, fund management and Curian

The United States is the largest retirement savings market in the world and continues to grow rapidly. By mid-2007, total retirement assets in the US exceeded $17.4 trillion, up from $16.5 trillion at the end of 2006 (Source: Investment Company Institute). As 78 million baby boomers (Source: US Census Bureau) move into retirement age, these assets will shift from asset accumulation to income distribution. Currently, $1.6 trillion of assets are generating retirement income. This amount is estimated to grow to $7.3 trillion by 2017 (Source: Financial Research Corporation).

Despite these favourable demographics, US life insurers face challenges from both within and outside the industry. The industry remains highly fragmented, with the top 15 annuity companies sharing only 74 per cent of the total market share in 2007 (source: LIMRA). Competition is intensifying through aggressive price competition. Life insurers also find themselves competing with other financial services providers, particularly mutual fund companies and banks, for a share of US retirement savings assets.

During 2007, the S&P index increased 3.5 per cent (2006: 13.6 per cent), and the US equity markets experienced significant volatility during the second half of the year. The S&P index increased 6 per cent through June 2007, yet ended the year 2.5 per cent lower than in June and 5.7 per cent lower than at the end of October. This volatility and concerns about the US economy are expected to increase investors' interest in guarantees on products with equity-based returns.

In addition, for much of 2007, the yield curve was flat and credit spreads were relatively low, resulting in a difficult environment for the sale of properly priced fixed annuities. During the second half of 2007, the yield began to normalise and credit spreads began to widen, ending closer to normalised historical levels. The market for fixed annuities was further complicated during the year by artificially high deposit rates offered by banks to attract assets.

Jackson's primary focus is manufacturing profitable, capital-efficient products, such as variable annuities, and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings, Jackson leverages a low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, banks and registered investment advisors. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the south-eastern United States.

Current year initiatives

During 2007 significant progress was made against the business priorities which included:

- continued enhancement and expansion of the existing product offering
- continue to take profitable share of variable annuities market
- increased penetration of existing distribution channels
- increase share of the US retail asset management market.

Jackson continues to base its success in the evolving US market on industry leading distribution and product innovation coupled with sound evaluation of product economics. Jackson's long-term goals include the continued expansion of its share of the US annuities and retail asset management markets, which it plans to achieve by leveraging its relationship-based distribution advantage in the advice-based channels. Growth in Jackson's share of the US annuities market will be largely contingent upon continued enhancement and expansion of the existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic acquisition activity.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. High quality, cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customised to meet the needs of individual customers. Products are offered on an unbundled basis, allowing customers to select those benefits that meet their unique financial needs and pay only for those benefits that they truly need. This advantage, coupled with distribution through advice-based channels, allows Jackson to effectively meet individuals' long-term retirement savings and income needs. Jackson believes that leveraging this advantage is a more sustainable long-term strategy than price competition and, as a result, will not sacrifice product economics for a short-term increase in market share.

Jackson supports its network of independent agents and advisors with award-winning customer service and marketing support. In 2007, the Service Quality Measurement Group rewarded Jackson with its third World Class Customer Satisfaction Award. Jackson's marketing campaigns continue to win awards for achievement in graphic design, editorial content and overall communications excellence.

Through organisational flexibility and excellence in execution, coupled with product innovation, a successful distribution model and a strong service offering, Jackson increased its share of the US variable annuity market to 5.1 per cent for full-year 2007 (source: Morningstar Annuity Research Center), up from 4.6 per cent for the full-year 2006.

Jackson continues to expand its product portfolio, adding a variety of new features during 2007. The company enhanced its variable annuity portfolio by adding 20 new underlying investment options, four new guaranteed minimum withdrawal benefits (GMWBs), one new guaranteed minimum income benefit (GMIB) and its first guaranteed minimum accumulation benefit (GMAB).

In 2007, Jackson also introduced a line of retail mutual funds and launched two new fixed index annuity products that offer new index options and multiple crediting methods. These additions provide even more product choices to advisors and create more opportunities to capture a larger portion of the US retirement market.

Jackson continues to seek bolt-on acquisitions that will complement its long-term organic growth strategy. Transactions will need to meet or exceed Jackson's targeted rate of return and will likely be in the life insurance channel, which provides stable future cash flows. Depending on the opportunities that become available, Jackson may consider utilising securitisation financing for these bolt-on transactions.

Financial performance

Jackson achieved record APE sales of £671 million in 2007, representing a 19 per cent increase on 2006. This growth was led by a continued increase in variable annuity sales. On a PVNBP basis, new business sales were £6.7 billion. Retail APE sales in 2007 of £577 million were up 19 per cent over 2006.

Jackson delivered record variable annuity APE sales of £455 million in 2007, up 29 per cent over 2006. In 2007, Jackson maintained its ranking of 12th in gross variable annuity sales (Source: Morningstar Annuity Research Centre).

Fixed annuity APE sales of £57 million were 10 per cent down on 2006, while industry sales of traditional individual deferred fixed annuities were 13 per cent lower in 2007 compared to 2006 (Source: LIMRA).

Fixed index annuity sales continued to be affected by the uncertain regulatory environment in the US and the impact of low interest rates on caps and participation rates that are offered. As a result, industry sales were nearly 1 per cent lower in 2007 compared to 2006 (Source: Advantage Group Associate). Jackson's APE sales of £45 million were 12 per cent down on 2006. In the third quarter of 2007, Jackson ranked first in fixed index annuity sales through banks for the ninth consecutive quarter (Source: The Kehrer-LIMRA Report). Jackson continues to pursue profitable growth and hence has been unwilling to compromise target margins in this market.

Institutional APE sales of £94 million were up 15 per cent on 2006. Jackson continues to participate in this market on an opportunistic basis when margins are attractive.

EEV basis new business profits of £285 million were 19 per cent above the prior year, reflecting a 19 per cent increase in APE sales with a shift in the mix of business toward variable annuities as well as increased sales of institutional business with longer duration. Total new business margin was 42 per cent, in line with 2006.

The variable annuity new business margin decreased from 49 per cent in 2006 to 42 per cent in 2007, primarily due to a 70 basis point decrease in the risk-free rate from 2006 to 2007. The lower risk-free rate resulted in a decrease in the assumed separate account return that was partially offset by a decrease in the risk discount rate. In addition, Jackson reviewed its experience assumptions during the year and revised certain partial withdrawal and expense assumptions, which also decreased the new business margin.

The fixed index annuity new business margin decreased from 31 per cent in 2006 to 26 per cent in 2007, primarily as a result of a change in expected future surrender charges.

The fixed annuity new business margin increased significantly from 16 per cent to 28 per cent, primarily as a result of a decrease in the risk discount rate for the year.

The new business margin on institutional business improved significantly, from 39 per cent in 2006 to 58 per cent in 2007 due to the much longer average duration contracts written during 2007 and a lower risk discount rate.

Total EEV basis operating profit for the long-term business for 2007 was £627 million compared to £652 million in the prior year at CER. In-force EEV profits of £342 million were 17 per cent below prior year profit of £413 million at CER. Experience variances were £58 million lower in 2007 due to lower spread income and the impact of persistency adjustments. Operating assumption changes were less favourable than the prior year by £17 million including the impact of updated persistency and lapse rates during 2007. One-off items favourably affected the spread income variance by £40 million during 2007.

IFRS operating profit for the long-term business was £444 million, up 21 per cent on the prior year of £367 million at CER, primarily reflecting an increase in fee income and continued low mortality rates during 2007. Higher fee income was driven primarily by higher separate account assets given the growth in variable annuity sales, and an improvement in the average fees generated from those assets given the increase in election of guaranteed optional benefits. In 2007, IFRS spread income included a number of non-recurring items, totalling £26 million net of DAC amortisation (2006: £31 million at CER).

At 31 December 2007, Jackson had more than £41 billion in US GAAP assets. Of this total, £15 billion were separate account assets, an increase of £4 billion from year-end 2006, further increasing Jackson's earnings from fee-based products.

During the second half of 2007, equity market volatility increased materially primarily due to liquidity concerns and valuation issues in the US sub-prime mortgage market. Much of the market movement was due to concerns regarding the risk in this market that resulted in a tightening in the level of credit available. While the financial services industry was hardest hit by these events, losses were generally limited to those companies with significant levels of sub-prime or Alt-A mortgage exposure. Jackson's exposure to the sub-prime mortgage market is limited at only £237 million at the end of 2007. Most of this exposure is in fixed rate, residential mortgage backed securities that are AAA rated and hold first liens on the underlying collateral. Exposure to Alt-A was £660 million and direct exposure to monoline insurers was £23 million.

The average IRR on new business was up slightly to 19 per cent, primarily due to a larger proportion of variable annuity sales in 2007.

United Kingdom

United Kingdom		CER		RER[5]	
	2007	**2006**	**Change**	**2006**	**Change**
	£m	**£m**	**%**	**£m**	**%**
APE sales	**897**	900	(0%)	900	(0%)
NBP	**277**	266	4%	266	4%
NBP margin (% APE)	**31%**	30%		30%	
NBP margin (% PVNBP)	**3.6%**	3.4%		3.4%	
Total EEV basis operating profit*	**859**	686	25%	686	25%
Total IFRS operating profit*	**528**	500	6%	500	6%

*Based on longer-term investment returns.

In 2007, Prudential UK continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns.

The UK business remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions. With an ageing population and the concentration of UK wealth in the mass affluent and high net worth sectors, the retirement and near-retirement population will represent the fastest growing segments of the market over the next 10 years. Low savings rates and high levels of consumer debt, combined with a shift in responsibility for providing income during retirement from Government and employers towards individuals, have resulted in individuals being inadequately provided for during increasingly long periods of retirement. These consumers will have a need for high quality financial advice and service and are increasingly seeking guarantees and longevity protection from their financial products.

Prudential UK has a unique combination of competitive advantages including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. These put it in a strong position to pursue its value driven strategy in its two principal businesses: Retail and Wholesale.

Prudential UK's Retail business is focusing on savings and income for those customers nearing or in retirement. Its retirement income business aims to continue to drive profitable growth in its core annuities operation and grow its presence in the equity release market. The significant 25-year pipeline of internal vestings annuity business from maturing individual and corporate pensions policies is enhanced by strategic partnerships with third parties, where Prudential UK is the recommended annuity provider for customers vesting their pension at retirement. This scale enables our selective value-based participation in the external vestings market. Annuities remain core drivers of the sales and profit derived by Prudential UK, which now has approximately 1.5 million annuities in payment.

Prudential UK remains a market leader in the with-profits market. These products offer a medium to long-term, medium risk investment with exposure to a diverse range of assets that is particularly important to many customers against the backdrop of market uncertainty.

In the Retail accumulation business, Prudential UK continues to be a market leader in the corporate pensions market where it is a provider of over 20 per cent of FTSE 350 companies and the largest provider of pension schemes to the UK public sector. Prudential now administers corporate pensions for over 600,000 members.

In addition, the Retail business has used its brand and strength with Discovery to build branded distribution in Health and Protection, further using the joint venture to access Discovery's Vitality concept and lifestyle protection capabilities.

Prudential UK's strategy in the Wholesale market is to participate selectively in bulk annuity and back-book buy-outs, where Prudential UK is able to win business based on its financial strength, superior track record, market leading investment capability as well as its extensive annuitant mortality risk assessment capabilities. The Wholesale business, which has been in operation for over 10 years and has already written more than 400 bulk buy-outs, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment or longevity liabilities. Prudential UK will maintain a strict focus on value, only participating in transactions that generate an acceptable rate of return.

Current year initiatives

Prudential UK's key priorities in 2007 were:

- Maintaining leadership position in individual annuities
- Building share of the equity release market
- Growing the volume of products that utilise Prudential's multi-asset management expertise
- Deepening relationships with chosen distributors including the introduction of customer-agreed remuneration across some product lines
- Realigning cost base to the selective business strategy
- Delivering wholesale transactions with attractive rates of return

During 2007, Prudential UK maintained its market leadership in individual annuities, where it has continued to create value by maintaining high retention rates. This has been augmented by partnership deals with insurers such as Zurich, Royal London and Save and Prosper. We also announced a new partnership with Barclays, where Prudential will be the preferred supplier of conventional annuity products to their retail customers in the UK.

Capitalising on the need for inflation protection in retirement, Prudential remains the market leader in the growing with-profits annuity market with over 75 per cent market share. Early in 2007 Prudential made a number of product enhancements including the facility to accept Protected Rights monies, which was a first in the with-profit annuity market.

In the fourth quarter, Prudential UK launched an income drawdown product. This product helps customers manage their pension through the various stages of retirement, and offers flexibility whilst providing potential for growth through investment. Together with the Flexible Lifetime Annuity this gives Prudential a full range of retirement income solutions.

Investing in property has been an increasingly important component for many people saving for their retirement. However this has left many retirees income poor but asset rich. Prudential UK's lifetime mortgage business grew its share of the lifetime mortgage market to 14 per cent through its distinctive drawdown product and strong brand. In the third quarter a number of product enhancements were introduced, including an inheritance guarantee and a new lump sum product. Prudential expects both its market share and the overall market size to grow.

In a relatively volatile investment market there has been a marked increase in demand for cautious managed solutions providing enhanced returns. In February 2007, Prudential UK launched the Cautious Managed Growth Fund and the Managed Defensive Fund, using Prudential's strengths in investment expertise and in disciplined approach to asset allocation. These funds have the potential to offer a better longer-term return than a bank or building society account and allow the customer to access real returns with lower volatility. These funds are available across the full tax wrapper suite, including onshore and offshore bonds, individual pensions and mutual funds.

During 2007, Prudential UK introduced customer-agreed remuneration across some of its product lines. Under this model, financial advisors agree their remuneration directly with the customer and not with the product provider and in doing so make commission structures far more transparent. This is in line with Prudential UK's focus on building strong long-term relationships with advisors as well as offering market-leading retirement solutions.

The agreement announced in 2007 with Capita to outsource a large proportion of its in-force and new business policy administration is another important milestone for the UK business. This agreement will deliver £60 million per annum of savings to Prudential UK, and is an important element in achieving its total cost savings target of £195 million. The contract will result in approximately 3,000 employees transferring to Capita and helps the UK deliver its long-term cost savings strategy by removing fixed costs from the business and achieving significant operating efficiencies. This provides a significant reduction in long-term expense risk by providing certainty on per-policy costs as the number of policies in the mature life and pensions book decreases over the coming years. Unit costs per policy are expected to reduce by over 30 per cent by 2011.

By the end of 2007 £115 million of the cost saving target had been delivered. The remaining £80 million, including the £60 million generated from the Capita contract, will be delivered by the end of 2010.

In December, Prudential completed the transfer of Equitable Life's portfolio of in-force with-profits annuities. This book covers approximately 62,000 policies with assets of approximately £1.74 billion. This deal grows Prudential's with-profits business and creates value for both Equitable policyholders and Prudential's shareholders and policyholders.

Financial performance

Total APE sales of £897 million were in line with 2006 and there was a four percent increase in new business profit to £277 million, reflecting an improved new business margin of 31 per cent in an increasingly competitive market. The 2006 comparator included credit life sales of £63 million and associated new business profit of £20 million written under a single contract that was not renewed in 2007.

A strong Retail performance saw a four per cent increase in sales and a 17 per cent increase in new business profit to £223 million demonstrating the continuing benefits of selectively participating in product lines that can deliver attractive returns. Retail sales growth was driven by strong performances in individual annuities, corporate pensions, with-profits bonds and lifetime mortgages.

In the wholesale bulk annuity and insurer back-book market, Prudential UK achieved a 26 per cent year-on-year increase with sales in 2007 of £180 million. In the fourth quarter Prudential completed the transfer of Equitable Life's portfolio of in-force with-profit annuities. In the previous year, Prudential UK completed two back-book insurer deals with a total volume of £143 million. New business profits relating to the Wholesale business were £54 million in 2007.

EEV basis operating profit based on longer-term investment returns of £859 million, before restructuring costs of £8 million, were up 25 per cent on 2006. The in-force operating profit of £582 million was up 39 per cent on 2006, due to the increase in profits arising from the unwind of the in-force book (reflecting an increased opening embedded value) and a £67 million positive operating assumption change in 2007 reflecting the change in the long term tax rate assumption from 30 per cent to 28 per cent. A charge in respect of a mortality operating assumption change on annuity and deferred annuity pension business of £312 million was fully offset by the release of excess margins previously held.

Other charges of £77 million include £36 million of costs associated with product and distribution development; £13 million for an annual fee paid by the shareholder business to the Prudential Assurance Company's (PAC) with-profits sub-fund for the use of the Prudential and Scottish Amicable trademarks; £14 million in respect of the tariff arrangement with Scottish Amicable Insurance Finance (SAIF), which terminates at the end of 2007 and £14 million in relation to other items.

Prudential continues to manage actively the retention of the in-force book. During 2007, experience at an aggregate level has been in line with our long-term assumptions as evidenced by the small positive experience variance.

IFRS operating profit increased six per cent to £528 million before restructuring costs of £7 million. This reflects a seven per cent increase in profits attributable to the with-profits business, which contributed £394 million reflecting strong investment performance and its impact on terminal bonuses. The net impact of the mortality strengthening and release of margins held in other assumptions under the IFRS basis was a positive net £34 million.

In 2007, Prudential received a £4 million net commission payment from Winterthur relating to general insurance sales under the Prudential brand in the UK. From early 2008, on settlement of an advance payment made by Winterthur in 2002, the business expects to receive approximately £30 million a year in commission payments, although this will depend on the new business volumes and persistency rates.

Prudential UK writes with-profit annuity, with-profits bond and with-profits corporate pension business in its life fund with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business growth in the UK was 14 per cent, excluding the Equitable Life deal (18 per cent including this business).

Asset Management

Global

The Prudential Group's asset management businesses provide value to the insurance businesses within the Group by delivering sustained superior performance. They are also important profit generators in their own right, having low capital requirements and generating significant cash flow for the Group.

The asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services (RFS) markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths, however they continue to work together by managing money for each other with clear regional specialism, distribute each others' products and share knowledge and expertise, such as credit research.

Each business and its performance in 2007 is summarised below.

M&G

M&G is comprised of the M&G asset management business and Prudential Capital.

M&G		CER		RER[5]	
	2007	2006	Change	2006	Change
	£m	£m	%	£m	%
Net investment flows	**4,958**	6,101	(19%)	6,101	(19%)
Revenue	**482**	429	12%	429	12%
Other income	**30**	27	11%	27	11%
Staff Costs	**(224)**	(216)	(4%)	(216)	(4%)
Other Costs	**(113)**	(106)	(7%)	(106)	(7%)
Underlying profit before Performance-related Fees	**175**	134	31%	134	31%
Performance-related fees	**28**	27	4%	27	4%
Operating profit from asset management operations	**203**	161	26%	161	26%
Operating profit from Prudential Capital	**51**	43	19%	43	19%
Total IFRS operating profit	**254**	204	25%	204	25%

M&G Asset Management

M&G is an investment-led business with a demonstrable focus on performance delivery and aims to offer attractive products in a variety of macro-economic environments. M&G aims to deliver superior investment performance and maximise risk-adjusted returns for our retail, wholesale and internal clients. External funds under management account for nearly a third of M&G's total funds under management and it is this higher-margin external business that drives profitability and cash generation for the Group.

M&G's retail strategy is based on obtaining maximum value from a single manufacturing function through a multi-channel, multi-geography distribution approach. Over the last five years, M&G's retail business has expanded beyond the UK into the major European markets, the Middle East, South America and Asia. By operating through multiple channels, M&G's retail business is well placed to profit from current trends away from direct selling towards intermediation, and the growth of on-line fund platforms and third-party product wrappers.

M&G's wholesale strategy centres on leveraging the skills developed primarily for internal funds to create higher margin products for external clients. In recent years, this strategy has consolidated M&G's position at the forefront of the leveraged finance, structured credit and infrastructure investment markets. The same strategy is now being applied to develop the more traditional pooled and segregated fixed income areas of M&G's wholesale business.

M&G has significant scale in all major asset classes: it is believed to be one of the largest active managers in the UK stock market, one of the largest bond investors in the UK and one of the UK's largest property investors. In addition, M&G has profitable businesses in a number of specialist areas such as leveraged loans, structured credit, infrastructure finance and macro investment.

Current year initiatives

Delivering fund performance remains critical and is the key determinant of success for an asset management business. M&G has continued to deliver market-leading investment performance in 2007 with impressive results. M&G's retail funds have performed exceptionally well, with 45 per cent delivering top-quartile performance[1]. In addition, 86 per cent of M&G's segregated institutional funds have met or exceeded their benchmark performance[1].

Returns[1] on Prudential's Life Fund assets were 66 basis points ahead of benchmark and 143 basis points better than peer group.

1. Over three years

Overall, the demand for asset management products in M&G's distribution markets continued to grow strongly in 2007 driven, in part, by the same retirement-related demographic trends that are creating opportunities for the Group as a whole.

With a diversified business across different asset classes and across retail and wholesale markets, both in the UK and internationally, M&G remains well positioned for a variety of macro-economic and market conditions.

The way that clients purchase asset management products continued to evolve during 2007. The retail asset management sector benefited from the increasing shift by retail investors towards more transparent investment products, such as unit trusts, and M&G's range of market leading funds has positioned it well to benefit from this trend. M&G extended its range of innovative new funds during 2007 with the launch of the M&G Cautious Multi Asset Fund and M&G Global Convertibles Fund.

European cross-border distribution of retail funds has accelerated and the trend in favour of 'Open Architecture' in both the UK and Europe continues to open up significant bank and life company distribution opportunities. Parallel to this, distribution of mutual funds has become increasingly intermediated and has been accompanied by the rise of professional buyers who demand higher levels of service and investment information, areas in which M&G has considerable expertise. M&G has continued to expand its geographic coverage in Europe with the first full year of operations in Spain and the launch of M&G's funds in France in October 2007 which has given M&G access to Europe's largest mutual fund market.

Wholesale markets are demanding increasingly sophisticated and tailored products and there is a continued shift from balanced to specialist mandates. These trends, plus the increased role of fixed income within portfolios, continue to play to the strength and scale of M&G's wholesale business. In 2007, M&G launched three new funds aimed at the institutional and pensions markets - the M&G Alpha Opportunities Fund, M&G Secured Property Income Fund and the M&G Secured Debt Fund. All of these funds offer innovative alternatives to traditional fixed income assets and leverage off M&G's expertise and scale in both property and private finance.

M&G's infrastructure investment business has grown from inception in 2005 to manage £471 million (2007 year end fair value) in its principal fund, Infracapital. The business contributed £7.1 million to M&G profits in 2007.

M&G's global macro investment business was established in 2005 and has grown to £1.5 billion in external funds under management as at the end of 2007. It contributed £11.2 million in profits to M&G in 2007, including performance related fees.

In order to support its retail and wholesale strategy, M&G places a high priority on the recruitment, development and retention of top-quality staff. In a highly competitive market for the best talent, this entails providing an inclusive and supportive environment as well as offering appropriate levels of compensation. At the same time, M&G has a policy of prudent cost control, ensuring that top-line growth is translated into enhanced operational gearing. During 2007 turnover of staff remained in line with industry averages at 10 per cent and the company spent £2.1 million on training and development programmes.

Financial performance

M&G recorded another year of record profits in 2007 with an operating result of £203 million (2006: £161 million), representing profit CAGR of 34 per cent since 2003. Underlying profit growth, which excludes volatile performance related fees (PRFs) and carried interest earned on private equity investments, has grown at 36 per cent CAGR over the same period to £175 million (2006: £134 million).

M&G continues to target increased diversity in profit generating activities. In 2007, 80 per cent of underlying profits were generated as a result of managing external funds, compared to 23 per cent in 2003. Profit growth is driven by four key factors: appreciation of underlying assets, positive net sales, increasing mix of higher-margin business and decreasing cost/income ratio.

The underlying growth in M&G's principal investment markets over recent years has been strongly supportive of its performance. While this growth is beyond the company's control, M&G has been successful at increasing diversity in terms of both asset class and distribution channel in order to reduce exposure to cyclical downturns in individual markets.

M&G has performed strongly against the other three measures. Net sales for 2007 of £5.0 billion (2006: £6.1 billion) were driven by both the retail £2.7 billion, (2006: £3.1 billion) and wholesale £2.3 billion, (2006: £3.0 billion) businesses. Gross inflows of £14.7 billion were the highest on record, offset to some extent by higher gross redemptions, particularly in the more volatile international retail marketplace.

The continued strong growth in external funds under management, coupled with a small decline in the value of funds managed for Prudential, has resulted in an increasing mix of higher-yielding business for M&G. This has supported an increase in gross margin (revenue as a proportion of FUM) from 28.0 basis points in 2003 to 30.8 in 2007.

During 2007, M&G has exercised continued cost discipline to ensure that top-line growth feeds through to profitability and cash generation. M&G's cost/income ratio for 2007 was 66 per cent (2006: 71 per cent) having fallen from 83 per cent in 2003.

M&G continues to provide capital efficient profits and cash generation for the Prudential group, as well as strong investment returns on its long-term business funds. Cash remittances were £99 million in 2007.

Prudential Capital

Prudential Capital (re-branded from Prudential Finance in 2007) manages Prudential's balance sheet for profit through leveraging Prudential's market position. The business has three strategic objectives: to operate a first class wholesale and capital markets interface; to realise profitable proprietary opportunities within a tightly controlled risk framework; and to provide professional treasury services to Prudential. Prudential Capital generates revenue by structuring transactions, providing bridging finance, and operating a securities lending and cash management business for Prudential and its clients.

The business has continued to grow in terms of investment, infrastructure and personnel in a controlled way while maintaining the dynamism and flexibility that it requires to identify and realise opportunities for profit. Prudential Capital is committed to working closer with other Group business units to deliver opportunities and to improve value creation for the Group. Prudential Capital is also taking a more holistic view on hedging strategy, liquidity and capital management for the Group.

Prudential Capital has a diversified earnings base derived from bridging, structured finance and wholesale markets. Prudential Capital delivered a good financial result in 2007, driven by increased investment activity and strong securities lending performance. As a result of increased revenue and maintaining a low cost/income ratio, operating profits increased by 19 per cent to £51 million, resulting in a cash remittance to the holding company of £40 million.

Asia

Asia		CER		RER[5]	
	2007	2006	Change	2006	Change
	£m	£m	%	£m	%
Net investment flows	**2,961**	2,410	23%	2,532	17%
Total IFRS operating profit*	**72**	47	53%	50	44%

*Based on longer-term investment returns.

Prudential's asset management business in Asia supports the Life Business, and has established itself as an increasingly material retail business in its own right. Today it has retail operations in ten markets and, is the only foreign fund manager with a top five market share position in more than one Asian country.

The mutual fund industry continues to diversify its investments, expectations are for a significant increase in net flows over the coming years. Bank distribution continues to dominate in most markets in Asia, and Prudential has established strong relationships with both regional and local banks and places great emphasis on providing good service.

Current Initiatives

Fund innovation is essential in maintaining sales levels and distribution agreements and during 2007 Prudential's operations launched 71 new funds. The largest of which include two India funds for Japan; the India Equity Fund and the India Infrastructure Fund. The China Dragon A Share Equity Fund in Korea reached its regulatory cap in two weeks and the Asia Pacific REIT in Taiwan also reached its regulatory cap.

A key achievement in 2007 was the expansion of regional distribution relationships with Citi and HSBC. The Asian asset management business also signed a global partnership agreement with HSBC Private Banking and is now part of the Credit Suisse Fundslab platform.

Greater deregulation and higher allocations by sovereign wealth and other institutional investors in foreign investments is driving the growth of offshore funds in the market and Prudential is also developing its institutional asset management business in Asia winning mandates of £0.5 billion during 2007.

Prudential launched a retail mutual fund business in Hong Kong in October 2007. Since launch six distribution relationships have been signed, including banks, financial advisers and an on-line portal.

The United Arab Emirates operation also made good progress with 13 distribution agreements signed since launch a year ago and with funds under management of £397 million.

In August 2007, Prudential increased its stake in CITIC Prudential Fund Management, its joint venture with CITIC Group in China from 33 per cent to 49 per cent, following approval from regulators. This joint venture launched its first Qualified Foreign Institutional Investor fund in Korea in May 2007 and hit its £100 million quota.

Financial Performance

Prudential's asset management business achieved record net inflows for 2007 of £3 billion, up 23 per cent on 2006. The growth in net flows was primarily driven by strong performance in India, Taiwan and Japan. Funds under management in these three countries increased by 65 per cent, 49 per cent and 46 per cent respectively. In total during 2007, retail funds under management grew by 39 per cent to £17.4 billion.

IFRS profits from asset management operations were £72 million, up 53 per cent on 2006. Operating profits in terms of basis points on funds under management increased from 18 basis points in 2006 to 21 in 2007. The asset management business requires very little capital to support its growth and in 2007 it remitted a net £31 million to the Group.

United States

US Asset Management

PPM America		**CER**		**RER[5]**	
	2007	**2006**	**Change**	**2006**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Total IFRS operating profit*	4	10	(60%)	12	(67%)

*Based on longer-term investment returns.

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides investment services to other affiliated and unaffiliated institutional clients including collateralised debt obligations (CDOs), private equity funds, institutional accounts and mutual funds. PPMA's strategy is focused on effectively managing existing assets, maximising synergies with international asset management affiliates and leveraging investment management capabilities across the Prudential Group. PPMA also opportunistically pursues third-party mandates.

Current year initiatives

During 2007, PPMA successfully leveraged its investment management capabilities as evidenced by:

- Obtaining over £329 million of funds under management in the Jackson variable annuity programme.
- Assuming management of over £194 million of funds under management from Curian.
- Assuming additional responsibilities for the UK life fund, growing assets by £2 billion.
- Launching three new products offered by Prudential Corporation Asia.
- Raising over £638 million of third-party funds under management.

Financial performance

IFRS operating profit in 2007 was £4 million, down from £10 million in 2006, primarily due to lower investment income and performance-related fees, partially offset by asset-driven fee growth.

Year-end 2007 funds under management of £39 billion were as follows:

PPMA funds under management (£ billions)	**Asia**	**US**	**UK**	**Total**
Insurance	0	23	10	33
Unitised	3	0	1	4
Institutional	0	0	0	0
CDOs	0	2	0	2
Total	**3**	**25**	**11**	**39**

US Broker dealer

Broker dealer		**CER**		**RER[5]**	
	2007	**2006**	**Change**	**2006**	**Change**
	£m	**£m**	**%**	**£m**	**%**
Revenue	300	246	22%	267	12%
Costs	(291)	(240)	21%	(261)	11%
Total IFRS operating profit*	9	6	50%	6	50%

*Based on longer-term investment returns.

National Planning Holdings (NPH), Jackson's affiliated independent broker-dealer network, is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation and SII Investments.

NPH continues to grow through significant recruiting efforts. By leveraging its high-quality, state-of-the-art technology, NPH provides its advisors with the tools they need to operate their practices more efficiently. Through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, in addition to receiving valuable insight into the needs of financial advisors and their clients.

Current year initiatives

NPH increased sales of Jackson's enhanced product offering and the overall distribution of the network during the year. NPH also introduced several operational enhancements, which increased the efficiency of its production processes. In addition, NPH executed a focused recruitment initiative to expand the total assets under management and the representative base of INVEST Financial Corporation.

Financial performance

NPH had a very successful year in 2007, generating record revenues of £300 million versus £246 million in 2006 on gross product sales of £7.1 billion. The network continues to generate profitable growth with 2007 IFRS operating profit of £9 million, a 50 per cent increase at CER from £6 million in 2006. NPH also increased the number of registered advisors in its network to 3,000 at year-end.

Curian

Curian		CER		RER[5]	
	2007 £m	2006 £m	Change %	2006 £m	Change %
Gross investment flows	663	422	57%	459	44%
Revenue	20	15	33%	16	25%
Costs	(25)	(22)	14%	(24)	4%
Total IFRS operating profit*	(5)	(7)	(29%)	(8)	(38%)

*Based on longer-term investment returns.

Curian Capital (Curian), Jackson's registered investment advisor, provides innovative fee-based separately managed accounts and investment products to advisors through a sophisticated technology platform. Curian expands Jackson's access to advisors and provides a complement to Jackson's core annuity product lines.

Current year initiatives

During 2007, Curian implemented its Simplified Proposal Process, which allows financial professionals to generate proposals in a matter of minutes, while maintaining the flexibility and customisation that make separately managed accounts an attractive alternative to traditional investment vehicles. Curian also expanded its wholesaling force during the year in an effort to accelerate growth.

Financial performance

As a result of these initiatives, Curian continued to build its position in the US retail asset management market with total assets under management at the end of December 2007 of £1.7 billion, up from £1.2 billion at the end of December 2006. Curian also generated record deposits in 2007 of £663 million, up 57 per cent over 2006. Curian's IFRS operating loss declined to £5 million in 2007 (2006: £7 million at CER).

OTHER CORPORATE INFORMATION

Balance sheet

Explanation of balance sheet structure

The Group's capital on an IFRS basis comprises of shareholders' funds of £6,201 million, subordinated long-term and perpetual debt of £1,570 million, other core structural borrowings of £922 million and the unallocated surplus of with-profits funds of £14.4 billion.

Subordinated or hybrid debt is debt capital which has some equity-like features and which would rank below other senior debt in the event of a liquidation. These features allow hybrid debt to be treated as capital for FSA regulatory purposes. All of the Group's hybrid debt which qualifies in this way is held at the Group level and is therefore taken as capital into the parent solvency test under the IGD.

The FSA has established a structure for determining how much hybrid debt can count as capital which is similar to that used for banks. It categorises capital as Tier 1 (equity and preference shares), Upper Tier 2 and Lower Tier 2. Up to 15 per cent of Tier 1 can be in the form of hybrid debt and called 'Innovative Tier 1'. At 31 December 2007, the Group held £763 million of Innovative Tier 1 capital, in the form of perpetual securities, and £932 million of Lower Tier 2 capital. Following the implementation of the IGD, it is advantageous to the Group from a regulatory capital standpoint to raise its long-term debt in hybrid form and it is the Group's policy to take advantage of favourable market conditions as they arise to do so.

The unallocated surplus of the with-profits funds represents assets in the life fund which have not yet been allocated either to policyholders or shareholders. They are not generally available to the Group other than as they emerge through the statutory transfer of the shareholders' share of the surplus as it emerges from the fund over time.

Shareholders' borrowings and financial flexibility

Core structural borrowings of shareholder-financed operations at 31 December 2007 totalled £2,492 million, compared with £2,612 million at the end of 2006. This decrease reflected the repayment of £150 million long-term borrowings upon maturity, exchange conversion losses of £16 million and other adjustments of negative £14 million.

After adjusting for holding company cash and short-term investments of £1,456 million, net core structural borrowings at 31 December 2007 were £1,036 million compared with £1,493 million at 31 December 2006. This reflects the net cash inflow of £445 million (including £527 million net proceeds from the sale of Egg), exchange conversion gains of £49 million and other adjustments of negative £37 million.

Core structural borrowings at 31 December 2007 included £1,473 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. £888 million of the core borrowings were denominated in US dollars, to hedge partially the currency exposure arising from the Group's investment in Jackson.

Prudential has in place an unlimited global commercial paper programme. At 31 December 2007, commercial paper of £320 million, US$3,479 million and €483 million has been issued under this programme. Prudential also has in place a £5,000 million medium-term note (MTN) programme. At 31 December 2007, subordinated debt outstanding under this programme was £435 million and €520 million, and senior debt outstanding was €65 million and US$12 million. In addition, the holding company has access to £1,600 million committed revolving credit facilities, provided in equal tranches of £100 million by 16 major international banks renewable in December 2009 and an annually renewable £500 million committed securities lending liquidity facility. These facilities have not been drawn on during the year. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are available for general corporate purposes and to support the liquidity needs of the parent company.

The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 31 December 2007, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 6.6 per cent compared with 11.2 per cent at 31 December 2006.

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

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 16.1 times in 2007 compared with 13.1 times in 2006.

Treasury policy

The Group operates a central treasury function, which has overall responsibility for managing its capital funding programme as well as its central cash and liquidity positions.

The aim of Prudential's capital funding programme, which includes the £5,000 million MTN programme together with the unlimited commercial paper programme, is to maintain a strong and flexible funding capacity.

Prudential UK and Prudential Corporation Asia use derivatives to reduce equity risk, interest rate and currency exposures, and to facilitate efficient investment management. In the US, Jackson uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management and to match liabilities under fixed index policies.

It is Prudential's policy that all free-standing derivatives are used to hedge exposures or facilitate efficient portfolio management.

Amounts at risk are covered by cash or by corresponding assets.

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon conversion of results into pounds sterling. The currency exposure relating to the conversion of reported earnings is not separately managed, as it is not in the economic interests of the Group to do so. The impact of gains or losses on currency conversions is recorded as a component of shareholders' funds within the statement of recognised income and expense. The impact of exchange rate fluctuations in 2007 is discussed elsewhere in this financial review.

Unallocated surplus of with-profits

During 2007, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on a statutory basis, grew from £13.6 billion at 1 January to £14.4 billion at 31 December. This reflects an increase in the cumulative retained earnings arising on with-profits business that have yet to be allocated to policyholders or shareholders.

Regulatory capital requirements

Prudential is subject to the capital adequacy requirements of the Insurance Groups Directive (“IGD”) as implemented by the Financial Services Authority (“FSA”). The IGD pertains to groups whose activities are primarily concentrated in the insurance sector, and applies for Prudential from December 2007, following the sale of Egg Banking during 2007. Prior to this, Prudential was required to meet the requirements of the Financial Conglomerates Directive ("FCD"), which applies to groups with significant cross-sector activities in insurance and banking/investment services.

The FSA implemented the FCD by applying the sectoral rules of the largest sector of the group. Prudential was therefore classified as an insurance conglomerate under the FCD, and was required to focus on the capital adequacy requirements relevant to that sector. Prudential’s move from FCD to IGD during 2007, therefore, did not have a significant impact on the Group, as the FSA’s implementation of both directives is closely aligned. In particular, from 31 December 2006 the FSA made the continuous parent solvency testing mandatory for all insurance groups covered by the IGD. This involves the aggregating of surplus capital held in the regulated subsidiaries, from which Group borrowings, except those subordinated debt issues which qualify as capital, are deducted. No credit for the benefit of diversification is allowed for under this approach. The test is passed when this aggregate number is positive, and a negative result at any point in time is a notifiable breach of UK regulatory requirements.

Due to the geographically diverse nature of Prudential’s operations, the application of these requirements to Prudential is complex. In particular, for many of our Asian operations, the assets, liabilities and capital requirements have to be recalculated based on FSA regulations as if the companies were directly subject to FSA regulation.

The IGD surplus as at 31 December 2007 will be submitted to the FSA by 30 April 2008 but is currently estimated to be around £1.4 billion. This includes a gain of around £0.3billion that arose during 2007 from the sale of Egg Banking plc.

The European Union (“EU”) is continuing to develop a new prudential framework for insurance companies, ‘the Solvency II project’ that will update the existing life, non-life and insurance groups directives. The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through establishing solvency requirements better matched to the true risks of the business. Like Basel 2, the new approach is expected to be based on the concept of three pillars – minimum capital requirements, supervisory review of firms’ assessments of risk and enhanced disclosure requirements. However, the scope is wider than Basel 2 and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements.

A key aspect of Solvency II is the focus on risks and, for example, capital requirements will be calibrated to a one year Value at Risk with a 99.5 per cent confidence level. Companies will be encouraged to improve their risk management processes and will be allowed to make use of internal economic capital models to enable a better understanding of risks. The emphasis on transparency and comparability would ensure a level playing field but not delivering this remains one of the key risks for the project.

The European Commission (“EC”) published a draft framework directive on 10 July 2007 containing high-level principles. The directive is now being reviewed by the European Parliament and the Council of Ministers. The EC expects the institutions to agree the Solvency II framework directive in the second half of 2008. The principles in the directive will be supplemented by implementing measures that will be adopted by the EC and EU member
states. Solvency II is then intended to be implemented during 2012. It is important that the EU policy makers keep up the progress to enable implementation by the suggested date.

During 2007, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) invited the EU insurance industry to participate in the third quantitative impact study, which provided useful input for supervisors and industry alike. The EU insurance industry will be participating in a fourth quantitative impact study during the first half of 2008 with a view to providing further quantitative input into the calibration of the capital requirements. This study will include a particular focus on groups. Participation in these exercises involves a substantive commitment and is expected to yield benefits by providing evidence leading to a truly risk-based capital requirement.

Prudential is also actively engaged in policy discussions mainly through its participation in the Chief Risk Officer (CRO) Forum of major European insurance firms. We have been emphasising the importance of Solvency II delivering an economic based approach for groups reflecting diversification benefits across all the group's insurance activities; an appropriate level playing field, in particular in connection with the treatment of operations outside the European Economic Area (EEA); and the provision of instruments of group support that enhance the efficiency of capital management within the EEA.

Financial strength of insurance operations

Asia

Prudential Corporation Asia maintains solvency margins in each of its operations so that these are at or above the local regulatory requirements. Across the region less than 40 per cent of non-linked funds are invested in equities. Both Singapore and Malaysia have discrete life funds, and have strong free asset ratios. The Hong Kong life operation is a branch of Prudential Assurance Company Limited and its solvency is covered by that business. Taiwan has Risk Based Capital regulatory solvency margins and Prudential ensures sufficient capital is retained in the business to cover these requirements.

Asia	**2007** **per cent**	**2006** **per cent**	**2005** **per cent**
Equities	10	3	9
Bonds	67	60	59
Other asset classes	24	37	33
Total	**100**	**100**	**100**

United States

The capital adequacy position of Jackson remains strong, with the capital ratio improving from 9.8 per cent in 2006 to 10.6 per cent in 2007. Jackson's statutory capital, surplus and asset valuation reserve position of £2,251 million at 31 December 2007 improved year-on-year by £327 million, after deducting the £122 million of capital remitted to the parent company. Jackson's financial strength is rated AA by Standard & Poor's and A1 by Moody's.

Jackson's invested asset mix on a US regulatory basis (excludes policy loans and reverse repo leverage) is as follows:

Jackson	**2007** **per cent**	**2006** **per cent**	**2005** **per cent**
Bonds:			
Investment Grade Public	59	60	58
Investment Grade Private	18	18	19
Non-Investment Grade Public	3	4	5
Non-Investment Grade Private	2	1	2
Commercial mortgages	12	12	11
Private equities and real estate	3	3	3
Equities, cash and other assets	3	2	2
Total	**100**	**100**	**100**

United Kingdom

The PAC's long-term fund remains very strong. On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets are valued at approximately £8.7 billion at 31 December 2007, before a deduction for the risk capital margin. The financial strength of PAC is rated AA+ (stable outlook) by Standard & Poor's, Aa1 (negative outlook) by Moody's and AA+ (stable outlook) by Fitch Ratings.

The with-profits sub-fund delivered a pre-tax return of 7.2 per cent in 2007, and over the last five years the fund has achieved a total return of 91 per cent. Much of this excellent investment performance was achieved through the active asset allocation of the fund. As part of its asset allocation process, Prudential UK constantly evaluates prospects for different markets and asset classes. During the year PAC's Long Term Fund reduced its exposure to property and increased the quality of its corporate bond portfolio. The fund includes the assets of the Equitable Life with-profit annuity business, transferred during the year, which were almost entirely fixed interest corporate bonds.

UK fund	**2007 per cent**	**2006 per cent**	**2005 per cent**
UK equities	35	36	40
International equities	17	17	19
Property	14	15	15
Bonds	27	26	21
Cash and other assets classes	7	6	5
Total	**100**	**100**	**100**

Inherited estate of Prudential Assurance

The assets of the main with-profits fund within the long-term insurance 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.

Prudential aims to be in a position to determine whether reattribution is in the best interests of policyholders and shareholders in the first half of 2008.

Defined benefit pension schemes

The Group operates four defined benefit schemes, three in the UK, of which the principal scheme is the Prudential Staff Pension Scheme (PSPS), and a small scheme in Taiwan. The level of surplus or deficit of assets over liabilities for defined benefit schemes is currently measured in three ways: the actuarial valuation, FRS 17 (for subsidiary accounting in the UK), and IAS 19 for the Group financial statements. FRS 17 and IAS 19 are very similar. As at 31 December 2007 the shareholders' share of the £447 million surplus for PSPS and the deficits of the other schemes amounted to an £76 million surplus net of related tax relief.

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years to assess the appropriate level of funding for schemes having regard to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. PSPS was last actuarially valued as at 5 April 2005 and this valuation demonstrated the Scheme to be 94 per cent funded, with a shortfall of actuarially determined assets to liabilities of 6 per cent, representing a deficit of £243 million.

The finalisation of the valuation as at 5 April 2005 was accompanied by changes to the basis of funding for the scheme with effect from that date. Deficit funding amounts designed to eliminate the actuarial deficit over a 10-year period have been and are being made based on that valuation. Total contributions to the Scheme for deficit funding and employer's contributions for ongoing service for current employees are expected to be of the order of £70-75 million per annum over a 10-year period. In 2007, total contributions for the calendar year including expenses and augmentations were £82 million.

Under IAS 19 the basis of valuation differs markedly from the full triennial valuation basis. In particular, it requires assets of the Scheme to be valued at their market value at the year-end, while pension liabilities are required to be discounted at a rate consistent with the current rate of return on a high quality corporate bond. As a result, the difference between IAS 19 basis assets and liabilities can be volatile. For those schemes such as PSPS, which hold a significant proportion of their assets in equity investments, the volatility can be particularly significant. For 2007, a £23 million pre-tax shareholder charge to operating results based on longer-term returns arises. In addition, outside the operating result, but included in total profits is a pre-tax shareholder credit of £90 million for net actuarial gains. These gains primarily represent the effect of changes in economic assumptions which more than offsets the losses from the effect of strengthened mortality assumptions for the UK pension schemes.

Surpluses and deficits on the Group's defined benefit schemes are apportioned to the PAC life fund and shareholders' funds based on estimates of employees' service between them. At 31 December 2005, the deficit of PSPS was apportioned in the ratio 70/30 between the life-fund and shareholders' backed operations following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2007. The IAS 19 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity. The deficit of the Scottish Amicable Pension Scheme has been allocated 50 per cent to the PAC with profits fund and 50 per cent to the PAC shareholder fund.

Reflecting these two elements, at 31 December 2007, the total share of the surplus on PSPS and the deficit on the smaller Scottish Amicable scheme attributable to the PAC with-profits fund amounted to a net surplus of £304 million net of related tax relief.

RISK MANAGEMENT

Philosophy, principles and objectives

Philosophy

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. Prudential believes that effective risk management capabilities are a key competitive advantage. A strategic risk, capital and value management framework and risk management culture has been developed to enhance the Group's embedded and franchise value.

Principles

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

The Group's policy is to proactively identify, assess, control, and monitor risk. This forms an essential element of delivering the Group's performance ambition. In so doing, material risks will only be retained where this is consistent with Prudential's risk appetite framework, ie:

- The retention of the risk contributes to value creation.
- The Group is able to withstand the impact of an adverse outcome.
- The Group has the necessary capabilities, expertise, processes and controls to manage the risk.

Objectives

The Group has five objectives for risk and capital management:

a) *Framework*: Design, implement and maintain a consistent risk management framework and policies spanning: economic, regulatory and rating agency capital management; risk appetite; and risk-adjusted profitability (RAP).

b) *Monitoring*: Establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers.

c) *Control*: Implement risk mitigation strategies and remedial actions where exposures are deemed inappropriate' and manage the response to extreme events.

d) *Communication*: Communicate the Group risk, capital and profitability position to internal and external stakeholders and rating agencies.

e) *Culture*: Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice risk measurement and management across the Group and industry.

Categorisation model

A common risk language is used across the Group, which allows meaningful comparisons to be made between different business units. Risks are broadly categorised as shown below.

Category	Risk type	Definition
Financial risks	Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.
	Credit risk	The risk of loss if another party fails to perform its obligations, or fails to perform them in a timely fashion.
	Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.
	Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost.
Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

Governance

The Group's internal control processes are detailed in the Group Governance Manual. This is supported by the Group Risk Framework, which provides an overview of the Group-wide philosophy and approach to risk management.

For joint ventures where the Group does not control management, the business unit party to the arrangement must: satisfy itself that suitable governance and risk management arrangements are in place to protect the Group's interests; and comply with the Group's requirements in respect of any operations it performs in support of the joint venture's activities.
Prudential's risk governance framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The risk governance framework is based on the concept of 'three lines of defence': risk management, risk oversight and independent assurance (see diagram opposite).

Risk management

Primary responsibility for strategy, performance management and risk control lies with the Prudential plc Board of directors (the Board), the Group Chief Executive and the chief executives of each business unit. Additionally, the Board has delegated responsibility to the Approvals Committee to approve actions which could significantly change the risk profile of any business, capital commitments and divestments within defined materiality thresholds, and certain legal matters involving trademarks, contracts, material guarantees and specific interactions with third parties.

Where appropriate, more detailed policies and procedures have been developed at Group and/or business unit levels. These include Group-wide mandatory policies on certain operational risks, including: health, safety, fraud, money laundering, bribery, business continuity, information security and operational security. Additional guidelines are provided for some aspects of actuarial and finance activity.

Board: The Board has overall responsibility for the system of internal control and risk management. It approves the overall framework for managing the risks faced by the Group and provides strategic direction on the amount and type of risk that the Group is prepared to accept.

Group executive management: The Group Chief Executive has overall responsibility for the risks facing the Group. The Group Chief Executive recommends to the Board the amount and type of risk that the Group is prepared to accept, and recommends risk management strategies as well as an overall framework for managing the risks faced by the Group with support from the Group Executive Committee, Group Finance Director and Group level risk committees. The Group Chief Executive provides regular updates to the Board on the risk position and risk policy.

Business unit management: Business unit chief executives are accountable for the implementation and operation of appropriate business unit risk frameworks and for ensuring compliance with the policy and minimum standards set by the Group. Business units must establish suitable governance structures that are based on the concept of 'three lines of defence', tailored as appropriate to the scale and complexity of the business unit. As the first line of defence, business unit management is responsible for identifying and managing business unit risks and providing regular risk reporting to the Group.

Risk oversight

Risk oversight: Risk management oversight is provided by Group-level risk committees, the Group Finance Director and the Group Risk function, working with counterparts in the business units in addition to other Group Head Office (GHO) oversight functions.

Group-level risk committees

Group Asset Liability Committee (Group ALCo): The Group ALCo is responsible for oversight of financial risks (market, credit, liquidity and insurance risks) across the Group. It is chaired by the Group Finance Director and its membership includes senior business unit and Group executives (chief actuaries, principal asset liability management officers and chief investment officers) who are involved in the management of the aforementioned risks. Group ALCo meetings are held on a monthly basis.

Balance Sheet and Capital Management Committee (BSCMC): The BSCMC is responsible for managing the balance sheets of Prudential plc and oversight of the Prudential Capital business unit. It is chaired by the Group Finance Director and its membership includes senior representatives from GHO, M&G and Prudential Capital. BSCMC meetings are held on a monthly basis.

Group Operational Risk Committee (GORC): The GORC is responsible for the oversight of non-financial risks (operational, business environment and strategic risks) across the Group. Responsibilities include monitoring operational risk and related policies and processes as they are applied throughout the Group. It is chaired by the Group Finance Director and its membership includes senior representatives of the Group and business unit risk functions. GORC meetings are held on a quarterly basis.

Group Risk

Group Risk's mandate is to establish and embed a strategic risk, capital and value management framework and risk management culture, consistent with Prudential's risk appetite, that protects and enhances the Group's embedded and franchise value.

Group Risk is responsible for the continued enhancement and evolution of the Group Risk Framework; provides functional leadership to the business units for the oversight of risk management across the Group; and acts as secretariat to the Group ALCo and GORC.

Group Risk also has certain finance and actuarial responsibilities related to Group regulatory and rating agency capital requirements, development of actuarial and financial reporting requirements and the RAP value management framework.

Independent assurance

Group Audit Committee: The Group Audit Committee provides independent assurance to the Board on the effectiveness of the Group's system of internal controls and risk management. The Group Audit Committee reviews the Group's risk management framework, and regular risk reports. The Group Audit Committee is supported by Group-wide Internal Audit.

Group-wide Internal Audit (GwIA): The GwIA function independently assures the effective operation of the Group's risk management framework. This involves the validation of methodology application, policy compliance and control adequacy. The GwIA Director reports all audit related matters to the Group Audit Committee (and business unit audit committees where appropriate) and reports for management purposes (but not audit-related matters) to the Group Chief Executive.

Risk appetite

The Group risk appetite framework sets out the Group's overall tolerance to risk exposures, approach to risk and return optimisation and management of risk. The Board and Group Executive Committee have set up Group-level risk appetite statements concerning the key risk exposures faced by the Group. The Group risk appetite statements set out the Group's risk tolerance, or risk appetite, to 'shocks' to the key financial risk exposures (market, credit and insurance risk).

Limits

Aggregate risk limits are defined in terms of earnings volatility and capital requirements:

(a) Earnings volatility: The objectives of the limits are to ensure that (a) the volatility of earnings is consistent with stakeholder expectations: (b) the Group has adequate earnings (and cash flows) to service debt and expected dividends: and (c) that earnings (and cash flows) are managed properly across geographies and are consistent with the Group's funding strategies. The two measures used are European Embedded Value (EEV) operating profit and International Financial Reporting Standards (IFRS) operating profit.

(b) Capital requirements: The objectives of the limits are to ensure that (a) the Group is economically solvent: (b) the Group achieves its desired target rating to meet its business objectives: (c) supervisory intervention is avoided: (d) any potential capital strains are identified: and (e) accessible capital is available to meet business objectives. The two measures used are EU Insurance Groups Directive (IGD) capital requirements and economic capital requirements.

Business units must establish suitable market, credit, underwriting and liquidity limits that maintain financial risk exposures within the defined risk appetite.

In addition to business unit operational limits on credit risk, counterparty risk limits are also set at the Group level. Limits on total Group-wide exposures to a single counterparty are specified for different credit rating 'buckets'. Actual exposures are monitored against these limits on a quarterly basis.

Usage by business units

Risk appetite is part of the annual business planning cycle. The risk profile of the Group is monitored against the agreed limits throughout the year by Group Risk. Using submissions from business units, Group Risk calculates the Group's position (allowing for diversification effects between business units) relative to the limits implied by the risk appetite statements.

In order to determine its risk position, each business unit calculates the impacts (on earnings and capital measures) of a shock to market, credit, insurance and operational risk exposures.

A two-tier approach is used to apply the limits at business unit level. Firstly, indicative business unit risk limits are calculated; these ensure that, if each business unit keeps within its limits, the Group risk position would be within the Group limits. Secondly, the impact on the risk position is considered as part of Group Risk's scrutiny of large transactions or departures from plan proposed by individual business units.

Any potential breaches of the risk limits implied by a business unit plan will necessitate a dialogue process between GHO and the business units. Group limits may not be breached if, for example, limits in other business units are not fully utilised, or the diversification effect at Group level of a particular risk with other business units means that the Group limit is not breached. Ultimately, authorisation to breach Group limits would require Group Executive Committee approval.

Risk management process

Risk mitigation

The Group expects active management of its actual risk profile against its tolerance of risk. Primary responsibility for identifying and implementing controls and mitigation strategies rests with the business units. Group Risk provides oversight and advice.

Risk registers are maintained that include details of the controls and mitigating actions being employed for identified risks. The effectiveness of controls and progress with actions are routinely assessed. Any mitigation strategies involving large transactions (eg. a material derivative transaction) would be subject to scrutiny at Group level before implementation.

Prudential employs a range of risk mitigation strategies aimed at reducing the impact of a variety of risks. Key mitigation strategies include: adjustment of asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); use of derivatives to hedge market risks; reinsurance programmes to limit insurance risk; and corporate insurance programmes to limit impact of operational risks. Revisions to business plans (such as reassessment of bonus rates on participating business and scaling back of target new business volumes) may be also be used as a mitigating strategy.

Contingency plans are in place for a range of operational risk scenarios, including incident management and business continuity plans. As a contingency plan for liquidity risk, the Group has arranged access to committed revolving credit facilities and committed securities lending facilities.

Asset liability management

Prudential manages its assets and liabilities locally, in accordance with local regulatory requirements and reflecting the different types of liabilities of each business unit. Stochastic asset-liability modelling is carried out locally by the business units to perform dynamic solvency testing and assess economic capital requirements. Reserve adequacy testing under a range of scenarios is also carried out, including scenarios prescribed by local regulatory bodies.

The investment strategy for assets held to back liabilities is set locally by business units, taking into account the nature, term and currency of the liabilities, and any local regulatory requirements. The main principles are as follows:

- For liabilities that are sensitive to interest rate movements (in particular, UK non-profit annuities and Jackson fixed annuities), cash flow analysis is used to construct a portfolio of fixed income securities whose value changes in line with the value of liabilities when interest rates change;

- For participating business (in particular, the UK with-profits fund), stochastic asset-liability modelling is used to derive a strategic asset allocation and policyholder bonus strategy that (based on the model assumptions) will optimise policyholder and shareholder returns, while maintaining financial strength. The bonus strategy on participating business is an integral part of the asset-liability management approach for participating business; and

- For unit-linked business, the assets held to cover policyholder unit accounts are invested as per the stated investment strategy or benchmark index given in the product marketing literature. Assets in respect of non-unit reserves (e.g. sterling reserves) are invested in fixed income securities (using a cash flow matching analysis).

Derivative hedging strategies are also used on a controlled basis across the Group to manage exposure to market risks. Surplus assets held centrally are predominantly invested in short-term fixed income securities. The Group’s central treasury function actively manages the surplus assets to maximise returns, subject to maintaining an acceptable degree of liquidity.

Risk reporting

Group Risk and other GHO oversight functions have individually defined and publicised frameworks, escalation criteria and processes for the timely reporting of risks and incidents by business units. As appropriate, these risks and incidents are escalated to the various Group-level oversight and risk committees and the Board.

Internal business unit routine reporting requirements vary according to the nature of the business. Each business unit is responsible for ensuring that its risk reporting framework meets both the needs of the business unit (for example reporting to the business unit risk and audit committees) and the minimum standards set by the Group (for example, to meet Group-level reporting requirements).

Business units review their risks as part of the annual preparation of their business plans, and review opportunities and risks to business objectives regularly with Group executive management. Group Risk reviews, and reports to Group executive management, on the impact of large transactions or divergences from business plan.

The Group Executive Committee and Board are provided with regular updates on the Group's economic capital position, overall position against risk limits and RAP. They also receive the annual financial condition reports prepared by the Group's insurance operations.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARY CONSOLIDATED INCOME STATEMENT

	2007 £m	2006 £m
Asian operations	**1,103**	864
US operations	**635**	718
UK operations:		
UK insurance operations	**859**	686
M&G	**254**	204
	1,113	890
Other income and expenditure	**(289)**	(298)
Restructuring costs	**(20)**	(41)
Operating profit from continuing operations based on longer-term investment returns	**2,542**	2,133
Short-term fluctuations in investment returns	**174**	738
Mark to market value movements on core borrowings	**223**	85
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	**116**	207
Effect of changes in economic assumptions and time value of cost of options and guarantees	**748**	59
Profit from continuing operations before tax (including actual investment returns)	**3,803**	3,222
Tax attributable to shareholders' profit	**(961)**	(904)
Profit from continuing operations for the financial year after tax before minority interests	**2,842**	2,318
Discontinued operations (net of tax)	**241**	(105)
Profit for the year	**3,083**	2,213
Attributable to:		
Equity holders of the Company	**3,062**	2,212
Minority interests	**21**	1
Profit for the year	**3,083**	2,213

Earnings per share (in pence)	2007	2006
Continuing operations		
From operating profit, based on longer-term investment returns, after related tax and minority interests	**74.9p**	62.1p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after minority interests)	**6.1p**	21.8p
Adjustment for effect of mark to market value movements on core borrowings	**9.1p**	3.5p
Adjustment for post-tax effect of shareholders' share of actuarial gains and losses on defined benefit pension schemes	**3.4p**	6.0p
Adjustment for post-tax effect of changes in economic assumptions and time value of cost of options and guarantees (after minority interests)	**21.8p**	2.6p
Based on profit from continuing operations after tax and minority interests	**115.3p**	96.0p
Discontinued operations		
Based on profit (loss) from discontinued operations after tax and minority interests	**9.9p**	(4.3)p
Based on profit for the year after minority interests	**125.2p**	91.7p
Average number of shares (millions)	**2,445**	2,413

Dividends per share (in pence)

	2007	2006
Dividends relating to reporting period:		
Interim dividend (2007 and 2006)	**5.70p**	5.42p
Final dividend (2007 and 2006)	**12.30p**	11.72p
Total	**18.00p**	17.14p
Dividends declared and paid in reporting period:		
Current year interim dividend	**5.70p**	5.42p
Final dividend for prior year	**11.72p**	11.02p
Total	**17.42p**	16.44p

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

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

Results Analysis by Business Area

	2007 £m	2006 £m
Asian operations		
New business	**653**	514
Business in force	**393**	315
Long-term business	**1,046**	829
Asset management	**72**	50
Development expenses	**(15)**	(15)
Total	**1,103**	864
US operations		
New business	**285**	259
Business in force	**342**	449
Long-term business	**627**	708
Broker-dealer and asset management	**13**	18
Curian	**(5)**	(8)
Total	**635**	718
UK operations		
New business	**277**	266
Business in force	**582**	420
Long-term business	**859**	686
M&G	**254**	204
Total	**1,113**	890
Other income and expenditure		
Investment return and other income	**45**	8
Interest payable on core structural borrowings	**(168)**	(177)
Corporate expenditure:		
Group Head Office	**(117)**	(83)
Asia Regional Head Office	**(38)**	(36)
Charge for share-based payments for Prudential schemes	**(11)**	(10)
Total	**(289)**	(298)
Restructuring costs	**(20)**	(41)
Operating profit from continuing operations based on longer-term investment returns	**2,542**	2,133
Analysed as profits (losses) from:		
New business	**1,215**	1,039
Business in force	**1,317**	1,184
Long-term business	**2,532**	2,223
Asset management	**334**	264
Other results	**(324)**	(354)
Total	**2,542**	2,133

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

For 2007, the EEV basis operating profit from continuing operations based on longer-term investment returns before tax of £2,542m includes a credit of £99m that arises from including the benefits, grossed up for notional tax, of altered corporate tax rates for China, Malaysia, Singapore and the UK. Further details are explained in note 5.

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

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

MOVEMENT IN SHAREHOLDERS' EQUITY (excluding minority interests)

	2007 £m	2006 £m
Profit for the year attributable to equity shareholders	**3,062**	2,212
Items taken directly to equity:		
Exchange movements	**64**	(359)
Unrealised valuation movements on Egg securities classified as available-for-sale	**(2)**	(2)
Movement on cash flow hedges	**(3)**	7
Related tax	**3**	(74)
Dividends	**(426)**	(399)
Acquisition of Egg minority interests	**-**	(167)
New share capital subscribed	**182**	336
Reserve movements in respect of share-based payments	**18**	15
Treasury shares:		
Movement in own shares in respect of share-based payment plans	**7**	6
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	**4**	0
Mark to market value movements on Jackson assets backing surplus and required capital*	**(13)**	7
Net increase in shareholders' equity	**2,896**	1,582
Shareholders' equity at beginning of year (excluding minority interests)	**11,883**	10,301
Shareholders' equity at end of year (excluding minority interests)	**14,779**	11,883
Comprising:		
Asian operations:		
Net assets	**3,837**	2,637
Acquired goodwill	**172**	172
	4,009	2,809
US operations	**3,686**	3,360
UK operations:		
Long-term business	**6,497**	5,813
M&G:		
Net assets	**271**	230
Acquired goodwill	**1,153**	1,153
Egg	**-**	292
	7,921	7,488
Other operations:		
Holding company net borrowings at market value (note 7)	**(873)**	(1,542)
Other net assets (liabilities)	**36**	(232)
Shareholders' equity at end of year (excluding minority interests)	**14,779**	11,883

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

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

SUMMARISED CONSOLIDATED BALANCE SHEET

	2007 £m	2006 £m
Total assets less liabilities, excluding insurance funds	**195,987**	183,130
Less insurance funds*:		
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	**(189,786)**	(177,642)
Less shareholders' accrued interest in the long-term business	**8,578**	6,395
	(181,208)	(171,247)
Total net assets	**14,779**	11,883
Share capital	**123**	122
Share premium	**1,828**	1,822
IFRS basis shareholders' reserves	**4,250**	3,544
Total IFRS basis shareholders' equity	**6,201**	5,488
Additional EEV basis retained profit	**8,578**	6,395
Shareholders' equity (excluding minority interests)	**14,779**	11,883

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

NET ASSET VALUE PER SHARE (in pence)

	2007	2006
Based on EEV basis shareholders' equity of £14,779m (2006: £11,883m)	**598p**	486p
Number of issued shares at year end (millions)	**2,470**	2,444

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

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. These other operations include the results of discontinued banking operations, following the sale of Egg on 1 May 2007.

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 asset management.

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

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

As regards the Group's defined benefit pension schemes, the surplus or deficit attaching to the Prudential Staff Pension Scheme (PSPS) and Scottish Amicable Pension scheme are excluded from the EEV value of UK operations and included in the total for Other operations. The surplus and deficit amounts are partially attributable to the PAC with-profits fund and shareholder-backed long-term business and partially to other parts of the Group. In addition to the IFRS basis surplus or deficit, the shareholders' 10 per cent share of the PAC with-profits 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 2007 and 2006 have been derived from the EEV basis results supplement to the Company's statutory accounts for 2007. The supplement included an unqualified audit report from the auditors.

(2) Economic assumptions

(a) Deterministic assumptions

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on cash or fixed interest securities. This 'active' basis of assumption setting has been applied in preparing the results of all the Group's US and UK 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 in respect of each territory are derived by adding a risk premium, also based on the long-term view of Prudential's economists, to the risk-free rate. In Asia, equity risk premiums range from 3.0 per cent to 6.0 per cent (2006: 3.0 per cent to 5.8 per cent). In the US and the UK, the equity risk premium is 4.0 per cent above risk-free rates for both 2007 and 2006. 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 tables below summarise the principal financial assumptions:

Asian operations

	China	Hong Kong (notes iii, iv, v)	India	Indonesia	Japan	Korea	Malaysia (notes iv, v)	Philippines	Singapore (notes iv,v)	Taiwan (notes ii, v)	Thailand	Vietnam
	31 Dec 2007	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**	**31 Dec 2007**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Risk discount rate:												
New business	**11.75**	**5.7**	**15.75**	**16.75**	**5.1**	**9.7**	**9.3**	**15.75**	**6.4**	**9.1**	**13.0**	**16.75**
In force	**11.75**	**6.0**	**15.75**	**16.75**	**5.1**	**9.7**	**9.1**	**15.75**	**6.8**	**9.8**	**13.0**	**16.75**
Expected long-term rate of inflation	**4.0**	**2.25**	**5.0**	**6.0**	**0.0**	**2.75**	**2.75**	**5.0**	**1.75**	**2.25**	**3.0**	**6.0**
Government bond yield	**8.25**	**4.1**	**9.25**	**10.25**	**2.0**	**5.8**	**6.5**	**9.25**	**4.25**	**5.5**	**6.75**	**10.25**

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

	Asia total 31 Dec 2007 %	Asia total 31 Dec 2006 %
Weighted risk discount rate (note (i)):		
New business	**9.5**	9.8
In force	**8.7**	8.8

Notes

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

(ii) For traditional business in Taiwan, the economic scenarios used to calculate the 2007 and 2006 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 at 31 December 2007 of around 2.5 per cent (2006: around 2 per cent) trend towards 5.5 per cent at 31 December 2013.

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 0.5 per cent for 2007 to 6.4 per cent for 2014. The assumed Fund Earned Rate increases to 2.5 per cent in 2008 and then increases to 3.3 per cent by 2013. Thereafter, the assumed Fund Earned Rate fluctuates around a target of 6.4 per cent. This projection compares with that applied for the 2006 results of a grading from an assumed rate of 2.1 per cent for 2006 to 5.7 per cent for 2014.

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

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

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

	31 Dec 2007 %	31 Dec 2006 %
Hong Kong	**8.1**	8.7
Malaysia	**12.5**	12.8
Singapore	**9.3**	9.3

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

(v) For 2007, cash rates rather than government bond yields were used in setting risk discount rates for Malaysia, Singapore, Taiwan and for Hong Kong dollar denominated business. For 2006, cash rates were used for these operations and for all Hong Kong business (i.e. including US dollar denominated business).

US operations (Jackson)	31 Dec 2007 %	31 Dec 2006 %
Risk discount rate*:		
New business	**7.0**	7.6
In force	**6.0**	6.7
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	**4.1**	4.8
Pre-tax expected long-term nominal rate of return for US equities	**8.1**	8.8
Expected long-term rate of inflation	**2.4**	2.5

*The risk discount rates at 31 December 2007 for new business and business in-force for US operations reflect weighted rates based on underlying rates of 8.1% for variable annuity business and 4.8% for other business. The decrease in the weighted discount rates reflects the decrease in the US 10-year treasury bond rate.

UK insurance operations	31 Dec 2007 %	31 Dec 2006 %
Risk discount rate (note (i)):		
New business	**7.3**	7.8
In force	**7.85**	8.0
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**8.55**	8.6
Overseas equities	**8.1 to 10.2**	8.6 to 9.3
Property	**6.8**	7.1
Gilts	**4.55**	4.6
Corporate bonds – with-profits funds (note (ii))	**6.0**	5.3
– other business	**6.25**	5.3
Expected long-term rate of inflation	**3.2**	3.1
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:		
Pension business (where no tax applies)	**7.85**	7.5
Life business	**6.9**	6.6
Pre-tax expected long-term nominal rate of return for annuity business (note (iii)):		
Fixed annuities	**5.4 to 5.6**	5.0 to 5.1
Linked annuities	**5.0 to 5.2**	4.8 to 5.0

Notes

(i) The risk discount rates for new business and business in force for UK insurance operations reflect weighted rates based on the type of business.

(ii) The assumed long-term rate for corporate bonds for 2007 for with-profits business reflects the purchase of credit default swaps.

(iii) The pre-tax rates of return for annuity business are based on the gross redemption yield on the backing assets net of a best estimate allowance for future defaults.

(b) Stochastic assumptions

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

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

Asian operations

The same asset return models as used in the UK, appropriately calibrated, have been used for the Asian operations as described for UK insurance operations below. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset.

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

The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns for both 2007 and 2006 ranges from 18 per cent to 25 per cent, and the volatility of government bond yields ranges from 1.3 per cent to 2.5. per cent (2006: 1.4 per cent to 2.5 per cent).

US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to actual market data;
- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity and bond returns have been stochastically generated using a regime-switching log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns for both 2007 and 2006 ranges from 18.6 per cent to 28.1 per cent, depending on risk class, and the standard deviation of bond returns ranges from 1.4 per cent to 1.7 per cent (2006: 1.4 per cent to 2.0 per cent).

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.

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

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied to both years are as follows:

	%
Equities:	
UK	18.0
Overseas	16.0
Property	15.0

(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 principles, 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 Asia and the UK, the capital available in the fund is sufficient to meet the encumbered capital requirements.

- Asian operations: the economic capital requirement is substantially higher than local statutory requirements in total. Economic capital requirements vary by territory, but in aggregate, the encumbered capital is equivalent to the amount required under the Insurance Groups Directive (IGD).
- US operations: the level of encumbered capital has been set to an amount at least equal to 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL), which is sufficient to meet the economic capital requirement.
- UK insurance operations: the economic capital requirements for annuity business are fully met by Pillar I requirements being four per cent of mathematical reserves, which are also sufficient to meet Pillar II requirements.

(4) Margins on new business premiums

	New Business Premiums		Annual Premium and Contribution Equivalents	Present Value of New Business Premiums	Pre-Tax New Business	New Business Margin	
	Single	Regular	(APE)	(PVNBP)	Contribution	(APE)	(PVNBP)
2007	£m	£m	£m	£m	£m	%	%
Asian operations	**1,820**	**1,124**	**1,306**	**7,007**	**653**	**50**	**9.3**
US operations	**6,515**	**19**	**671**	**6,666**	**285**	**42**	**4.3**
UK insurance operations	**6,632**	**234**	**897**	**7,629**	**277**	**31**	**3.6**
Total	**14,967**	**1,377**	**2,874**	**21,302**	**1,215**	**42**	**5.7**

	New Business Premiums		Annual Premium and Contribution Equivalents	Present Value of New Business Premiums	Pre-Tax New Business	New Business Margin	
	Single	Regular	(APE)	(PVNBP)	Contribution	(APE)	(PVNBP)
2006	£m	£m	£m	£m	£m	%	%
Asian operations	1,072	849	956	5,132	514	54	10.0
US operations	5,964	17	614	6,103	259	42	4.2
UK insurance operations	6,991	201	900	7,712	266	30	3.4
Total	14,027	1,067	2,470	18,947	1,039	42	5.5

New business margins are shown on two bases, namely the margins by reference to Annual Premium 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 premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

In determining the EEV basis value of new business written in the 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 as at the end of the year.

(5) Effect of changes in corporate tax rates and other operating assumptions

Effect of changes in corporate tax rates

At 31 December 2007, a change to reduce the UK corporate tax rate from 30 per cent to 28 per cent in 2008 had been enacted in the legislative process. Accordingly, the 2007 results incorporate the effects of this change in projecting the tax cash flows attaching to in-force business. Under the convention applied for EEV basis reporting, profits are generally determined on a post-tax basis and then grossed up at the prevailing corporate tax rates to derive pre-tax results. The effect of the change in the UK corporate tax rate is to give rise to a benefit to the value of business in force at 1 January 2007 of £48m. After grossing up this amount for notional tax of £19m, the effect on the pre-tax operating results based on longer-term investment returns for UK insurance operations for 2007 is a credit of £67m.

Similar considerations apply to corporate tax rate changes in China, Malaysia and Singapore giving rise to a benefit to the value of in-force business at 1 January 2007 of £25m. After grossing up this amount for notional tax of £7m, the effect on the pre-tax operating result based on longer-term investment returns for Asian operations for 2007 is a credit of £32m.

Effect of changes in other operating assumptions

For UK insurance operations there is a net nil charge or credit for both the 2007 and 2006 results. However, the 2007 results for annuity business have been determined after a strengthening of explicit mortality assumptions, and the release of excess margins in the aggregate liabilities that had previously been set aside as an indirect extra allowance for longevity related risks.

The overall impact of the assumption changes and release of margins for 2007 is as follows;

	£m
Strengthening of mortality assumptions (a)	(312)
Release of margins:	
Projected benefit related (b)	144
Investment related (c)	82
Expense related (d)	29
Other (e)	57
	312
	0

(a) The mortality assumptions have been strengthened such that the previous future improvement assumptions of medium cohort for males and 75% of medium cohort for females are now subject to a minimum level of improvement in future years.

(b) The release of projected benefit related margins relates to modelling improvements that have been made during 2007 and the effect of hedging inflationary increases on certain deferred annuity business.

(c) The release of investment related margins predominantly relates to £38m in respect of default margins and £43m for adjustments to the assumed liquidity premium. The resulting assumptions for expected defaults and liquidity premium, after allowing for the release of margins, remain appropriate given economic conditions at 31 December 2007.

(d) A release of expense reserves has been made following recent expense reductions, on which the related cost of capital on the EEV basis is £29m.

(e) This amount reflects the release of other additional margins in the liabilities that are no longer appropriate in light of the explicit strengthening of the mortality assumption.

(6) Effect of changes in economic assumptions and time value of cost of options and guarantees

The profits (losses) on changes in economic assumptions and time value of cost of options and guarantees resulting from changes in economic factors for in-force business included within the profit from continuing operations before tax (including actual investment returns) arise as follows:

	2007			2006		
	Change in economic assumptions £m	**Change in time value of cost of options and guarantees £m**	**Total £m**	Change in economic assumptions £m	Change in time value of cost of options and guarantees £m	Total £m
Asian operations (note (i))	**201**	**9**	**210**	(132)	14	(118)
US operations (note (ii))	**81**	**8**	**89**	(51)	6	(45)
UK insurance operations (note (iii))	**466**	**(17)**	**449**	182	40	222
Total	**748**	**0**	**748**	(1)	60	59

Notes

(i) The principal components of the effect of changes in economic assumptions in 2007 of £201m for Asian operations are credits of £110m in Taiwan and £80m in Hong Kong. The increase for Taiwan reflects the combined effect of changes to the projected fund earned rate (as explained in note 2), and to economic capital (versus projected), offset by the effect of an increase in the risk discount rate. The increase for Hong Kong reflects a reduction in the risk discount rate for all product lines and an increase in the projected fund earned rate for participating and linked business. The charge of £132m for 2006 mainly relates to Taiwan where there was a charge of £101m arising from the delay in the assumed long-term yield projection and the associated effect of this delay on the economic capital requirement.

(ii) The credit of £81m for US operations in 2007 arises from the decrease in risk discount rate, partially offset by the negative effect of a reduction in the assumed future rate of return for separate account variable annuity business. Both changes reflect the 0.7 per cent decrease in the 10-year treasury bond rate (as shown in note 2).

(iii) The effect of changes in economic assumptions in 2007 of £466m for UK insurance operations reflects a 0.35 per cent increase in the fund earned rate arising from the increase in assumed returns on non-UK equities and corporate bond rates which more than offsets the slight reduction in gilt rates (as shown in note 2), a partial offset from the cost of credit default swaps of £41m and the effect of the risk discount rate for business in force reducing slightly by 0.15 per cent, in a similar way to the fall in gilt rates as also shown in note 2.

(7) Holding company net borrowings at market value

Holding company net borrowings at market value comprise:

	31 Dec 2007 £m	31 Dec 2006 £m
Holding company borrowings:		
IFRS basis	**(2,367)**	(2,485)
Mark to market value adjustment	**38**	(176)
EEV basis	**(2,329)**	(2,661)
Holding company* cash and short-term investments	**1,456**	1,119
Holding company net borrowings	**(873)**	(1,542)

*Including central finance subsidiaries.

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

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

The sensitivity of the embedded value at 31 December 2007 of the Taiwan operation to altered economic assumptions and future market conditions to:

(a) a one per cent increase or decrease in the projected long-term bond yield, (including all consequential changes to investment returns for all classes, market values of fixed interest assets and risk discount rates), is an increase (decrease) of £67m and £(91)m respectively (2006: £107m and £(165)m); and

(b) a one per cent increase or decrease in the starting bond rate for the progression to the assumed long-term rate is an increase (decrease) of £73m and £(57)m respectively (2006: £116m and £(125m)).

If it had been assumed in preparing the 2007 results that interest rates remained at the current level of around 2.5% until 31 December 2008 and the progression period in bond yields was delayed by a year so as to end on 31 December 2014, there would have been a reduction in the Taiwan embedded value of £70m.

TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

INSURANCE PRODUCTS AND INVESTMENT PRODUCTS

	Insurance products		Investment products		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Asian operations	**2,944**	1,921	**38,954**	20,408	**41,898**	22,329
US operations	**6,534**	5,981	**60**	-	**6,594**	5,981
UK operations	**6,866**	7,192	**14,745**	13,486	**21,611**	20,678
Group Total	**16,344**	15,094	**53,759**	33,894	**70,103**	48,988

INSURANCE PRODUCTS - NEW BUSINESS PREMIUMS AND CONTRIBUTIONS (note (i))

	Single		Regular		Annual Premium and Contribution Equivalents (APE)		Present Value of New Business Premiums (PVNBP)	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Asian operations								
China (note (v))	**72**	27	**40**	36	**47**	39	**268**	198
Hong Kong	**501**	355	**117**	103	**167**	139	**1,196**	933
India (Group's 26% interest)	**26**	20	**177**	105	**180**	107	**728**	411
Indonesia	**118**	31	**109**	71	**121**	74	**494**	269
Japan	**122**	68	**22**	7	**34**	14	**214**	97
Korea	**179**	103	**241**	208	**259**	218	**1,267**	1,130
Malaysia	**41**	4	**78**	72	**82**	72	**472**	418
Singapore	**593**	357	**67**	72	**126**	108	**1,047**	803
Taiwan	**132**	92	**218**	139	**231**	148	**1,121**	743
Other	**36**	15	**55**	36	**59**	37	**200**	130
Total Asian operations	**1,820**	1,072	**1,124**	849	**1,306**	956	**7,007**	5,132
US operations								
Fixed annuities	**573**	688	-	-	**57**	69	**573**	688
Fixed index annuities	**446**	554	-	-	**45**	55	**446**	554
Variable annuities	**4,554**	3,819	-	-	**455**	382	**4,554**	3,819
Life	**7**	8	**19**	17	**20**	18	**158**	147
Guaranteed Investment Contracts	**408**	458	-	-	**41**	46	**408**	458
GIC-Medium Term Notes	**527**	437	-	-	**53**	44	**527**	437
Total US operations	**6,515**	5,964	**19**	17	**671**	614	**6,666**	6,103
UK operations								
Product summary								
Internal vesting annuities	**1,399**	1,341	-	-	**140**	134	**1,399**	1,341
Direct and partnership annuities	**842**	780	-	-	**84**	78	**842**	780
Intermediated annuities	**589**	592	-	-	**59**	59	**589**	592
Total individual annuities	**2,830**	2,713	-	-	**283**	271	**2,830**	2,713
Equity release	**156**	89	-	-	**16**	9	**156**	89
Individual pensions	**38**	21	**1**	-	**5**	2	**42**	21
Corporate pensions	**283**	318	**84**	66	**112**	98	**737**	490
Unit-linked bonds	**243**	388	-	-	**24**	39	**243**	388
With-profit bonds	**297**	139	-	-	**30**	14	**297**	139
Protection	-	11	**5**	9	**5**	10	**26**	63
Offshore products	**434**	540	**4**	-	**47**	54	**455**	540
Total retail retirement	**4,281**	4,219	**94**	75	**522**	497	**4,786**	4,443
Corporate pensions	**198**	261	**115**	100	**135**	126	**604**	643
Other products	**190**	232	**25**	26	**44**	49	**276**	347
DWP rebates	**143**	161	-	-	**14**	16	**143**	161
Total mature life and pensions	**531**	654	**140**	126	**193**	191	**1,023**	1,151
Total retail	**4,812**	4,873	**234**	201	**715**	688	**5,809**	5,594
Wholesale annuities (notes (iii) and (iv))	**1,799**	1,431	-	-	**180**	143	**1,799**	1,431
Credit life	**21**	687	-	-	**2**	69	**21**	687
Total UK operations	**6,632**	6,991	**234**	201	**897**	900	**7,629**	7,712
Channel Summary								
Direct and partnership	**2,385**	2,543	**209**	174	**448**	428	**3,288**	3,133
Intermediated	**2,284**	2,169	**25**	27	**253**	244	**2,378**	2,300
Wholesale (notes (iii) and (iv))	**1,820**	2,118	-	-	**182**	212	**1,820**	2,118
Sub-total	**6,489**	6,830	**234**	201	**883**	884	**7,486**	7,551
DWP rebates	**143**	161	-	-	**14**	16	**143**	161
Total UK operations	**6,632**	6,991	**234**	201	**897**	900	**7,629**	7,712
Group Total	**14,967**	14,027	**1,377**	1,067	**2,874**	2,470	**21,302**	18,947

INVESTMENT PRODUCTS – FUNDS UNDER MANAGEMENT (note (ii))

	1 Jan 2007 £m	Market gross inflows £m	Redemptions £m	Market and other movements £m	31 Dec 2007 £m
Asian operations	12,253	38,954	(35,993)	2,179	**17,393**
US operations	-	60	(4)	(1)	**55**
UK operations	44,946	14,745	(9,787)	1,317	**51,221**
Group Total	57,199	53,759	(45,784)	3,495	**68,669**

Notes

(i) 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.

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

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, 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.

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.

(ii) Investment products referred to in the table for funds under management above are unit trust, mutual funds and similar types of retail asset management arrangements. These are unrelated to insurance products that are classified 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 assets under management.

(iii) The table above includes the transfer of 62,000 with-profits annuity policies from Equitable Life on 31 December 2007 with assets of approximately £1.7bn. The transfer represented an APE of £174m.

(iv) The tables for 2006 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. The inclusion of the transaction between SAIF and PRIL as new business in the tables reflects the transfer from SAIF to Prudential shareholders' funds of longevity risk, the requirement to set aside supporting capital and entitlement to surpluses on the block of business from the reinsurance arrangements. For Group reporting purposes, the amounts recorded by SAIF and PRIL for the premium are eliminated on consolidation.

(v) Subsequent to 29 September, following expiry of the previous management agreement, CITIC-Prudential Life Insurance Company Ltd (CITIC-Prudential), the Group's life operation in China, has been accounted for as a joint venture. Prior to this date, CITIC-Prudential was consolidated as a subsidiary undertaking. The amounts in the table above include 100% of the total premiums for this operation up to 29 September 2007 and 50% thereafter, being the Group's share after this date.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

	2007 £m	2006 £m
Gross premiums earned	**18,359**	16,157
Outward reinsurance premiums	**(171)**	(171)
Earned premiums, net of reinsurance	**18,188**	15,986
Investment income	**12,221**	17,128
Other income	**2,457**	1,917
Total revenue, net of reinsurance (note B)	**32,866**	35,031
Benefits and claims	**(26,210)**	(25,981)
Outward reinsurers' share of benefits and claims	**(20)**	(144)
Movement in unallocated surplus of with-profits funds	**(760)**	(2,296)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(26,990)**	(28,421)
Acquisition costs and other operating expenditure	**(4,523)**	(4,212)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(168)**	(177)
Total charges, net of reinsurance (note B)	**(31,681)**	(32,810)
Profit before tax* (note B)	**1,185**	2,221
Tax attributable to policyholders' returns	**(19)**	(849)
Profit before tax attributable to shareholders (note C)	**1,166**	1,372
Tax expense (note G)	**(401)**	(1,241)
Less: tax attributable to policyholders' returns	**19**	849
Tax attributable to shareholders' profit (note G)	**(382)**	(392)
Profit from continuing operations after tax (note B)	**784**	980
Discontinued operations (net of tax) (note H)	**241**	(105)
Profit for the year	**1,025**	875
Attributable to:		
Equity holders of the Company	**1,022**	874
Minority interests	**3**	1
Profit for the year	**1,025**	875

Earnings per share (in pence)	2007	2006
Basic (based on 2,445m and 2,413m shares respectively):		
Based on profit from continuing operations attributable to the equity holders of the Company (note I)	**31.9p**	40.5p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company	**9.9p**	(4.3)p
	41.8p	36.2p
Diluted (based on 2,448m and 2,416m shares respectively):		
Based on profit from continuing operations attributable to the equity holders of the Company	**31.9p**	40.5p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company	**9.8p**	(4.3)p
	41.7p	36.2p

Dividends per share (in pence)	2007	2006
Dividends relating to reporting period:		
Interim dividend (2007 and 2006)	**5.70p**	5.42p
Final dividend (2007 and 2006) (note J)	**12.30p**	11.72p
Total	**18.00p**	17.14p
Dividends declared and paid in reporting period:		
Current year interim dividend	**5.70p**	5.42p
Final dividend for prior year	**11.72p**	11.02p
Total	**17.42p**	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 unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2007								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	**Shareholders' equity**	**Minority interests**	**Total equity**
	£m	£m	£m	£m	£m	£m	**£m**	**£m**	**£m**
Reserves									
Profit for the year			1,022				**1,022**	**3**	**1,025**
Items recognised directly in equity:									
Exchange movements				11			**11**		**11**
Movement on cash flow hedges						(3)	**(3)**		**(3)**
Unrealised valuation movements on Egg securities classified as available-for-sale					(2)		**(2)**		**(2)**
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale									
Unrealised holding losses arising during the year					(231)		**(231)**		**(231)**
Less gains included in the income statement					(13)		**(13)**		**(13)**
Total (note N)					(244)		**(244)**		**(244)**
Related change in amortisation of deferred income and acquisition costs					88		**88**		**88**
Related tax				2	53	1	**56**		**56**
Total items recognised directly in equity				13	(105)	(2)	**(94)**		**(94)**
Total income and expense for the year			1,022	13	(105)	(2)	**928**	**3**	**931**
Dividends			(426)				**(426)**	**(5)**	**(431)**
Reserve movements in respect of share-based payments			18				**18**		**18**
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and other consolidated investment funds								**(28)**	**(28)**
Share capital and share premium									
New share capital subscribed (note O)	1	181					**182**		**182**
Transfer to retained earnings in respect of shares issued in lieu of cash dividends (note O)		(175)	175						
Treasury shares									
Movement in own shares in respect of share-based payment plans			7				**7**		**7**
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			4				**4**		**4**
Net increase (decrease) in equity	1	6	800	13	(105)	(2)	**713**	**(30)**	**683**
At beginning of year	122	1,822	3,640	(125)	27	2	**5,488**	**132**	**5,620**
At end of year	123	1,828	4,440	(112)	(78)	0	**6,201**	**102**	**6,303**

	2006								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	**Shareholders' equity**	**Minority interests**	**Total equity**
	£m	£m	£m	£m	£m	£m	**£m**	**£m**	**£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 Egg securities classified as available-for-sale					(2)		(2)		(2)
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:									
Unrealised holding losses arising during the year					(208)		(208)		(208)
Less losses included in the income statement					7		7		7
					(201)		(201)		(201)
Related change in amortisation of deferred income and acquisition costs					75		75		75
Related tax				(74)	50	(2)	(26)		(26)
Total items of income and expense 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 other consolidated investment funds								43	43
Acquisition of minority interests of now discontinued Egg banking operations (note H)			(167)				(167)	(84)	(251)
Share capital and share premium									
New share capital subscribed	3	333					336		336
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED BALANCE SHEET

	2007 £m	2006 £m
Assets		
Intangible assets attributable to shareholders:		
Goodwill	**1,341**	1,341
Deferred acquisition costs and other intangible assets	**2,836**	2,497
	4,177	3,838
Intangible assets attributable to the PAC with-profits fund:		
In respect of acquired subsidiaries for venture fund and other investment purposes (note K)	**192**	830
Deferred acquisition costs	**19**	31
	211	861
Total	**4,388**	4,699
Other non-investment and non-cash assets:		
Property, plant and equipment	**1,012**	1,133
Reinsurers' share of insurance contract liabilities	**783**	945
Deferred tax assets	**925**	1,012
Current tax recoverable	**285**	404
Accrued investment income	**2,023**	1,900
Other debtors	**1,297**	1,052
Total	**6,325**	6,446
Investments:		
Investment properties	**13,688**	14,491
Investments accounted for using the equity method	**12**	6
Financial investments:		
Loans (note L)	**7,924**	13,754
Equity securities and portfolio holdings in unit trusts	**86,157**	78,892
Debt securities (note M)	**83,984**	81,719
Other investments	**4,396**	3,220
Deposits	**7,889**	7,759
Total	**204,050**	199,841
Held for sale assets	**30**	463
Cash and cash equivalents	**4,951**	5,071
Total assets	**219,744**	216,520
Equity and liabilities		
Equity		
Shareholders' equity (note O)	**6,201**	5,488
Minority interests	**102**	132
Total equity	**6,303**	5,620
Liabilities		
Banking customer accounts (note H)	**-**	5,554
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	**132,636**	123,213
Investment contract liabilities with discretionary participation features	**29,550**	28,733
Investment contract liabilities without discretionary participation features	**14,032**	13,042
Unallocated surplus of with-profits funds	**14,351**	13,599
Total insurance liabilities	**190,569**	178,587
Core structural borrowings of shareholder-financed operations (note P):		
Subordinated debt (other than discontinued Egg banking operations)	**1,570**	1,538
Other	**922**	1,074
	2,492	2,612
Subordinated debt of discontinued Egg banking operations (note H)	**-**	451
Total	**2,492**	3,063
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations (note Q)	**3,081**	5,609
Borrowings attributable to with-profits funds (note Q)	**987**	1,776
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**4,081**	4,232
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**3,556**	2,476
Current tax liabilities	**1,237**	1,303
Deferred tax liabilities	**3,475**	3,882
Accruals and deferred income	**599**	517
Other creditors	**1,020**	1,398
Provisions	**473**	464
Other liabilities	**1,871**	1,652
Held for sale liabilities	**-**	387
Total	**16,312**	16,311
Total liabilities	**213,441**	210,900
Total equity and liabilities	**219,744**	216,520

CONSOLIDATED CASH FLOW STATEMENT

	2007 £m	2006 £m
Cash flows from operating activities		
Profit before tax from continuing operations (note (i) and B)	**1,185**	2,221
Profit (loss) before tax from discontinued operations (note H)	**222**	(150)
Profit before tax	**1,407**	2,071
Changes in operating assets and liabilities:		
Investments	**(11,730)**	(13,748)
Banking customer accounts	**(9)**	(276)
Other non-investment and non-cash assets	**(817)**	(232)
Policyholder liabilities (including unallocated surplus)	**12,017**	13,540
Other liabilities (including operational borrowings)	**962**	1,136
Interest income and expense and dividend income included in profit before tax	**(8,201)**	(10,056)
Other non-cash items	**(140)**	198
Operating cash items:		
Interest receipts	**5,541**	6,466
Dividend receipts	**2,732**	3,633
Tax paid	**(624)**	(523)
Net cash flows from operating activities	**1,138**	2,209
Cash flows from investing activities		
Purchases of property, plant and equipment	**(231)**	(174)
Proceeds from disposal of property, plant and equipment	**61**	34
Costs incurred on purchase of Egg minority interests	**-**	(6)
Acquisition of subsidiaries, net of cash balances (note (ii))	**(77)**	(70)
Disposal of Egg, net of cash balances (note (iii) and H)	**(538)**	-
Disposal of other subsidiaries, net of cash balances (note (ii))	**157**	114
Deconsolidation of investment subsidiaries (note (iv))	**(91)**	-
Net cash flows from investing activities	**(719)**	(102)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations (note (v) and P):		
Redemption	**(150)**	(1)
Interest paid	**(171)**	(204)
With-profits operations (note (vi) and Q):		
Interest paid	**(9)**	(9)
Equity capital (note (vii)):		
Issues of ordinary share capital	**6**	15
Dividends paid to shareholders	**(255)**	(323)
Net cash flows from financing activities	**(579)**	(522)
Net (decrease) increase in cash and cash equivalents	**(160)**	1,585
Cash and cash equivalents at beginning of year	**5,071**	3,586
Effect of exchange rate changes on cash and cash equivalents	**40**	(100)
Cash and cash equivalents at end of year (note (viii))	**4,951**	5,071

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 investments and other investment subsidiaries of the PAC with-profits fund.

(iii) The amount of £(538)m in respect of the disposal of Egg, net of cash balances shown above, represents the net sale proceeds of £527m less cash and cash equivalents of £1,065m held by Egg and transferred on disposal.

(iv) In November 2007, the Company sold its venture fund management subsidiary, PPM Capital, as described in note K. As a result of the arrangements attaching to the sale, it is no longer appropriate to consolidate the holdings managed by that company.

(v) Structural borrowings of shareholder-financed operations comprise core debt of the holding company and central finance subsidiaries, Jackson surplus notes and, in 2006, Egg debenture loans. Following the sale of Egg in May 2007, these loans no longer form part of the Group's borrowings. 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. In June 2007, borrowings of £150m were repaid on maturity.

(vi) 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 in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds and, prior to deconsolidation, venture fund investment subsidiaries are included within cash flows from operating activities.

(vii) Cash movements in respect of equity capital exclude scrip dividends and share capital issued in respect of the acquisition of Egg minority interests in 2006.

(viii) Of the cash and cash equivalents amounts reported above, £339m (2006: £437m) represents cash and cash equivalents of central companies.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

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 2007. 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 2007 statutory accounts. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2007 or 2006 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 2007 the Group adopted the following accounting pronouncements

- IFRS 7, 'Financial instruments: Disclosures'
- Revised IFRS 4 'Implementation Guidance'
- Amendment to IAS 1,'Capital Disclosures'
- IFRIC 9, 'Reassessment of Embedded Derivatives'.

The changes in respect of IFRS 7, IFRS 4 and IAS 1 affect only disclosures in the Group Financial Statements.
IFRIC 9, which potentially effects measurements, relates to assessment of whether derivatives are required to be separated from host contracts by the reporting entity and accounted for as derivatives when the Group first becomes a party to the contracts. IFRIC 9 became effective for annual periods beginning on or after 1 June 2006, but had no material effect on the Group's 2007 results.

B Segment disclosure

	2007 £m	2006 £m
Revenue		
Long-term business	**31,555**	34,197
Broker-dealer and asset management	**1,397**	1,080
Unallocated corporate	**182**	38
Intra-group revenue eliminated on consolidation	**(268)**	(284)
Total revenue, net of reinsurance, per income statement	**32,866**	35,031
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	**(30,533)**	(32,162)
Broker-dealer and asset management	**(1,053)**	(797)
Unallocated corporate	**(363)**	(135)
Intra-group charges eliminated on consolidation	**268**	284
Total charges, net of reinsurance, per income statement	**(31,681)**	(32,810)
Segment results - revenue less charges (continuing operations)		
Long-term business	**1,022**	2,035
Broker-dealer and asset management	**344**	283
Unallocated corporate	**(181)**	(97)
Profit before tax*	**1,185**	2,221
Tax attributable to policyholders' returns	**(19)**	(849)
Profit before tax attributable to shareholders	**1,166**	1,372
Tax attributable to shareholders' profit	**(382)**	(392)
Profit from continuing operations after tax	**784**	980
Segment results - discontinued operations (net of tax)		
Banking (note H)	**241**	(105)
Profit for the year	**1,025**	875

* 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.

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

Results analysis by business area	2007 £m	2006 £m
Asian operations		
Long-term business (note D)	**189**	189
Asset management	**72**	50
Development expenses	**(15)**	(15)
Total	**246**	224
US operations		
Jackson (note D)	**444**	398
Broker-dealer and asset management	**13**	18
Curian	**(5)**	(8)
Total	**452**	408
UK operations		
UK insurance operations (note D)	**528**	500
M&G	**254**	204
Total	**782**	704
Other income and expenditure		
Investment return and other income	**86**	58
Interest payable on core structural borrowings	**(168)**	(177)
Corporate expenditure:		
Group Head Office	**(117)**	(83)
Asia Regional Head Office	**(38)**	(36)
Charge for share-based payments for Prudential schemes (note (i))	**(11)**	(10)
Total	**(248)**	(248)
Restructuring costs	**(19)**	(38)
Operating profit from continuing operations based on longer-term investment returns (note (ii))	**1,213**	1,050
Short-term fluctuations in investment returns on shareholder-backed business (note E)	**(137)**	155
Shareholders' share of actuarial gains and losses on defined benefit pension schemes (note F)	**90**	167
Profit from continuing operations before tax attributable to shareholders (note (ii))	**1,166**	1,372

Notes

(i) The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.

(ii) The results for continuing operations shown above exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg. Accordingly, the presentation of the comparative results for 2006 has been adjusted from those previously published. Note H shows the composition of the contribution from discontinued operations.

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

There were no changes of assumptions that had a material impact on the 2007 and 2006 results for Asian operations.

The 2007 results for US operations have been determined after taking account of certain changes of assumptions during the year. Generally, assumptions were modified in 2007 to conform to more recent experience with a net effect of a credit of £8m (2006: charge of £7m).

For UK insurance operations, the operating profit based on longer-term investment returns of £528m for 2007 includes a credit of £34m for the effect on shareholders' results for changes in assumptions.

The 2007 results for shareholder-backed annuity business have been determined after making changes to mortality assumptions and releasing excess margins in the aggregate liabilities that had previously been set aside as an indirect extra allowance for longevity related risks.

		£m
Effect of strengthening of mortality assumptions (a)		(276)
Release of margins:		
Projected benefit related (b)	104	
Investment related (c)	48	
Expense related (d)	68	
Other (e)	90	
		310
Net credit to shareholder result		34

(a) The mortality assumptions have been strengthened by increasing the minimum level of future improvement rate.

(b) The release of projected benefit related margins primarily relates to modelling improvements that have been made during 2007.

(c) The release of investment related margins of £48m relates to default margins. The resulting assumptions for expected defaults, after allowing for the release of margins, remain appropriate given economic conditions at 31 December 2007.

(d) A release of expense reserves has been made following recent expense reductions.

(e) This amount reflects the release of other additional margins in the liabilities that are no longer appropriate in light of the explicit strengthening of the mortality assumptions.

The 2006 comparative operating profit based on longer-term investment returns of £500m included a net credit of £42m for changes in assumptions, mainly due to a £46m reduction in liabilities due to the implementation of PS 06/14 by the FSA.

E Short-term fluctuations in investment returns on shareholder-backed business

	2007	2006
	£m	£m
Long-term business operations:		
Asian insurance operations (note (ii))	**(71)**	134
US insurance operations (note (iii))	**(18)**	53
UK insurance operations (note (iv))	**(47)**	(43)
Other	**(1)**	11
Total (note (i))	**(137)**	155

Notes
(i) General
The short-term fluctuations in investment returns for 2007 reflect primarily temporary market value movements on the portfolio of investments held by the Group's shareholder-backed operations. There were no default losses on debt securities in 2007.

(ii) Asian insurance operations
The fluctuations for Asian operations reflect the impact of interest rate increases in Taiwan on the value of debt securities and a £30m value reduction in a CDO fund investment, partially offset by the effect of favourable equity market movements in Vietnam.

(iii) US insurance operations
The short-term fluctuations in investment returns included in the supplementary analysis of profit for US insurance operations comprise the following items:

	2007	2006
	£m	£m
Debt securities		
Credit related losses		
Losses in the year		
Bond write downs	**(35)**	(32)
Losses on sales of impaired and deteriorating bonds	**(51)**	(3)
Recoveries/ reversals	**8**	10
	(78)	(25)
Less: Risk margin charge included in operating profit based on longer-term investment returns	**48**	54
Short-term fluctuation	**(30)**	29
Interest related realised gains and losses		
Gains (losses) in year	**31**	(15)
Less: Amortisation of gains and losses in current and prior years included in operating profit based on longer-term investment returns	**(37)**	(45)
Short-term fluctuation	**(6)**	(60)
Related change to amortisation of deferred acquisition costs	**9**	6
Total short-term fluctuation related to realised gains and losses on debt securities	**(27)**	(25)
Derivatives (other than equity related): market value movement	**(19)**	34
Equity type movements: actual less longer-term return	**42**	21
Other items	**(14)**	23
Total	**(18)**	53

In addition, for US insurance operations, included within the statement of changes in equity, is a net reduction in the value of debt securities classified as available-for-sale of £244m. This reduction reflects the effect of widened credit spreads and global credit concerns partially offset by the effect of reductions in US interest rates and a steepening yield curve. These temporary market value movements do not reflect defaults or permanent impairments. Additional details on the movement in the value of the Jackson portfolio are included in note N.

(iv) UK insurance operations
The fluctuations for UK insurance operations arise mostly in Prudential Retirement Income Limited, which writes the most significant element of the shareholder-backed annuity business in the UK. The fluctuations principally reflect the impact of widened credit spreads on the corporate bond securities backing the shareholders' equity of the business.

F Shareholders' share of actuarial gains and losses on defined benefit pension schemes

	2007	2006
	£m	£m
Actual less expected return on scheme assets (note (i))	**(8)**	156
Experience (losses) gains on scheme liabilities	**(14)**	18
Gains on changes of assumptions for scheme liabilities (note (ii))	**317**	311
	295	485
Less: amount attributable to the PAC with-profits fund	**(205)**	(318)
Total attributable to shareholders	**90**	167

Notes

(i) The expected rate of return for full year 2007 applied to the schemes' assets was a weighted rate of 5.9%.

(ii) The gains of £317m on changes of assumptions comprise gains due to changes in economic assumptions of £509m which are partially offset by a charge of £192m from the effect of strengthened mortality assumptions for UK schemes.

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

31 December 2007 5.9%
31 December 2006 5.2%

G Tax expense

The total tax charge of £401m for 2007 (2006: £1,241m) comprises a charge of £80m (2006: £698m) for UK tax and a charge of £321m (2006: £543m) for 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 £382m for 2007 (2006: £392m) comprises a charge of £176m (2006: £142m) for UK tax and a charge of £206m (2006: £250m) for overseas tax.

The tax credit related to discontinued operations, which is all attributable to shareholders, amounted to £19m for 2007 (2006: £45m).

Amounts for deferred tax are determined using the current rate of tax or, where substantively enacted through the legislative process, the prospective rate. Accordingly, the deferred tax amounts for full year 2007 reflect the prospective change for the main UK corporation tax rate from 30 per cent to 28 per cent which will be effective from 1 April 2008.

H Discontinued operations

In the first half of 2006, the Company acquired the outstanding 21.7 per cent minority interest in Egg, its UK banking business. The Company accounted for the purchase using the economic entity method. Accordingly, £167m was charged to retained earnings in 2006 representing the difference between the consideration paid and net assets acquired.

In January 2007, the Company announced that it had entered into a binding agreement to sell Egg. Under the terms of the agreement, the consideration payable to the Company was £575m cash, subject to adjustments to reflect any change in net asset value between 31 December 2006 and completion.

On 1 May 2007, the Company completed the sale. The consideration, net of expenses, was £527m. The reduction from the £575m noted above primarily reflected Egg's post tax operating loss of £49m for the period from 1 January 2007 to the date of sale as shown below.

The profit (loss) from discontinued operations comprises:

	2007 £m	2006 £m
Pre-tax loss from discontinued operations		
Egg results:		
Operating loss based on longer-term investment returns for the period of ownership	**(68)**	(157)
Short-term fluctuations in investment returns	**-**	7
Profit on sale of Egg	**290**	-
Total	**222**	(150)
Tax		
On Egg results:		
Operating loss based on longer-term investment returns for the period of ownership	**19**	47
Short-term fluctuations in investment returns	**-**	(2)
On profit on sale of Egg	**0**	-
Total	**19**	45
Profit (loss) from discontinued operations, net of tax	**241**	(105)

Cash and cash equivalents transferred on disposal were £1,065m. Accordingly, the cash outflow arising from the disposal of Egg, as shown in the consolidated cash flow statement, was £538m.

I Supplementary analysis of earnings per share from continuing operations

Earnings per share (in pence)	2007	2006
From operating profit based on longer-term investment returns after related tax and minority interests	**33.8p**	30.9p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**(4.5)p**	4.8p
Adjustment for post-tax shareholders' share of actuarial gains and losses on defined benefit pension schemes	**2.6p**	4.8p
Based on profit from continuing operations after tax and minority interests	**31.9p**	40.5p

J Dividend

A final dividend for 2007 of 12.30p per share was proposed by the directors on 13 March 2008. This dividend will absorb an estimated £304m of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 20 May 2008 to shareholders on the register at the close of business on 11 April 2008. A scrip dividend alternative will be offered to shareholders.

K Intangible assets attributable to the PAC with-profits fund in respect of venture fund and other investments

During 2006 and 2007, the PAC with-profits fund held a number of venture capital holdings which were managed by its venture capital management subsidiary, PPM Capital. On 9 November 2007, PPM Capital was sold by the Group. Prior to the sale of PPM Capital, the Group was deemed to have a controlling interest in these investments and where appropriate these investments were accounted for as subsidiaries with line-by-line consolidation of assets, including acquired goodwill and other intangible assets and liabilities. At 31 December 2006, £830m of goodwill and other intangible assets were recognised for the consolidated venture fund investments. As a result of the control arrangements put in place at the time of the sale of PPM Capital, the Group no longer controls these venture fund investments and consequently ceased to consolidate these investments and instead fair values them in the balance sheet.

The intangible assets of £192m at 31 December 2007 attributable to the PAC with-profits fund relate to the goodwill recognised from the fund’s acquisition of 78 per cent voting equity interests in Red Funnel, a ferry company in June 2007, and which is managed by M&G.

L Loans portfolio

Loans are accounted for at amortised cost unless impaired. The amounts included in the balance sheet are analysed as follows:

	2007 £m	2006 £m
Insurance operations		
UK (note(i))	**1,245**	1,128
US (note (ii))	**3,258**	3,254
Asia (note (iii))	**1,087**	904
Asset management operations		
M&G (note (iv))	**2,334**	2,181
Unallocated to a segment	**0**	94
Discontinued banking operations	**-**	6,193
Total	**7,924**	13,754

Notes

(i) UK insurance operations
The loans of the Group's UK insurance operations of £1,245m at 31 December 2007 comprise mortgage loans of £449m, policy loans of £35m and other loans of £761m. The mortgage loans are collateralised by properties. Other loans are all commercial loans and comprise mainly syndicated loans held by the PAC with-profits fund.

(ii) US insurance operations
The loans of the Group's US insurance operations of £3,258m at 31 December 2007 comprise mortgage loans of £2,841m and policy loans of £417m. All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel.

The US insurance operations' mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans.

The policy loans are fully secured by individual life insurance policies or annuity policies.

(iii) Asian insurance operations
The loans of the Group's Asian insurance operations of £1,087m at 31 December 2007 comprise mortgage loans of £132m, policy loans of £430m and other loans of £525m. The mortgage and policy loans are secured by properties and life insurance policies respectively.

The majority of the other loans are commercial loans held by the Malaysian operation and which are all investment graded by two local rating agencies.

(iv) M&G
The M&G loans of £2,334m comprise £1,383m of bridging loan finance assets and £951m in respect of a structured finance arrangement, both managed by Prudential Capital. The bridging loan finance assets generally have no external credit ratings available, with internal ratings prepared by the Group's asset management operations as part of the risk management process rating £738m BBB+ to BBB- and £645m BB+ to BB-.

Of the loans receivable under the structured finance arrangement, £826m of the receivable was with counterparties rated AA by Standard and Poor's and £125m AA-. In addition an AAA rated credit default swap was held covering £400m of the AA element of the loans.

M Debt securities portfolio

Debt securities are accounted for at fair value. The amounts included in the balance sheet are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2007 provided in the notes below.

	2007 £m	2006 £m
Insurance operations		
UK (note(ii))	**57,180**	53,461
US (note (iii))	**19,002**	20,146
Asia (note (iii))	**6,920**	5,391
Asset management operations (note (iv))	**882**	678
Unallocated to a segment	**-**	67
Discontinued banking operations	**-**	1,976
Total	**83,984**	81,719

Notes

In the tables below, Standard and Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not available, those produced by Moody's and then Fitch have been used as an alternative.

(i) UK insurance operations

	PAC-with profits sub-fund				Other funds and subsidiaries			
	Scottish Amicable Insurance Fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Prudential Retirement Income Limited £m	Unit-linked business £m	Other business £m	Total £m
S&P – AAA	1,453	6,434	4,356	10,790	5,658	3,534	121	**21,556**
S&P – AA+ to AA-	436	1,978	1,518	3,496	1,541	680	20	**6,173**
S&P – A+ to A-	1,030	4,356	2,693	7,049	3,354	1,093	31	**12,557**
S&P – BBB+ to BBB-	652	2,780	920	3,700	781	267	9	**5,409**
S&P – Other	167	757	11	768	1	6	–	**942**
	3,738	16,305	9,498	25,803	11,335	5,580	181	**46,637**
Moody's – Aaa	138	550	177	727	125	22	9	**1,021**
Moody's – Aa1 to Aa3	23	198	273	471	82	9	2	**587**
Moody's – A1 to A3	74	321	284	605	243	19	3	**944**
Moody's – Baa1 to Baa3	41	180	150	330	103	14	2	**490**
Moody's – Other	10	400	–	400	–	–	–	**410**
	286	1,649	884	2,533	553	64	16	**3,452**
Fitch	43	196	265	461	160	17	1	**682**
Other	528	2,233	2,428	4,661	1,125	90	5	**6,409**
Total debt securities	4,595	20,383	13,075	33,458	13,173	5,751	203	**57,180**

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the £6,409m total debt securities held at 31 December 2007 which are not externally rated, £2,972m were internally rated AAA to A-, £2,844m were internally rated BBB to B- and £593m were unrated. The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them.

(ii) US insurance operations

	£m
S&P – AAA	**3,896**
S&P – AA+ to AA-	**1,187**
S&P – A+ to A-	**3,657**
S&P – BBB+ to BBB-	**5,415**
S&P – Other	**1,113**
	15,268
Moody's – Aaa	**549**
Moody's – Aa1 to Aa3	**118**
Moody's – A1 to A3	**47**
Moody's – Baa1 to Baa3	**79**
Moody's – Other	**78**
	871
Fitch	**380**
Other*	**2,483**
Total debt securities	**19,002**

* The amounts within Other which are not rated by S&P, Moody or Fitch have the following National Association of Insurance Commissioners (NAIC) classifications:

	2007 £m
NAIC 1	**1,079**
NAIC 2	**1,311**
NAIC 3-6	**93**
	2,483

(iii) Asian insurance operations

	With-profits business £m	Unit-linked business £m	Other business £m	**Total £m**
S&P – AAA	1,367	660	257	**2,284**
S&P – AA+ to AA-	242	153	1,599	**1,994**
S&P – A+ to A-	299	271	105	**675**
S&P – BBB+ to BBB-	142	34	17	**193**
S&P – Other	8	47	94	**149**
	2,058	1,165	2,072	**5,295**
Moody's – Aaa	16	185	-	**201**
Moody's – Aa1 to Aa3	7	19	19	**45**
Moody's – A1 to A3	11	16	1	**28**
Moody's – Baa1 to Baa3	12	7	–	**19**
Moody's – Other	58	–	–	**58**
	104	227	20	**351**
Other	167	509	598	**1,274**
Total debt securities	2,329	1,901	2,690	**6,920**

(iv) Asset management operations
The total for asset management operations was £882m, of which £841m related to M&G's Prudential Capital operations and which was all AAA to A- where S&P rated or Aaa by Moody's.

(v) Group exposure to holdings in sub-prime and Alt-A assets, monoline insurers and CDO funds

Included in the amounts shown above for debt securities are the following holdings with S&P ratings.

(a) Sub-prime and Alt-A securities

Shareholder-backed business	£m
US insurance operations - Sub-prime (AAA)	**237**
- Alt-A (77% AAA, 17% AA)	**660**
Asian insurance operations	**15**
	912

With-profits operations	**£m**
UK insurance operations - Sub-prime (AAA)	**129**
- Alt-A (96% AAA)	**100**
Asian insurance operations	**7**
	236
Total	**1,148**

Further details on the US insurance operations' sub-prime and Alt-A securities are given in note N.

(b) Monoline insurers

The Group held direct holdings in monoline insurers with a value at 31 December 2007 of £33m (shareholder-backed operations £27m, with-profits operations £6m). The Group also held debt securities with a value of £1,754m (shareholder-backed operations £577m, with-profits operations £1,177m) which had a monoline wrap guarantee.

(c) CDO funds (all without sub-prime exposure)

Shareholder-backed business	**£m**
US insurance operations (65% AAA, 8% AA) *	**260**
Asian insurance operations (72% AAA, 28% AA-)	**62**
UK insurance operations - PRIL (AAA)	**36**
Other operations (AAA)	**19**
	377

* including Group's economic interest in Piedmont and other consolidated CDO funds.

With-profits operations	**£m**
UK insurance operations (79% AAA, 8% AA)	**240**
Asian insurance operations (AAA)	**59**
	299
Total	**676**

N Debt securities of US insurance operations: Accounting presentation of movements in unrealised gains and losses and securities in an unrealised loss position

(i) Accounting presentation of unrealised value movements

With the exception of debt securities of US insurance operations classified as 'available-for-sale' under IAS 39, unrealised value movements on the Group's investments are booked within the income statement. For with-profits operations, such value movements are reflected in changes to asset share liabilities to policyholders or the liability for unallocated surplus. For shareholder-backed operations, the unrealised value movements form part of the total return for the year booked in the profit before tax attributable to shareholders. Separately, as noted elsewhere and in note C in this announcement, and as applied previously, the Group provides a supplementary analysis of this profit distinguishing operating profit based on longer-term investment return and short-term fluctuations in investment returns.

However, for debt securities classified as 'available-for-sale', unless impaired, fair value movements are recorded as a movement in shareholder reserves direct to equity. Impairments are recorded in the income statement as shown in note E of this announcement. This classification is applied for most of the debt securities of the Group's US insurance operations.

(ii) 2007 movements in unrealised gains and losses

In general, the debt securities of the Group's US insurance operations are purchased with the intention and the ability to hold them for the longer-term. In 2007 there was a movement in the balance sheet value for these debt securities classified as available-for-sale from a net unrealised gain of £110m to a net unrealised loss of £136m. During 2007, US interest rates fell and the yield curve steepened. Offsetting the positive effect on bond values for these changes were adverse market price effects resulting from increasing credit spreads and global credit concerns. As a result of these factors, the gross unrealised gain in the balance sheet decreased from £366m at 31 December 2006 to £303m at 31 December 2007, while the gross unrealised loss increased from £256m to £439m at 31 December 2007.

These features are included in the table shown below of the movements in the values of available-for-sale securities.

	31 Dec 2007 £m	Changes in unrealised appreciation £m	31 Dec 2006 £m
Assets fair valued at below book value			
Book value	10,730		11,258
Unrealised loss	(439)	(183)	(256)
Fair value (as included in balance sheet)	10,291		11,002
Assets fair valued at or above book value			
Book value	8,041		8,208
Unrealised gain	303	(63)	366
Fair value (as included in balance sheet)	8,344		8,574
Total			
Book value	18,771		19,466
Net unrealised (loss) gains	(136)	(246)	110
Fair value (as included in balance sheet)*	18,635		19,576
Reflected as part of movement in shareholders' equity			
Movement in unrealised appreciation		(244)	
Exchange movements		(2)	
		(246)	

*Debt securities for US operations included in the balance sheet of £19,002m, and as referred to in note M, comprise £18,635m for securities classified as available-for-sale, as shown above, and £367m for securities of consolidated investment funds classified as fair value through profit and loss.

Included within the unrealised valuation losses movement for the debt securities of Jackson of £244m, as shown in the consolidated statement of changes in equity, was an amount of £55m relating to the sub-prime and Alt-A securities for which the carrying values at 31 December 2007 are shown in note M.

(iii) Securities in unrealised loss position

The following tables show some key attributes of those securities that are in an unrealised loss position at 31 December 2007.

(a) Fair value of securities as a percentage of book value

	Fair value £m	Unrealised loss £m
Between 90% and 100%	9,370	(274)
Between 80% and 90%	784	(122)
Below 80%	137	(43)
	10,291	(439)

Included within the table above, showing the fair value of securities in an unrealised loss position at 31 December 2007 as a percentage of book value, are amounts relating to sub-prime and Alt-A securities of:

Fair value of securities as a percentage of book value	Fair value £m	Unrealised loss
Between 90% and 100%	572	(24)
Between 80% and 90%	132	(22)
Below 80%	28	(10)
	732	(56)

(b) Aged analysis of unrealised losses for the time periods indicated

	Not rated £m	**Non investment grade £m**	**Investment grade £m**	**Total £m**
Less than 6 months	(7)	(8)	(52)	(67)
6 months to 1 year	(10)	(21)	(105)	(136)
1 year to 2 years	(5)	(2)	(16)	(23)
2 years to 3 years	(24)	(10)	(140)	(174)
More than 3 years	(7)	(3)	(29)	(39)
	(53)	(44)	(342)	(439)

At 31 December 2007, the gross unrealised losses in the balance sheet for the sub-prime and Alt-A securities in an unrealised loss position were £56m, as shown above in note (a). £37m of these losses relate to securities that have been in an unrealised loss position for less than one year and £19m to securities that have been in an unrealised loss position for more than one year.

(c) By maturity of security

	£m
Less than 1 year	(1)
1 year to 5 years	(54)
5 years to 10 years	(164)
More than 10 years	(60)
Mortgage-backed and other debt securities	(160)
Total	(439)

O Shareholders' equity

	2007 £m	2006 £m
Share capital	**123**	122
Share premium	**1,828**	1,822
Reserves	**4,250**	3,544
Total	**6,201**	5,488

P Net core structural borrowings of shareholder-financed operations

	2007 £m	2006* £m
Core structural borrowings of shareholder-financed operations:		
Central funds	**2,367**	2,485
Jackson	**125**	127
Total (per consolidated balance sheet)	**2,492**	2,612
Less: Holding company** cash and short-term investments (recorded within the consolidated balance sheet)	**(1,456)**	(1,119)
Net core structural borrowings of shareholders-financed operations	**1,036**	1,493

*Excluding borrowings of discontinued banking operations
**Including central finance subsidiaries

Q Other borrowings

	2007 £m	2006 £m
Operational borrowings attributable to shareholder-financed operations		
Borrowings in respect of short-term fixed income securities programmes	**2,477**	2,032
Non-recourse borrowings of US operations	**591**	743
Other borrowings	**13**	15
Total continuing operations	**3,081**	2,790
Discontinued banking operations (note H)	**-**	2,819
Total	**3,081**	5,609
Borrowings attributable to with-profits funds		
Non-recourse borrowings of venture fund investment subsidiaries (note K)	**-**	926
Non-recourse borrowings of consolidated investment funds	**789**	681
Subordinated debt of the Scottish Amicable Insurance Fund	**100**	100
Other borrowings (predominantly obligations under finance leases)	**98**	69
Total	**987**	1,776

R 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 the Company 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, it 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 PAC'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.

S Group Investments – IFRS disclosures from the 2007 Annual Report

The Company has published a document alongside the Company's preliminary announcement for the year ended 31 December 2007, entitled 'Group Investments – IFRS disclosures from the 2007 Annual Report'. This document includes detailed analysis and explanation of the information contained in the Group's financial statements for the year ended 31 December 2007 on the Group's investments. The document has been posted to the Company's website address at www.prudential.co.uk