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

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.

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	2006
	£m	£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