

PRUDENTIAL PLC  
Form 6-K  
August 10, 2006

## **FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

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Washington, D.C. 20549



**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16**

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**of the Securities Exchange Act of 1934**





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For the month of August, 2006

## **PRUDENTIAL PLC**

(Translation of registrant's name into English)

**LAURENCE POUNTNEY HILL, LONDON, EC4R 0HH, UK**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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Interim Report 2006

A growth business with strong momentum

Highlights

Total European Embedded Value (EEV) basis operating profit £980 million before restructuring costs, up 17 per cent

Long-term insurance sales on a present value of new business premiums (PVNBP) basis £9.8 billion, up three per cent; APE of £1,255 million, up nine per cent

New business EEV profit £504 million, up 17 per cent

Total net inflows for the asset management businesses £5.3 billion, up 138 per cent

Total International Financial Reporting Standards (IFRS) basis operating profit £470 million before restructuring costs, down four per cent

Targeted cost savings from UK business increased by £110 million per annum to £150 million per annum by 2009

EEV shareholders funds up to £10.9 billion (end 2005: £10.3 billion\*)

Interim dividend 5.42 pence per share (2005: 5.3 pence per share)

All figures compared to 2005 constant exchange rates unless stated.

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\*At reported exchange rates.

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2006 unaudited interim results

**Results summary****European Embedded Value (EEV) basis results\***

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
UK insurance operations	336	144	426
M&G	100	83	163
Egg	(39)	13	44
UK operations	397	240	633
US operations	350	431	755
Asian operations	374	246	568
Other income and expenditure	(141)	(118)	(244)
UK restructuring costs	(18)		
Operating profit from continuing operations based on longer-term investment returns	962	799	1,712
Goodwill impairment charge		(95)	(120)
Short-term fluctuations in investment returns	32	307	1,068
Mark to market movements on core borrowings	168	(29)	(67)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	246	(8)	(47)
Effect of changes in economic assumptions and time value of cost of options and guarantees	21	(143)	(302)
Profit from continuing operations before tax (including actual investment returns)	1,429	831	2,244
Operating earnings from continuing operations per share after related tax and minority interests*	28.0p	24.4p	56.6p
Basic earnings per share	43.8p	20.7p	66.9p
Shareholders' equity, excluding minority interests	£10.9bn	£9.1bn	£10.3bn

**International Financial Reporting Standards (IFRS) basis results\***

	Half year 2006	Half year 2005	Full year 2005
<b>Statutory IFRS basis results</b>			
Profit after tax attributable to equity holders of the Company	£449m	£300m	£748m
Basic earnings per share	18.7p	12.7p	31.6p
Shareholders' equity, excluding minority interests	£5.0bn	£5.0bn	£5.2bn

	Half year 2006	Half year 2005	Full year 2005
<b>Supplementary IFRS basis information</b>			
Total operating profit from continuing operations based on longer-term investment returns	£453m	£469m	£957m
Operating earnings per share from continuing operations after related tax and minority interests	12.7p	14.0p	32.2p

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	Half year 2006	Half year 2005	Full year 2005
<b>Dividends per share declared and paid in reporting period</b>	<b>11.02p</b>	10.65p	15.95p
<b>Dividends per share relating to reporting period</b>	<b>5.42p</b>	5.30p	16.32p
<b>Funds under management</b>	<b>£238bn</b>	£214bn	£234bn

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\*Basis of preparation

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

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

**Group Chief Executive's review**

In the first half of 2006 the Group has continued to build on the momentum established during a successful 2005, with Group operating profit on an European Embedded Value (EEV) basis up 17 per cent to £980 million before restructuring costs in the UK.

Insurance sales were £9.8 billion on a present value of new business premiums (PVNBP) basis, with strong growth in Asia and the US and a steady performance in the UK. Net sales in our asset management businesses more than doubled to £5.3 billion. Difficult trading conditions in the personal loans market resulted in a loss at Egg in the first half of the year but we expect Egg to report an operating profit for the second half.

In line with our forecast that Asia will be cash positive in 2006 there was a net remittance to the Group of £5 million in the first half of the year. Across our UK insurance business and Egg we have increased our cost saving target to £150 million per annum from the £40 million announced in December 2005.

**Operational highlights**

*Insurance and banking*

The Group's insurance businesses delivered an increase of 22 per cent in operating profit before tax on an EEV basis to £1,041 million and the operating profit on an International Financial Reporting Standards (IFRS) basis was £516 million, up eight per cent.

Insurance sales in Asia grew by 27 per cent on a PVNBP basis to £2.3 billion (up 35 per cent on an annual premium equivalent (APE) basis) in the half year building on strong growth in 2005 as a whole. There was continuing strong growth in India up 61 per cent, Korea up 56 per cent, China up 40 per cent, Singapore up 32 per cent and Taiwan up 19 per cent.

The average margin on new business in the region was 10 per cent on a PVNBP basis (2005: 9.4 per cent) and we expect margins for the full year to be maintained at around this level.

In line with our forecast that Asia will be cash positive in 2006 there was a net remittance to the Group of £5 million in the first half of the year. The Group has an unrivalled exposure to the high growth, high return markets in Asia and we continue to expect significant growth as we build on our powerful distribution capability; and to generate increasing levels of cash from the region.

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Jackson National Life (JNL), our US business, benefits from a strong presence in all the annuity product areas. Market conditions continue to favour variable annuities and JNL increased its sales by over 50 per cent in the first half of the year well ahead of overall market growth and market share in the first quarter increased to 4.2 per cent. Overall sales in the US increased by 12 per cent on a PVNBP basis (up 12 per cent on an APE basis).

JNL has continued to develop its core Perspective II product with a number of enhancements that have been well received by customers and advisors. Overall margins on new business increased to 4.2 per cent on a PVNBP basis (2005: 3.5 per cent). We will maintain our focus on the variable annuity market and we expect to increase our market share as the baby boomer generation looks to generate income from their retirement savings.

Further increases in US interest rates in the second half of the year could lead to a change in the sales mix across the annuity product range. The breadth of our offering in variable, fixed-indexed and fixed annuities means we are well positioned to respond.

The US business generated almost US\$300 million of statutory capital in the period and is expected to remit US\$180 million to the Group during 2006.

The UK insurance business continued to focus on value. Sales of £4.2 billion on a PVNBP basis were down 12 per cent (down nine per cent on an APE basis) on the first half of 2005 with retail sales remaining stable and retail margins improving. Two large bulk annuity transactions were completed in the first half of 2006 with sales of £1.25 billion on a PVNBP basis. In the first half of 2005 we completed one large transaction of £1.45 billion on a PVNBP basis. There has been some reduction in margins on the bulk annuity business.

The aggregate margin on new business was 3.3 per cent on a PVNBP basis (2005: 3.3 per cent). We will continue to target an internal rate of return on new business of 14 per cent. In the first half we achieved an internal rate of return of 13 per cent.

Egg's card book is performing well and 153,000 new cards were sold during a successful marketing campaign in the first quarter. Egg has grown its card book by three per cent at a time when the UK card market has contracted by two per cent.

Conditions in the personal loans market, which had begun to deteriorate in 2005, continued to be difficult in the first half of the year. In current market conditions we do not see attractive returns. We have taken action to lower our exposure to personal lending and we expect this to continue for some time. This action adversely affects short-term reported profits but we are confident that it will improve the long-term value of the loan book. Bad debt charges in the first half increased significantly across the unsecured lending industry as a whole and we have taken prudent action by increasing the charge in the first half by 42 per cent. As a result, Egg reported an operating loss before tax of £39 million (2005: profit £13 million). We expect Egg to report an operating profit for the second half.



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We are restructuring our UK operations to focus on the opportunities for income in retirement, the wealth and health sectors and retail banking. We will also separate out our mature products and manage these as a specific business area. We are making good progress in integrating our UK insurance operations and Egg following the completion of the buy-back of the Egg minority announced in December 2005.

Following a further review of the combined cost base we are targeting total cost savings of £150 million per annum (inclusive of £40 million per annum savings announced in December 2005) by 2009. These savings are equivalent to 18 per cent of the cost base and one-off costs to be incurred up to 2008 are estimated at £110 million (inclusive of £50 million announced in December 2005). In addition, following the purchase of the minority interest in Egg, we have reorganised the Group's structure with an expected benefit of £120 million to the Group's Financial Conglomerates Directive capital position.

### *Asset management*

Supported by continuing excellent investment performance, our asset management businesses in the UK and Asia are performing very strongly with net investment flows more than doubling to £5.3 billion. Operating profit before tax at M&G increased by 20 per cent to £100 million and in Asia first half profits were £22 million (2005: £2 million). External funds under management have increased to £51 billion (2005: £46 billion).

### **Outlook**

Overall, the Group has significant capacity to grow and to build on the strength of our positions in the major retail financial services markets of Asia, the US and the UK.

Our clear focus continues to be to drive profitable growth across each of our businesses as well as leveraging opportunities within each region and across the Group. There remains tremendous scope to increase value for our shareholders and I am confident of the outlook for the Group.

/s/ Mark Tucker

**Mark Tucker**

Group Chief Executive

27 July 2006

**Business review****Group results**

## Results highlights

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER(4) 2005 £m	Change
<b>Present value of new business premiums (PVNBP)(1)</b>	<b>9,761</b>	9,507	3%	9,280	5%
<b>Annual premium equivalent (APE) sales(1)</b>	<b>1,255</b>	1,152	9%	1,121	12%
<b>New business profit (NBP)(1)</b>	<b>504</b>	431	17%	416	21%
<b>NBP margin (% PVNBP)(1)</b>	<b>5.2%</b>	4.5%		4.5%	
<b>Total European Embedded Value (EEV) basis operating profit(2) (3)</b>	<b>962</b>	837	15%	799	20%
<b>Total International Financial Reporting Standards (IFRS) operating profit(2) (3)</b>	<b>453</b>	489	(7)%	469	(3)%
EEV basis shareholders funds (£bn)	<b>10.9</b>	9.1	20%	9.1	20%
IFRS shareholders funds (£bn)	<b>5.0</b>	4.9	2%	5.0	

(1) The details shown include the effect of the £592 million bulk annuity transfer from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Income Limited (PRIL), a shareholder owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund established by a court approved scheme of arrangement in September 1997, whose results are solely for the benefit of SAIF policyholders.

(2) Based on longer-term investment returns from continuing operations. Operating profit is stated excluding short-term fluctuations in investments returns and shareholders share of actuarial and other gains and losses on defined benefit pension schemes.

(3) Including restructuring costs.

(4) Reported exchange rate (RER).

In the Business review and Financial review, period-on-period comparisons of financial performance are on a constant exchange rate (CER) basis, unless otherwise stated.

**Group results**

The Group has continued to grow in the first half of 2006 and this has resulted in a strong set of results.

Growth in sales and the improvement in aggregate new business profit (NBP) margin to 5.2 per cent on a present value of new business premiums (PVNBP) basis and 40 per cent on an annual premium equivalent (APE) basis led the Group to achieve NBP growth of 17 per cent. This, together with significant growth from the fund management operations and the increase in profits from the in-force insurance business partially offset by a loss in Egg, led to an increase of 15 per cent over the first half of 2005 in total European Embedded Value (EEV) basis operating profits.

On an International Financial Reporting Standards (IFRS) basis, operating profits were down seven per cent on the same period last year. Last year's result included one-off profits in Asia of £34 million. The loss in Egg is offset by significant growth in the US and the asset management businesses.

Basic earnings per share based on total EEV basis for the half year after minority interests were 43.8 pence for the half year of 2006, compared with a figure of 20.7 pence for the prior year. Basic earnings per share, based on total IFRS profit for the half year after minority interests, were 18.7 pence, up six pence from 2005 half year figure of 12.7 pence.

#### **Impact of currency movements**

Prudential has a diverse international mix of businesses with a significant proportion of its profit generated outside the UK. In preparing the Group's consolidated accounts, results of overseas operations are converted at rates of exchange based on the average of the year to date, whilst shareholders' funds are converted at period-end rates of exchange.

Changes in exchange rates from year to year have an impact on the Group's results when these are converted into pounds sterling for reporting purposes. In some cases, these exchange rate fluctuations can have a significant effect on reported results. For example, growth in the Asia new business profit on an EEV basis was 43 per cent at reported exchange rates (RER), compared to 34 per cent at CER.

Consequently, the Board has for a number of years reviewed and reported the Group's international performance on a CER basis. This basis eliminates the impact from conversion, the effects of which do not alter the long-term value of shareholders' interests in the non-UK businesses.

In the Business review and Financial review, period-on-period comparisons of financial performance are on a CER basis, unless otherwise stated.

#### **Insurance**

##### *United Kingdom*

	Half year 2006 £m	Half year 2005 £m	Change
PVNBP	4,224	4,797	(12)%
APE sales	484	533	(9)%
NBP	138	159	(13)%
NBP margin (% PVNBP)	3.3%	3.3%	
Total EEV basis operating profit*	336	144	133%
Total IFRS operating profit*	205	187	10%

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\*Excluding restructuring costs.

Prudential UK continued to focus on value rather than volume during the first half of 2006 with the new business margin of 3.3 per cent remaining in line with 2005. PVNBP fell 12 per cent on 2005, while on an APE basis sales fell nine per cent to £484 million from the corresponding period last year. APE sales in the first half of 2006 included £59 million from the acquisition of in-force pension annuities from the Scottish Amicable Insurance Fund (SAIF) in June 2006 and £66 million from the acquisition of pension annuities from Royal London in January 2006. The 2005 result included APE sales from the Phoenix Life and Pensions (PLP) transaction of £145 million, completed in June 2005. Excluding bulk annuity business, retail APE sales increased one per cent on 2005.

On an APE basis, the new business margin fell to 29 per cent, down from 30 per cent at the half year 2005. This primarily reflects an adverse shift in sales mix due to a reduced proportion of bulk annuity and Department of Work and Pensions (DWP) rebate business, and the negative impact of economic assumption changes which were offset by an increase in annuity yield margins.

An overall increase in retail margins (including DWP rebates) was offset by a decline in the bulk annuity margin reflecting increased competition in this market. This margin movement and the fall in sales volumes led to the overall decline in NBPs, down from £159 million to £138 million.

Total EEV basis operating profits increased 133 per cent, the 2005 result being impacted by a persistency assumption change. Prudential UK continues to monitor closely mortality and persistency experience. Current experience is in line with our assumptions.

Strong growth in IFRS profits attributable to the with-profits fund (due to excellent investment returns achieved in 2005 and the subsequent bonus announcement made in February 2006) and increased annuity profits led to an overall increase in IFRS profits of 10 per cent.

Bulk annuity sales fell 29 per cent on the first half of 2005 to £128 million. This is due largely to the completion of the large PLP back-book transaction in 2005 (£145 million APE) as well as the challenging conditions seen in the bulk annuity market in the first half of 2006.

Despite the slowdown seen in the first half of 2006, Prudential UK believes that there is significant potential within this market and it is well positioned to benefit given its strong brand, financial strength, extensive annuitant mortality risk assessment capabilities and its well regarded fixed income fund management teams allowing it to pursue an optimal investment strategy. However, Prudential UK will not chase headline growth but instead, maintain its focus on value. In particular, it will only look at transactions that generate an acceptable rate of return.

The first half of 2006 saw the completion of two further back-book transactions. In January, Prudential reached agreement with Royal London to acquire the portfolio of in-payment pension annuities that had been written primarily under the Royal London brand but which also included some annuities written under the Refuge Assurance brand. The transaction generated premium income of £66 million on an APE basis. In June, Prudential Assurance Company (PAC) agreed to reinsure the non-profit immediate pension annuity portfolio of the SAIF to Prudential Retirement Income Limited (PRIL). SAIF is a closed sub-fund established by a court approved Scheme of Arrangement in September 1997, in which Prudential shareholders have no economic interest. It contains a large proportion of the business originally written by the Scottish Amicable Life Assurance Society that was acquired by PAC in September 1997. The reinsurance premium for this transaction was £59 million on an APE basis.

Retail sales were up one per cent on 2005. Increased sales of individual annuities, with-profit bonds and offshore bonds were offset primarily by a decline in protection sales and DWP rebate business.

Total individual annuity APE sales for the first half of 2006 were up three per cent on the corresponding period last year at £114 million. This reflects the particularly strong second quarter performance in which APE sales were up 12 per cent on the same period last year.

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The with-profits bonus announcement made in February 2006 was well received by both customers and advisers and contributed to increased interest in with-profit bonds and with-profit annuities with sales growth of 50 per cent and over 100 per cent respectively. Sales of with-profit annuities also benefited from the favourable comparison of their returns with the decline in conventional annuity rates seen in 2005 and early 2006.

Increased offshore bond sales (up 133 per cent) were offset by a decline in unit-linked bond sales (down 31 per cent) as Prudential chose to continue its focus on value, not volume. Within the unit-linked bond market, Prudential is focusing on intermediaries where it anticipates good persistency and thereby avoids the recycling of business which has been seen recently. Prudential has structured its commission rates in accordance with this strategy.

In line with this focus on value for both the customers and advisers, Prudential launched its new Flexible Protection Plan in July 2006. This innovative new protection product is designed to pay critical serious illness claimants earlier and more often than traditional protection products with, on average, four times as many serious illnesses covered. Payments will be based on severity levels and multiple claims for the same or new illness will be possible. This will be sold initially through Prudential's Direct channel and a number of financial advisers specialising in the protection market.

As a result of the mailing to its 440,000 customers contracted-out of the State Second Pension (S2P) for the 2005/2006 tax year, approximately 132,000 customers elected to contract back into the State scheme resulting in a decline in DWP rebate business of 30 per cent in the first half of 2006.

PruHealth continues to grow strongly with over 50,000 individuals now covered, a number that has almost doubled in the last six months. Contributing to this growth is the number of companies adopting PruHealth for their employee healthcare schemes, including British Airways voluntary scheme, Smith and Nephew and Norton Rose.

In June, Prudential and Royal London signed a partnership agreement under which Royal London will offer Prudential's annuity products on an exclusive basis to customers with maturing pensions originally written under the Royal London, Refuge and United Assurance Group (UAG) brands. The agreement, which is expected to take effect from September 2006 and run for five years, will cover new vesting annuities resulting from a range of pension policies.

In addition, Prudential and Royal London have reached agreement to reassure (and subsequently transfer) to Prudential all pension annuities arising from vestings between July 2005 and October 2006, for policies written under the same brands. This supplements the agreement reached between Prudential and Royal London in

January 2006 for Prudential to acquire the portfolio of in-payment pension annuities which were already in payment at 1 July 2005, and which again arose from vestings of policies written under the Royal London, Refuge and UAG brands.

Prudential has signed an exclusive five year agreement with Threadneedle as their supplier of annuities for Threadneedle's Stakeholder Scheme along with future defined contribution schemes which Threadneedle acquires. This is a new area for Prudential which builds on its experience in providing annuities to customers of life insurance companies. With the future growth in defined contribution schemes within the UK we expect more agreements of this type in the future.

In December 2005, Prudential announced total annualised pre-tax cost savings across the combined UK and Egg business of £40 million by the end of 2007. To help achieve this, Prudential UK has been reorganising its structure during the first half of 2006 to allow it to integrate the Egg banking business. This will allow the UK business to achieve greater efficiencies and thereby position itself to better meet its customers' needs, reduce costs and generate greater shareholder value. The business has been restructured to focus on the opportunities in the income in retirement, wealth and health and retail banking markets and mature products have been separated out and will now be managed as a specific business area. All of these areas now share single support functions, thereby reducing duplication across the two businesses.

An end-to-end review of the UK business aimed at reducing the overall cost base is under way. Total UK and Egg pre-tax cost savings are expected to be £150 million per annum by 2009. This includes the saving of £40 million previously announced in December 2005. £100 million will come from shareholder business and £50 million from policyholder business. The savings are currently expected to be neutral on an EEV basis but will benefit IFRS profits and the cash position of the integrated UK business. In total the cost of implementing these measures are expected to be £110 million pre-tax of which £70 million relates to the shareholder and £40 million to the policyholder. In the first half of 2006, a charge of £12 million restructuring costs on an EEV basis and £11 million on an IFRS basis has been taken in relation to this in the UK.

The cost savings will be achieved by way of functional restructuring, site rationalisation and control of discretionary spend.

The With-Profits Fund benefited from a pre-tax investment return of 4.2 per cent in the first half of 2006 compared with 7.4 per cent in the comparable period of 2005. Over the last five years (to 30 June 2006), the With-Profits Fund has delivered a pre-tax total return of 48.9 per cent compared with the return on the FTSE All Share (Total Return) index over the same period of 27.8 per cent. The fund remains strong with an inherited estate estimated to be around £8.7 billion as at 30 June 2006, on a realistic valuation basis, compared with approximately £8.0 billion at the end of 2005. The PAC long-term fund is currently rated AA+ by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch Ratings.

The table below shows the change in the investment mix of Prudential's main with profits fund:

Half year 2006	Full year 2005	Full year 2004
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	%	%	%
UK equities	37	40	33
International equities	17	19	15
Property	16	15	18
Bonds	25	21	29
Cash and other assets classes	5	5	5

Prudential UK will continue to pursue profitable opportunities in its chosen product areas and distribution channels in 2006 maintaining its focus on maximising value and return on capital.

*United States*

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
PVNBP	3,209	2,875	12%	2,749	17%
APE sales	323	288	12%	275	17%
NBP	134	99	35%	95	41%
NBP margin (% PVNBP)	4.2%	3.5%		3.5%	
Total EEV basis operating profit*	350	451	(22)%	431	(19)%
Total IFRS operating profit*	227	178	28%	169	34%

\*Continuing operations.

Period-on-period comparisons of financial performance are on a CER basis, unless otherwise stated.

Jackson National Life (JNL), our US insurance business, had a strong first half to the year delivering PVNBP and APE sales growth of 12 per cent whilst maintaining the strong new business profit (NBP) margins achieved during 2005. JNL again delivered record variable annuity sales during the first half of 2006, and has now recorded seven consecutive record quarters of variable annuity growth.

Innovation in product design continues to be a key driver of JNL competitiveness, and during the first half of 2006 79 per cent of retail sales related to products and product features launched since the beginning of 2005. In January JNL added a five per cent annual benefit increase option to its popular lifetime guaranteed minimum withdrawal benefits (GMWB). In February, the company launched two new fixed index annuity contracts, Elite Choice and Elite Choice Rewards, which expanded the number of fixed index annuity products JNL offers to five. In May, JNL added five new GMWB options that provide contract holders with a guaranteed return of premium and lifetime income. Additionally, JNL expanded its variable annuity fund offering during the first half of the year.

The organisational flexibility and competency in execution which enables this product innovation, coupled with a powerful distribution model and strong service offering increased JNL's share of the variable annuity market to 4.2 per cent during the first quarter (VARDS), up from 3.3 per cent at the same time last year. JNL also improved its share of variable annuity sales through





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the independent broker-dealer channel to 10.4 per cent at the end of the first quarter, up from 5.4 per cent two years ago, and 8.1 per cent at the same point in 2005.

At the 2006 half year, JNL had US\$70.7 billion in GAAP assets. Of this total, US\$21.0 billion related to variable annuity assets, an increase of US\$2.9 billion compared to 2005 year-end, and up US\$5.6 billion from 12 months ago, further diversifying JNL's earnings towards fee-based income.

The 12 per cent growth in APE sales to £323 million during the first half of 2006 reflects a 26 per cent increase in retail sales. This growth was driven by a 52 per cent increase in variable annuities to £189 million against market growth of 20 per cent (VARDS) in the year to March 2006. The increased variable annuity sales more than offset a reduction in sales of both fixed annuities and fixed index annuities, down 28 per cent to £31 million and six per cent to £29 million respectively. Entry spreads for fixed annuities continued to be challenging during the first half of the year, which limited the attractiveness of the market to JNL. To the end of May 2006 the fixed annuity market was down 9.3 per cent from the same point in the prior year (LIMRA).

Fixed index annuity sales continued to be impacted by the uncertain regulatory environment in the US, with total market sales to March 2006 down two per cent (LIMRA) from the prior year.

Institutional APE sales of £65 million, a market in which JNL participates on an opportunistic basis, were down 23 per cent from the prior year.

NBP of £134 million was 35 per cent above the prior year, reflecting both a 12 per cent increase in APE sales and an increase in margin from 35 per cent to 41 per cent half year on half year. The increase in margin reflects a favourable business mix; economic assumption changes, including the increase in the equity risk premium; and positive effects from the increase in election of high margin guaranteed benefit options on variable annuity contracts.

Total EEV basis operating profit at the half year 2006 was £350 million compared to £451 million in the prior year. In-force EEV profits of £212 million were 37 per cent below prior year profit of £339 million, primarily reflecting the inclusion in 2005 of an operating assumption change relating to price increases introduced on two older books of term life business representing £142 million, partially offset by an increase in the unwind of the in-force business during the first half of 2006. The unwind increased as a result of a higher opening embedded value and a higher risk discount rate as long-term interest rates increased.

The growth in IFRS operating profit of 28 per cent from the prior year to £227 million primarily reflects an increase in spread and fee income over the first half of 2005. The improved spread income from prior year relates primarily to spread earned on fixed index annuity assets and earnings in excess of the target on the regular portfolio, partially offset by lower spread from non-recurring make-whole and mortgage prepayment fees. Higher fee income of £59 million over prior year was primarily driven by higher separate account assets given the growth in variable annuity sales, and an improvement in the average fees generated from those assets given the increase in election of high margin guaranteed option benefits.

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National Planning Holdings (NPH), JNL's independent broker network, had a strong first half to the year with profits up 33 per cent to £4 million. NPH, which is a network of four independent broker-dealers, increased sales through the network to US\$6.1 billion in the six months to June 2006, an increase of 27 per cent over the prior year. NPH has also increased the number of registered advisors in its network to 2,660 at the half year, up from 2,421 in the prior year, further extending JNL's footprint in broker-dealer distribution.

Curian Capital, which offers customised separately managed accounts, recorded improved results with losses of £4 million in the first half improved from losses of £6 million in the prior year, as it continues to build scale in assets under management. At 30 June 2006 Curian Capital had US\$1.98 billion (£1.07 billion) of assets under management compared with US\$1.35 billion (£731 million) at the same point in the prior year.

In June 2006, JNL announced a new branding campaign designed to increase awareness of JNL's rich tradition, bold vision and innovative approach to developing and delivering a range of retirement planning solutions.

JNL continues to deliver growth in the attractive US market and has further enhanced its competitive advantage in the variable annuity market, offering the product and service solutions that both customers and advisors want. With a continued focus on product innovation, a proven relationship-based distribution model, award winning service and excellence in execution, JNL is well positioned to take advantage of the changing demographics and resulting opportunities in the US market.

### Asia

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
PVNBP	2,328	1,835	27%	1,734	34%
APE sales	448	331	35%	313	43%
NBP	232	173	34%	162	43%
NBP margin (% PVNBP)	10.0%	9.4%		9.3%	
Total EEV basis operating profit*	359	269	33%	252	42%
Total IFRS operating profit**	88	126	(30)%	116	(24)%

\*Excluding fund management operations, development and Asia regional head office expenses.

\*\*Excluding fund management operations, development and Asia regional head office expenses. Half year 2005 includes exceptional items totalling £44 million.

Prudential continues its profitable growth in Asia through leveraging its multi-channel distribution capabilities and profitable and capital efficient products, well known brand and strong local management teams.

Across the region, new business growth remains strong at 27 per cent above the first half of 2005 on a PVNBP basis and 35 per cent on an APE basis. New business margins on APE are in line the same time last year at 52 per cent. Changes in geographic mix towards the higher growth, but lower margin markets of India and Korea were offset by an improved product mix. The proportion of linked business has increased from 58 per cent last half year to 66 per cent in 2006 on a PVNBP basis, and Asia have sold a lower proportion of lower margin linked business in Taiwan which was a feature of the results last year. Operating experience variances are marginally negative at £2 million. Excluding last half year's one-off exceptional items of £44 million, which included the release of reserves in Singapore, IFRS profits have increased by seven per cent to £88 million.

Prudential has developed its Asian business with a focus on building profitable and sustainable scale. This has led to a strong emphasis on product profitability and capital efficiency, and the business today has an average new business capital strain of less than three per cent of PVNBP. As a result, and in line with prior expectations Prudential Corporation Asia became a net capital contributor in the first half of 2006 with a net repatriation of £5 million. This occurred even while, as noted above, the business grew by 35 per cent on an APE basis.

Our Korean business grew 65 per cent over the first half of 2005 and has now become our largest country market in Asia in terms of new business APE. New business margin, at 38 per cent, is in line with the full year 2005. Our multi-channel approach is highly effective in Korea. Proprietary distribution continues to grow with the addition of nearly 400 financial consultants for a total force of over 1,600. These are highly professional agents and are twice as productive as Prudential Corporation Asia's regional average. We are also growing the broker network through providing attractive levels of service and support. Bank distribution continues to develop despite being constrained by regulatory volume caps imposed on our partner banks.

Our joint ventures in the large growth markets of India and China grew rapidly as well. ICICI-Prudential in India grew new business APE by 100 per cent over the same period last year driven by continued geographic expansion. There was a further boost to sales volumes in the second quarter due to a regulatory driven cessation of the current form of linked products. New linked products launched from 1 July 2006 have features designed to ensure customers take a longer-term view of insurance products.

In the first half of 2006, new business APE for our China joint venture increased by 36 per cent over the same period in 2005. CITIC-Prudential now has 14 city licenses up from 10 at 31 December 2005, and 11 cities operational with Wuxi (Jiangsu province) being licensed and launched in 2006. CITIC-Prudential has also been granted life licenses in Jiangmen in Guangdong province and further new provincial capitals, Jinan in Shandong and Hangzhou in Zhejiang province.

Our business in Indonesia continues to grow apace with a 45 per cent increase in new business over the same period last year. Prudential has been in Indonesia for 10 years and the operation is now well established with a high proportion of unit-linked business, good new business margins and reporting profits on an IFRS basis. At 28,000, agent numbers are

almost doubled from last year. The life insurance market in Indonesia is still very much in its infancy and has considerable long-term potential.

Turning to the established markets, Singapore's first half new business growth on an APE basis was 32 per cent. Prudential has been a leading player in Singapore for many years, one of Asia's more competitive markets; however, during the first half of 2006 we have been able to leverage Prudential's regional and international fund management expertise to launch an appealing series of unit-linked funds to drive growth in single premiums of 64 per cent compared to the same period last year.

In Hong Kong, whilst new business volumes have increased more modestly at 10 per cent compared to last year, margins have increased from 52 per cent to 67 per cent driven by new products and higher productivity from the agency force.

In Malaysia, new business volumes have remained essentially in line with last year. During the first half of 2006, the Malaysian agency force was adjusting to a series of regulatory changes that started in the second half of 2005 affecting policy illustrations, minimum sum assureds and delays to new product approval. New business volumes remained in line with last year. In January 2006, Prudential and Bank Simpanan Nasional (BSN) were awarded a takaful (Islamic compliant life insurance) license to develop and market life insurance products to Muslim Malays who make up more than 60 per cent of the population. BSN (formerly the Post Office Savings Bank), is wholly owned by the Ministry of Finance and is one of the major banks in Malaysia with a nationwide network of 391 branches. This new joint venture will also use Prudential's tied agency distribution and is expected to launch in the third quarter of this year.

In Taiwan, the emphasis remains on capital efficient unit-linked products and new business has grown by 25 per cent compared to a weak first half last year. New business margins have increased from 39 per cent to 52 per cent reflecting a lower proportion of the retirement orientated linked product sold in the first half of last year.

Prudential's other markets of the Philippines, Thailand and Vietnam collectively remained in line with prior year. Prudential continues to retain its clear market leading position in Vietnam. The business is now generating profits under the IFRS basis, and we expect to launch unit-linked products in the second half of this year. In Thailand, we have recently opened the market's largest telemarketing call centre to take advantage of the significant direct marketing opportunity.

In summary, Prudential continues its excellent track record of building a profitable business in Asia with the ability to drive strong growth and increasing capital generation.

**Asset management**

**M&G**

	Half year 2006 £m	Half year 2005 £m	Change
Gross investment flows	6,795	3,579	90%
Net investment flows	3,595	1,680	114%
Underlying IFRS operating profits before performance-related fees	91	68	34%
Total IFRS operating profit	100	83	20%

Record net fund inflows and market leading investment performance led to M&G delivering a 34 per cent increase in underlying profit in the first half of 2006. Underlying profits (excluding performance-related fees) were £91 million in the first six months of the year, compared to £68 million for the same period last year. M&G's operating profit including performance fees was £100 million, an increase of 20 per cent.

M&G delivered an exceptional level of fund inflows in the first six months of the year, which reflects M&G's leading position in retail fund management, institutional fixed income, pooled life and pensions funds, property and private finance. Gross fund inflows were £6.8 billion, an increase of 90 per cent on the same period last year. Net fund inflows more than doubled to £3.6 billion, which is already 93 per cent of total net inflows achieved in the whole of 2005.

Gross fund inflows into M&G's retail businesses were their highest ever at £3.6 billion and were more than double those achieved in the first half of last year. Net fund inflows saw a near fourfold increase to £1.7 billion and have already exceeded the total net flows last year. This was on the back of excellent fund performance across M&G's equity, fixed income and property funds, which over the last three years has seen 77 per cent of M&G retail funds beating their UK sector average and 45 per cent delivering top quartile performance.

M&G's institutional businesses also enjoyed an excellent first half to the year. Gross fund inflows grew by 64 per cent to £3.2 billion and net inflows by 51 per cent to £1.9 billion. M&G continued its successful strategy of generating attractive new revenue streams using expertise developed for internal funds with the roll-out of its Episode global macro strategy to external clients. M&G's successful Collateralised Debt Obligation (CDO) programme continued with the launch of two new CDOs in the first half of 2006, bringing the total number launched to 13.

**Asia**

Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
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Net investment flows	1,709	571	199%	548	212%
Total IFRS operating profit*	22	3	633%	2	1,000%

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\*IFRS operating profit in 2005 was £12 million on RER, offset by £10 million of exceptional charges.

The Asian fund management business achieved a record first half year, delivering the highest first half inflows since the business was launched. Net inflows of £1.7 billion were up 212 per cent on the same period in 2005. Of the £1.7 billion in net inflows, £1.4 billion was in longer-term equity and fixed income products and £0.3 billion was in shorter-term money market funds. Third party funds under management in Asia at the half year were £10.9 billion, up 12 per cent compared to the end of the first half of 2005. In August last year, ICICI increased its stake in Prudential's Indian asset management joint venture from 45 per cent to 51 per cent. As a result, Prudential no longer consolidates this business at 100 per cent and the 2006 half year numbers are reported at 49 per cent. On a comparable basis, third party funds under management grew 27 per cent from the first half of 2005.

The strength of the Asian fund management business's geographic diversification, product innovation and delivery and strong fund performance has resulted in continued strong net inflows, especially in Korea and India. In India, our joint venture increased its funds under management to £3.7 billion\*\* to become the number one ranked asset management company in India, overtaking a local incumbent that had held this rank since 1964. Prudential's first fund launch in China in April 2006 generated new inflows of £205 million (Prudential's share was £68 million).

Total funds under management as at 30 June 2006 were £26.2 billion, up 11 per cent on the first half of 2005. On a comparable basis adjusting as noted above for India the growth was 16 per cent. On an IFRS operating profit basis, profits for the first half were £22 million compared with £3 million for the same period in 2005. The first half profit numbers for 2005 were reduced by £10 million of exceptional charges related to bond funds in Taiwan. Excluding these charges profits grew by 69 per cent in the first half of 2006 when compared to the first half of 2005.

Prudential remains confident that its fund management business is ideally positioned to capitalise on the opportunities to grow this business strongly and profitably.

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\*\*Based on 100 per cent, Prudential only reports its 49 per cent share of funds under management and profits.

*PPM America*

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
Funds under management (£bn)	38	40	(5)%	41	(7)%
Total IFRS operating profit	4	16	(75)%	15	(73)%

PPM America (PPMA) is the North American institutional investment manager of Prudential. PPMA's IFRS operating profits of £4 million are down from £16 million in the prior year. The decrease is primarily due to an £8 million reduction in investment related income primarily due to a one-off revaluation in 2005 of an investment vehicle managed by PPMA, and an increase in long-term incentive plan expense in 2006.

PPMA, which specialises in public and private fixed income and equity, and real estate securities, and, through its affiliate PPM Finance, Inc., commercial mortgage lending, had funds under management of US\$70 billion at half year 2006 (including PPM Finance) down from US\$73 billion in the prior year, of which 69 per cent relates primarily to JNL policyholder assets, 29 per cent to funds managed on behalf of other Prudential UK and Asian affiliates, and two per cent to funds managed for external clients, including CDOs and similar products.

**Banking***Egg*

	Half year 2006 £m	Half year 2005 £m	Change
IFRS operating profit from continuing operations*	(39)	13	(400)%
Highlights of banking business:*			
Net interest income	163	146	12%
Non-interest income	71	105	(32)%
Cost-to-income ratio	45.9%	44.2%	
Bad debts	(166)	(117)	(42)%

\*Excluding Funds Direct as being discontinued and re-engineering costs related to integration with Prudential UK.

Egg made a loss of £39 million for the first half of 2006, compared with a profit of £13 million for the same period in 2005. This performance is driven by a significant increase in bad debt charges (£49 million higher than the first half of 2005) in line with the rest of the unsecured lending industry. Within the Egg book the higher charge also reflects above average bad debt emerging from a specific cohort of the loan portfolio written in 2004. Additionally, non-interest income has fallen as a result of reduced sales of Payment Protection Insurance (PPI) products. Egg has made the decision to reduce new loan volumes by raising the threshold for new applicants consistent with its stated desire to only write new business that meets its hurdle return on capital threshold.



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Egg is expecting to report an operating profit for the second half of 2006.

Egg had a strong performance in new credit card customer acquisition in the first quarter of 2006 with its balance switcher proposition delivering a record quarter in card issuance (153,000 visa cards). This was achieved despite a lower acceptance rate than previous due to the increase in thresholds to maintain the above industry average credit quality of the card book.

Egg's card book is performing well in a difficult market where consumers are spending and borrowing less on average. Outstanding balances across the industry have contracted by two per cent in the year to May, whilst Egg's balances have increased by three per cent to May.

Revenues have decreased by £17 million over the same period in 2005 primarily due to the strategic decision to scale back on new loans and the resultant impact on PPI sales. Whilst this partial withdrawal has driven an approximate £30 million year-on-year deficit in Egg's first half 2006 results, it will not impact long-term value as the loans being written in 2006 are of higher credit quality due to scorecard changes that we have continued to make consistent with our risk appetite. The benefit of these changes is expected to flow through in lower bad debt charges in 2007 to 2009.

Income from the credit card book rose by £16 million year-on-year, despite absorbing an additional £10 million IFRS cost associated with card acquisitions in the first quarter (which will reverse over the second half of 2006). The income was mostly driven by a 100bps increase in the headline APR in August 2005 and the extension of fees on balance transfers.

The bad debt charge in the first half of 2006 is significantly higher compared to last year (£49 million). This has predominantly been driven by the expected emergence of bad debt from the maturing card and loan portfolios after consistent periods of growth. This is exaggerated by a higher than expected ongoing bad debt charge from 2004 loan business. We believe that these charges are consistent with, or more favourable than, the higher bad debt charges being reported across the industry.

For the first half of 2006, Egg has also incurred £6 million of restructuring costs to deliver standalone cost and synergy savings committed to as part of the integration with Prudential's UK operations. The benefits of these synergies will be seen in 2006 and beyond.

## Financial review

### Sales and funds under management

Prudential delivered overall sales growth during the first half of 2006 with total new insurance sales up three per cent, on a present value of new business premium (PVNBP) basis, to £9.8 billion at constant exchange rates (CER). This resulted in insurance sales of £1.3 billion on the annual premium equivalent (APE) basis, an increase of nine per cent on 2005. At reported exchange rates (RER), APE sales were up 12 per cent on the half year of 2005.

Total gross investment sales were £16.8 billion, up 27 per cent on 2005 at CER. Net investment sales of £5.3 billion were more than double net investment sales in 2005 at CER.

Total investment funds under management increased by 10 per cent at RER from £46.3 billion at 31 December 2005, to £51.1 billion at 30 June 2006, reflecting net investment flows of £5.3 billion and net market and other movements of negative £0.6 billion.

At 30 June 2006, funds under management were £237.5 billion, an increase of one per cent from 2005 year end at RER.

### European Embedded Value (EEV) basis results

#### *EEV basis operating profits*

Total EEV basis operating profit from continuing operations of £962 million was up 15 per cent on a CER basis and up 20 per cent on a RER basis reflecting strong growth from Prudential's insurance and fund management businesses.

Group new business profit (NBP) from long-term business of £504 million was up 17 per cent on the prior year at CER, reflecting strong growth in Asia and the US, up 34 per cent and up 35 per cent respectively. The Group's new business margin, on a PVNBP basis, increased from 4.5 per cent for the first half of 2005 to 5.2 per cent for the first half of 2006.

Total in-force profit of £537 million was up 28 per cent on 2005 on a CER basis. This resulted from strong growth in the UK and Asian operations offset by a fall in the US.

In aggregate net operating assumption changes were small at negative £8 million while experience variances and other items together were a positive £18 million.

*UK insurance operations*

EEV basis operating profit of £336 million was up 133 per cent on 2005.

New business profit of £138 million was down 13 per cent on the first half of 2005, reflecting both a decline in sales volumes and a fall in NBP margin on an APE basis from 30 per cent in the first half of 2005 to 29 per cent in 2006. The PVNBP margin remained in line with 2005 at 3.3 per cent.

The decrease in APE margin primarily reflects a shift in sales mix with a lower proportion of bulk annuity sales and a negative effect from economic assumption changes partly offset by an increase in annuity yield margins. The bulk annuity margin fell from 2005 due to increased competitiveness in the market. This was offset by an increase in the retail margin.

The weighted average post-tax Internal Rate of Return (IRR) on the capital allocated to new business growth in the UK was unchanged from the first half of 2005, at 13 per cent.

In-force profit of £198 million was up on the first half of 2005 reflecting an increase in unwind (due to increase in equity risk premium from three per cent to four per cent, an increase in the opening embedded value and an increase in the risk free rate) offset by a number of other items including service company losses, continued regulatory costs, losses in PruHealth and £24 million for tax related items. The 2005 result included a charge of £148 million in respect of a persistency assumption change. There were no operating assumption changes in 2006. Prudential continues to closely monitor mortality and persistency experience and during the first half of 2006 these performed in line with our assumptions.

*US operations*

In the US, EEV basis operating profit from long-term operations was £346 million, down 21 per cent at CER and down 17 per cent at RER from the prior year.

At CER, NBP increased by 35 per cent, and at RER by 41 per cent, to £134 million, reflecting a 12 per cent increase in PVNBP sales and an increase in margin on a PVNBP basis from 3.5 per cent at half year 2005 to 4.2 per cent at the half year 2006.

APE sales also improved by 12 per cent at CER, and the margin on an APE basis improved from 35 per cent to 41 per cent. The increase in margin from prior year reflects a favourable business mix; economic assumption changes, including an increase in the equity risk premium; and positive effects from the increase in election of high margin guaranteed benefit options on variable annuity contracts.

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For Jackson National Life (JNL), the average IRR on new business in the first half of 2006 was 17 per cent.

*EEV basis operating profits*

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
New business profit (NBP)	504	431	17%	416	21%
Business in force	537	420	28%	399	35%
Long-term business	1,041	851	22%	815	28%
Asia development expenses	(7)	(8)	13%	(8)	13%
Other operating results	(54)	(6)		(8)	
UK restructuring costs	(18)				
Total	962	837	15%	799	20%

At CER, the in-force profit for the half year decreased from £339 million in the prior year to £212 million. At RER, in-force profit decreased from £324 million to £212 million. This decrease is primarily due to an operating assumption change in 2005 following price increases introduced on two older books of term life business (£142 million), partially offset by an increase in the unwind of the in-force book, and an improved spread variance. The 50 per cent increase in the unwind at CER is primarily due to an increase in the risk discount rate. At CER the spread variance is up 20 per cent to £60 million at half year 2006, primarily reflecting achieved spreads in excess of the current weighted portfolio target on the regular portfolio. Also included within the spread variance is £16 million of non-recurring items including mortgage prepayment fees, make-whole payments and total return swap income. JNL expects to continue to achieve spread income ahead of target in the second half, although at lower levels than achieved in the first half.

#### *Asia operations*

EEV basis operating profit from long-term operations (excluding development and regional head office costs) was £359 million for the half year, up 33 per cent at CER and 42 per cent at RER on half year 2005.

NBP increased by 34 per cent, at CER, over the first half of 2006 to £232 million compared to the same period in 2005, reflecting the strong sales increase and the maintained NBP margin on an APE basis of 52 per cent compared to the same period in 2005. The margin remained constant as a positive effect due to product mix was offset by the negative impact of country mix with a higher proportion of new business being from the relatively lower margin markets of Korea and India, which now contribute 37 per cent of APE sales. Margin on a PVNBP basis at half year 2006 is 10.0 per cent compared to 9.4 per cent in 2005.

In-force operating profits (excluding development expenses and regional head office costs) in Asia of £127 million for the first half of 2006 represent an increase of 32 per cent over the same period for 2005 at CER, which included changes of assumptions.

In Asia, IRRs on new business at a country level are targeted to be 10 per cent over the country risk discount rate. Risk discount rates vary from 5 to 18 per cent depending upon the risk in each country market. These target rates of return are average rates and individual products could be above or below the target. In aggregate, IRR on new business exceeded 20 per cent on average new business discount rates for the first half of 2006 of 9.9 per cent. However, Thailand and Japan which have yet to reach scale, did not exceed their target.

#### *Asset management, banking and other*

##### **M&G**

M&G's total operating profit was £100 million, an increase of £17 million (20 per cent) on the first half of 2005. This growth in profits, which has resulted in M&G achieving interim operating profits of £100 million for the first time, continues to be driven by higher revenue from both existing and new business lines. Strong net sales have been consistently delivered from retail and institutional customers which, when combined with higher market levels, has resulted in assets under management growing from £126 billion at the end of 2004 to £155 billion at June 2006, an increase of 23 per cent.

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Underlying profits of M&G increased to £91 million, a 34 per cent increase on 2005. Underlying profits better reflect the improving performance of the business as they are stated before more volatile performance related fees (PRFs) and carried interest, the latter of which fell sharply in the first half of 2006 following two years in which significant but unsustainable income has been delivered. In the first half of 2006, M&G earned PRFs of £6 million (first half 2005: £3 million) and carried interest of £3 million (first half 2005: £12 million).

### **US broker-dealer and fund management businesses**

The broker-dealer and fund management operations reported a total profit of £8 million, compared with £19 million in the first half of 2005. This reflects a decrease in profits from PPM America (PPMA), arising primarily due to an £8 million reduction in investment related income primarily due to a one-off revaluation in 2005 of an investment vehicle managed by PPMA, and an increase in long-term incentive plan expense in 2006.

National Planning Holdings recorded profits of £4 million for the first half of 2006, an increase of 33 per cent from the prior year.

### **Curian**

Curian provides innovative fee-based separately managed accounts. Curian incurred losses of £4 million compared to a loss £6 million in the prior year, as the business continues to build scale. At 30 June 2006, Curian had assets under management of £1.07 billion compared to £731 million in the prior year, an increase of 46 per cent at CER.

### **Asian fund management business**

The fund management business in Asia has expanded into new markets in the past few years and is now in 10 markets across Asia. Geographic diversification along with this growth in scale has resulted in a strong upward trend in profits.

Profit from Asia fund management operations was £22 million for the half year, up 633 per cent from 2005 on CER, or 69 per cent on CER basis excluding the one-off charge of £10 million in 2005. This was driven from a 12 per cent increase in retail funds under management with significant contributions to the growth coming from Japan and Korea; the latter also achieving a higher average fee rate.

### **Egg**

Egg's total continuing operating result for the first half of 2006 was a loss of £39 million, compared with a £13 million profit in the same period of last year. This loss was driven by a significant increase in bad debt charges (£49 million higher than the first half of 2005) in line with the rest of the unsecured lending industry. Within the Egg book, the higher charge also reflects the above average bad debt emerging from a specific cohort of the loan portfolio written in 2004. In the first quarter of the year, Egg acquired a record 153,000 new credit cards. This has resulted in a net cost of £10 million in the profit and loss account, compared to the first half of 2005, for the interest rate incentive offers associated with the card campaign. This will reverse in the second half of 2006 in accordance with the accounting policy required under International Financial Reporting Standards (IFRS).



Revenue generated from the associated insurance on loans was lower than the first half of 2005, reflecting Egg's strategic move to reduce new loan volumes. This followed a raising of the threshold for new applicants to raise the credit quality of the loan book consistent with its desire to ensure it only writes new business that meets its hurdle return on capital threshold.

#### **Other**

Asia's development expenses (excluding the regional head office expenses) for the half year decreased by 13 per cent at CER to £7 million, compared with £8 million in 2005. These development expenses primarily relate to our newer operations and establishing our services hub in Malaysia.

Other net expenditure of £141 million compared to £118 million in 2005 at CER. This reflected higher interest payable and head office costs. Interest payable increased £5 million to £89 million in 2006 primarily due to foreign exchange movements and a rise in US interest rates. Head office costs (including Asia regional head office costs of £19 million) were £65 million, up £15 million on 2005 at CER.

In 2006, restructuring costs of £18 million were incurred in the UK and Egg. Total UK and Egg pre-tax cost savings are expected to be £150 million per annum by 2009 and the cost of implementing these measures is expected to be £110 million pre-tax, of which £70 million relates to the shareholder and £40 million to the policyholder. The shareholder charge for restructuring costs for the full year 2006 are expected to be £55 million.

#### ***Total EEV basis result before tax for continuing operations*** (Period-on-period comparisons below are based on RER)

Total EEV basis before tax, and minority interests was £1,429 million up 72 per cent from £831 million in the first half of 2005. This reflects an increase in operating profit from £799 million to £962 million together with a favourable movement in actuarial gains and losses on defined benefit pension schemes of £254 million; economic assumption and time value of cost of options and guarantees changes of £164 million; and the mark to market movement on core borrowings of £197 million; offset by a negative movement in short-term fluctuations in investment returns of £275 million. The 2005 result also included a goodwill impairment charge of £95 million.

The UK component of short-term fluctuations in investment returns of £34 million in 2006 reflects the difference between an actual investment return delivered in the first half of 2006 for the with-profits life fund of 4.2 per cent and the long-term assumed return of 3.8 per cent for the half year.

The US long-term business short-term fluctuations in investment returns of £12 million in 2006 include a positive £15 million in respect of the difference between actual investment returns and long-term returns included in operating profit. For the first half of 2006, the primary factor was a return in excess of assumptions on limited partnership investments.

In Asia, long-term business short-term investment fluctuations were negative £34 million, compared with positive £24 million for 2005 half year. This negative result was primarily due to rising interest rates over the period, though this was mitigated by strong equity gains in Vietnam.



The mark to market movement on core borrowings of £168 million in 2006, compared to negative £29 million in 2005 reflects the reduction in fair value of core borrowings due to increases in interest rates.

Negative economic assumption changes of £1 million in 2006 compared with negative economic assumption changes of £145 million in 2005. Positive economic assumption changes in the UK were offset by adverse changes in the US and Asia.

In the UK, economic assumption changes of positive £163 million in 2006 reflects an increase in the future investment return assumption offset by the increase in the risk discount rate. The increases in future investment return assumptions and risk discount rate were due to an increase in the risk free rate from 4.1 per cent to 4.7 per cent.

In the US, economic assumption changes of negative £100 million in 2006 primarily reflect the increase in the risk discount rate following a rise in the 10-year treasury bond rate, partially offset by an increase in the assumed separate account return assumption, also driven by the change in the 10-year treasury bond rate.

Asia's negative economic assumption change of £64 million in 2006 primarily relates to the established markets, in particular Hong Kong which suffered from the effect of a higher risk discount rate, due to a rise in interest rates. Taiwan interest rate changes were in line with our assumptions.

The increase in actuarial gains and losses of £254 million between half year 2005 and half year 2006 reflects the increase in discount rate applied to projected pension payments resulting from increased yields on AA corporate bonds.

The increase in the change in time value of cost of options and guarantees was positive £20 million for the first half of the year consisting of, positive £3 million, positive £18 million and negative £1 million for the UK, the US and Asia respectively.

***Total EEV basis result after tax for continuing operations***

Profit after tax and minority interests for continuing operations was £1,052 million compared with £489 million in 2005. The tax charge of £376 million compares with a tax charge of £337 million in the first half of 2005.

The effective tax rate at an operating profit level was 30 per cent. This compares with effective rates on the operating profits for the 2005 half year and full year of 28 per cent and 21 per cent respectively. The low rate at full year 2005 at the operating level reflects a number of factors including settlement of a number of outstanding issues with HMRC and benefit for losses incurred in France. The effective tax rate at the total EEV profit level of 26 per cent compared to 41 per cent at the 2005 half year and 29 per cent at the 2005 full year. Variations in the rate on total EEV profit primarily reflect the movement in the mark to market value of core borrowings and, for 2005, the goodwill impairment charge and change of economic assumptions in certain Asia operations. For each of these items there is either no or only a limited tax effect.



**International Financial Reporting Standards (IFRS) basis results *IFRS basis operating profit (based on longer-term investment returns)***

Total operating profit before tax, based on longer-term investment returns for continuing operations on the IFRS basis was £453 million, £36 million down on the IFRS result for the first half of 2005 at CER. At RER, operating profit was down £16 million.

In the UK, IFRS operating profit was £205 million in 2006, an increase of 10 per cent on 2005. This primarily reflected an increase in profit from the with-profits fund, reflecting bonus rates announced in February 2005 and an increase in profits arising from the annuities business.

The US operations operating profit result of £227 million, which is based on US GAAP, adjusted where necessary to comply with IFRS and the Group's basis of presenting operating profit based on longer-term investment returns, was up 28 per cent on the 2005 result at CER. At RER, operating profit based on longer-term investment returns for continuing operations was 34 per cent higher than the 2005 result.

The US operating result of £227 million, reflects increased spread and fee income partially offset by reduced profits from PPMA. The increased spread income primarily reflects achieved spreads in excess of the current weighted portfolio target on the regular portfolio, and contains non-recurring spread items totalling £16 million, including mortgage prepayment, make-whole payments and total return swap income. Increased fee income was driven by higher separate account assets as a result of stronger variable annuity sales, and improved average fees on those assets given the increase in election of high margin guaranteed benefit options.

The reduction in PPMA profits primarily arises from an £8 million reduction in investment related income primarily due to a one-off revaluation in 2005 of an investment vehicle managed by PPMA, and an increase in long-term incentive plan expense in 2006.

In Asia, IFRS operating profits decreased to £110 million from £129 million at CER in 2006 (excluding development and regional head office costs). Half year 2005 results included a contribution of £34 million from exceptional items. Excluding these items, IFRS operating profits rose by 16 per cent driven by continued profitable growth, and the increasing scale of the inforce books where the largest of these, Hong Kong, Singapore and Malaysia contributed £73 million. There was also a large rise in fund management profits driven from a 12 per cent increase in retail funds under management with significant contributions to the growth coming from Japan and Korea; the latter also achieving a higher average fee rate.

***IFRS basis total profit before tax for continuing operations*** (Period-on-period comparisons below are based on RER)

Total IFRS basis profit before tax and minority interests for 2006 was £692 million. This compares with £460 million for the half year 2005. The increase reflects: a reduction in operating profit of £16 million; a reduction in short-term fluctuations in investment returns of £55 million from the first half of 2005 to positive £39 million; offset by an increase of £208 million in actuarial gains and losses on the groups defined benefit pensions schemes reflecting an increase to 5.5 per cent in the discount rate applied to projected pension payments.

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The 2005 result included a goodwill impairment charge of £95 million in respect of the Japanese business.

*IFRS basis operating profit (based on longer-term investment returns)*

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
<b>Insurance business:</b>					
UK	205	187	10%	187	10%
US	223	165	35%	157	42%
Asia	88	126	(30)%	116	(24)%
Asia development expenses	(7)	(8)	13%	(8)	13%
	509	470	8%	452	13%
<b>Fund management business:</b>					
M&G	100	83	20%	83	20%
US broker-dealer and fund management	8	19	(58)%	18	(56)%
Curian	(4)	(6)	33%	(6)	33%
Asia fund management	22	3	633%	2	1,000%
	126	99	27%	97	30%
<b>Banking:</b>					
Egg (UK)	(39)	13	(400)%	13	(400)%
Other income and expenditure	(126)	(93)	(35)%	(93)	(35)%
UK restructuring costs	(17)				
Operating profits from continuing operations	453	489	(7)%	469	(3)%

***IFRS basis total profit after tax and minority interests for continuing operations***

Profit after tax and minority interests for continuing operations was £449 million compared with £299 million in 2005. The effective rate of tax on operating profits, based on longer-term investment returns, was 33 per cent. This compares with an effective rate of 29 per cent for half year 2005 and 19 per cent for full year 2005. The full year 2005 rate was unusually low reflecting a number of factors including settlement of a number of outstanding issues with HMRC and benefit taken for losses incurred in France.

The effective rate of tax at the total IFRS profit level for 2006 was 35 per cent. This compares with an effective rate of 34 per cent for half year 2005 and 24 per cent for full year 2005.

**Earnings per share**

Earnings per share based on EEV basis operating profit after tax and related minority interests were 28.0 pence, compared with 24.4 pence for the 2005 half year. Earnings per share on an IFRS operating profit basis after tax and related minority interests were 12.7 pence compared with 14.0 pence for the 2005 half year.

Basic earnings per share, based on total EEV basis profit, were 43.8 pence compared with 20.7 pence for the 2005 half year. Basic earnings per share, based on total IFRS profit were 18.7 pence compared with 12.7 pence for the 2005 half year.

**Dividend per share**

The interim dividend per share of 5.42 pence represents a 2.3 per cent increase on the 2005 interim dividend of 5.30 pence and will be paid on 27 October 2006. We intend to maintain our current dividend policy, with the level of dividend growth being determined after considering the opportunities to invest in those areas of our business offering attractive growth prospects, our financial flexibility and the development of our statutory profits over the medium to long term.

**Shareholders funds**

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 30 June 2006 were £10.9 billion, an increase of £0.6 billion from the 2005 year end level. This six per cent increase primarily reflects total EEV profit after tax and minority interest of £1,052 million, offset by negative exchange movements of £217 million and dividend payments to shareholders of £267 million.

Statutory IFRS basis shareholders' funds at 30 June 2006 were £5.0 billion. This compares with £5.2 billion at 31 December 2005. The reduction primarily reflects: profit after tax and minority interests of £449 million offset by negative foreign exchange movements of £134 million, dividend payments to shareholders of £267 million and negative movements on unrealised appreciation of securities classified as available-for-sale, net of related adjustments to amortisation of deferred acquisition costs and deferred tax, of £259 million.

On both bases the effect of purchasing the minority interest in Egg increased shareholders' equity by £78 million.

### Cash flow

The table below shows the Group holding company cash flow. Prudential believes that this format gives a clearer presentation of the use of the Group's resources than the format of the statement required by IFRS.

	Half year 2006 £m	Half year 2005 £m
Cash remitted by business units:		
UK life fund transfer*	217	194
JNL	68	
Asia	66	58
M&G	38	27
<b>Total cash remitted to Group</b>	<b>389</b>	<b>279</b>
Net interest paid	(90)	(54)
Dividends paid	(267)	(252)
Scrip dividends and share options	18	40
<b>Cash remittances after interest and dividends</b>	<b>50</b>	<b>13</b>
Tax received	88	36
Corporate activities	(24)	(36)
<b>Cash flow before investment in businesses</b>	<b>114</b>	<b>13</b>
Capital invested in business units:		
UK and Europe	(147)	(9)
Asia	(61)	(80)
<b>Decrease in cash</b>	<b>(94)</b>	<b>(76)</b>

\*In respect of prior year's bonus declarations.

The Group holding company received £389 million in cash remittances from business units in the first half of 2006 (2005: £279 million) comprising the shareholders' statutory life fund transfer of £223 million relating to the 2005 and 2006 bonus declarations, of which £217 million was remitted from the UK and £6 million from Asia, together with other remittances from subsidiaries of £166 million. Prudential expects the life fund transfer to continue broadly at this level.

JNL has remitted US\$118 million in this half year. An estimated total payment of US\$180 million is expected from JNL for the full year.

After net dividends and interest paid, there was a net cash inflow of £50 million (2005: £13 million).

The Group holding company paid £24 million in respect of corporate activities during the first half of 2006 and received £88 million in respect of tax. The Group invested £208 million (2005: £89 million) during the first half of the year, including £147 million in its UK operations and £61 million in Asia.

The capital requirement for the UK business is planned to be up to £230 million for 2006 and up to £150 million in 2007. Capital injections into the UK business are anticipated to decrease thereafter as the shareholder book continues to grow. This will depend on the mix of business written and the opportunities available. From 2008 the UK is expected to receive approximately £30 million a year from commission payment in respect of general

insurance, this will depend on the new business volumes and persistency rates. Prudential transferred its personal lines general insurance to Winterthur in 2002 and formed a strategic alliance with Churchill, now part of RBS Group. Under the terms of the agreement Prudential receives commission which is offset against payments received at the time of the transaction. Total commission levels are expected to exceed the upfront payments from 2008 onwards.

In the first half of 2006, Asia became a net contributor to the holding company's cash flow for the first time, with a net remittance of £5 million. Asia is expected to remain a contributor for the full year.

In aggregate, the first six months of 2006 saw a decrease in cash of £94 million (2005: £76 million).

#### **Shareholders borrowings and financial flexibility**

Net core structural borrowings at 30 June 2006 were £1,588 million compared with £1,611 million at 31 December 2005. This reflects the net cash outflow of £94 million, exchange conversion gains of £71 million and gains on forward currency contracts of £46 million.

The Group also has access to £1,500 million committed bank facilities provided by 15 major international banks, and a £500 million committed securities lending liquidity facility.

The Group's insurance and asset management operations are funded centrally. Egg, as a separate bank, is currently responsible for its own financing. The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 30 June 2006, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 12.7 per cent compared with 13.5 per cent at 31 December 2005.

Prudential plc enjoys strong debt ratings from both Standard & Poor's and Moody's. Prudential long-term senior debt is rated A+ (stable outlook) and A2 (stable outlook) from Standard & Poor's and Moody's respectively, while short-term ratings are A1 and P-1.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 11.8 times in the first half of 2006 compared with 10.5 times in the first half of 2005.

#### **Regulatory capital**

Following the acquisition by Prudential of the entire share capital of Egg plc, completed in May 2006, Prudential has reorganised its corporate structure. We expect the reorganisation to provide a regulatory capital benefit of about £120 million.



Including this benefit Prudential currently estimates its capital surplus under the Financial Conglomerates Directive at the end of 2006 will be over £800 million.

#### **Funds under management**

Funds under management across the Group at 30 June 2006 totalled £238 billion compared with £234 billion at 31 December 2005. The total includes £192 billion of Group internal funds under management and £46 billion of external funds under management.

#### **Financial strength of the UK long-term fund**

##### *United Kingdom*

The fund is very strong with an inherited estate measured on an essentially deterministic valuation basis estimated to be around £9.7 billion as at 30 June 2006 compared with approximately £9.0 billion at the end of 2005. On a realistic basis, with liabilities recorded on a market consistent basis, the free assets of the fund are estimated to be valued at around £8.7 billion before a deduction for the risk capital margin.

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.

The Company believes that it would be beneficial if there were greater clarity as to the status of the inherited estate. In due course, after discussions with the Financial Services Authority, the Company may therefore take steps to achieve that clarity, whether through guidance from the court or otherwise. In any event the Company expects that the entire inherited estate will need to be retained within the long-term fund for the foreseeable future to provide working capital, and so it is not considering any distribution of the inherited estate to policyholders and shareholders.

The Prudential Assurance Company long-term fund is rated AA+ by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch Ratings.

/s/ Philip Broadley  
**Philip Broadley**  
Group Finance Director  
27 July 2006

## European Embedded Value (EEV) basis results

## Summary consolidated income statement

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
UK insurance operations	336	144	426
M&G	100	83	163
Egg	(39)	13	44
UK operations	397	240	633
US operations	350	431	755
Asian operations	374	246	568
Other income and expenditure	(141)	(118)	(244)
UK restructuring costs (note 6)	(18)		
<b>Operating profit from continuing operations based on longer-term investment returns</b>	<b>962</b>	799	1,712
Goodwill impairment charge		(95)	(120)
Short-term fluctuations in investment returns	32	307	1,068
Mark to market value movements on core borrowings	168	(29)	(67)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	246	(8)	(47)
Effect of changes in economic assumptions and time value of cost of options and guarantees	21	(143)	(302)
<b>Profit from continuing operations before tax (including actual investment returns)</b>	<b>1,429</b>	831	2,244
Shareholder tax	(376)	(337)	(653)
Profit from continuing operations for the period after tax before minority interests	1,053	494	1,591
Discontinued operations (net of tax)		1	3
<b>Profit for the period</b>	<b>1,053</b>	495	1,594
Attributable to:			
Equity holders of the Company	1,052	490	1,582
Minority interests	1	5	12
<b>Profit for the period</b>	<b>1,053</b>	495	1,594

## Earnings per share (in pence)

	Half year 2006	Half year 2005	Full year 2005
<b>Continuing operations</b>			
From operating profit, based on longer-term investment returns, after related tax and minority interests	28.0p	24.4p	56.6p
Adjustment for goodwill impairment charge		(4.0)p	(5.1)p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns	0.6p	8.3p	30.6p
Adjustment for mark to market value movements on core borrowings	7.0p	(1.2)p	(2.8)p
Adjustment for post-tax effect of shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	7.2p	(0.3)p	(1.4)p

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Adjustment for post-tax effect of changes in economic assumptions and time value of cost of options and guarantees	1.0p	(6.5)p	(11.1)p
Based on profit from continuing operations after minority interests	<b>43.8p</b>	20.7p	66.8p
<b>Discontinued operations</b>			
Based on profit from discontinued operations after minority interests		0.0p	0.1p
Based on profit for the period after tax and minority interests	<b>43.8p</b>	20.7p	66.9p
Average number of shares (millions)	<b>2,403</b>	2,361	2,365

**Dividends per share (in pence)**

	Half year 2006	Half year 2005	Full year 2005
Dividends relating to the reporting period:			
Interim dividend (2006 and 2005)	<b>5.42p</b>	5.30p	5.30p
Final dividend (2005)			11.02p
Total	<b>5.42p</b>	5.30p	16.32p
Dividends declared and paid in the reporting period:			
Current year interim dividend			5.30p
Final dividend for prior year	<b>11.02p</b>	10.65p	10.65p
Total	<b>11.02p</b>	10.65p	15.95p

**Operating profit from continuing operations based on longer-term investment returns\*****Results analysis by business area**

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
<b>UK operations</b>			
New business	138	159	243
Business in force	198	(15)	183
Long-term business	336	144	426
M&G	100	83	163
Egg	(39)	13	44
Total	397	240	633
<b>US operations</b>			
New business	134	95	211
Business in force	212	324	530
Long-term business	346	419	741
Broker-dealer and fund management	8	18	24
Curian	(4)	(6)	(10)
Total	350	431	755
<b>Asian operations</b>			
New business	232	162	413
Business in force	127	90	163
Long-term business	359	252	576
Fund management	22	2	12
Development expenses	(7)	(8)	(20)
Total	374	246	568
<b>Other income and expenditure</b>			
Investment return and other income	18	20	42
Interest payable on core structural borrowings	(89)	(84)	(175)
Corporate expenditure:			
Group Head Office	(46)	(36)	(70)
Asia Regional Head Office	(19)	(14)	(30)
Charge for share-based payments for Prudential schemes	(5)	(4)	(11)
Total	(141)	(118)	(244)
UK restructuring costs	(18)		
<b>Operating profit from continuing operations based on longer-term investment returns</b>	<b>962</b>	<b>799</b>	<b>1,712</b>
Analysed as profits (losses) from:			
New business	504	416	867
Business in force	537	399	876
Total long-term business	1,041	815	1,743
Asia development expenses	(7)	(8)	(20)
Other operating results	(54)	(8)	(11)
UK restructuring costs	(18)		
Total	962	799	1,712

\*EEV basis operating profit from continuing operations based on longer-term investment returns excludes goodwill impairment charges, short-term fluctuations in investment returns, the mark to market value movement on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions and changes in the time value of

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cost of options and guarantees caused by economic factors. The amounts for these items are included in total EEV profit. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit on ordinary activities and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout this interim report.

**Movement in shareholders capital and reserves (excluding minority interests)**

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Profit for the period attributable to equity holders of the Company	1,052	490	1,582
Items taken directly to equity:			
Cumulative effect of IAS 32, IAS 39 and IFRS 4, net of applicable taxes, at 1 January 2005		(25)	(25)
Unrealised valuation movements on securities classified as available-for-sale	(4)	4	(1)
Movement on cash flow hedges	4	(7)	(4)
Exchange movements	(217)	219	377
Related tax	(39)	30	65
Dividends	(267)	(253)	(380)
Acquisition of Egg minority interests	(167)		
New share capital subscribed	253	40	55
Reserve movements in respect of share-based payments	6	6	15
Treasury shares:			
Movement in own shares in respect of share-based payment plans	9	1	0
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	1	(5)	3
Net increase in shareholders capital and reserves	631	500	1,687
Shareholders capital and reserves, at beginning of period (excluding minority interests)	10,301	8,614	8,614
<b>Shareholders capital and reserves at end of period (excluding minority interests)</b>	<b>10,932</b>	<b>9,114</b>	<b>10,301</b>
Comprising:			
UK operations:			
Long-term business	5,370	4,598	5,132
M&G:			
Net assets	273	272	245
Acquired goodwill	1,153	1,153	1,153
Egg	360	266	303
	7,156	6,289	6,833
US operations	3,379	3,092	3,418
Asian operations:			
Net assets	2,159	1,692	2,070
Acquired goodwill	172	197	172
Other operations:			
Holding company net borrowings (at market value)	(1,558)	(1,443)	(1,724)
Other net liabilities	(376)	(713)	(468)
<b>Shareholders capital and reserves at end of period (excluding minority interests)</b>	<b>10,932</b>	<b>9,114</b>	<b>10,301</b>

**Summarised consolidated balance sheet**

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Total assets less liabilities, excluding insurance funds	175,493	160,379	174,258
Less insurance funds:*			
Policyholder liabilities (net of reinsurers share) and unallocated surplus of with-profits funds	(170,444)	(155,400)	(169,064)
Less shareholders accrued interest in the long-term business	5,883	4,135	5,107
	(164,561)	(151,265)	(163,957)
<b>Total net assets</b>	<b>10,932</b>	<b>9,114</b>	<b>10,301</b>
Share capital	121	119	119

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Share premium	<b>1,808</b>	1,560	1,564
Statutory basis shareholders' reserves	<b>3,120</b>	3,300	3,511
Additional EEV basis retained profit	<b>5,883</b>	4,135	5,107
<b>Shareholders' capital and reserves (excluding minority interests)</b>	<b>10,932</b>	9,114	10,301

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

<b>Net asset value per share (in pence)</b>				
Based on EEV basis shareholders' capital and reserves of £10,932m (£9,114m, £10,301m)		<b>450p</b>	382p	432p
Number of issued shares at end of reporting period (millions)		<b>2,430</b>	2,384	2,387

Notes on the unaudited European Embedded Value (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. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The EEV results for the Group are prepared for covered business, as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal fund management.

With two exceptions, covered business comprises the Group's long-term business operations. The 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.

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 note 5. Reflecting the altered economic interest for SAIF policyholders and Prudential shareholders, this arrangement represents a transfer from business of the Group that is not covered to business that is covered with consequential effect on the EEV basis results.

As regards the Group's defined benefit pension schemes, the surplus and deficit attaching to the Prudential Staff Pension Scheme (PSPS) and Scottish Amicable Pension scheme are excluded from the value of UK operations and included in the total for other operations. The surplus and deficit amounts are partially attributable to the PAC with-profits fund and shareholder-backed long-term business and partially to other parts of the Group. In addition to the IFRS surplus or deficit, the shareholders' 10 per cent share of the PAC with-profits sub-fund's interest in the movement on the financial position of the schemes is recognised for EEV reporting purposes.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

## 2. Economic assumptions



**Deterministic**

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on fixed interest securities. This active basis of assumption setting has been applied in preparing the results of all the Group's UK and US long-term business operations. For the Group's Asian operations, the active basis is appropriate for business written in Japan, Korea and US dollar denominated business written in Hong Kong.

An exception to this general rule is that for countries where long-term fixed interest markets are less established, investment return assumptions and risk discount rates are based on an assessment of longer-term economic conditions. Except for the countries listed above, this basis is appropriate for the Group's Asian operations.

Expected returns on equity and property asset classes are derived by adding a risk premium, based on the long-term view of Prudential's economists in respect of each territory, to the risk-free rate. In the UK, the equity risk premium is 4.0 per cent (half year 2005: 3.0 per cent; full year 2005: 4.0 per cent) above risk-free rates. The equity risk premium in the US is 4.0 per cent (half year 2005: 3.0 per cent, full year 2005: 4.0 per cent). In Asia, equity risk premiums range from 3.0 per cent to 5.75 per cent (half year 2005: 2.75 per cent to 5.25 per cent, full year 2005: 3.0 per cent to 5.75 per cent). Assumptions for other asset classes, such as corporate bond spreads, are set consistently as best estimate assumptions.

The investment return assumptions as derived above are applied to the actual assets held at the valuation date to derive the overall fund-earned rate.

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The table below summarises the principal financial assumptions:

	Half year 2006 %	Half year 2005 %	Full year 2005 %
<b>UK insurance operations</b>			
Risk discount rate:			
New business	8.0	7.4	7.55
In force	8.2	6.9	7.7
Pre-tax expected long-term nominal rates of investment return:			
UK equities	8.7	7.2	8.1
Overseas equities	8.7 to 9.4	7.0 to 7.9	8.1 to 8.75
Property	7.2	6.5	6.4
Gilts	4.7	4.2	4.1
Corporate bonds	5.4	5.1	4.9
Expected long-term rate of inflation	3.0	2.8	2.9
Post-tax expected long-term nominal rate of return:			
Pension business (where no tax applies)	7.7	6.6	7.1
Life business	6.85	5.8	6.3
<b>US operations (Jackson National Life)</b>			
Risk discount rate:			
New business	8.0	5.8	6.9
In force	7.1	5.3	6.1
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business			
US 10-year treasury bond rate at end of period	1.75	1.75	1.75
Pre-tax expected long-term nominal rate of return for US equities	5.2	4.0	4.4
Expected long-term rate of inflation	9.2	7.0	8.4
	2.7	2.2	2.4

**Asian operations**

	China 30 Jun 2006 %	Hong Kong (note i) 30 Jun 2006 %	India 30 Jun 2006 %	Indonesia 30 Jun 2006 %	Japan 30 Jun 2006 %	Korea 30 Jun 2006 %	Malaysia 30 Jun 2006 %	Philippines 30 Jun 2006 %	Singapore 30 Jun 2006 %	Taiwan (note ii) 30 Jun 2006 %	Thailand 30 Jun 2006 %	Vietnam 30 Jun 2006 %
Risk discount rate:												
New business	12.0	6.6	16.5	17.5	5.3	9.7	9.5	16.5	6.7	8.9	13.75	16.5
In force	12.0	6.9	16.5	17.5	5.3	9.7	9.1	16.5	6.8	9.5	13.75	16.5
Expected long-term rate of inflation												
Government bond yield	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
	9.0	5.3	10.5	11.5	2.1	5.2	7.0	10.5	4.5	5.5	7.75	10.5

	China 30 Jun 2005 %	Hong Kong (note i) 30 Jun 2005 %	India 30 Jun 2005 %	Indonesia 30 Jun 2005 %	Japan 30 Jun 2005 %	Korea 30 Jun 2005 %	Malaysia 30 Jun 2005 %	Philippines 30 Jun 2005 %	Singapore 30 Jun 2005 %	Taiwan (note ii) 30 Jun 2005 %	Thailand 30 Jun 2005 %	Vietnam 30 Jun 2005 %
Risk discount rate:												
New business	10.0	4.7	16.0	18.75	4.9	7.5	9.15	16.25	6.4	9.7	13.5	15.5

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In force	10.0	5.1	16.0	18.75	4.9	7.5	8.7	16.25	6.65	9.5	13.5	15.5
Expected long-term rate of inflation	3.0	2.25	5.25	7.75	0.0	2.75	3.0	5.25	2.25	2.25	3.75	4.5
Government bond yield	7.25	4.9	10.25	13.0	1.7	4.4	7.0	10.5	5.0	5.5	7.75	9.75

	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam
	31 Dec	(note i) 31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	(note ii) 31 Dec	31 Dec	31 Dec
	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	12.0	5.9	16.5	17.5	5.0	10.3	9.4	16.5	6.7	9.0	13.75	16.5
In force	12.0	6.15	16.5	17.5	5.0	10.3	9.0	16.5	6.8	9.4	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0							