



Prudential Corporation Interim Report 1999



Jackson National Life
Insurance Company



PRUDENTIAL



Scottish Amicable

egg: |



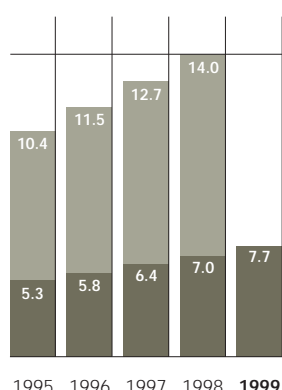
PRUDENTIAL
英国保诚保险



PPM

M&G

1999 Unaudited Interim Results



Dividend per Share (pence)

■ Final ■ Interim

- Record inflow of new funds of over £11 billion
- New business profits up 31 per cent to £275 million
- Increased investment in egg:| and launch of e-card and unit trust supermarket
- Investment in egg:| and restructuring of UK businesses reduces statutory operating profit
- Underlying operating profit up 8 per cent
- Dividend up 10 per cent to 7.7 pence per share

Results Summary

	Half year ended 30 June 1999 £m	1998 £m	Full year 1998 £m
Statutory operating profit before amortisation of goodwill (including longer-term investment returns)			
Prudential Retail Financial Services	196	180*	333
Retail IFA	44	39	92
Corporate Pensions	15	10	22
Prudential M&G Asset Management	27	25	28
egg: and Prudential Banking	(69)	(9)	(77)
Total UK operations	213	245*	398
Jackson National Life	219	197	411
Prudential Asia	7	4	13
Shareholders' other income	(12)	6*	38
Re-engineering costs	(55)	-	-
Total continuing operations	372	452*	860
Discontinued operations	-	6	8
Operating profit before amortisation of goodwill	372	458*	868
Amortisation of goodwill	(14)	-	-
Short-term fluctuations in investment returns	11	41*	24
Profit on business disposals	-	-	249
Profit before tax (including actual investment returns)	369	499	1,141
Earnings per share			
Based on operating profit after tax before amortisation of goodwill	14.0p	17.3p*	33.7p
Based on profit after tax – basic	14.0p	19.2p	45.3p
Based on profit after tax – diluted	13.9p	19.0p	45.0p
Dividend per share	7.7p	7.0p	21.0p
Achieved profits basis shareholders' funds	£8.2bn	£7.4bn	£7.5bn
Insurance and investment funds under management	£157bn	£130bn	£128bn
Banking funds under management	£7.4bn	£1.0bn	£2.2bn

* Restated for change in basis of recognition of investment returns, as explained in note (j) on page 11.

Profit before tax includes actual investment returns. The Company believes that operating profit before amortisation of goodwill, which includes longer-term investment returns, better reflects the group's underlying performance. An abridged statutory profit and loss account is set out on page 10. Supplementary achieved profits basis results are shown on pages 12 to 15.

The dividend will be paid on 25 November 1999 to shareholders on the register at the close of business on 24 September 1999. A scrip dividend alternative will be offered to shareholders.

Chairman's Statement

In the first half of 1999, Prudential has made further substantial progress towards delivering its strategic objectives. In the UK we have strengthened our position in the retail savings and investment market with the acquisition of M&G, we have built egg:| into the leading e-commerce financial brand, and we initiated a major re-structuring of our UK operations. Overseas, we became the first UK insurance company to be invited to apply for a life licence to trade in China, and we continue to reap the benefits of our diversified product range and distribution strategy in the US and elsewhere in Asia.

The health of our business is demonstrated by the new funds we received in the first half of this year. During this period the group has taken in over £11 billion of new funds. This is well in excess of any previous six month total and includes £5.9 billion of insurance and investment product sales and £5.2 billion of net banking deposits. These are significant in-flows and demonstrate both the scale and scope of Prudential.

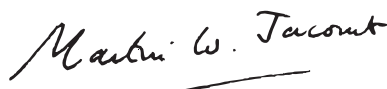
Our results for the half-year reflect the investments we are making. The modified statutory basis result shows operating profit before amortisation of goodwill of £372 million compared with £458 million in 1998. The 1999 result however includes a £69 million investment in egg:|, and an exceptional item of £55 million of re-structuring costs for our UK operations. Excluding these items, underlying profit growth from our continuing operations was up 8 per cent. Investment funds under management now stand at £157 billion with an additional £7 billion of banking assets.

Given the strength of our underlying performance and our confidence in the future prospects of the business,

the Board has decided to increase the interim dividend by 10 per cent to 7.7 pence per share.

With the market for financial products and services changing rapidly, Prudential has acted decisively to keep the initiative and maintain its strong position. Earlier this year we announced the Board's decision to appoint Sir Peter Davis, currently group chief executive, to succeed me as chairman when I retire next May. Jonathan Bloomer, currently group finance director, was appointed deputy group chief executive in May and will succeed Peter as chief executive next May. These appointments will maintain our strategic direction and momentum. We have also welcomed two new non-executive directors with very valuable relevant experience to our Board: Bridget Macaskill, chief executive officer of OppenheimerFunds Inc. in New York and Rob Rowley, finance director of Reuters Group plc. They have much to contribute to our business and I look forward to working with them.

The Board of Prudential Corporation plc proposes to change the corporate name of the Company by dropping the word "Corporation" to become "Prudential plc". This move will help to modernise the name in the UK and simplify it in those countries where Prudential wishes to expand.



Sir Martin Jacomb
Chairman
28 July 1999

Group Chief Executive's Review

Introduction

Our commitment to our shareholders is to maximise the value over time of their investment. We do this by investing for the long term to produce superior products and services, leading to superior financial returns. The actions we are taking will increase the value generated by our existing operations whilst the re-engineering of our businesses will equip us to meet the changing demands of our customers and the financial services marketplace. We are progressing both by organic initiatives and through acquisitions.

The record level of new funds in the first six months of this year is a clear indication of the current health of the group. Total sales of insurance and investment products are up 40 per cent at £5.9 billion and we have taken net retail deposits of £5.2 billion.

We have made good progress with the implementation of our value based management programme which explicitly aligns how we manage, measure and reward performance with our commitment to shareholders to maximise the value of their investment. This programme is now firmly embedded in our UK business units and we intend to roll it out to our overseas operations later this year.

UK Operations

It is clear that changes in legislation, technology, customers' behaviour and competitive pressures will result in significant change in the UK retail financial services market. The Government's proposed introduction of stakeholder pensions in 2001 will accelerate the trend towards high volume, low margin products. The launch of ISAs and the proposals for Pooled Pension Investment also echo the global trend towards exposed investment products whilst the

advance of the Internet will come to alter distribution channels radically – not just for retail financial services, but for all products. With the actions we have taken in the last two years, we are confident that we can compete in this environment.

In 1998 we restructured our UK operations into discrete, customer-facing businesses each with their own management teams focused on specific markets or products. We also brought in some talented senior management from outside the group. In June of this year, we announced a major re-engineering of Prudential Retail Financial Services. As we stated at the time, this will realise annualised savings of £200 million by 2002 of which £30 million will be attributable to shareholders. The cost will be £150 million, of which £55 million will be borne by shareholders.

Our acquisition of M&G earlier this year has given us a powerful and valuable brand in the fast-growing unit trust market and we have seen heartening early results. This reflects our twin-track strategy of developing both insurance and investment products.

In egg:| we have succeeded in establishing the UK's leading financial services e-commerce brand in only ten months and have the opportunity to lead the sector into the Internet world. The business has far surpassed our original plans: in just nine months egg:| has attracted deposits of £6.7 billion, and almost 550,000 customers. egg:| also has had a catalytic effect on other Prudential businesses and is not the only business in the group which will be Internet based.

In egg:| we have a tremendous opportunity to become the financial services site of choice and have a first-

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mover advantage upon which we intend to capitalise. We are currently working on five major initiatives, including a significant Internet credit card development which we will be announcing in the autumn and, subject to regulatory approval, a supermarket for unit trusts with on-line share dealing facilities.

We are delighted and excited by the success of egg:|. The business gives us real potential to generate significant long-term shareholder value.

Prudential Retail Financial Services

Profits from Prudential Retail Financial Services increased by 9 per cent to £196 million in the first half of the year. Our long-term business reported profits up £4 million to £164 million whilst profits from general insurance increased by 60 per cent to £32 million. The latter reflects favourable market conditions and the benefits of our UK restructuring and our value based management programme.

Insurance and investment product sales through the direct salesforce totalled £1.1 billion, up by 18 per cent on the previous year. Within this total, there has been a shift towards single premium bond products and away from regular premium pensions and other products. We have seen this increase in sales despite a 32 per cent reduction in the size of the direct sales force as productivity has grown significantly. Our salesforce also continues to sell increased volumes of Prudential branded mortgages. Total mortgages arranged during the first six months of the year of £338 million compares with £224 million in 1998.

Sales of annuities, which are sold through the direct salesforce and through IFAs, reached a record level

of £744 million in the first half of the year. As with our general insurance business, our annuity operation has benefited from the increased management focus within our new UK structure and from the greater emphasis on creating shareholder value. The smaller, specialised and focused businesses enable us to pursue commercial opportunities far more vigorously and effectively. For our annuities business, these opportunities include the development of with-profit annuities and entry into the bulk annuity market: in July we secured two contracts representing total premiums in excess of £1 billion.

Retail IFA Business

Our Retail IFA business continues to show strong growth, with sales up 32 per cent at £1.4 billion. The increase in sales is a result of the continuing strength of Prudence Bond, which remains the most successful product of its type in the UK. Total sales of insurance and investment products through the IFA channel (including corporate pensions, annuities and M&G) were up 44 per cent to £2.2 billion.

Product innovation has continued with the introduction of a new investment proposition for pension products, giving investors access to six of the UK's leading investment houses and the UK's largest with-profits fund. The concept of fund management choice was carried through into the launch in April of Scottish Amicable's ISA.

egg:| and Prudential Banking

Our investment in egg:| and Prudential Banking totalled £69 million at the half year. Of this amount, only £14 million relates to the cost of the egg:| interest rate guarantee and should be seen as an investment in marketing and customer acquisition.

The balance of the investment represents net interest margin less operating expenses and development spend of a further £15 million on additional technology and new products.

Deposits for egg:| and Prudential Banking now total £7.4 billion with net in-flows for egg:| in the first half of 1999 of £5.2 billion. As expected, the move to Internet-only applications in April has slowed the rate of in-flows, but new money is still being received at a steady rate, with almost £500 million received in June.

On the other side of the balance sheet, we are successfully building our mortgage book and at 30 June had £1.1 billion of mortgages, of which 12 per cent were egg:| branded. Mortgage sales through our direct salesforce have been growing steadily and the monthly sales rate now exceeds £100 million.

We now have over 600,000 banking customers, of whom almost 550,000 are egg:| customers. These are generally affluent and financially aware and have an average balance of approximately £17,000.

The outstanding success of egg:| means that we are scaling up our investment as egg:| is built at a faster rate than planned but, we believe, with increased long-term value creation. We now forecast a total investment in egg:| and Prudential Banking in 1999 of between £140-150 million. Despite the increased scale of egg:| we still expect to break even in 2001.

Prudential M&G Asset Management

The acquisition of M&G has added a new dimension to our fund management activities. We have announced our intention to combine our retail and institutional fund management activities into a single

regulated body, Prudential M&G Asset Management, with Michael McLintock as its chief executive. Within this we will have two separate business streams: PPM, which is responsible for our internal and institutional fund management, and M&G, which is responsible for retail fund management.

With these two brands, we have unprecedented access to both institutional and retail investment markets and the strengthened skill base to maximise the benefits to our customers. We will achieve new operational efficiencies, for example by bringing together finance, compliance, back office, IT and central dealing functions.

We have also reorganised our overseas fund management operations. PPM America now reports to Bob Saltzman, alongside Jackson National Life and PPM Asia reports to Mark Tucker alongside Prudential Asia.

Profits from Prudential M&G Asset Management were £27 million. This includes a strong first time contribution from M&G of £18 million for the two months since acquisition. M&G's early performance has been encouraging, with sales through IFA and direct channels of £162 million, and strong investment performance.

PPM's result of £16 million is down £11 million on last year. This result is impacted by PPM's underperformance against benchmark in the second half of 1998 for our key with-profits fund.

The first half of 1999 has seen a much improved investment performance from PPM. The with-profits life fund outperformed its peer group benchmark

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while both pooled and segregated funds have delivered above median performance.

Jackson National Life

Operating profits from Jackson National Life totalled US\$354 million, an increase of 9 per cent. This increase reflects a 10 per cent growth in US GAAP operating income to US\$330 million and unchanged average investment gains of US\$24 million. The increase in US GAAP operating income results from increased assets and marginally wider spreads. With total invested assets of over US\$36 billion, Jackson is firmly positioned as one of the top 20 US life insurers.

Sales of both retail and wholesale products continue their healthy growth with total single premium sales up 33 per cent at US\$3.3 billion. This growth has been attained thanks to the diversity of our product range and our determination to seek out new markets.

Total annuity sales are up 32 per cent at US\$1.7 billion. Within this total, sales of variable annuities have more than doubled to US\$941 million, reflecting the strong equity market and successful sales promotions. These strong variable annuity sales have more than offset the 19 per cent decline in fixed annuity sales to US\$508 million, due to lower US interest rates. An increase in these rates would, however, increase sales of these products.

The trend towards equity-orientated investment products in the US is continuing and Jackson's impressive sales performance in the first half of 1999 shows that we are now attracting a meaningful share of that market. We remain interested in increasing our world-wide position in investment products and mutual funds.

Prudential Asia

It has been an eventful and encouraging six months in Prudential Asia. Performance has been strong with total premiums having grown four-fold to £325 million and profits up £3 million at £7 million. The increase in sales reflects a 75 per cent increase in insurance premiums to £100 million and mutual fund sales in India by our joint venture company, Prudential ICICI, of £225 million.

During the period, we have been laying foundations for future expansion in China, Vietnam and Taiwan. These are markets with huge potential for growth, combining a strong savings culture with large populations. A highlight of the year so far has been the Chinese government's invitation to apply for a life insurance licence. We are currently in negotiations over the city to which the licence will apply and with potential joint venture partners.

This year we have successfully launched our bancassurance channel with Standard Chartered Bank in Singapore and Hong Kong. Development of this initiative is progressing well.

We have also applied for a life licence in Vietnam and in Taiwan we are investigating a wide range of options, ranging from acquisition to the establishment of a new wholly-owned shareholder business.

Shareholders' Capital and Reserves

The acquisition of M&G has moved the group's balance sheet from a net cash position to a more appropriate level of gearing. Total shareholder funds on an achieved profits basis are almost £8.2 billion at the half year, with balance sheet gearing of 19 per cent.

Our discussions with the FSA on the unattributed assets within our life fund continue and we remain committed to seeking resolution.

Millennium

The Millennium issue is the potential problem arising from computer software developed to recognise only two digits instead of four and, if not corrected, being unable to distinguish the year 2000 from 1900.

Since mid-1996 we have had eight programmes under way to deal with the Millennium. M&G was included in our review process when it was acquired. These programmes are monitored centrally through a dedicated Millennium team reporting to our group executive committee.

The repair or replacement and testing of critical IT systems and equipment was completed for four programmes by the end of June 1999 and is expected to be complete for all others by the end of July 1999. External consultants have been hired to verify independently that the detailed and thorough testing procedures we have put in place have been completed successfully and on schedule.

Although we do not anticipate any serious disruption to our operations, we are developing contingency plans and transition plans. These are currently in preparation and are due to be completed and tested by September 1999. Our contingency plans are intended to minimise the risks posed to us by third parties and through possible systems errors despite the intensive testing completed as part of the systems assurance process. We have identified the critical business processes, considered how these processes may be disrupted and are preparing response

plans and options to address these potential disruptions.

It is difficult to separate discrete Millennium expenditure from the group's general systems enhancements and development spend. However, it is estimated the group's total incremental cost relating solely to Millennium will be in the range of £150 to £175 million.

Conclusion

In the last few years we have delivered superior investment returns to our shareholders. However, we have done much more than that: we have also significantly restructured the business so that it is now much better placed for the future. We set out to widen our product range and to broaden our distribution reach. By a combination of acquisition and organic developments we have built a powerful multi-brand model and we are well positioned to deliver long-term out-performance. We could not have done this without the enthusiastic response of the people throughout Prudential who have grasped the need for change with energy and commitment.



Sir Peter Davis
Group Chief Executive
28 July 1999

Segmental Analysis

Half year ended 30 June

Results Analysis by Business Area	New business premiums				Gross premiums written		Operating profit before amortisation of goodwill (including longer-term investment returns)	
	1999 £m	Single 1998 £m	1999 £m	Regular 1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
UK operations								
Prudential Retail Financial Services	1,271	979	81	108	1,856	1,729	196	180*
Retail IFA	1,289	969	68	62	1,817	1,453	44	39
Corporate Pensions	442	305	28	21	688	647	15	10
Prudential M&G Asset Management	158	–	4	–	176	–	27	25
egg: and Prudential Banking	–	–	–	–	–	–	(69)	(9)
Total UK operations	3,160	2,253	181	191	4,537	3,829	213	245*
Jackson National Life	2,049	1,507	12	14	2,217	1,687	219	197
Prudential Asia								
Long-term business and investment products	289	38	36	35	491	214	14	8
Development expenses	–	–	–	–	–	–	(7)	(4)
Total Prudential Asia	289	38	36	35	491	214	7	4
Shareholders' other income								
Investment return and other income	–	–	–	–	–	–	70	74*
Interest payable	–	–	–	–	–	–	(63)	(49)
Corporate expenditure	–	–	–	–	–	–	(19)	(19)
Total shareholders' other income	–	–	–	–	–	–	(12)	6*
Re-engineering costs	–	–	–	–	–	–	(55)	–
Total operating profit before amortisation of goodwill for continuing operations	5,498	3,798	229	240	7,245	5,730	372	452*
Results Analysis by Activity								
Long-term business	5,085	3,693	220	231	6,655	5,457	455	410
Investment products	413	105	9	9	429	114	5	(2)
General business	–	–	–	–	161	159	32	20*
Investment management	–	–	–	–	–	–	16	27
Banking	–	–	–	–	–	–	(69)	(9)
Shareholders' other income	–	–	–	–	–	–	(12)	6*
Re-engineering costs	–	–	–	–	–	–	(55)	–
Total operating profit before amortisation of goodwill for continuing operations	5,498	3,798	229	240	7,245	5,730	372	452*

* Restated for change in basis of recognition of investment returns, as explained in note (j) on page 11.

Holding Company Funds Statement

	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
Operating profit after tax before amortisation of goodwill	272	336*	654
Dividends	(150)	(136)	(407)
Reinvested in businesses	(159)	(141)	(260)
Funds available to holding company	(37)	59*	(13)
New investment in businesses	(2,202)	(177)	(265)
Disposal of businesses	–	–	481
New share capital subscribed	20	7	15
Timing differences and other items	(60)	(50)*	(175)
Holding company net cash movement	(2,279)	(161)	43

* Restated for change in basis of recognition of investment returns, as explained in note (j) on page 11.

Movement in Net Cash Balances

	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
Holding company cash less shareholders' borrowings at beginning of period	453	405	405
Holding company net cash movement (as above)	(2,279)	(161)	43
Exchange translation gains (losses)	(40)	8	5
Holding company cash less shareholders' borrowings at end of period	(1,866)	252	453
Represented by:			
Holding company cash and short-term investments	135	1,622	1,826
Borrowings – Holding company	(1,842)	(1,220)	(1,223)
– Jackson National Life	(159)	(150)	(150)
	(1,866)	252	453

Movement in Shareholders' Capital and Reserves

	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
Profit for the period	272	372	880
Exchange movements	89	(28)	(50)
Goodwill on disposal of subsidiaries	–	–	28
New share capital subscribed	20	7	15
Dividends	(150)	(136)	(407)
Net movement in shareholders' capital and reserves	231	215	466
Shareholders' capital and reserves at beginning of period	3,249	2,783	2,783
Shareholders' capital and reserves at end of period	3,480	2,998	3,249

Abridged Statutory Profit and Loss Account

Results Summary	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
General business technical result	32	20*	39
Long-term business technical result			
Continuing operations	449	410*	832
Acquisitions	6	–	–
Discontinued operations	–	6	8
Investment products			
Continuing operations	(7)	(2)	(15)
Acquisitions	12	–	–
Banking	(69)	(9)	(77)
Re-engineering costs	(55)	–	–
Amortisation of goodwill	(14)	–	–
Other non-technical results included in operating profit	4	33*	81
Operating profit based on longer term investment returns	358	458*	868
Short-term fluctuations in investment returns	11	41*	24
Profit on business disposals	–	–	249
Profit on ordinary activities before tax (including actual investment returns)	369	499	1,141
Tax	(97)	(127)	(261)
Profit for the period	272	372	880
Dividends	(150)	(136)	(407)
Retained profit for the period	122	236	473

Basic earnings per share

Based on operating profit after tax before amortisation of goodwill of £272m (£336m* and £654m)	14.0p	17.3p*	33.7p
Adjustment for amortisation of goodwill	(0.7)p	–	–
Adjustment from post-tax longer-term investment returns to post tax actual investment returns	0.7p	1.9p*	0.8p
Adjustment for profit on business disposals	–	–	10.8p
Based on profit for the period of £272m (£372m and £880m)	14.0p	19.2p	45.3p
Average number of shares	1,949m	1,941m	1,942m

Diluted earnings per share

Based on profit for the period of £272m (£372m and £880m)	13.9p	19.0p	45.0p
Average number of shares	1,964m	1,954m	1,955m

Dividend per share

	7.7p	7.0p	21.0p
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* Restated for change in basis of recognition of investment returns, as explained in note (j) on page 11.

Notes on the Unaudited Results

- (a) The results for the 1999 and 1998 half years are unaudited. The results for the 1998 full year have been derived from the Company's statutory accounts. The auditors have reported on the 1998 statutory accounts and the accounts have been delivered to the Registrar of Companies. The auditors' report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.
- (b) The results for the 1999 half year have been prepared using the same accounting policies as were used in the 1998 statutory accounts, with the following exception. Expected DSS Rebates for 1999 are recognised in full in Quarter One whereas previously Retail IFA included this business on a cash received basis. The Retail IFA figures for 1998 have accordingly been restated on to the new basis resulting in an increase in both new business single premiums and gross premiums written of £31m.
- (c) The long-term business profit of the UK operations has been calculated assuming the shareholder proportion of The Prudential Assurance Company Limited remains at 10 per cent. Provision has been made for possible reductions in bonus rates arising from the fund valuation at 31 December 1999.
- (d) Acquisitions reported on page 10 relate to the Company's purchase of M&G Group PLC at the end of April 1999. The total cost of the purchase was £1,943m. Goodwill of £1,537m arising on the acquisition is being amortised on a straight line basis over 20 years.
- (e) Discontinued operations comprise the Company's Australasian operations which were sold in September 1998.
- (f) Costs in respect of re-engineering the Company's UK operations relate principally to redundancy and related property, outsourcing and other costs.
- (g) The statutory tax charge reported on page 10 comprised £32m (1998 £65m) UK tax and £65m (1998 £62m) overseas tax.
- (h) New share capital subscribed in the 1998 half year and shareholders' funds at 30 June 1998 reported on page 9 have been reduced by £19m from that previously published as a result of a change in accounting treatment of shares issued to a qualifying share ownership trust.
- (i) The UK operations general business operating result for the 1999 and 1998 half years comprised:

	Gross premiums written		Underwriting result		Investment return		Operating profit (including longer-term investment returns)	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m*	1999 £m	1998 £m*
Home	140	140	19	7	12	12	31	19
Motor	21	19	(2)	(2)	3	3	1	1
Total	161	159	17	5	15	15	32	20

* Restated in accordance with note (j).

- (j) Consistent with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 and the accounting policy adopted for the 1998 full year results, investment returns credited to operating results, for investments attributable to shareholders, are determined using the longer-term rate of return or (by five year averaging of gains) an estimate thereof. For general business and shareholders' other income, the only significant element relates to UK equities where the longer-term rate of return (net of advance corporation tax credits) has been taken to be 8.1 per cent (1998 half year 9.2 per cent, 1998 full year 8.1 per cent). For long-term business, the only significant element relates to fixed income securities held by Jackson National Life where gains arising on the realisation of these investments continue to be averaged over five years. In addition, within the profit and loss account, the basis of allocation of investment return between the general business technical account, long-term business technical account and non-technical account has been altered so that balances on the technical accounts are consistent with operating profits calculated on the new basis. Comparative results for the 1998 half year have been restated accordingly. The 1998 half year results previously published were prepared on the basis of all such investment gains being recognised in operating results by five year averaging. In addition, the basis of allocation of investment return between the technical accounts and the non-technical account reflected unsmoothed investment returns. The effect of the changes was explained in the 1998 Interim Report. There was no impact on total profit before or after tax.

Supplementary Achieved Profits Basis Results

Analysis by Business Area	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
UK operations			
Long-term business			
New business	145	131	220
Business in force	210	129	309
Total long-term business	355	260	529
General business	32	20*	39
Investment management and products	21	25	28
Banking	(69)	(9)	(77)
Total UK operations	339	296*	519
Jackson National Life			
New business	96	63	137
Business in force	152	132	231
Total Jackson National Life	248	195	368
Prudential Asia			
Long-term business			
New business	34	16	56
Business in force	17	17	27
Total long-term business	51	33	83
Development expenses	(7)	(4)	(10)
Total Prudential Asia	44	29	73
Shareholders' other income			
Investment return and other income	78	81*	202
Interest payable	(63)	(49)	(46)
Corporate expenditure	(19)	(19)	(105)
Total Shareholders' other income	(4)	13*	51
Re-engineering costs	(55)	-	-
Total operating profit before amortisation of goodwill for continuing operations	572	533*	1,011

* Restated for change in basis of recognition of investment returns, as explained in note (j) on page 11.

On the achieved profits basis of reporting, group operating profit before amortisation of goodwill and tax was £572 million in the first half of 1999. Of this amount, the contribution from long-term businesses was £647 million, an increase of 34 per cent. Profit from new business increased by 31 per cent to £275 million whilst profit from business in force increased by 36 per cent to £372 million.

UK Operations

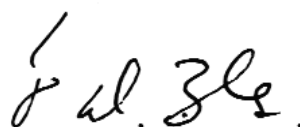
Profit from new business for the group's UK operations grew by 11 per cent to £145 million. This primarily reflects the strong growth in sales volumes partially offset by the reduction in the rate of expected future investment returns which was implemented at the end of 1998. Profit from business in force increased by 63 per cent to £210 million. 1998's in force result included an £84 million charge for the shareholders' portion of last year's increase in the pension mis-selling charge. The provision of £1.1 billion is unchanged in 1999.

Jackson National Life

At Jackson, profit from new business increased by 52 per cent to £96 million, primarily reflecting the 32 per cent increase in premiums and the reduction in discount rate implemented at the end of 1998. The growth was also assisted by an increased proportion of GIC sales from higher value longer-term funding agreements. Profit from business in force increased by 15 per cent to £152 million, largely due to good spread margin experience.

Prudential Asia

Profit in Prudential Asia before regional development costs increased by 55 per cent to £51 million as profit from new business more than doubled to £34 million. The strong contribution from new business principally reflects a combination of higher sales, an increased focus on higher value products and the increased stake in the group's Malaysian operation. Profit from business in force was unaltered at £17 million.



Jonathan Bloomer
Deputy Group Chief Executive
and Group Finance Director
28 July 1999

Supplementary Achieved Profits Basis Results

Results Summary	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
Operating profit (including investment returns based on long-term rates of investment return)			
Long-term business			
New business	275	210	413
Business in force	372	274	557
Total long-term business	647	484	970
General business	32	20*	39
Investment management and products	21	25	28
Banking	(69)	(9)	(77)
Shareholders' other income	(4)	13*	51
Re-engineering costs	(55)	–	–
Total continuing operations	572	533*	1,011
Discontinued operations	–	8	12
Operating profit before amortisation of goodwill	572	541*	1,023
Amortisation of goodwill	(14)	–	–
Short-term fluctuations in investment returns	340	460*	289
Net loss from changes to UK projected long-term rate of investment return and to UK and US risk discount rates	–	–	(106)
Profit on business disposals	–	–	202
Profit on ordinary activities before tax (including actual investment returns)	898	1,001	1,408
Tax	(253)	(299)	(371)
Profit for the period	645	702	1,037
Dividends	(150)	(136)	(407)
Retained profit for the period	495	566	630

Basic Earnings per Share

Based on operating profit after tax before amortisation of goodwill of £412m (£377m* and £752m)	21.1p	19.4p*	38.7p
Adjustment for amortisation of goodwill	(0.7)p	–	–
Adjustment from post-tax longer term investment returns to post tax actual investment returns	12.7p	16.8p*	10.3p
Adjustment for changes to projected investment return and risk discount rates	–	–	(4.1)p
Adjustment for profit on business disposals	–	–	8.5p
Based on profit for the period of £645m (£702m and £1,037m)	33.1p	36.2p	53.4p
Average number of shares	1,949m	1,941m	1,942m

Movement in Shareholders' Capital and Reserves

Profit for the period	645	702	1,037
Exchange movements	139	(40)	(75)
Goodwill on disposal of subsidiaries	–	–	28
New share capital subscribed	20	7	15
Dividends	(150)	(136)	(407)
Net increase in shareholders' capital and reserves	654	533	598
Shareholders' capital and reserves at beginning of period	7,510	6,912	6,912
Shareholders' capital and reserves at end of period	8,164	7,445	7,510

* Restated for change in basis of recognition of investment returns, as explained in note (j) on page 11.

Summarised Consolidated Balance Sheet	Half year ended 30 June		Full year 1998 £m
	1999 £m	1998 £m	
Net Assets			
Investments (non-linked):			
Equities	53,409	53,342	49,088
Fixed income securities	40,122	32,200	35,622
Properties	7,970	7,130	7,298
Deposits with credit institutions	4,603	3,519	3,917
Other investments*	2,287	1,808	2,352
Total investments	108,391	97,999	98,277
Assets held to cover linked liabilities	15,483	10,889	9,737
Banking business assets	8,029	1,116	2,397
Goodwill	1,582	59	59
Holding company cash less shareholders' borrowings:			
Holding company cash and short-term investments	135	1,622	1,826
Borrowings – Holding company	(1,842)	(1,220)	(1,223)
– Jackson National Life	(159)	(150)	(150)
	(1,866)	252	453
Deferred acquisition costs	2,710	2,543	2,595
Dividend payable	(150)	(136)	(271)
Other net assets (liabilities)	(929)	(220)	91
	133,250	112,502	113,338
Long-term business technical provisions (net of reinsurance) and fund for future appropriations			
UK operations	(98,150)	(85,169)	(86,297)
Jackson National Life	(21,529)	(18,819)	(19,423)
Prudential Asia	(1,997)	(1,203)	(1,615)
Discontinued operations	–	(2,766)	–
	(121,676)	(107,957)	(107,335)
Less: shareholders' accrued interest in the long-term business	4,684	4,447	4,261
Long-term business technical provisions (net of reinsurance) and fund for future appropriations, less shareholders' accrued interest	(116,992)	(103,510)	(103,074)
Banking business liabilities	(7,633)	(1,043)	(2,271)
General business technical provisions	(461)	(504)	(483)
Total net assets	8,164	7,445	7,510
Shareholders' Capital and Reserves			
Share capital	98	97	98
Share premium	241	183	221
Statutory basis retained profit	3,141	2,718	2,930
Additional reserves on the achieved profits basis	4,684	4,447	4,261
Total shareholders' capital and reserves	8,164	7,445	7,510
Comprising:			
UK operations	4,984	4,108	3,957
Jackson National Life	2,432	1,939	2,149
Prudential Asia	475	297	378
Discontinued operations	–	258	–
Other operations (including net shareholders' cash)	273	843	1,026
	8,164	7,445	7,510

* Other investments, which mainly comprise mortgages and loans to policyholders, are stated after deduction of amounts due by Jackson National Life under sale and repurchase and funding agreements.

Notes on the supplementary achieved profits basis results

- The results have been prepared in accordance with the draft "Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business" issued by the Association of British Insurers and are provided as a supplement to the statutory basis results contained in this report.
- The results for the 1999 and 1998 half years are unaudited. The results for the 1998 full year have been derived from the achieved profits basis results supplement to the Company's statutory accounts. The supplement included an unqualified report from the auditors. The results for UK investment products are now amalgamated with those for investment management. Previously the results for investment products were included within the business in force result for UK long-term business. Comparative figures have been restated accordingly.
- The results for the 1999 half year have been prepared using the same principal assumptions as were used for the 1998 full year.
- Consistent with note (h) on page 11, statutory basis retained profit at 30 June 1998 has been reduced by £19m as a result of a change in accounting treatment of shares issued to a qualifying share ownership trust.

Independent Review Report

to Prudential Corporation plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 8 to 11 and pages 14 and 15 and we have read the other information contained in the interim report for any apparent misstatements or material inconsistencies with the financial information.

Directors' Responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and

underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 1999.

PricewaterhouseCoopers

Chartered Accountants
Southwark Towers
32 London Bridge Street
London SE1 9SY
28 July 1999

Financial Calendar

Ex-dividend date for 1999 interim dividend

20 September 1999

Payment of 1999 interim dividend

25 November 1999

Announcement of 1999 full year results

23 February 2000

Ex-dividend date for 1999 final dividend

27 March 2000

Annual General Meeting

5 May 2000

Payment of 1999 final dividend

31 May 2000

Sharedealing Facilities

Stockbrokers Cazenove & Co offer a postal sharedealing service to Prudential shareholders at competitive commission rates. For details telephone 020 7588 2828 or write to 12 Tokenhouse Yard, London EC2R 7AN

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Prudential Corporation Public Limited Company.
Incorporated and registered in England and Wales.
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