

# Operating and financial review



Tidjane Thiam  
Group Chief Financial Officer

**'Our objective is to achieve superior growth in value for our shareholders. This is shown by sustainable growth in operating profit, both on an EEV and IFRS basis.'**

*Tidjane Thiam*

The Group's strategy is to focus primarily on the enormous opportunity offered by the pre- and post-retirement market as this is where the best potential for profitable, sustainable growth trends in our sector lie. Global asset flows around retirement can be measured in trillions of pounds and the Prudential Group is ideally positioned through capability, diverse geographic presence and powerful brands to capture growing value from this opportunity.

The following metrics represent the financial key performance indicators (KPIs) the directors use to judge the delivery of strategies and the management of the business:

- New business premiums, calculated on an Annual Premium Equivalent (APE) basis and on a Present Value of New Business Premium (PVNBP) basis;
- European Embedded Value (EEV) basis new business profits;
- Internal rate of return (IRR) on new business;
- External funds under management (FUM);
- EEV basis operating profit based on longer-term investment returns from long-term business;
- International Financial Reporting Standards (IFRS) basis operating profit based on longer-term investment returns; and
- Holding company cash flow.

# Key performance indicators

## New business premiums and new business profit

Prudential's focus remains on growing sales in areas that deliver the most profitable returns on a risk-adjusted basis. In the first half of 2008, the Group increased weighted insurance sales, calculated on an APE basis, by 12 per cent and new business profits grew by 11 per cent compared with the first half of 2007 on a CER basis. Sales on a PVNBP basis increased by 12 per cent to £11 billion compared to the first half of 2007.

In line with the Group's strategy to continue to deliver strong sustainable profitable sales growth, Prudential is well positioned in markets that offer highly attractive opportunities for strong organic growth over the next 10 years, and it is broadening its customer proposition and product range.

## APE new business premiums £m

# +12%

Half year 2008	£1,513m
Half year 2007	£1,353m
Half year 2006	£1,204m

### Definition: APE new business premiums

APE new business premiums reflect premiums attaching to covered business for which EEV basis results are prepared, including premiums for contracts classified as investment products or other financial instruments under IFRS.

New business premiums, on an APE basis, are calculated as the aggregate of regular new business contributions (shown on an annualised basis) plus 10 per cent of single new business contributions.

The comparatives are shown on a constant exchange rate (CER) basis.

## PVNBP new business premiums £m

# +12%

Half year 2008	£10,986m
Half year 2007	£9,785m
Half year 2006	£9,362m

### Definition: PVNBP new business premiums

New business premiums, on a PVNBP basis, are calculated as the aggregate of single premiums plus the present value of expected new business premiums of regular premium business, allowing for lapses and other assumptions made in determining the EEV new business profit.

The comparatives are shown on a CER basis.

## EEV basis new business profit £m

# +11%

Half year 2008	£602m
Half year 2007	£543m
Half year 2006	£482m

### Definition: EEV basis new business profit

EEV basis new business profit represents the present pre-tax value of future shareholder cash flows from new business, less a deduction for the cost of locked-in (encumbered) capital and the impact of the time value of options and guarantees.

The comparatives are shown on a CER basis.

## Internal rate of return (IRR) on new business

Improving capital efficiency is at the heart of Prudential's commitment to deliver superior growth in value for its shareholders.

Prudential continually works to enhance the effectiveness of its capital management processes, to ensure that investment and capital allocation decisions are focused on those areas of activity that will generate the best risk-adjusted returns to shareholders.

## IRR on new business %

### Asia

Half year 2008	>20%
Half year 2007	>20%
Half year 2006	>20%

### US

Half year 2008	18%
Half year 2007	18%
Half year 2006	17%

### UK

Half year 2008	15%
Half year 2007	15%
Half year 2006	13%

### Definition: IRR on new business

The internal rate of return is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested

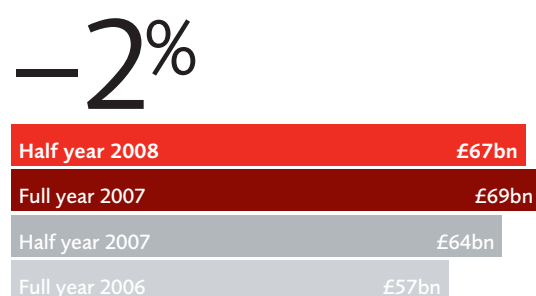
capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

### External funds under management

Prudential's focus in external asset management is to increase external funds under management and deliver sustained profitable growth from its asset management businesses.

As at 30 June 2008 external FUM was £67 billion compared with £69 billion at 31 December 2007 (CER basis), reflecting the net inflows of funds of £4.1 billion and the fall in markets of c. £6 billion.

#### External funds under management £bn



#### Definition: External funds under management

External funds under management represent principally the value of the total investment products managed by the M&G, Asia and the US asset management businesses. Jackson's US Retail Mutual Funds were launched in 2007.

The comparatives are shown on a CER basis.

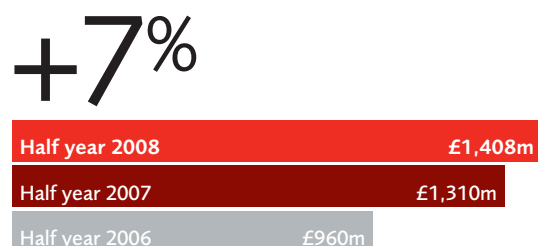
### EEV basis operating profit from long-term business based on longer-term investment returns

Prudential's objective is to achieve superior growth in value for its shareholders. This is shown by sustainable growth in operating profit, both on an EEV and IFRS basis.

In the first half of 2008 the Group delivered a seven per cent increase on the same period in 2007 (CER basis) in EEV operating profit, on its long-term business.

Prudential's objective is to focus on its strengths and exploit opportunities in the local markets in which it operates. Prudential's strategy of leveraging its knowledge and expertise across product development, distribution and administration, is designed to allow it to continue to deliver operating profit growth in the future.

#### EEV basis operating profit from long-term business based on longer-term investment returns £m



#### Definition: EEV basis operating profit from long-term business based on longer-term investment returns

EEV basis operating profit is the change in pre-tax value of EEV as a result of new business, expected investment returns and the unwind of the discount rate, the effect of changes in operating assumptions and any operating experience variances. It excludes the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions, the effect of the change in time value of the cost of options and guarantees, the shareholders' share of actuarial gains and losses on defined benefit pension schemes and the mark to market value movements on core borrowings. It includes Asia development costs.

The comparatives are shown on a CER basis.

# Key performance indicators continued

## IFRS basis operating profit based on longer-term investment returns

Total IFRS basis operating profit based on longer-term investment returns on continuing operations was 13 per cent higher in the first half of 2008 than in the same period in 2007 (CER basis) reflecting the strong performance of the Group's UK and Asia insurance businesses.

## IFRS basis operating profit based on longer-term investment returns £m

+13%



### Definition: IFRS basis operating profit based on longer-term investment returns

This profit excludes short-term fluctuations in investment returns and the shareholders' share of actuarial gains and losses on defined benefit pension schemes.

The comparatives are shown on a CER basis.

## Holding company cash flow

Prudential aims to generate cash for the Group without constraining the allocation of capital to optimise return from value-creating opportunities in its businesses. The holding company had a net cash flow of £86 million in the first half of 2008, an improvement of £52 million on the same period in 2007, as a result of the increased remittances from business units and tax receipts in the first half of 2008, partially offset by increases in capital invested in business units and corporate activities.

The Group is confident that it has the capital and cash resources to fund its planned future organic growth.

## Holding company operating cash flow £m

+153%



### Definition: Holding company cash flow

The increase or decrease in holding company cash and short-term investments during the reporting period.

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

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

# Group overview

	CER <sup>note 4</sup>			RER <sup>note 4</sup>	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
<b>Results highlights</b>					
Annual premium equivalent (APE) sales	1,513	1,353	12	1,334	13
Present value of new business premiums (PVNBP)	10,986	9,785	12	9,681	13
Net investment flows	4,091	5,162	(21)	5,047	(19)
External funds under management	67,447	63,610	6	63,222	7
New business profit (NBP)	602	543	11	534	13
NBP Margin (% APE)	40%	40%		40%	
NBP Margin (% PVNBP)	5.5%	5.5%		5.5%	
EEV basis operating profit from long-term business <sup>notes 1,2</sup>	1,408	1,310	7	1,293	9
Total EEV basis operating profit					
from continuing operations <sup>notes 2,5</sup>	1,430	1,336	7	1,318	8
Total IFRS operating profit					
from continuing operations <sup>notes 3,5</sup>	674	598	13	593	14
EEV basis shareholders' funds	13,977	13,394	4	13,262	5
IFRS shareholders' funds	5,552	5,864	(5)	5,787	(4)
Holding company operating cash flow	86	34	153	34	153
Holding company operating cash flow plus proceeds for 2007 from the sale of Egg	86	561	(85)	561	(85)

## Notes

- 1 Long-term business profits after deducting Asia development expenses and before restructuring costs.
- 2 Based on longer-term investment returns from continuing operations. EEV basis operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions and changes in the shareholder's share of time value of cost of options and guarantees arising from changes in economic factors, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.
- 3 Based on longer-term investment returns from continuing operations. IFRS basis operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, and the shareholder's share of actuarial gains and losses on defined benefit schemes.
- 4 Constant exchange rate (CER) and reported exchange rate (RER).
- 5 The comparative results for 2007 have been adjusted for the effects of an accounting policy change for pension costs to reflect the principles of IFRIC 14 as described in note 10 of the EEV financial statements and notes (B) and (O) of the IFRS financial statements.

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

These results show the robust performance of the Group in the first half of 2008 in a challenging economic and financial environment. The KPIs above show good growth in sales and profits and an improvement in operating cash flow. The year end 2007 surplus capital position of Prudential, measured under the Insurance Groups Directive basis, submitted to the Financial Services Authority (FSA) in April 2008 was £1.6 billion. The surplus at 30 June 2008 is estimated to be £1.4 billion.

## Basis of preparation of results

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

As a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential also reports supplementary results on an EEV basis for the Group's long-term business. These results are combined with the IFRS basis results of the non long-term businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on long-term investment returns. Under both EEV and IFRS, operating profits from continuing operations based on

longer-term investment returns exclude short-term fluctuations in investment returns and shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under EEV, where additional profit and loss effects arise, operating profits based on longer-term investment returns also exclude the mark to market value movement on core borrowings and the effect of changes in economic assumptions and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

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

## Sales and funds under management

Prudential delivered overall sales growth during the first half of 2008 with total new insurance sales up 12 per cent from the

# Group overview

## continued

first six months of 2007 to £1.5 billion on the annual premium equivalent (APE) basis. At reported exchange rates (RER), APE sales were up 13 per cent on the same period in 2007. This is equivalent to insurance sales of £11 billion on a present value of new business premiums basis (PVNBP), an increase of 12 per cent on 2007 at CER.

Total gross investment sales were £30.4 billion, up 18 per cent on the first half of 2007 at CER. Net investment sales of £4.1 billion were down 21 per cent from net investment sales in 2007 at CER.

Total external funds under management decreased by two per cent at RER from £69 billion at 31 December 2007, to £67 billion at 30 June 2008, reflecting net investment inflows of £4.1 billion, this was more than offset by net market and other movements.

At 30 June 2008, total funds under management were £256 billion, a decrease of four per cent from 2007 year end at RER.

### EEV basis operating profit

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
<b>EEV basis operating profit from continuing operations</b>					
Insurance business:					
Asia	553	510	8	493	12
US	354	344	3	344	3
UK	504	462	9	462	9
Development expenses	(3)	(6)	50	(6)	50
<b>Long-term business profit</b>	<b>1,408</b>	<b>1,310</b>	<b>7</b>	<b>1,293</b>	<b>9</b>
Asset management business:					
M&G	146	140	4	140	4
Asia asset management	29	34	(15)	33	(12)
Curian	0	(2)	100	(2)	100
US broker-dealer and asset management	6	9	(33)	9	(33)
	181	181	0	180	1
Other income and expenditure	(144)	(155)	7	(155)	7
<b>Total EEV basis operating profit from continuing operations</b>	<b>1,445</b>	<b>1,336</b>	<b>8</b>	<b>1,318</b>	<b>10</b>
Restructuring costs	(15)	0	0	0	0
<b>Total EEV basis operating profit from continuing operations after restructuring costs</b>	<b>1,430</b>	<b>1,336</b>	<b>7</b>	<b>1,318</b>	<b>8</b>

Total EEV basis operating profit from continuing operations based on longer-term investment returns was £1,430 million up seven per cent from the first half of 2007 at CER and up eight per cent at RER.

In the first six months of 2008 the Group generated long-term business profits of £1,408 million comprised of new business profits £602 million (HY 2007: £543 million), in-force profits of £809 million (HY 2007: £773 million) and Asia development expenses of £(3) million (HY 2007: £(6) million). New business profit from insurance business of £602 million was 11 per cent higher than the first half of 2007, reflecting the growth in sales over the period with good growth from Asia and the UK and a resilient performance from the US. At RER, new business profit was up 13 per cent. The average Group new business profit margin was 40 per cent (HY 2007: 40 per cent) on an APE basis and 5.5 per cent (HY 2007: 5.5 per cent) on a PVNBP basis. In-force profits increased five per cent at CER, on the first half of 2007 to £809 million. In aggregate, net assumption changes were £59 million positive, and experience variances and other items were £42 million positive.

Operating profit from the asset management business was in line with the first half of 2007 at £181 million (HY 2007: £181 million), a very satisfactory performance following a strong performance from M&G in difficult trading conditions.

The charge for other income and expenditure of £144 million, an improvement of £11 million over the first half of 2007, included £47 million profits crystallised on the sale of a seed capital investment on an Indian mutual fund, and £28 million expenditure relating to the assessment of the reattribution of the inherited estate.

### New business capital usage

	Half year 2008 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business	Total long-term business
Asia	(111)	13	(98)	347	249
US	(157)	140	(17)	106	89
UK	(93)	61	(32)	124	92
	(361)	214	(147)	577	430

The Group wrote £1,513 million of sales on an APE basis. To support these sales, the Group invested £361 million of capital. This amount covers both new business acquisition expenses, including commission of £147 million and the required capital of £214 million. The total investment of capital for new business amounts to approximately £24 million per £100 million of APE sales. These sales provided a post-tax new business contribution to embedded value of £430 million.

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

In the US, capital was invested to support sales at an average rate of £44 million per £100million of APE sales.

In the UK, capital was invested to support sales at an average rate of £22million per £100million of APE sales.

In the calculation of EEV operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. Short-term fluctuations in investment returns are the difference between the actual investment return and the unwind of discount on the value of in-force and expected returns on net worth.

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

In Asia, long-term business short-term fluctuations in investment returns were negative £(536) million, which principally arose in Vietnam £(151) million, Singapore £(103) million, Taiwan £(84) million and Hong Kong £(59) million.

The Vietnam reduction primarily reflects a significant fall in the Vietnamese bond and equity markets, the latter falling by 58 per cent in the first half of 2008. The Singapore and Hong Kong reduction reflects the effect of market falls of 21 per cent and 15 per cent respectively on unit-linked and with-profit business. The Taiwan reduction principally reflects a 12 per cent equity market fall and a £29 million value reduction for an investment in a Collateralised Debt Obligation (CDO) fund.

The US business short-term fluctuations in investment returns of negative £(297) million is primarily as a result of: a negative £(85) million in respect of the difference between actual investment returns and longer-term returns included in operating profit in respect of fixed income securities (mainly as a result of impaired residential mortgage backed-securities); and a negative £(138)million in relation to changed expectations of fees to be earned on variable annuity business due to the actual variable investment account (separate account) return being lower than the long-term return reported within operating profit, offset by the impact of the associated hedging position and a negative £(74) million in respect of the difference between actual investment returns and longer-term returns included within operating profit for equity type investments and other items.

The UK business component of short-term fluctuations in investment returns of negative £(959) million primarily reflects the £(855) million effect of the difference between the actual investment return for the with-profits life fund of negative (6.8) per cent and the long-term assumed return of 4.1 per cent.

### EEV basis profit after tax and minority interests

	2008 £m	2007 £m
	Half year	Half year
<b>Total EEV basis operating profit from continuing operations after restructuring costs</b>	<b>1,430</b>	<b>1,318</b>
Short-term fluctuations in investment returns:	(1,949)	241
Asia	(536)	54
US	(297)	68
UK	(959)	98
Other	(157)	21
Actuarial gains and losses on defined benefit pension schemes:	(98)	39
Effect of change in economic assumptions:	(175)	253
Asia	(120)	18
US	23	(46)
UK	(78)	281
Effect of change in time value of cost of options and guarantees:	(14)	22
Asia	(14)	(1)
US	2	8
UK	(2)	15
Movement in mark to market value of core borrowings:	171	113
US	8	5
Other	163	108
<b>Profit/(loss) from continuing operations before tax</b>	<b>(635)</b>	<b>1,986</b>
Tax	162	(521)
<b>Profit/(loss) from continuing operations after tax before minority interests</b>	<b>(473)</b>	<b>1,465</b>
Discontinued operations (net of tax)	0	241
Minority interests	(2)	(1)
<b>Profit/(loss) for the period</b>	<b>(475)</b>	<b>1,705</b>

# Group overview

## continued

The actuarial loss of £(98) million for the first half of 2008 (HY 2007: gain of £39 million) included in total profit reflects the shareholders' share of actuarial gains and losses on the Group's defined benefit pension schemes. On the EEV basis, this loss includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits sub-fund for the Scottish Amicable Pension Schemes. The half year 2008 shareholder actuarial losses reflect the shortfall of market returns over long-term assumptions and the effect of increases in inflation rates which more than offset the effect of an increase in risk discount rate.

In Asia, economic assumption changes were negative £(120) million, mainly due to a change in Taiwan of negative £(87) million arising from higher economic capital requirements. This was as a result of holding bonds with a longer duration.

In the US, economic assumption changes of positive £23 million primarily reflect the impact of increased credit spreads that allow for reinvestment of the cash flows at a higher rate.

In the UK, economic assumption changes of negative £(78) million primarily reflect the net effect of changes to the assumed fund earned rate and the risk discount rate. For with-profits business, the assumed rate for corporate bonds has not reflected the effect of the credit spread widening that has occurred in the first half of 2008. For shareholder-backed annuity business, assets are generally held to match long duration liabilities. Accordingly, after allowance for credit risk, a liquidity premium is included in the risk discount rate used. The allowance for credit risk at 30 June 2008 comprises 16 basis points for long-term expected defaults, eight basis points in respect of long-term credit risk premium, and 19 basis points

for credit contingency that reflects 25 per cent of the increase in credit spreads over swaps that has occurred since 31 December 2006. The mark to market movement on core borrowings was a positive £171 million (HY 2007: positive £113 million) reflecting the continued reduction in the fair value of core borrowings due to increases in UK interest rates and further widening of credit spreads.

The effective tax rate at an operating tax level was 28 per cent (HY 2007: 28 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level was 26 per cent (HY 2007: 26 per cent) on a loss of £635 million.

The profit from discontinued operations in 2007 was £241 million. This was the profit on disposal of Egg net of the post-tax loss from 1 January 2007 to the date of sale.

### IFRS basis operating profit

Group operating profit before tax from continuing operations based on longer-term investment returns on the IFRS basis after restructuring costs was £674 million an increase of 13 per cent on the first six months of 2007 at CER.

The increase in Asia's operating profit of 28 per cent for long-term business before development expenses primarily reflects improved profitability in Indonesia and Singapore which have increased by 41 per cent and 24 per cent respectively as a result of a significant increase in renewal premiums partially offset by lower investment returns. New business strain remained at approximately 10 per cent of APE in the first half of 2008.

In the US, IFRS operating profit of £232 million was up six per cent on the first half of 2007 at CER. This is mainly due to increasing fee income and higher derivative income on the variable annuity business reflecting the increase in the market

### IFRS basis operating profit

#### IFRS basis operating profit based on longer-term investment returns from continuing operations

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Insurance business:					
Asia	102	80	28	76	34
US	232	218	6	218	6
UK	286	251	14	251	14
Development expenses	(3)	(6)	50	(6)	50
<b>Long-term business profit</b>	<b>617</b>	<b>543</b>	<b>14</b>	<b>539</b>	<b>14</b>
Asset management business:					
M&G	146	140	4	140	4
Asia asset management	29	34	(15)	33	(12)
Curian	0	(2)	100	(2)	100
US broker-dealer and asset management	6	9	(33)	9	(33)
	181	181	0	180	1
Other income and expenditure	(110)	(126)	13	(126)	13
<b>Total IFRS basis operating profit based on longer-term investment returns before restructuring costs</b>	<b>688</b>	<b>598</b>	<b>15</b>	<b>593</b>	<b>16</b>
Restructuring costs	(14)	0	0	0	0
<b>Total IFRS basis operating profit based on longer-term investment returns after restructuring costs</b>	<b>674</b>	<b>598</b>	<b>13</b>	<b>593</b>	<b>14</b>

value of the net short derivative positions due to falling equity prices. The decision to acquire additional hedging protection in the derivative markets in 2007 at favourable prices demonstrated its value in the IFRS operating profit in the context of falling equity markets experienced in the first half of 2008. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS, with the Group's basis of presenting operating profit is based on longer-term investment returns. Longer-term returns for the US operations' fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses.

In the UK, IFRS operating profit for the long-term business increased by 14 per cent to £286 million in the first half of 2008. This reflected increased annuity profits while profits attributable to the with-profits business were in line with prior year.

M&G's operating profit for the first half of 2008 was £146 million, an increase of four per cent over the first half of 2007. The negative impact from equity and property market declines, primarily on retail and PRUPIM revenues, was offset by incremental income from net investment flows in 2007 as well as encouraging growth in the Infracapital business within Fixed Income.

The Asian asset management operations reported operating profits of £29 million, a decline of (15) per cent, due to the volatility in equity and bond markets which affected assets under management and net flows, coupled with a shift in asset mix to bond and money market funds, which attract a lower fee rate.

The operating profit from the US broker-dealer and asset management businesses was £6 million.

The charge for other income and expenditure of £110 million, an improvement of £16 million over the first half of 2007, included £47 million profit crystallised on the sale of a seed capital investment in an Indian mutual fund offset by £28 million

expenditure relating to the assessment of the reattribution of the inherited estate.

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

Total IFRS basis loss before tax and minority interests was £(102) million in the first half of 2008, compared with a profit of £655 million for the first half of 2007. The decrease reflects adverse short-term fluctuations in investment returns of £(684) million and a negative movement against the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

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

Short-term fluctuations in investment returns are the difference between the actual investment return for shareholder-backed business and the longer-term investment return assumed in operating profit.

The £(684) million charge for short-term fluctuations in investment returns comprises £(264) million, £(181) million and £(82) million from the Asian operations, US operations and UK operations respectively. In addition, there was a charge of £157 million for other short-term fluctuations in investment returns; £24 million unrealised losses on an Indian mutual fund investment: the subsequent sale of the investment resulting in a transfer of £47 million to operating profits. £49 million of the £157 million charge relates to value movements on swaps held centrally to manage Group's assets and liabilities. £26 million of the charge reflects value movements, net of hedge effects on Prudential Capital's bond portfolio. The residual £11 million charge relates to a value movement on a centrally held investment.

The fluctuations for the Asian operations primarily reflect £(149) million for Vietnam reflecting a significant fall in the Vietnamese bond and equity markets, the latter falling by 58 per cent in the first half of the year and £69 million for Taiwan which reflects the decrease of 12 per cent in the Taiwanese equity market, and a £29 million reduction in the value of an investment in a CDO fund.

In the US the charge for short-term fluctuations in investment returns was £(181) million. During the first half of 2008 the US life insurance operations recorded net credit losses of £(108) million. This charge is reflected in two parts of the accounting presentation of the results. Included within the IFRS operating profit based on longer-term investment returns is a risk margin reserve (RMR) charge, representing long-term expected credit defaults, of £23 million. After deducting the RMR charge and related charges in amortisation of deferred acquisition costs, the difference between the credit related losses and the RMR charge in the year was a charge of £(73) million which is recorded within short-term fluctuations in investment returns. The other £(108) million of charge for short-term fluctuations for the US

### IFRS basis profit after tax

	RER	
	Half year 2008 £m	Half year 2007 £m
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	674	593
Short-term fluctuations in investment returns	(684)	24
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	(92)	38
<b>Profit/(Loss) before tax from continuing operations attributable to shareholders</b>	<b>(102)</b>	<b>655</b>
Tax	(12)	(234)
<b>Profit/(Loss) from continuing operations for the financial year after tax</b>	<b>(114)</b>	<b>421</b>
Discontinued operations (net of tax)	0	241
Minority interests	(2)	(1)
<b>Profit/(Loss) for the year attributable to equity holders of the Company</b>	<b>(116)</b>	<b>661</b>

# Group overview

## continued

primarily relates to equity type investment, derivatives used to hedge the fixed annuity and other general account business.

The fluctuations for the UK operations primarily reflect reduced asset values in Prudential Retirement Income Limited (PRIL), the shareholder-backed annuity business, from widened credit spreads on corporate bond securities.

The loss after tax and minority interests was £(116) million compared with a profit of £661 million in the first half of 2007. The effective rate of tax on operating profits, based on longer-term investment returns, was 29 per cent (HY 2007: 34 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 12 per cent (HY 2007: 36 per cent). The effective tax rates in the first half of 2008 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

### Earnings per share

	2008 p	2007 p
	Half year	Half year
EPS based on operating profit from continuing operations after tax and minority interest:		
EEV	41.6	39.1
IFRS	19.4	16.0
Basic EPS based on total profit/(loss) after minority interest		
EEV	(19.3)	69.9
IFRS	(4.7)	27.1

### Dividend per share

The Board has agreed an interim dividend of 5.99 pence per share to be paid on 23 September 2008 to shareholders on the register at the close of business on 15 August 2008. The interim dividend for 2007 was 5.70 pence per share.

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

### Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 30 June 2008 were £14 billion, a decrease of £0.6 billion from the 31 December 2007 level. This reduced level of shareholders' funds results from: total EEV basis operating profit of £1,430 million; a £(1.9) billion unfavourable movement in short-term fluctuations in investment returns; a £189 million negative movement due to changes in economic assumptions and in time value of cost of options and guarantees; a positive movement on the mark to market of core debt of £171 million; a negative movement in the actuarial gains on the defined benefit pension schemes of £98 million; and dividend payments of £(177) million net of scrip dividend take-up, made to shareholders.

The £(1.9) billion of unfavourable short-term fluctuations were made up of: £(959) million in the UK life business due

primarily to a negative return of 6.8 per cent in the with-profits fund over the period (the FTSE 100 fell 13 per cent in the first six months of the year) against an expected return of 4.1 per cent; £(297) million in the US primarily due to variable annuity equity and fixed interest performance below the long-term assumption; and £(536) million in Asia primarily due to investment returns below long-term assumptions, including Vietnam, Singapore, Hong Kong and Taiwan.

The shareholders' funds at the end of first half of 2008 of £14 billion comprise of £3.7 billion for the Asian long-term business operations, £3.6 billion for the US long-term business operations, £6.0 billion for the UK long-term business operations and £0.7 billion for other operations.

At the year end the embedded value for the Asian long-term business was £3.7 billion. The established markets of Hong Kong, Singapore and Malaysia contribute £2,806 million to the embedded value generated across the region, with Korea at £312 million and Indonesia at £211 million making further substantial contributions. Prudential's other markets, excluding Taiwan, in aggregate contribute £505 million in embedded value. Taiwan has a negative embedded value of £128 million, this positive movement against prior year (the first half of 2007: negative £157 million) is a reflection of an increase in new business and a change in economic assumptions.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 65 per cent and 15 per cent of new business APE in the first half of 2008, respectively. As a result, interest rates have little effect on new business profitability and a one per cent reduction in assumed interest rates would reduce new business margins in Taiwan by less than one percentage point. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a £96 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by £58 million. On the assumption that bond yields remained flat during the first half of 2008 and then trended towards 5.5 per cent in December 2014, this would have reduced the first half of the 2008 Taiwan embedded value by £61 million. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a negligible percentage change to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 30 June 2008 were £5.6 billion. This compares with £6.1 billion at 31 December 2007 at RER after adjusting for the £(139) million reduction on a change in accounting policy for pension costs. This decrease primarily reflects: operating profit of £674 million, offset by an unfavourable movement in short-term fluctuations in investment return of £(684) million; unrealised value change on Jackson debt securities of £(433) million; and dividend payments to shareholders net of scrip take-up of £(177) million.

### Shareholders' borrowings and financial flexibility

Core structural borrowings of shareholder-financed operations at 30 June 2008 totalled £2,526 million, compared with £2,492 million at the end of 2007. This increase reflected exchange movements of £30 million and other adjustments of £4 million.

After adjusting for holding company cash and short-term investments of £1,498 million, net core structural borrowings at 30 June 2008 were £1,028 million compared with £1,036 million at 31 December 2007. This reflects the net cash inflow of £86 million, exchange movements of £74 million and other adjustments of £4 million.

Core structural borrowings at 30 June 2008 included £2,115 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. Of the core borrowings, £890 million were denominated in US dollars, to hedge partially the currency exposure arising from the Group's investment in Jackson.

Prudential has in place an unlimited global commercial paper programme. At 30 June 2008, commercial paper of £280 million, US\$3,361 million and €436 million was in issue under this programme. Prudential also has in place a £5,000 million medium-term note (MTN) programme. At 30 June 2008, subordinated debt outstanding under this programme was £435 million and €520 million, and senior debt outstanding was US\$12 million. In addition, the holding company has access to £1,600 million committed revolving credit facilities, provided in equal tranches of £100 million by 16 major international banks, renewable in December 2009, and an annually renewable £500 million committed securities lending liquidity facility. Apart from a small test drawdown, these facilities have not been drawn on during the first half of the year. There are no amounts outstanding under the committed credit facilities at 30 June 2008. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are available for general corporate purposes and to support the liquidity needs of the holding company.

The Group's core debt is managed to be within a target level consistent with its current debt ratings. At 30 June 2008, the gearing ratio (core debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus core debt) was 6.9 per cent compared with 6.6 per cent at 31 December 2007.

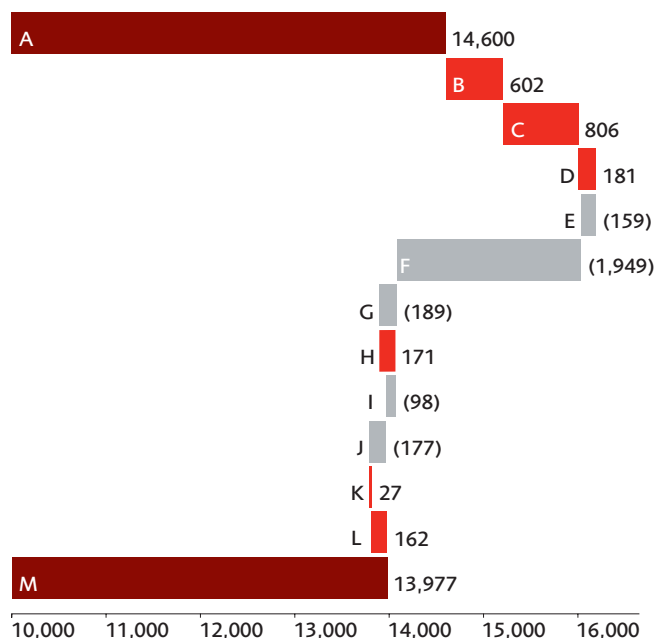
Prudential plc enjoys strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential long-term senior debt is rated A+ (stable outlook), A2 (stable outlook) and AA- (stable outlook) from Standard & Poor's, Moody's and Fitch respectively, while short-term ratings are A-1, P-1 and F1+.

Based on EEV basis operating profit from continuing operations and interest payable on core structural borrowings, interest cover was 18.4 times in the first half of 2008 compared with 16.1 times in the first half of 2007.

### Regulatory capital requirements

Prudential's Insurance Groups Directive (IGD) capital position at the end of 2007 was a surplus of £1.6 billion. The surplus at half year 2008 is estimated to be £1.4 billion.

### Analysis of movement in EEV shareholders' funds £m 31 December 2007 to 30 June 2008



- A Opening shareholders' funds
- B New business operating profits
- C In-force operating profits including Asian development costs
- D Asset management and other operating profit
- E Other income and expenditure
- F Short-term fluctuations in investment returns
- G Effect of changes in economic assumptions
- H Change in mark to market value of external borrowings
- I Actuarial gains and losses on defined benefit pension schemes
- J Dividends, net of scrip dividend take-up
- K Other
- L Tax
- M Closing shareholders' funds

The half year 2008 IGD surplus capital position is very resilient to extreme stresses from financial risks (interest rates, equity markets and credit). Prudential estimates that a 150bps reduction in interest rates has an adverse impact of £550 million on the IGD surplus capital, a 40 per cent fall on the current equity markets has an adverse impact of £260 million on the IGD surplus capital and credit defaults at five times the expected level has an adverse impact of £220 million.

### Economic capital

Prudential defines its economic capital requirements as the amount of capital that the Group needs to hold in order to remain solvent over a 25-year horizon, given a target probability of insolvency appropriate for AA-debt. At 30 June 2008, Prudential has an economic capital surplus of c. £1.0 billion before taking credit for diversification and £2.8 billion after. Economic capital is central in Prudential's decision-making process on allocating capital within the Group.

# Group overview

## continued

### Unallocated surplus of with-profits

During the first half of 2008, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on a statutory basis, decreased from £14.0 billion at 1 January to £12.6 billion at 30 June 2008. This reflects a decrease in the cumulative retained earnings arising on with-profits business that have yet to be allocated to policyholders or shareholders.

### Holding company cash flow

	2008 £m	2007 £m
	Half year	Half year
Cash remitted by business units:		
UK life fund transfer	279	261
Asia	148	86
M&G	86	75
<b>Total cash remitted to Group</b>	<b>513</b>	<b>422</b>
Net interest paid	(80)	(76)
Dividends paid	(303)	(286)
Scrip dividends and share options	134	119
<b>Cash remittances after interest and dividends</b>	<b>264</b>	<b>179</b>
Tax received	87	24
Corporate activities	(86)	(30)
<b>Cash flow before investment in businesses</b>	<b>265</b>	<b>173</b>
Capital invested in business units:		
Asia	(137)	(70)
UK	(42)	(69)
<b>Total capital invested in business units</b>	<b>(179)</b>	<b>(139)</b>
<b>Increase in operating cash</b>	<b>86</b>	<b>34</b>
<b>Egg sale net proceeds</b>	<b>0</b>	<b>527</b>
<b>Total holding company cash flow</b>	<b>86</b>	<b>561</b>

The Group holding company received £513 million in cash remittances from business units in the first half of 2008 up from £422 million in 2007. This includes the shareholders' statutory life fund transfer of £279 million from the UK business.

After dividends and net interest paid, there was a net cash inflow of £264 million (HY 2007: £179 million). There was a high take-up of scrip dividends in the first half of 2008 and 2007.

Tax received of £87 million was £63 million higher than prior year, with the 2007 figure being exceptionally low as a result of foreign exchange gains, reducing the level of taxable losses. During the first half of 2008, the Group holding company paid £86 million in respect of corporate activities, including costs in respect of the process to consider a reattribution of the inherited estate.

In aggregate there is an improvement in operating cash inflow to £86 million from £34 million in the first half of 2007.

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

We have previously indicated that the operating cash flow of the Group holding company is expected to be positive in 2008 and we are on target to meet this commitment.

### Risk factors and contingencies

The Group published details of its risk factors and contingencies in its 2007 annual report. There have been no changes in the risk factors during the period. Note (M) of the IFRS interim report gives an update on the position for contingencies.

# Business unit review

## Insurance operations

### Asia

Asia	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
APE sales	727	639	14	619	17
NBP	336	291	15	282	19
NBP margin (% APE)	46%	46%		46%	
NBP margin (% PVNBP)	8.7%	8.6%		8.6%	
Total EEV basis operating profit*	553	510	8	493	12
Total IFRS operating profit*	102	80	28	76	34

\*Operating profit from long-term operations excluding fund management operations, development and Asia regional head office expenses.

### Introduction

The current economic environment in Asia reflects some uncertainty. Rising commodity prices are putting downward pressure on growth, fuelling inflation and sparking some social unrest and the ramifications of the credit crisis have the potential to slow international investment in Asia. The MSCI Ex Japan Index is down approximately 23 per cent against the same time last year and back at the same level as June 2006. Bonds are at historically high valuations.

However, Prudential firmly believes that while the volatility of the financial markets can have an impact on customers' sentiment, the fundamental economic and social changes under way in Asia will continue to drive strong demand for savings and protection products for the foreseeable future. This is supported by experience during other times of economic stress such as the 1997/98 Asian Crisis and the SARS related downturn.

Therefore Prudential's strategy in Asia remains securely in place with the emphasis on building high quality, multi-channel distribution that delivers customer-centric and profitable products, with an increasing emphasis on retirement solutions. The specific priorities for each market vary reflecting the considerable diversity of each country within the region and also the position of our operations within those countries. Asia remains on-track to deliver the doubling of 2005 new business profits in 2008.

During the first half of 2008, good progress has been made in a number of areas:

Average agent numbers in the first six months of 2008 have increased by 29 per cent compared to the first half of 2007 and are up 21 per cent over the full year 2007. At 30 June 2008 there were 423,000 agents including 286,000 in India. Average agent productivity over the same period measured in terms of APE per agent, excluding Taiwan which had an exceptional second quarter last year, has remained in line with the first half of 2007 as although the activity rate has increased by five per cent, the number of cases per active agent has declined by a similar amount reflecting the more challenging economic environment. Average case size is in line with last year.

New business booked through Prudential's successful bank distribution network increased by 56 per cent over the period compared to last year and generated 20 per cent of total

APE up from 14 per cent. Prudential and Standard Chartered Bank recently announced the renewal and extension of their original bank distribution agreement covering Hong Kong, Singapore and Malaysia and the inclusion of Japan and Thailand within this master agreement for the first time too.

Sales of health and protection products, including riders attached to life policies, during the first six months of 2008 were £152 million, 56 per cent up from the same period last year. They accounted for 21 per cent of the sales mix up from 15 per cent last year. This reflects the increased focus on these strategically significant and profitable products. Average new business profit margins were 83 per cent on standalone health and protection sales. New products and marketing campaigns are planned for the second half of the year.

As the financial challenges people will face related to retirement increase in Asia over the coming years, Prudential is developing a new holistic approach to provide retirement solutions that encompasses asset accumulation, protection and income generation. During the first half of this year, Prudential commenced consumer and distributor testing of new propositions with a view to rolling out a new retirement strategy in 2009. In the meantime the business continues to raise awareness of retirement savings with refreshed 'What's your number?' campaigns in Hong Kong and Taiwan.

Although the business's primary focus is the considerable headroom for the acquisition of new customers, as at 30 June 2008 Prudential already has over 11.5 million customers in Asia, up from 8.5 million a year ago, who are a very valuable asset in terms of cross sell and up sell opportunities. In India, health products are being successfully telemarketed, similarly in Indonesia, Malaysia and Singapore upgraded medical products are being successfully up-sold. In Korea good momentum is being seen with a campaign to revisit existing customers.

Prudential already has a uniquely advantaged platform in Asia and the plans in action will continue to strengthen our position and enable us to capture an increasing share of the material value that is set to emerge from the region over the coming years.

# Business unit review

## Insurance operations

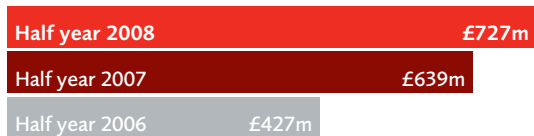
### Asia continued

#### Financial performance

Average APE sales grew 14 per cent on first half of 2007 to £727 million. On a comparable basis taking into account the change in consolidation basis for China Life effected for the fourth quarter last year, the growth rate is 17 per cent. Excluding Taiwan, due to the exceptional sales performance in 2007, Asia grew by 29 per cent during the first half of 2008. The proportion of linked business remains high at 70 per cent.

#### Asia APE sales £m

# +14%



#### Asia new business profits £m

# +15%



These strong performances came from a wide range of drivers that continue to demonstrate the success of Prudential's regional model.

In Indonesia very successful management of the agency model has seen average agent numbers up 62 per cent compared to the same period last year and average agent productivity rates up nine per cent. Takaful products continue to be popular and generated 24 per cent of APE in the first half. Average new business margin was 51 per cent down from 54 per cent in 2007 as a result of increasing credit life business from our bank distribution channel.

Hong Kong had a very strong first half in 2008 with sales growing by 53 per cent supported by marketing activity for retirement planning and the successful launch of the new PRUlink Wealth Builder and PRUlink Wealth, the operation's first two back-end loaded index linked products. Average new business margins remain high at 66 per cent up from 62 per cent in the first half of 2007 due to an increased proportion of linked products.

In India there was a slower first quarter this year where growth was 41 per cent, but during the second quarter growth rates in India accelerated to 56 per cent bringing the half year to 45 per cent. Average agent numbers are up 25 per cent with average agent productivity improving by 10 per cent, despite the expansion into more rural areas. Average new business margin was 16 per cent down from 20 per cent in the first half of 2007 due to a change in expense assumptions reported at year-end 2007.

In Japan the 56 per cent growth in the first half has been driven largely by Term Life products in the first quarter. The tax advantages of these products were reduced in April this year. New business APE reduced in the second quarter 2008 by 23 per cent compared to the second quarter last year and this slow down in new business volume is expected to continue for the rest of this year. The business is now focusing on Variable Annuity products and a new hospital cash product being launched in the third quarter.

Korea's new business growth of eight per cent for the first half 2008 is good given the competitive nature of the market and a particularly volatile stock market. Based on market share estimates for May, PCA Life Korea rose one place to 12th. Average new business margin remained level compared to the first half of 2007 at 33 per cent.

On a comparable basis to 2007, APE sales in China were up by 58 per cent driven by a 35 per cent increase in average agent numbers and an 86 per cent increase in average agent productivity. In the second quarter CITIC Prudential Life Insurance was notified that it had been awarded a preparatory licence for Fujian Province, China. Located in the wealthier coastal southeastern region, Fujian province has a population of over 35 million. Average new business margin was 51 per cent up from 44 per cent in 2007 as linked products became a larger proportion of the new business mix.

In Malaysia the Takaful business continues to grow strongly, up 82 per cent on last year and representing 27 per cent of the total APE, up from 17 per cent last year. Total new business was up 11 per cent and the momentum is encouraging with the second quarter up 23 per cent against the same quarter last year.

In Singapore sales have been affected by changes in the Central Provident Fund investment limits effective from 1 April 2008 and first half sales recorded a three per cent decrease. The comparatives in Singapore are likely to be challenging for the rest of the year.

As previously mentioned, Taiwan had an exceptional year last year with the very successful launch of the 'What's your number?' campaign in the second quarter. However, the business remains in a very strong position with average agent numbers up 11 per cent and encouraging results from its new bank distribution agreement with Standard Chartered Bank. Estimates of its market share indicate that in the year to May 2008, PCA Life Taiwan increased to 3.7 per cent, up from 3.2 per cent at the same time last year. Average new business margin was 51 per cent up from 42 per cent in the first half of 2007.

Vietnam, Thailand and Philippines have continued the strong growth seen in 2007 with collective first half APE sales of £30 million, up 25 per cent on last year. Unit linked products were launched in Vietnam in January and they represented six per cent of the country's sales in the first half.

Asia's overall average NBP margin remains constant over the first half of 2007 at 46 per cent with some net positives in product mix and margins up one per cent at the country level being offset by changes in country mix down one per cent.

Total EEV operating profit was £553 million. In-force EEV operating profits of £217 million are a reduction of one per cent on 2007. There were a number of one-off items in 2007, for

example the corporation tax changes in Singapore and China which, after grossing up notional tax, gave rise to a pre-tax benefit of £25 million. Excluding these one-offs in-force profits are increasing steadily with the realisation of value inherent in the business. Operating assumption changes are positive £15 million. Operating variances remain small in the context of the Asian business reflecting the robustness of our operating assumptions. Experience variances are net negative £19 million principally reflecting negative expense experience of £30 million for operations which are at a relatively early stage of development. There is also negative persistency experience of £11 million mainly arising in Korea due to greater than expected premium holidays and negative £14 million for other items. These are partially offset by positive £23 million mortality and morbidity experience variances spread across all operations and positive £13 million in respect of the investment return on capital held centrally in respect of Taiwan.

Asia EEV basis operating profit £m

+8%

Half year 2008	£553m
Half year 2007	£510m
Half year 2006	£343m

IFRS operating profits before development expenses for the first half of 2008 were £102 million, up 28 per cent on the same period in 2007 incorporating a complex mix of drivers including higher new business strain in Hong Kong on the new back-end loaded product and higher profits from Indonesia where new business is profitable on the IFRS basis in its first year. India continues to invest in its branch expansion programme giving rise to expense over-runs. Overall new business strain for Asia represented approximately 10 per cent of APE in line with 2007.

IRR for Asia was in excess of 20 per cent for the first half of 2008. In Asia, Prudential targets IRR on new business to be at least 10 percentage points above the country risk discount rate, where these vary from five to 17 per cent.

Asia repatriated £148 million to Group net of tax in the first half and received injections of £137 million principally to fund growth in India and fund solvency in Japan and Korea.

Asia has no credit defaults in the first half of 2008. However, the short-term fluctuations include a charge of £37 million for fair value reductions in investments in a Taiwan CDO fund of £29 million and Leverage Super Senior notes in Japan of £8 million.

Prudential continues to deliver strong, broad based and profitable growth in Asia from its well established platform. The demographics and environment in Asia remain as compelling as ever and the business is expected to carry on growing at a fast pace.

# Business unit review

## Insurance operations

### United States

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
<b>United States</b>					
APE sales	356	351	1	352	1
NBP	137	144	(5)	144	(5)
NBP margin (% APE)	38%	41%		41%	
NBP margin (% PVNBP)	3.9%	4.1%		4.1%	
Total EEV basis operating profit*	354	344	3	344	3
Total IFRS operating profit*	232	218	6	218	6

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

#### Introduction

The United States is the largest retirement savings market in the world and continues to grow rapidly. At the end of 2007, total retirement assets in the US exceeded US\$17.6 trillion, up from US\$16.5 trillion at the end of 2006 (Source: Investment Company Institute). As 78 million baby boomers (Source: US Census Bureau) move into retirement, these assets will shift from asset accumulation to income distribution. Currently, US\$1.6 trillion of assets are generating retirement income. This amount is estimated to grow to US\$7.3 trillion by 2017 (Source: Financial Research Corporation).

Despite these favourable demographics, US life insurers face challenges from both within and outside the industry. The industry remains highly fragmented, with the top 15 annuity companies sharing only 74 per cent of the total market share in 2007 (Source: LIMRA). Competition is intensifying through aggressive price competition, especially in the variable annuity market.

The S&P index decreased 13 per cent during the first six months of 2008 and 15 per cent from June 2007 (total for 2007: increase of 3.5 per cent). During the same periods, the US equity markets also experienced significant volatility.

#### Financial performance

Jackson National Life Insurance Company (Jackson) delivered APE sales of £356 million in the first half of 2008, representing a one per cent increase from the same period in 2007 and the highest level of total sales in Jackson's history. APE retail sales in the first half of 2008 were £274 million, down four per cent over the same period in 2007 and represent the second highest level of sales during the first half in the company's history. This decline was primarily driven by lower variable annuity sales. On a PVNBP basis, new business sales were £3.5 billion.

These achievements demonstrate the diversification of Jackson's product portfolio and the resilience of Jackson's business model despite volatile equity markets and a deteriorating macroeconomic environment experienced in the first six months of 2008.

Variable annuity APE sales of £180 million in the first half of 2008 were 20 per cent down on the same period in 2007. The significant volatility in US equity markets during the second half of 2007 continued into 2008 and price competition in the

variable annuity market has remained intense. Jackson remains disciplined on the pricing of variable annuities. In the first quarter of 2008 Jackson ranked fourth in variable annuity net flows and had the lowest outflows as a percentage of variable annuity inflows in the industry.

#### US APE sales £m

+1%

Half year 2008	£356m
Half year 2007	£351m
Half year 2006	£293m

#### US new business profits £m

-5%

Half year 2008	£137m
Half year 2007	£144m
Half year 2006	£121m

In the first half of 2008, Jackson maintained its track record for product innovation by enhancing its variable annuity offering, with the addition of two new guaranteed minimum withdrawal benefits (GMWBs) and two new portfolio investment options. Jackson also introduced new fixed annuity products designed specifically for the bank channel and a new fixed index annuity that offers a selection of two market indices and two contract lengths.

Jackson seeks to employ capital profitably in the retirement space. The internal rate of return on new business was 18 per cent in the first half of 2008, in line with the same period last year.

Fixed annuity APE sales of £63 million were 121 per cent up on the same period of 2007 reflecting a higher customer propensity towards fixed-rate products in a period of declining

equity markets. Jackson ranked ninth in the traditional deferred fixed annuity market in the first quarter of 2008 with a market share of 3.1 per cent, up from the tenth position at the end of December 2007.

Fixed index annuity sales continue to be affected by difficult market conditions. Jackson's APE sales of £20 million in the first half of 2008 were nine per cent down on the same period of 2007. Jackson ranked tenth in the fixed index annuity market in the first quarter of 2008 with a market share of 3.4 per cent.

Institutional APE sales of £83 million in the first half of 2008 were up 26 per cent on the same period of 2007. Jackson continues to participate in this market on an opportunistic basis when margins are attractive.

EEV basis new business profits of £137 million were five per cent below the prior year, reflecting a shift in the mix of business toward fixed annuities as well as increased sales of institutional business with shorter durations. Specifically, new business profits of variable annuities decreased by 15 per cent, from £103 million at 30 June 2007 to £88 million at 30 June 2008 as a result of lower sales, while new business profits of fixed annuities increased nearly four times from £4 million to £15 million.

Total EEV basis operating profit for the long-term business in the first half of 2008 was £354 million compared to £344 million in the prior year at CER. In-force EEV profits of £217 million were nine per cent above prior year profit of £200 million at CER. Experience variances were £33 million lower than the corresponding period in 2007 mainly due to lower spread income. Operating assumption changes were £44 million, including a credit of £29 million for changes to mortality assumptions, a credit of £27 million relating to a change of projected product fees for variable annuity business and a net charge of £12 million for other items.

#### US EEV basis operating profit £m

+3%

Half year 2008	£354m
Half year 2007	£344m
Half year 2006	£313m

IFRS operating profit for the long-term business was £232 million, up six per cent on the prior year of £218 million at CER, primarily reflecting higher fee income from the variable annuity business and favourable hedging results from the impact of market movements during the period. The decision to acquire additional hedging protection in the derivative markets in 2007 at favourable prices demonstrated its value in the IFRS operating profit in the context of falling equity markets experienced in the first half of 2008.

Jackson's IFRS operating profit continues to diversify across the various lines of business. Specifically, operating profit from the variable annuity and other fee-based business increased from 32 per cent at 30 June 2007 to 42 per cent at 30 June 2008, while profit from the spread-based business fell from 44 per cent to 43 per cent for the first half of 2008.

Jackson's overall credit exposure is well within Group risk parameters and Jackson continues to manage it proactively.

Total credit losses impacting Jackson's IFRS income statement were £108 million (2007: £19 million). This includes £103 million of writedowns on securities. Within the £103 million is £82 million of losses from Jackson's residential mortgage-backed securities (RMBS) book. Impairments are determined by first undertaking detailed cash flow projections to identify those securities where an economic loss of principal is anticipated – in this case £38 million of losses. However, the accounting loss also includes a deduction of £43 million to reflect reduced market value. Out of the total charge of £108 million in the income statement, £23 million is booked as the RMR default charge to the operating result, to reflect the longer-term expectation for impairment, with the excess shown in short-term fluctuations in investment returns.

For securities classified as available-for-sale under IAS 39, at 30 June 2008 there was an increase in the net unrealised loss position to £(813) million from £(136) million at 31 December 2007. This increase reflects declines in the market value of residential mortgage-backed securities and broader distressed pricing due to illiquidity in the market as well as increasing credit spreads.

Jackson remains confident of the quality of its overall portfolio of £18 billion of debt securities. Some 82 per cent of its gross unrealised loss is on investment grade securities. Of the £270 million of gross unrealised losses on securities with a fair value of less than 80 per cent of book value, only £31 million is on securities rated as non-investment grade. In addition, there have been no credit defaults in the investment portfolio and downgrades were minimal. Jackson maintains its ability and intent to hold its debt securities for the longer term.

# Business unit review

## Insurance operations

### United Kingdom

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
<b>United Kingdom</b>					
APE sales	430	363	18	363	18
NBP	129	108	19	108	19
NBP margin (% APE)	30%	30%		30%	
NBP margin (% PVNBP)	3.6%	3.7%		3.7%	
Total EEV basis operating profit*	504	462	9	462	9
Total IFRS operating profit*	286	251	14	251	14

\*Based on longer-term investment returns.

#### Introduction

During the first half of 2008, Prudential UK continued to focus on the increasing need for retirement solutions through competing selectively in areas of the market where it can generate attractive returns. With an ageing population and the concentration of UK wealth in the mass affluent and high net worth sectors, the retirement and near-retirement segment is set to be the fastest-growing market. Low savings rates and high levels of consumer debt, combined with a shift in responsibility for providing income during retirement from Government and employers towards individuals, have resulted in individuals being inadequately provided for during increasingly long periods of retirement.

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

Prudential UK's Retail business is focusing on savings and income for those customers nearing or in retirement and aims to continue to drive profitable growth in its core annuities operation, grow its presence in the equity release market and maximise the opportunities in retirement savings on the back of its strong multi-asset performance record.

The significant 25-year pipeline of internal vestings annuity business from maturing individual and corporate pension policies, where Prudential UK offers a competitive proposition for its internal vestings customers, is enhanced by strategic partnerships with third parties where Prudential UK is the recommended annuity provider for customers vesting their pension at retirement. Prudential UK, with approximately 1.5 million annuities in payment, is the largest provider in the UK market.

Investing in property has been an increasingly important component for many people saving for their retirement. With an estimated £725 billion owned by pensioners in property in the UK, pensioners can consider options such as equity release to help deliver an adequate income in retirement. This is likely to become increasingly important as people live longer and the cost of living continues to rise.

Prudential UK's total retail with-profits business has performed very strongly across a range of products. This demonstrates clearly that with-profits, when invested in an actively managed, well-run and financially strong fund, can produce good returns for the cautious investor. Prudential's with-profits products offer a medium- to long-term, medium risk investment, with exposure to a diverse range of assets, skilled management of those assets and smoothed returns, all of which are particularly important to many customers against the backdrop of market volatility.

Prudential UK continues to be a market leader in the corporate pensions market where it is a provider to over 20 per cent of FTSE 350 companies and the largest provider of pension schemes to the UK public sector. Prudential UK now administers corporate pensions to over 640,000 members.

Our joint venture with Discovery to provide Health and Protection insurance based on rewarding healthy lifestyles with lower premiums continues to grow rapidly. At the end of June, PruHealth covered approximately 175,000 lives.

Prudential UK's strategy in Wholesale is to participate selectively in bulk annuity and back-book buyouts. Prudential UK will maintain a strict focus on value, only participating in transactions that generate an acceptable rate of return.

#### Financial performance

In an environment of volatile capital and equity markets, a decline in the housing market and general economic uncertainty, Prudential UK has delivered a strong set of figures. Total UK APE sales in the first half of the year grew by 18 per cent to £430 million and new business profit increased 19 per cent to £129 million. Sales in the second quarter were 33 per cent higher than the same period last year. The average new business margin for the half year was maintained at 30 per cent.

### UK APE sales £m

# +18%

Half year 2008	£430m
Half year 2007	£363m
Half year 2006	£484m

### UK new business profits £m

# +19%

Half year 2008	£129m
Half year 2007	£108m
Half year 2006	£138m

Retail sales of £398 million were 11 per cent higher than 2007. Individual annuities continued to deliver substantial sales volume. Sales growth was driven by strong performances in with-profits bonds and offshore products, supplemented by good sales of corporate pensions and encouraging growth in its equity release range. Prudential UK also completed a bulk annuity reinsurance contract with Goldman Sachs for the reinsurance of £30 million APE of Rothesay Life's non-profit annuity business. Prudential and Goldman Sachs will consider opportunities for future cooperation to provide joint solutions in selected situations in the defined benefit scheme risk management market.

Individual annuity sales at the half year of £141 million were in line with those achieved in the first half of 2007, with the second quarter sales up four per cent on the same period last year. This good performance in the second quarter was underpinned by a continued focus on the strong internal vestings pipeline which contributed more than 50 per cent of total individual annuity sales.

Prudential UK is now the market leader in the lifetime mortgage market, with over a 25 per cent share in the second quarter of 2008, based on new business advances. Sales in the second quarter were 40 per cent higher than in the first quarter of 2008. Total half-year sales of £12 million were 71 per cent higher than the first half of 2007. Prudential UK is now seeing strong contributions from the intermediary and direct markets as well as steadily increasing drawdowns from existing customers.

Prudential UK's total retail with-profits business has performed very strongly across a range of products, with total sales of £183 million up 32 per cent on the first half of 2007. Sales of with-profits bonds of £48 million were up 182 per cent on the first half of 2007, reflecting the strength of Prudential's with-profits fund performance and an increasing demand for this type of product.

Offshore sales of £34 million were up 48 per cent on the first half of 2007, driven by strong sales in the UK, which have been reinforced with the launch of our new open architecture Portfolio Account in March 2008.

Half-year corporate pensions sales of £126 million were two per cent higher than those achieved in the same period last year. Existing accounts in the public sector performed strongly and we also secured Nationwide's deposit based Additional Voluntary Contribution (AVC) business, affirming our status as a leading provider in this market. However, sales within Prudential UK's shareholder-backed business, where pricing is extremely competitive and where it maintained its strict pricing discipline rather than matching competitor pricing, fell by 11 per cent.

Total new business profits of £129 million were 19 per cent higher than the same period in 2007. Retail new business profits grew by 10 per cent to £124 million. The Wholesale new business profit of £5 million reflects the bulk annuity contract completed with Goldman Sachs, which met our target return criteria and was inclusive of the costs of the Wholesale operation. This performance demonstrates the continuing benefits of selectively participating in product lines that deliver sustained sales growth while at the same time maintaining a pricing discipline that ensures attractive returns. An average new business margin of 30 per cent was achieved in the first half of 2008, consistent with the same period last year.

### UK EEV basis operating profit £m

# +9%

Half year 2008	£504m
Half year 2007	£462m
Half year 2006	£336m

EEV basis operating profit based on longer-term investment returns of £504 million, before restructuring costs of £5 million, was up nine per cent on the first half of 2007. The in-force operating profit of £375 million was up six per cent on the first half of 2007, although 2007 benefited from the £67 million positive operating assumption change reflecting the change in the long-term tax rate assumption from 30 per cent to 28 per cent.

Prudential UK continues to manage actively the retention of its in-force book. During 2008, experience at an aggregate level has been in line with our long-term assumptions.

IFRS operating profit increased 14 per cent to £286 million before restructuring costs of £4 million. This included £198 million of profits attributable to the with-profits business, reflecting strong long-term investment performance and its impact on terminal bonuses.

# Business unit review

## Insurance operations

### United Kingdom continued

Prudential UK writes with-profits annuity, with-profits bond and with-profits corporate pension business in its life fund, with other products backed by shareholder capital. There were no defaults in Prudential Retirement Income Limited (PRIL) in the first half of 2008 and PRIL has no direct exposure to the US sub-prime market.

The weighted average post-tax IRR on the shareholder capital allocated to new business growth in the UK was 15 per cent.

The agreement announced in 2007 with Capita to outsource a large proportion of Prudential UK's in-force and new business policy administration commenced in April 2008. This agreement will deliver £60 million per annum of savings to Prudential UK and is an important element in achieving its total cost savings target of £195 million by the end of 2010. This contract also provides a significant reduction in long-term expense risk by providing certainty on per-policy costs as the number of policies in the mature life and pensions book decreases over the coming years. Unit costs per policy are expected to reduce by over 30 per cent by 2011.

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

The PAC's long-term fund remains very strong. On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets are valued at approximately £7.7 billion at 30 June 2008, before a deduction for the risk capital margin. The financial strength of PAC is rated AA+ (stable outlook) by Standard & Poor's, Aa1 (negative outlook) by Moody's and AA+ (stable outlook) by Fitch Ratings.

In the first half of the year, Prudential's with-profits life fund has been impacted by the difficult conditions in financial markets, with negative returns from its holdings in equities, property and bonds. The fund returned negative 6.8 per cent gross in the first half of the year.

In the light of the significantly wider level of credit spreads in major markets, the decision was taken earlier in the year to progressively close the hedge on the fund's credit exposure that had been taken out in 2007 at a profit.

In anticipation of much higher volatility in financial markets, the decision was also taken to reduce Prudential's equity exposure, for tactical purposes in that part of the fund attributed to the estate, which was beneficial.

Although market conditions remain extremely testing, they provide some value opportunities for investors with a long-term investment horizon.

# Business unit review

## Asset management

M&G

### Global

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

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

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

Each business and its performance in the first half of 2008 is summarised below.

### M&G

M&G comprises the M&G asset management business and Prudential Capital.

### M&G asset management

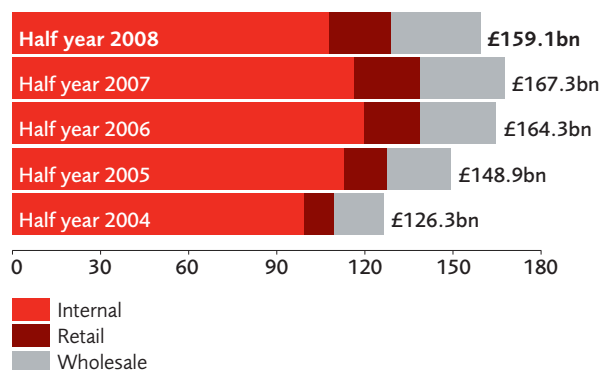
#### Introduction

M&G is Prudential's UK and European asset management business. It manages £159 billion of assets, of which £108 billion relate to Prudential's long-term funds, £30 billion to wholesale and £21 billion to retail clients. M&G aims to maximise profitable growth by operating in areas of the retail and wholesale markets where it has a leading position and competitive advantage.

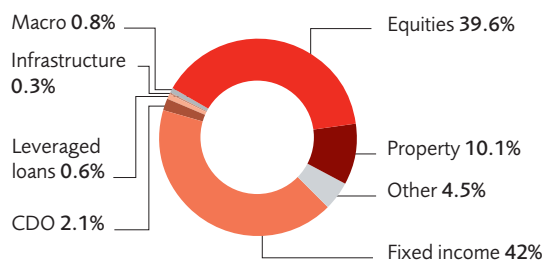
M&G's core strategy is to focus on the delivery of superior investment performance in all classes in which it invests and thereby offer attractive products in a variety of macro-economic environments. As one of the largest active managers in the UK,

M&G has expertise in all major asset classes and also has a leading position in a number of specialist areas such as leveraged loans, structured credit, infrastructure and macro investment.

### M&G funds under management by client type £bn



### M&G diversity by asset type



M&G has a strong and well-established presence in its home UK market. However, a growing proportion of its business is sourced from Europe, South Africa and Asia (distributed by Prudential Corporation Asia).

M&G's diversity by client type, asset class and geography is central to the sustainability of its earnings in the current challenging environment. Stability is derived from the internal client and M&G's long-established direct retail business, while growth opportunities are provided by geographic expansion,

### M&G

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Net investment flows	2,437	3,367	(28)	3,367	(28)
Revenue	235	225	4	225	4
Other income	12	14	(14)	14	(14)
Staff costs	(101)	(110)	8	(110)	8
Other costs	(42)	(33)	(27)	(33)	(27)
Underlying profit before performance-related fees	104	96	8	96	8
Performance-related fees	9	12	(25)	12	(25)
Operating profit from M&G asset management operations	113	108	4	108	4
Operating profit from Prudential Capital	33	32	3	32	3
Total IFRS operating profit	146	140	4	140	4

# Business unit review

## Asset management

### M&G continued

diversification into specialist investment areas and leadership in developing newer distribution opportunities such as third party on-line platforms.

M&G's retail business aims to obtain maximum value from a single manufacturing function through a multi-channel, multi-geography distribution approach. Its wholesale business centres on leveraging the skills developed primarily for internal funds to create higher-margin products for external clients.

#### Financial performance

The markets in which M&G operates have endured a difficult period since the onset of problems in the credit market in the second half of 2007. Declines in underlying value across asset classes have impacted funds under management, and hence revenue.

Against this challenging backdrop, M&G has delivered a strong first half performance, with an overall underlying profit result of £104 million, compared to £96 million in 2007.

In addition, M&G earned £9 million in performance related fees (2007: £12 million).

This profit performance was driven, in part, by the full year effect of new business won in 2007 as well as positive net sales of £2.4 billion received in the first half of 2008 (2007: £3.4 billion). This is a strong net positive result in market conditions that are dramatically different to those experienced in the first half of 2007.

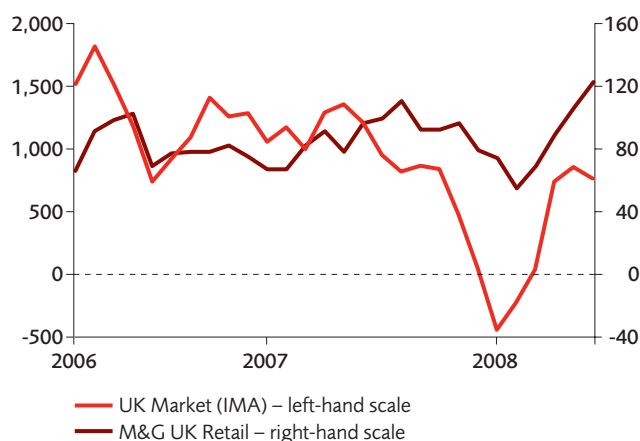
Net retail fund inflows were £881 million (2007: £1.7 billion), a good result in a period where both the UK and European asset management industries saw a much more significant fall in net flows. M&G's wholesale net fund inflows also proved very resilient in the first half of 2008, with inflows of £1.6 billion (2007: £1.6 billion).

M&G believes that this success in winning and keeping business is primarily the result of strong investment performance. Over the three years to end June 2008, 71 per cent of M&G's retail funds produced top or second quartile performance, representing 92 per cent of funds under management. M&G's excellent performance is further underlined by a number of awards won in the first half of the year, including being named Best Global Group by Investment Week and Best Larger Equity Fund House by Morningstar. In addition the M&G Recovery and Global Basics funds have received Lipper awards in Switzerland, Austria, France, Germany, Italy and Spain.

#### Movements in key market indices



#### M&G UK net retail sales £m



#### Prudential Capital

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

Driven by strong securities lending performance, operating profit at the half year of £33 million was three per cent up against the same period in 2007. Dividends of £14 million were remitted to the holding company.

# Business unit review

## Asset management

### Asia

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Asia					
Net investment flows	1,642	1,777	(8)	1,662	(1)
Total IFRS operating profit	29	34	(15)	33	(12)

### Introduction

Prudential's asset management business in Asia supports the insurance operations, and has established itself as an increasingly material retail business in its own right. Today it has retail operations in 10 markets and has more top five market share positions than many other regional players in Asia.

Despite the downturn in the equity markets in the first half of 2008 product innovation has continued with the launch of a number of new funds. PRUIM Vietnam Fund is one of the country's first institutional property funds. In Taiwan, the PCA Green Solution Fund which seeks to deliver long-term capital growth by investing in climate change related global firms and is the country's third largest IPO. In China, our joint venture with CITIC introduced its third fund, the Blue Chip Fund. PCA Asset Korea launched PCA Emerging Asia Equity Fund in the first quarter of 2008. In the second quarter, several structured funds were launched in response to the demand for lower-risk products.

We have also continued to expand the breadth and depth of our distribution network in Asia. PCA Asset Japan established our third relationship with a mega brokerage, this time with Nomura. In the United Arab Emirates (UAE), our business based in Dubai now has 15 distribution agreements.

Taiwan obtained three institutional mandates with funds under management (FUM) of £116 million in the first half of the year. This includes a domestic equity investment mandate from Taiwan's New Labor Pension Fund over a three-year period.

Against a volatile market environment, we are taking the opportunity to enhance our investment processes and manufacturing capabilities. This is firstly achieved through strengthening the investment team by hiring talented and experienced portfolio managers and product specialists. Other efforts include enhancing our research coverage, developing new technology applications to facilitate product manufacturing and strengthening of active management of our portfolio risk. We are also building our capabilities to include opportunistically Latin American and other Europe, Middle East and Africa regions.

### Financial performance

Our Asian asset management business delivered £1.6 billion of net inflows in the first half of 2008. These were eight per cent lower compared to the same period in 2007 as India and Japan in particular have seen lower net equity flows in this period due to volatility of the equity markets. Of the £1.6 billion net flows, 57 per cent were in longer-term equity and fixed income products, and the remaining 43 per cent in shorter-term money market funds, compared to 23 per cent for the first half last year. Taiwan recorded the strongest inflows for the first half of this year.

Total third party funds under management were £15.7 billion, a decrease of nine per cent compared to the second half of 2007, but up five per cent on the first half of 2007. Hong Kong, India and Taiwan were the main contributors to the year-on-year growth, with funds under management increasing by 27 per cent, 24 per cent and 17 per cent respectively.

Prudential has successfully built a material and profitable fund management business in Asia. Despite the dominance of domestic asset management houses in most Asian countries, our fund management business has established leadership positions in Asia. As of the end of May 2008, our businesses in India and Singapore have secured the second and third positions in the respective mutual fund markets. In Japan, our business is ranked second amongst foreign asset management companies in the market in terms of net fund flows gathered year-to-date. We remain confident that the business is in an ideal position to capitalise on the growth opportunities in Asia.

# Business unit review

## Asset management

### United States

#### US asset management

PPM America manages assets for Prudential's US, UK and Asian affiliates and provides investment services to other affiliated and unaffiliated institutional clients including collateralised debt obligations (CDO), private equity funds, institutional accounts and mutual funds.

IFRS operating profit in the first half of 2008 was £1 million, down from £4 million in the same period in 2007 at CER due to losses on consolidated investment vehicles that more than offset continued growth of the fixed income portfolio managed on behalf of the US insurance operations.

#### PPM America

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Total IFRS operating profit	1	4	(75)	4	(75)

#### Curian Capital

Curian Capital (Curian), a specialised asset management company that provides innovative fee-based separately managed accounts, continues to build its position in the US retail asset management market with total assets under management at the end of June 2008 of £1.7 billion,

consistent with year end 2007 at CER, as new deposits offset the impact of market declines during the first half of 2008.

Curian gross investment flows were £339 million in the first half of 2008, up seven per cent on the same period of 2007.

#### Curian

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Gross investment flows	339	316	7	317	7
Revenue	13	9	44	9	44
Costs	(13)	(11)	18	(11)	18
Total IFRS operating profit/(loss)	0	(2)	(100)	(2)	(100)

#### US broker-dealer

National Planning Holdings, the Group's US independent broker-dealer network, comprises four broker-dealer firms, INVEST Financial Corporation, Investment Centers of America, National Planning Corporation and SII Investments.

IFRS operating profit of £5 million was in line with half year 2007.

#### Broker-dealer

	CER			RER	
	Half year 2008 £m	Half year 2007 £m	Change %	Half year 2007 £m	Change %
Revenue	161	146	10	146	10
Costs	(156)	(141)	11	(141)	11
Total IFRS operating profit	5	5	0	5	0

# Other corporate information

## **Inherited estate of Prudential Assurance**

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

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

Prudential announced in March 2006 that it had begun a process to determine whether it could achieve greater clarity as to the status of the inherited estate through a reattribution. In June 2008 Prudential announced that it did not believe that it is in the interests of current or future policyholders or shareholders to continue the reattribution process. The with-profits sub-fund (WPSF) has been consistently the top performing life fund in the UK for the past one, three, five and 10 years. Our overriding priority is to maintain the long-term financial security of the WPSF and to continue delivering strong performance for the benefit of our policyholders. The policyholders' share in any potential future distributions is on a 90:10 basis.