Notes on the unaudited International Financial Reporting Standards (IFRS) basis results

A. Basis of preparation and audit status

This interim financial information has been prepared using the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or changed IFRS that are already endorsed by the European Union (EU) and that are applicable or available for early adoption for the next annual financial statements.

The half year 2005 financial statements published in July 2005 were prepared in accordance with the presentation, recognition and measurement bases that were expected to be applied for the full year 2005 results on first time adoption of IFRS. The comparative half year 2005 results shown within this announcement include minor changes to those previously published arising from the refinement of these bases in the second half of 2005 prior to their application to the full year financial statements.

The IFRS basis results for the 2006 and 2005 half years are unaudited. The 2005 full year IFRS basis results have been derived from the 2005 statutory accounts. The auditors have reported on the 2005 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was not qualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

B. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2005.

C. Segment disclosure

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Revenue			
Long-term business	**13,565**	17,739	39,296
Banking	**457**	685	1,115
Broker-dealer and fund management	**518**	424	895
Unallocated corporate	**71**	67	98
Intra-group revenue eliminated on consolidation	**(138)**	(147)	(279)
Total revenue per income statement	**14,473**	18,768	41,125
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)			
Long-term business, including post-tax transfers to unallocated surplus of with-profits funds	**(12,881)**	(17,024)	(36,997)
Banking	**(502)**	(672)	(1,071)
Broker-dealer and fund management	**(358)**	(333)	(741)
Unallocated corporate	**(16)**	(244)	(450)
Intra-group charges eliminated on consolidation	**138**	147	279
Total charges per income statement	**(13,619)**	(18,126)	(38,980)
Segment results – revenue less charges (continuing operations)			
Long-term business	**684**	715	2,299
Banking	**(45)**	13	44
Broker-dealer and fund management	**160**	91	154
Unallocated corporate	**55**	(177)	(352)
Profit before tax*	**854**	642	2,145
Tax attributable to policyholders' returns	**(162)**	(182)	(1,147)
Profit before tax attributable to shareholders	**692**	460	998
Tax attributable to shareholders' profits	**(242)**	(156)	(241)
Profit from continuing operations after tax	**450**	304	757
Segment results – discontinued operations (net of tax)			
Banking	**0**	1	3
Profit for the period	**450**	305	760

*Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits.

Notes on the unaudited International Financial Reporting Standards (IFRS) basis results continued

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

Results analysis by business area

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
UK operations			
UK insurance operations	**205**	187	400
M&G	**100**	83	163
Egg	**(39)**	13	44
Total	**266**	283	607
US operations			
Jackson National Life	**223**	157	348
Broker-dealer and fund management	**8**	18	24
Curian	**(4)**	(6)	(10)
Total	**227**	169	362
Asian operations			
Long-term business	**88**	116	195
Fund management	**22**	2	12
Development expenses	**(7)**	(8)	(20)
Total	**103**	110	187
Other income and expenditure			
Investment return and other income	**33**	45	87
Interest payable on core structural borrowings	**(89)**	(84)	(175)
Corporate expenditure:			
Group Head Office	**(46)**	(36)	(70)
Asia Regional Head Office	**(19)**	(14)	(30)
Charge for share-based payments for Prudential schemes	**(5)**	(4)	(11)
Total	**(126)**	(93)	(199)
UK restructuring costs (note L)	**(17)**	–	–
Operating profit from continuing operations based on longer-term investment returns	**453**	469	957
Goodwill impairment charge (note i)	**–**	(95)	(120)
Short-term fluctuations in investment returns on shareholder-backed business (note ii)	**39**	94	211
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note iii)	**200**	(8)	(50)
Profit from continuing operations before tax attributable to shareholders	**692**	460	998

(i) Goodwill impairment charge
The charges for goodwill impairment in 2005 relate to the Japanese life business.

(ii) Short-term fluctuations in investment returns on shareholder-backed business

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
US operations:			
Movement in market value of derivatives used for economic hedging purposes	**93**	36	122
Actual less longer-term investment returns for other items	**9**	24	56
Asian operations	**(36)**	17	32
Other operations	**(27)**	17	1
	39	94	211

D. Supplementary analysis of profit from continuing operations before tax attributable to shareholders continued

(iii) Actuarial and other gains and losses on defined benefit pension schemes

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Actuarial gains and losses			
Actual less expected return on scheme assets	**(57)**	144	544
Experience (losses) gains on liabilities	**0**	(3)	1
Gains (losses) on changes of assumptions for scheme liabilities*	**611**	(156)	(489)
	554	(15)	56
Less: amounts attributable to the PAC with-profits fund	**(354)**	7	(58)
	200	(8)	(2)
Non-recurrent credit (charge)			
Shareholders' share of credit arising from reduction in assumed level of future discretionary increases for pensions in payment of the Prudential Staff Pension Scheme to 2.5%	**–**	–	35
Loss on re-estimation of shareholders' share of deficit on the Prudential Staff Pension Scheme at 31 December 2005 to 30%	**–**	–	(63)
Effect of strengthening in actuarial provisions for increase in ongoing contributions for future service of active scheme members	**–**	–	(20)
	–	–	(48)
	200	(8)	(50)

*The gains and losses on changes of assumptions for scheme liabilities primarily reflect movements in yields on good quality corporate bonds. These yields are used to discount the projected pension scheme benefit payments.

The discount rates applied for the Group's UK defined benefit schemes, and reflected in the gains and losses shown above, are as follows:
30 June 2006 5.5 per cent
31 December 2005 4.8 per cent
30 June 2005 5.0 per cent
31 December 2004 5.3 per cent

E. Tax charge

The total tax charge of £404 million for the 2006 half year (2005 half year £338 million) comprises £220 million (£217 million) UK tax and £184 million (£121 million) overseas tax. This tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £242 million for the 2006 half year (2005 half year £156 million) comprises £95 million (£52 million) UK tax and £147 million (£104 million) overseas tax.

F. Supplementary analysis of earnings per share from continuing operations

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Operating profit based on longer-term investment returns after related tax and minority interests	**12.7p**	14.0p	32.2p
Adjustment for goodwill impairment charge	**–**	(4.0)p	(5.1)p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**0.2p**	3.0p	5.9p
Adjustment for post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**5.8p**	(0.3)p	(1.5)p
Based on profit from continuing operations after tax and minority interests	**18.7p**	12.7p	31.5p

G. Dividend

The interim dividend of 5.42 pence per share will be paid on 27 October 2006 to shareholders on the register at the close of business on 18 August 2006. A scrip dividend alternative will be offered to shareholders.

H. Shareholders' equity

	30 Jun 2006 £m	30 Jun 2005 £m	31 Dec 2005 £m
Share capital	**121**	119	119
Share premium	**1,808**	1,560	1,564
Reserves	**3,120**	3,300	3,511
Total	**5,049**	4,979	5,194

Notes on the unaudited International Financial Reporting Standards (IFRS) basis results continued

I. Other borrowings

	30 Jun 2006 £m	30 Jun 2005 £m	31 Dec 2005 £m
Operational borrowings attributable to shareholder-financed operations			
Borrowings in respect of short-term fixed income securities programmes	**1,500**	1,131	1,472
Non-recourse borrowings of investment subsidiaries managed by PPM America	**943**	1,195	1,085
Borrowings in respect of banking operations	**3,535**	3,888	3,856
Other borrowings	**16**	17	19
Total	**5,994**	6,231	6,432
Borrowings attributable to with-profits funds			
Non-recourse borrowings of venture fund investment subsidiaries of the PAC with-profits fund	**1,183**	755	988
Structural borrowings (subordinated debt of the SAIF)	**100**	100	100
Other borrowings (predominantly external funding of consolidated investment vehicles)	**759**	870	810
Total	**2,042**	1,725	1,898

J. Acquisitions and disposals

(i) Shareholder acquisitions – Egg minority interests

In December 2005, the Company announced its intention to acquire the minority interests in Egg representing approximately 21.7 per cent of the existing issued share capital of Egg. The whole of the minority interests were acquired in the first half of 2006. Under the terms of the offer, Egg shareholders received 0.2237 new ordinary shares in the Company for each Egg share resulting in the issue of 41.6 million new shares in the Company.

The Company accounts for the purchase of minority interests using the economic entity method. Accordingly, £167 million has been charged to retained earnings representing the difference between the consideration paid (including expenses) of £251 million and the share of net assets acquired of £84 million.

(ii) PAC with-profits fund acquisitions

The PAC with-profits fund acquires a number of venture capital holdings through PPM Capital in which the Group is deemed to have a controlling interest, in aggregate with, if applicable, other holdings held by, for example, the Prudential Staff Pension Scheme. There were two such acquisitions during the period to 30 June 2006:

- Acquisition of 53 per cent of the voting equity interests of Histoire D'or, a jewellery retail company, in April 2006; and
- acquisition of 51 per cent of the voting equity interests of Azzuri Communications, a business IT services company, in June 2006.

These acquisitions are considered individually immaterial and therefore all 2006 half year information in the following table has been presented in aggregate. Due to the nature of the investments, it is not practicable to provide certain information for acquisitions occurring in the 2006 half year, including the pro forma Group revenue and consolidated net profit information as if the acquisitions had occurred at the beginning of the year, and the carrying amounts, in accordance with IFRS, of each class of the acquiree's assets, liabilities and contingent liabilities immediately before acquisition.

The results of the acquisitions have been included in the consolidated financial statements of the Group commencing on the respective dates of acquisition. The earnings contributed by these acquisitions to the income statement is insignificant and is also reflected as part of the change in unallocated surplus of the with-profits fund.

The table below identifies the net assets acquired and reconciles this amount to the consideration paid for the ventures acquisitions in the six months to 30 June 2006:

	Fair value on acquisition £m
Cash and cash equivalents	16
Other current assets	62
Property, plant and equipment	14
Other non-current assets	51
Less liabilities, including current liabilities and borrowings	(455)
	(312)
Less minority interests	0
Net assets acquired	(312)
Goodwill	313
Cash consideration	1

Aggregate goodwill of £313 million has been recognised for the excess of the cost over the Group's interest in the net fair value of entities assets, liabilities and contingent assets in the 2006 half year.

There are no intangible assets that were not recognised separately from goodwill for these companies because the fair value of the intangible asset could not be reliably measured.

J. Acquisitions and disposals continued

(iii) PAC with-profits fund disposals

As at 31 December 2005, two venture subsidiaries were classified as held for sale; Upperpoint Distribution Limited and Taverner Hotel Group Pty Ltd. The sale of these venture subsidiaries was completed in the 2006 half year. In addition, two additional venture subsidiaries of the PAC with-profits fund were disposed of during the period, namely Orefi and Aperio Group Pty Ltd. Total cash consideration received was £93 million. Goodwill of £44 million and cash and cash equivalents of £13 million were disposed of. There are no venture subsidiaries classified as held for sale at 30 June 2006.

K. Bulk annuity reinsurance from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Income Limited (PRIL)

In June 2006, PRIL, a shareholder-backed subsidiary of the Company, entered into a bulk annuity reinsurance arrangement with the SAIF for the reinsurance of non-profit immediate pension annuity liabilities with a premium of £592 million. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund, established by a Court approved Scheme of Arrangement in 1997, which is solely for the benefit of SAIF policyholders. As explained in the notes to the tables for the supplementary transaction measure of new business, the economic substance of the arrangement is a transfer of risks and rewards attaching to this business from SAIF policyholders to Prudential shareholders. Accordingly, for the purpose of those tables the reinsurance transaction has been recorded as 'new business'. For Group reporting purposes the amounts recorded by SAIF and PRIL for the premium are eliminated on consolidation.

L. UK restructuring costs

On 1 December 2005, the Company announced an initiative for UK insurance operations to work more closely with Egg and M&G and in the process facilitate the realisation of substantial annualised pre-tax cost savings and opportunities for revenue synergies. The one-off restructuring cost of achieving the savings was estimated to be £50 million. As at 30 June 2006, £17 million of cost to shareholder-backed operations had been incurred.

In the first half of 2006, the level of current and projected restructuring activity has increased as a result of an end to end review of the UK business, which is in progress, that is aimed at reducing the overall cost base. The total cost of implementing this and the previously announced restructuring (as noted above) is estimated at £110 million to be incurred in 2006 and 2007, of which £70 million is anticipated to be borne by the shareholder-backed UK insurance operations and Egg and £40 million by the PAC with-profits fund.

M. Effect of adoption of IAS 32, IAS 39, and IFRS 4

The impact on total equity of adopting IAS 32, IAS 39 and IFRS 4 at 1 January 2005 was as follows:

	Shareholders' equity £m	Minority interests £m	Total equity £m
Changes on adoption of IAS 32, IAS 39 and IFRS 4 relating to:			
UK insurance operations (note i)	(22)		(22)
Jackson National Life (note ii)	273		273
Banking and non-insurance operations (note iii)	(25)	(3)	(28)
Total	226	(3)	223

Notes

The changes shown above reflect the impact of remeasurement for:

(i) UK insurance operations
The reduction in shareholders' equity of £22 million includes £20 million relating to certain unit-linked and similar contracts that do not contain significant insurance risk and are therefore categorised as investment contracts under IFRS 4.

(ii) Jackson National Life (JNL)
Under IAS 39, JNL's debt securities and derivative financial instruments are remeasured to fair value from the lower of amortised cost and, if relevant, impaired value. Fair value movements on debt securities, net of 'shadow' changes to deferred acquisition costs and related deferred tax are recognised directly in equity. Fair value movements on derivatives are recorded in the income statement.

(iii) Banking and non-insurance operations
Under IAS 39, for Egg, changes to opening equity at 1 January 2005 arise from altered policies for effective interest rate on credit card receivables, impairment losses on loans and advances, fair value adjustments on wholesale financial instruments and embedded derivatives in equity savings products. The net effect on shareholders' equity of these changes, after tax, is a deduction of £15 million. A further £10 million reduction in equity arises on certain centrally held financial instruments and derivatives.