

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS¹

Results analysis by business area

	Note	2011 £m	2010 £m ^{vi}	
		Half year	Half year	Full year
ASIAN OPERATIONS				
New business:				
Excluding Japan	2	465	396	902
Japan ^v		–	(1)	(1)
Total		465	395	901
Business in force	3	309	241	549
Long-term business		774	636	1,450
Asset management		43	36	72
Development expenses		(2)	(3)	(4)
Total		815	669	1,518
US OPERATIONS				
New business	2	458	361	761
Business in force	3	373	306	697
Long-term business		831	667	1,458
Broker-dealer and asset management		17	15	22
Total		848	682	1,480
UK OPERATIONS				
New business	2	146	135	365
Business in force	3	391	314	571
Long-term business		537	449	936
General insurance commission		21	23	46
Total UK insurance operations		558	472	982
M&G		199	143	284
Total		757	615	1,266
OTHER INCOME AND EXPENDITURE				
Investment return and other income		5	5	30
Interest payable on core structural borrowings		(140)	(129)	(257)
Corporate expenditure		(116)	(113)	(220)
Charge for share-based payments for Prudential schemes		(2)	(3)	(3)
Charge for expected asset management margin ⁱⁱ		(28)	(22)	(44)
Total		(281)	(262)	(494)
RPI to CPI inflation measure change on defined benefit pension schemes ⁱⁱⁱ		45	–	–
Solvency II implementation costs ^{iv}		(28)	(22)	(46)
Restructuring costs ^{iv}		(9)	(5)	(28)
OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS¹		2,147	1,677	3,696
Analysed as profits (losses) from:				
New business:				
Excluding Japan	2	1,069	892	2,028
Japan ^v		–	(1)	(1)
Total		1,069	891	2,027
Business in force	3	1,073	861	1,817
Long-term business		2,142	1,752	3,844
Asset management		259	194	378
Other results		(254)	(269)	(526)
Total		2,147	1,677	3,696

Notes

- i EEV basis operating profit based on longer-term investment returns excludes the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions. In addition, for half year and full year 2010, operating profit excludes costs associated with the terminated AIA transaction and for full year 2010, the gain arising upon the dilution of the Group's holding in PruHealth. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout these results.
- ii The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margins for the period on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.
- iii During the first half of 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to operating profit for half year 2011 on an IFRS basis of £42 million and an additional £3 million recognised on the EEV basis.
- iv Restructuring costs comprise the charge of £(8) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund. Solvency II implementation costs comprise the charge of £(27) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis.
- v New business profits for the Group's Japanese insurance subsidiary, which ceased writing new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.
- vi The comparative results have been prepared using previously reported average exchange rates for the period.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS CONTINUED

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2011 £m		2010 £m	
		Half year	Half year	Half year	Full year
OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS					
Asian operations		815	669		1,518
US operations		848	682		1,480
UK operations:					
UK insurance operations		558	472		982
M&G		199	143		284
		757	615		1,266
Other income and expenditure		(281)	(262)		(494)
RPI to CPI inflation measure change on defined benefit pension schemes		45	–		–
Solvency II implementation costs		(28)	(22)		(46)
Restructuring costs		(9)	(5)		(28)
		2,147	1,677		3,696
OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS					
Short-term fluctuations in investment returns	5	(111)	(227)		(30)
Mark to market value movements on core borrowings	9	(74)	(42)		(164)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		(8)	(25)		(11)
Effect of changes in economic assumptions	6	(111)	(52)		(10)
Costs of terminated AIA transaction	4	–	(377)		(377)
Gain on dilution of holding in PruHealth	13	–	–		3
		1,843	954		3,107
PROFIT BEFORE TAX (INCLUDING ACTUAL INVESTMENT RETURNS)					
Tax attributable to shareholders' profit	11	(572)	(140)		(530)
		1,271	814		2,577
PROFIT FOR THE PERIOD*					
Attributable to:					
Equity holders of the Company		1,269	812		2,573
Non-controlling interests		2	2		4
		1,271	814		2,577
PROFIT FOR THE PERIOD*					

* All profit is from continuing operations.

EARNINGS PER SHARE (IN PENCE)

	Note	2011	2010	
		Half year	Half year	Full year
From operating profit based on longer-term investment returns, after related tax and non-controlling interests of £1,559 million (half year 2010: £1,210 million; full year 2010: £2,700 million*)	12	61.5p	48.0p	106.9p
Based on profit after tax and non-controlling interests† of £1,269 million (half year 2010: £812 million; full year 2010: £2,573 million)	12	50.1p	32.2p	101.9p

* Operating earnings per share for full year 2010 has been determined after excluding an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities - see note 11.

† All profit is from continuing operations.

DIVIDENDS PER SHARE (IN PENCE)

	2011	2010	
	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2011 and 2010)	7.95p	6.61p	6.61p
Final dividend (2010)	–	–	17.24p
Total	7.95p	6.61p	23.85p
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	6.61p
Final/second interim for prior year	17.24p	13.56p	13.56p
Total	17.24p	13.56p	20.17p

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS CONTINUED

MOVEMENT IN SHAREHOLDERS' EQUITY (EXCLUDING NON-CONTROLLING INTERESTS)

	Note	2011 £m	2010 £m	
		Half year	Half year	Full year
Profit for the period attributable to equity shareholders		1,269	812	2,573
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		(96)	806	659
Related tax		(5)	(8)	34
Dividends		(439)	(344)	(511)
New share capital subscribed (including shares issued in lieu of cash dividends)		15	39	75
Reserve movements in respect of share-based payments		25	15	37
Treasury shares:				
Movement in own shares in respect of share-based payment plans		(10)	8	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		2	4	3
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		39	103	105
Related tax		(14)	(36)	(37)
Net increase in shareholders' equity	10	786	1,399	2,934
Shareholders' equity at beginning of period (excluding non-controlling interests)	7,10	18,207	15,273	15,273
SHAREHOLDERS' EQUITY AT END OF PERIOD (EXCLUDING NON-CONTROLLING INTERESTS)	7,10	18,993	16,672	18,207

	Note	30 Jun 2011 £m			30 Jun 2010 £m			31 Dec 2010 £m		
		Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
COMPRISING:										
Asian operations:										
Net assets of operations		7,825	212	8,037	6,736	180	6,916	7,445	197	7,642
Acquired goodwill		239	61	300	235	61	296	236	61	297
	7	8,064	273	8,337	6,971	241	7,212	7,681	258	7,939
US operations:										
Net assets of operations		4,821	108	4,929	4,984	111	5,095	4,799	106	4,905
Acquired goodwill		–	16	16	–	16	16	–	16	16
	7	4,821	124	4,945	4,984	127	5,111	4,799	122	4,921
UK insurance operations:										
Net assets of operations		6,200	48	6,248	5,442	17	5,459	5,970	33	6,003
M&G:										
Net assets of operations		–	310	310	–	190	190	–	254	254
Acquired goodwill		–	1,153	1,153	–	1,153	1,153	–	1,153	1,153
	7	6,200	1,511	7,711	5,442	1,360	6,802	5,970	1,440	7,410
Other operations:										
Holding company net borrowings at market value	9	–	(2,364)	(2,364)	–	(2,343)	(2,343)	–	(2,212)	(2,212)
Other net assets (liabilities)		–	364	364	–	(110)	(110)	–	149	149
	7	–	(2,000)	(2,000)	–	(2,453)	(2,453)	–	(2,063)	(2,063)
SHAREHOLDERS' EQUITY AT END OF PERIOD (EXCLUDING NON-CONTROLLING INTERESTS)	7	19,085	(92)	18,993	17,397	(725)	16,672	18,450	(243)	18,207
Representing:										
Net assets		18,846	(1,322)	17,524	17,162	(1,955)	15,207	18,214	(1,473)	16,741
Acquired goodwill		239	1,230	1,469	235	1,230	1,465	236	1,230	1,466
		19,085	(92)	18,993	17,397	(725)	16,672	18,450	(243)	18,207

NET ASSET VALUE PER SHARE (IN PENCE)

	30 Jun 2011	30 Jun 2010	31 Dec 2010
Based on EEV basis shareholders' equity of £18,993 million (half year 2010: £16,672 million; full year 2010: £18,207 million)	745p	657p	715p
Number of issued shares at period end (millions)	2,548	2,539	2,546
Annualised return on embedded value*	17%	16%	18%

* Annualised return on embedded value is based on EEV operating profit after related tax and non-controlling interests as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS CONTINUED

SUMMARY STATEMENT OF FINANCIAL POSITION

	Note	2011 £m	2010 £m	
		30 Jun	30 Jun	31 Dec
TOTAL ASSETS LESS LIABILITIES, BEFORE DEDUCTION FOR INSURANCE FUNDS		239,471	214,771	231,667
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(230,970)	(207,610)	(223,636)
Less shareholders' accrued interest in the long-term business		10,492	9,511	10,176
		(220,478)	(198,099)	(213,460)
TOTAL NET ASSETS	7,10	18,993	16,672	18,207
Share capital		127	127	127
Share premium		1,871	1,856	1,856
IFRS basis shareholders' reserves		6,503	5,178	6,048
Total IFRS basis shareholders' equity	7	8,501	7,161	8,031
Additional EEV basis retained profit	7	10,492	9,511	10,176
SHAREHOLDERS' EQUITY (EXCLUDING NON-CONTROLLING INTERESTS)	7,10	18,993	16,672	18,207

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