PRUDENTIAL PLC
Form 6-K
January 18, 2006

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**As filed with the Securities and Exchange Commission on January 18, 2006**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 6-K

## REPORT OF FOREIGN PRIVATE ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

**Commission File Number: 1-15040**

# PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

**Laurence Pountney Hill,
London EC4R 0HH, England**

(Address of Principal Executive Offices)

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

Form 20-F _X_ Form 40-F ____

**Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):** ____

**Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):** ____

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

Yes ____ No _X_

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

This report on Form 6-K is hereby incorporated by reference, in its entirety, into Prudential Public Limited Company's registration statement on Form F-3 (File No. 333-117208).

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**SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL**

Prudential has replaced the UK GAAP modified statutory basis ("MSB") of reporting with International Financial Reporting Standards ("IFRS") as an ongoing basis of reporting from January 1, 2005. The Group has reported interim 2005 IFRS basis results in July 2005. For further information on the Group's IFRS basis results, please see the Group's Form 6-K filed on July 27, 2005. The Group has chosen to apply the "Previous GAAP" option as permitted in the Securities and Exchange Commission's amendments to Form 20-F for first-time application of IFRS issued in April 2005 in these interim financial statements. Under the "Previous GAAP" option, the Group continues with UK GAAP MSB as "primary" GAAP providing condensed US GAAP financial statements and reconciling between the two GAAPs.

The following tables set forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's consolidated financial statements prepared in accordance with UK GAAP, under which insurance business is accounted for on the MSB. These accounting principles differ in certain significant respects from US GAAP. The unaudited condensed consolidated interim financial statements included in this document include a reconciliation of the differences between UK GAAP and US GAAP that are significant to the financial statements. The tables are only a summary and should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes included in this document, together with the "Operating and Financial Review".

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | **2005[(1)]** | **2005** | **Restated 2004** |
| | **(In $ Millions)** | **(In £ Millions)** | |
| **Profit and loss account data UK GAAP basis** | | | |
| Gross premiums from long-term business | **14,821** | **8,280** | 7,526 |
| Reinsurance premiums ceded | **(216)** | **(121)** | (129) |
| Earned premiums, net of reinsurance | **14,605** | **8,159** | 7,397 |
| Investment returns: | | | |
| Continuing operations | **16,157** | **9,026** | 2,732 |
| Discontinued operations | | | 9 |
| Total investment returns | **16,157** | **9,026** | 2,741 |
| Operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and tax:[(2)(3)] | | | |
| Continuing operations: | | | |
| UK and Europe Operations* | **508** | **284** | 262 |
| US Operations* | **303** | **169** | 156 |
| Asian Operations* | **197** | **110** | 58 |
| Other Income and Expenditure* | **(167)** | **(93)** | (102) |
| Total continuing operations* | **841** | **470** | 374 |
| Discontinued operations[(4)] | **4** | **2** | (26) |
| Operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and tax:[(2)(3)]* | **845** | **472** | 348 |
| Goodwill impairment charge | **(152)** | **(85)** | |
| Amortization of goodwill | **(77)** | **(43)** | (49) |
| Short-term fluctuations in investment returns[(5)]* | **182** | **102** | (18) |
| Total profit on ordinary activities before tax* | **798** | **446** | 281 |
| Profit after tax: | | | |
| Operating profit (including post-tax longer-term investment returns)* | **601** | **336** | 242 |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| Profit for the period (including post-tax actual investment returns)* | **505** | **282** | 157 |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | 2005(1) | 2005 | 2004 |
| | (In $ Millions) | (In £ Millions) | |
| **Statement of income and comprehensive income data US GAAP basis** | | | |
| Insurance policy revenues | **5,470** | **3,056** | 2,667 |
| Investment results | **14,249** | **7,960** | 3,883 |
| Other income | **1,720** | **961** | 337 |
| Total revenue | **21,439** | **11,977** | 6,887 |
| Net income from continuing operations (after minority interests) | **947** | **529** | 129 |
| Net loss from discontinued operations including profit on disposals | **(27)** | **(15)** | (14) |
| Cumulative effect of changes in accounting principles | | | (518) |
| Net income (loss) | **920** | **514** | (403) |
| Total comprehensive income (loss) | **1,701** | **950** | (696) |

| | As of and for the Six Months Ended June 30, | | As of and for the Twelve Months Ended December 31, |
|---|---|---|---|
| | 2005(1) | 2005 | 2004 |
| | (In $ Millions) | (In £ Millions) | |
| **Balance sheet data UK GAAP basis** | | | |
| Total assets* | **335,396** | **187,372** | 173,742 |
| Long-term business provision* | **213,597** | **119,328** | 111,217 |
| Technical provisions for linked liabilities | **48,169** | **26,910** | 24,137 |
| Subordinated liabilities and debenture loans | **5,826** | **3,255** | 3,190 |
| Total shareholders' funds* | **9,313** | **5,203** | 4,431 |
| **Balance sheet data US GAAP basis** | | | |
| Total assets | **334,957** | **187,127** | 174,058 |
| Policyholder benefit liabilities | **230,758** | **128,915** | 122,412 |
| Separate account liabilities | **12,279** | **6,860** | 5,531 |
| Total shareholders' equity | **11,943** | **6,672** | 5,927 |
| **Other data** | | | |
| Long-term business: | | | |
| New business: | | | |
| Single premium sales | **13,624** | **7,611** | 11,427 |
| New regular premium sales(6) | **659** | **368** | 703 |
| Gross investment product contributions | **23,658** | **13,217** | 25,108 |
| Funds under management | **383,060** | **214,000** | 187,000 |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | **2005(1)** | **2005** | **2004** |
| **Other data** | | | |
| Basic earnings per share: | | | |
| Based on operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and before tax and minority interests on a UK GAAP basis^* | **35.7¢** | **19.9p** | 16.7p |
| Based on operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and after tax and minority interests on a UK GAAP basis^* | **25.4¢** | **14.2p** | 11.6p |
| Based on total profit for the financial period after tax on a UK GAAP basis^* | **21.3¢** | **11.9p** | 7.5p |
| Net earnings (loss) per share on a US GAAP basis^* | **39.0¢** | **21.8p** | (19.4)p |
| Diluted earnings per share on a UK GAAP basis^* | **21.3¢** | **11.9p** | 7.5p |
| Diluted earnings (loss) per share on a US GAAP basis^* | **39.0¢** | **21.8p** | (19.4)p |
| Declared dividend per share relating to reporting period^ | **9.5¢** | **5.30p** | 5.19p |
| Equivalent cents per share^*(7) | | **9.4¢** | 9.5¢ |
| Market price at end of period^ | **$ 8.88** | **496.25p** | 456.2p |
| Average number of shares (in millions)^* | **2,367** | **2,367** | 2,084 |

^ Comparative figures for these lines have been restated to take account of Prudential's rights offering in October 2004. The restatement factor is 0.9614 based on a theoretical ex-rights price of 405.71 pence divided by the closing share price on the final day that Prudential's shares traded cum-rights of 422.00 pence.

* Comparative figures for these lines have been restated to take account of the implementation of FRS 17 "Retirement Benefits", FRS 20 "Share-based payment", FRS 21 "Events after the Balance Sheet Date", FRS 27 "Life Assurance" (Balance Sheet only as required under the standard) and the discretionary non-GAAP change of policy for longer-term investment returns. For further information, see Note 2 of the notes to Prudential's unaudited condensed consolidated interim financial statements.

(1) Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.79 per £1.00 (the noon buying rate in New York City on June 30, 2005).

(2) Investment returns credited to operating profit for investments attributable to shareholders are determined by applying a longer-term rate of return. For the purposes of determining longer-term investment returns on debt securities, the five year averaging approach previously used by Jackson National Life prior to 2005 has been replaced with a basis that more closely reflects longer-term experiences. The amount included in operating results for longer-term returns for debt securities comprises two components. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest related realized gains and losses to operating results to the date when sold bonds would have otherwise matured. Operating profit excludes amortization and impairment of goodwill and exceptional items.

(3) The basis of presentation of operating profit (based on longer-term investments) before amortization of goodwill may not be comparable with other UK companies.

(4) Discontinued operations relate to Egg France, Funds Direct and Jackson Federal Bank (2004 only). The 2004 comparatives have been restated accordingly.

(5) Short-term fluctuations in investment returns represent the difference between the long-term return credited to operating profit and the actual investment returns achieved for the period for shareholder backed operations.

(6) New regular premium sales are reported on an annualized basis, which represents a full year of installments in respect of regular premiums, irrespective of the actual payments made during the period.

(7) The dividends declared relating to the reporting period have been translated into US dollars at the noon buying rate on the dates the payments were made.

## EXCHANGE RATE INFORMATION

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to "US dollars", "US$", "$" or "¢" are to US currency, references to "pounds sterling", "£", "pounds", "pence" or "p" are to UK currency (there are 100 pence to each pound) and references to "euro" or "€" are to the European single currency. The following table sets forth for each period the average of the noon buying rates on the last business day of each month of that period, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the reported periods. Prudential has not used these rates to prepare its consolidated financial statements.

| Period | Average |
|---|---|
| Six months ended June 30, 2004 | 1.82 |
| Twelve months ended December 31, 2004 | 1.84 |
| Six months ended June 30, 2005 | 1.87 |

The following table sets forth the high and low exchange rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

| Month | High | Low |
|---|---|---|
| July 2005 | 1.78 | 1.73 |
| August 2005 | 1.81 | 1.77 |
| September 2005 | 1.84 | 1.76 |
| October 2005 | 1.79 | 1.75 |
| November 2005 | 1.78 | 1.71 |
| December 2005 | 1.77 | 1.72 |

On January 17, 2006, the latest practicable date for this filing, the noon buying rate was £1.00 = $1.76.

## FORWARD-LOOKING STATEMENTS

This report may contain certain "forward-looking statements" with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including, among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this report or any other forward-looking statements it may make.

**OPERATING AND FINANCIAL REVIEW**

*The following discussion and analysis should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes to Prudential's unaudited condensed consolidated interim financial statements included in this document. Prudential's unaudited condensed consolidated interim financial statements have been prepared in accordance with UK GAAP, which differs in certain material respects from US GAAP. For a summary of the material differences between UK GAAP and US GAAP relevant to Prudential's financial statements, see Notes 10 and 11 to Prudential's unaudited condensed consolidated interim financial statements. A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled " UK GAAP Critical Accounting Policies".*

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion may contain forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements.

**Introduction**

In the first half of 2005, Prudential continued to provide retail financial products and services and fund management services to its customers in the United Kingdom and Europe, United States and Asia. A number of new accounting standards affecting Prudential's UK GAAP consolidated financial statements were implemented in the first half of 2005. They are: FRS 17 "Retirement Benefits", FRS 20 "Share-based payment", FRS 21 "Events after the Balance Sheet Date", FRS 22 "Earnings per share", FRS 23 "The Effects of Changes in Foreign Exchange Rates", FRS 24 "Financial reporting in hyperinflationary economies", FRS 25 "Financial Instruments: Disclosures and Presentation", FRS 26 "Financial Instruments: Measurement" and FRS 27 "Life Assurance". In addition, Prudential has also applied a discretionary change of accounting treatment to the basis used for determining longer-term investment returns credited to the element of total profits before tax shown as operating profit (based on longer-term returns) before amortization of goodwill.

FRS 17, which is similar to International Accounting Standard (IAS) 19 "Employee Benefits" in some but not all respects, and FRS 27 were published in November 2000 and December 2004 respectively. The measurement requirements of both standards became effective for the financial statements for period beginning from January 1, 2005. The remaining standards (FRS 20 to FRS 26) issued in 2004, closely reflect the requirements of IFRSs. For further details on the impact of implementing these new standards and the discretionary change of policy for longer-term investment returns see Note 2 to the unaudited condensed consolidated interim financial statements.

**UK GAAP Critical Accounting Policies**

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's unaudited condensed consolidated interim financial statements, which have been prepared in accordance with UK GAAP. Prudential has adopted IFRS as an ongoing basis of reporting in 2005 but has chosen to apply the "Previous GAAP" option as permitted in the Securities and Exchange Commission's amendments to Form 20-F for first-time application of IFRS issued in April 2005. Under the "Previous GAAP" option, in this Form 6-K, the Group continues with UK GAAP MSB as "primary" GAAP providing condensed US GAAP financial statements and reconciling between the two GAAPs. For further information on Prudential's IFRS basis results, please see Prudential's Form 6-K filed on July 27, 2005. Prudential's UK GAAP financial statements are prepared in accordance with the MSB of reporting of long-term business. This is in accordance with the revised Statement of Recommended Practice issued by the Association of British Insurers ("ABI") in November 2003. In broad terms, MSB profits for long-term business reflect the aggregate of statutory transfers from with-profits funds and profits on a traditional deferred and matching approach for other long-term business.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Prudential evaluates its estimates, including those related to long-term business provisioning, the fair value of assets and the declaration of bonus rates. Prudential bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that reflect significant judgements and uncertainties, and potentially result in materially different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to those discussed below. The critical accounting policies in respect of the items discussed below are critical for the Group's results in so far as they relate to the Group's shareholder financed business, in particular for Jackson National Life.

***Long-term Business Provision***

At June 30, 2005, the long-term business provision represented 66% of Prudential's total liabilities. These liabilities predominantly relate to with-profits and other protection type policies and are estimated using actuarial methods based on assumptions relating to premiums, interest rates, investment returns, expenses, mortality and surrenders.

The adoption of FRS 27 on January 1, 2005 affected the accounting policy in respect of insurance assets and liabilities of UK regulated with-profits funds. As described in further detail in Note 2 to the unaudited condensed consolidated interim financial statements, the main changes that are required for UK regulated with-profits funds under FRS 27 include: de-recognition of deferred acquisition costs and related deferred tax; inclusion of the FSA Peak 2 basis value of in-force non-participating business written by the Prudential Assurance ("PAC") with-profits sub-fund, and the Scottish Amicable Insurance Fund; and the replacement of modified statutory basis liabilities for with-profits business with adjusted realistic basis liabilities.

The future policyholder benefit provisions for Jackson National Life's conventional protection-type policies are determined using the net level premium method, with an allowance for surrenders and claim expenses. Rates of interest used in establishing the policyholder benefit provisions range from 4.0% to 8.0%. Mortality assumptions range from 25% to 160% of the 1975 1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. For investment-type products sold by Jackson National Life, the policyholder benefit provision included within technical provisions in the consolidated balance sheets is the policyholder account balance.

The future policyholder benefit provisions for Asian businesses are determined in accordance with methods prescribed by local GAAP, adjusted where necessary to comply with UK GAAP. In regions where local GAAP is not well established, US GAAP is used as the most appropriate proxy to local GAAP. The valuation of policyholder benefit provisions may differ from that determined on a UK modified statutory basis.

***Fair Value of Assets***

Under FRS 26, except for loans and receivables, most financial assets are carried in the balance sheet at fair value. Fair value is based on quoted market prices at bid value for listed securities and on quotations provided by external fund managers, brokers, independent pricing services or values determined by the directors for unlisted securities. Where reliable third party information is not available, the Group performs alternative valuation techniques, including discounted cash flow analysis, option-adjusted spread models, and enterprise valuation. Movements in the fair value of investments are recorded either in the income statement or directly to the shareholders' reserves in the balance sheet, depending on the designation of the financial asset as either trading or available for sale and the impact of hedge accounting rules. Impairments on the carrying value of individual bonds and other fixed income securities that are considered other than temporary are reflected as losses in profit or loss before tax.

The changes in these valuation requirements from the UK GAAP accounting policy prior to January 1, 2005 primarily impact the accounting for the fixed income securities of Jackson National Life ("JNL"). Previously, the fixed income securities of JNL, unless impaired, were accounted for at amortized cost. On the adoption of FRS 26, the Group has decided to account for JNL's fixed income securities on an available-for-sale (AFS) basis whereby the fixed income securities are accounted for at fair value with movements in fair value being recorded directly to shareholders' reserves rather than the income statement.

***Investment Returns***

Investment returns comprise investment income, realized gains and losses and changes in unrealized gains and losses, except for changes in unrealized gains and losses on debt securities held by JNL and Egg and on designated cash flow hedges of Egg. Following the adoption of FRS 26, these securities, classified as available-for-sale, are carried in the balance sheet at fair value with movements in fair value being recorded directly to shareholders' reserves (previously they were carried at amortized cost). For debt and other fixed interest securities held by JNL, purchase premiums and discounts are amortized based on the underlying investments' call or maturity dates and this amortization is included in investment returns. Realized gains and losses, including writedowns on permanent diminutions for available for sale instruments, are recognized in income on the date of sale as determined on a specific identification basis for JNL and on an average cost basis elsewhere.

***Deferred Acquisition Costs***

In common with other insurers, Prudential incurs significant costs in connection with acquiring new insurance business. These costs, principally commissions, marketing and advertising costs and certain other costs associated with policy revenue and underwriting, are capitalized and amortized against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. Assumptions are made as to whether certain costs should be deferred or not and whether they will be offset by future margins on the policies. To the extent that the actual future margins differ from those anticipated, an adjustment to the carrying value of the deferred acquisition cost asset will be necessary. The deferral and amortization of deferred acquisition costs is of most relevance to the Group's reported profits for shareholder financed long-term business operations, principally JNL in the United States.

Upon the adoption of FRS 27 on January 1, 2005, the deferred acquisition costs and related deferred tax of the UK with-profit funds are derecognized. For further information on the impact of adopting FRS 27 see Note 2 to the unaudited condensed consolidated interim financial statements.

***Deferred Tax***

Deferred tax assets and liabilities generally are recognized in accordance with the provisions of FRS 19 "Deferred Tax" ("FRS 19"). Prudential has chosen not to adopt the option available under FRS 19 of recognizing such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognized in respect of timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognized to the extent that they are regarded as recoverable. That is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between timing differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets under FRS 19. Accordingly, for the balance sheet position at June 30, 2005, the possible tax benefit of approximately £433 million, which may arise from capital losses valued at approximately £1.7 billion, is sufficiently uncertain that it has not been recognized.

***Derivative Financial Instruments***

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes. The Group's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets.

Under FRS 26 adopted in January 2005, derivative financial instruments are carried at fair value with value movements being recorded in the consolidated profit and loss account. Hedge accounting, whereby value movements on derivatives and hedged items are recorded together in the consolidated profit and loss account, is permissible only if certain criteria are met regarding the establishment of documentation and continued measurement of hedge effectiveness.

The main difference in the valuation of derivatives from the UK GAAP prior to the adoption of FRS 26 on January 1, 2005 related to the valuation of derivatives held by JNL. JNL uses derivatives (primarily interest rate swaps) to hedge certain risks in conjunction with its asset/liability management program. Previously under UK GAAP derivatives were not required to be carried at fair value and were valued at amortized cost. The Group has decided not to seek to hedge account for the majority of JNL's derivatives under FRS 26. To do so would require a wholesale re-configuration of JNL's derivatives book into much smaller components than currently applied by JNL through its economic hedge program, and to be accompanied by an extra layer of hedging instruments, beyond what is economically rational.

***Pension Costs***

The Group adopted the measurement requirements of FRS 17 "Retirement Benefits" on January 1, 2005. The Group operates a number of defined contribution and defined benefit pension schemes. Contributions in respect of defined contribution plans are accrued by the Group when incurred.

The assets and liabilities of the defined benefit pension schemes of the Group are subject to a full triennial actuarial valuation using the projected unit method. The largest defined benefit scheme is the Prudential Staff Pension Scheme ("PSPS") which accounts for 90% of the liabilities of the Group's defined benefit schemes under FRS 17. The difference between the fair value of the scheme assets and the actuarial value of the scheme liabilities is a surplus or deficit on the scheme. The employers' contribution is required to be paid as a minimum in future years irrespective of the excess of assets in the PSPS scheme and, under the current scheme' rules, access to any surplus through refunds from the scheme is not available. Accordingly any such surplus would not be recognized as an asset in the Group's financial statements and the pension cost charge would be determined on an accrued payable basis without regard to the spreading of any surplus in the fund that would normally be appropriate under the requirements of the previous SSAP 24. For the smaller defined benefits schemes, the aggregate pension costs on a SSAP 24 basis are materially the same as the funding cost.

The basis of deficit allocation of the Group's defined benefit pension schemes has recently been subject to management review. These deficits are apportioned between shareholders' equity and unallocated surplus of PAC with-profits fund based on the weighted cumulative activity attaching to the contributions paid in the schemes in the past.

The aggregate of the actuarially determined service cost of the currently employed personnel, the unwind of discount on liabilities at the start of the period, less the expected investment return on the scheme assets at the start of the reporting period are recognized in the profit and loss account. The actuarial gains and losses which arise from changes in assumptions, the difference between actual and expected investment return on the scheme assets, and experience gains and losses on liabilities are recognized in the statement of total recognized gains and losses in the period in which they arise.

**Other Features of UK GAAP Accounting that are of Particular Significance to an Understanding of Prudential's UK GAAP Results**

The other features that are of significance relate to the method of accounting for the assets and liabilities of the Group's with-profits funds.

***Long-term Business Provision***

For Prudential Assurance's ("PAC") accumulating with-profits business, prior to the adoption of FRS 27 in 2005, the liabilities were based on a valuation under which no future reversionary bonuses were added to the guaranteed liabilities existing at the valuation date. The provision for PAC was taken as the lower of:

- the accumulated fund or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding final bonuses, and
- the surrender or transfer value which, having regard to policyholders' reasonable expectations, would be payable at the valuation date,

or, if greater, the value of the guaranteed liabilities excluding final bonuses calculated on a gross premium bonus reserve method. For the purpose of calculating the liability using the bonus reserve method, the assumed interest rates range from 2.5% to 5.0%, while future reversionary bonuses are assumed to fall immediately from current levels to zero.

Further to the adoption of FRS 27, the provision for PAC with-profits funds comprises:

- the estimated realistic value of with-profits liabilities for the purposes of FSA regulatory returns; less
- the estimated shareholders' share of future bonuses contained within that estimated regulatory basis liability; plus current liabilities.

The future policyholder benefit provisions on conventional with-profits other than those within the UK with-profits funds and other protection-type policies are calculated using the net premium method. The net premium method calculation is such that it would be sufficient at the outset of the policy to provide only for the discounted value of the original guaranteed death and maturity benefits on the chosen assumptions. The provision is then calculated by subtracting the present value of future net premiums from the present value of future benefits (including vested bonuses) using a prudent discount rate. The net premium reserves are calculated using assumptions for interest, mortality, morbidity and expense but without assumptions for withdrawals. These assumptions are determined as prudent best estimates at the date of valuation. The assumptions to which the estimation of the long-term business provision is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders. Interest rates used in establishing policyholder benefit provisions for conventional with-profits policies in the unaudited condensed consolidated interim financial statements range from 3.0% to 5.0%. The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each period and ranged from 1.5% to 4.8% for half year 2005 and 1.5% to 5.0% for the year ended December 31, 2004. Mortality rates used in establishing policyholder benefit provisions are based on published mortality tables adjusted to reflect actual experience.

For accumulating with-profits business other than those within the UK with-profits funds, the calculation of the long-term business provision is based on a gross premium bonus reserve valuation. In general terms, a gross premium valuation basis is one in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims, future regular bonuses, costs of maintaining contracts and future renewal expenses. For unitized with-profits policies, the policyholder benefit provisions are based on the policyholder account balance.

***Fund for Future Appropriations***

The fund for future appropriations ("FFA") represents the excess of assets over policyholder liabilities within with-profits funds. The annual excess or shortfall of income over expenditure of the with-profits funds after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to, or from, the fund for future appropriations through a charge or credit to the profit and loss account. The balance retained in the FFA represents cumulative retained earnings arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance is determined after full provision for deferred tax on unrealized appreciation of investments.

Changes to the level of the fund for future appropriations do not directly impact shareholders' results or funds. After allowing for differences in the basis of preparation of UK GAAP and UK regulatory returns, movements in the level of the fund for future appropriations are broadly indicative of movements in the excess of regulatory basis assets over liabilities of the fund. In turn, movements in this excess as a proportion of liabilities are indicative of changes in the financial strength of the fund. Differences in the basis of preparation of UK GAAP and UK regulatory returns arise principally from the treatment of certain regulatory basis liabilities, such as the shareholders' share of future bonus provisions (that are accounted for as reserves within the fund for future appropriations), recognition of deferred acquisition costs for UK GAAP prior to the adoption of FRS 27, and asset valuation differences and admissibility deductions reflected in regulatory returns.

***Profits Recognition***

Prudential's results include an annual profit distribution to shareholders from long-term with-profits funds that represents an amount of up to one-ninth of the value of that year's bonus declarations to policyholders. The distribution corresponds directly to the post-tax modified statutory basis profit for with-profits business. The boards of directors of the subsidiary companies that have with-profits operations, using the advice of their appointed actuary, determine the amount of annual and final bonuses to be declared each year on each group of contracts.

***Fair Value of Assets***

Changes in the fair value of assets of Prudential's long-term with-profits funds will primarily be reflected in the excess of assets over liabilities recorded under UK GAAP as the fund for future appropriations. Shareholders' profits from with-profits business and shareholders' funds are not directly impacted by movements in the fair values of the assets. However, current investment performance is a factor that is taken into account in the setting of the annual declaration of bonuses which, in turn, affects UK shareholder profits to the extent of one-ninth of the cost of bonus.

Changes in the fair value of assets of unit-linked funds are normally accompanied by a matching change in unit-linked business liabilities that is also recognized in the profit and loss account.

***Investment Returns***

For with-profits business, investment returns together with other income and expenditure are recorded within the profit and loss account. However, the difference between net income of the fund and the cost of bonuses and related statutory transfers is reflected in an amount transferred to or from the fund for future appropriations within the profit and loss account. Except to the extent of current investment returns being taken into account in the setting of the bonus policy, the investment returns of the with-profits funds in a particular year do not affect shareholder profits from with-profits funds.

***Securities Lending***

The Group is party to various securities lending agreements under which securities are loaned to third parties on a short-term basis. The loaned securities are not removed from the Group's consolidated balance sheet; rather, they are retained within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities borrowers and reverse repurchase agreements and typically consists of cash, debt securities, equity securities or letters of credit.

**Overview of Consolidated Results**

Prudential has replaced the UK GAAP MSB basis of reporting with IFRS basis of reporting from January 1, 2005 and reported interim 2005 IFRS basis results in July 2005. For further information on Prudential's IFRS basis results, please see Prudential's Form 6-K filed on July 27, 2005. Prudential has chosen to continue with UK GAAP MSB as "primary" GAAP in this Form 6-K providing condensed US GAAP financial statements and reconciling between the UK and US GAAP. The following table shows Prudential's UK GAAP consolidated profit on ordinary activities for the periods indicated. The results for the six months ended June 30, 2004 have been restated as a result of the implementation of new UK GAAP standards and the discretionary non-GAAP change of policy for longer-term investment returns included in operating profit. For further information, see Note 2 of the notes to Prudential's unaudited condensed consolidated interim financial statements. In addition, the results for the six months ended June 30, 2004 have also been restated for discontinued operations of Egg France, Funds Direct and Jackson Federal Bank.

| | Six Months Ended June 30, | |
|---|---|---|
| | **2005** | **Restated 2004** |
| | (In £ Millions) | |
| Operating profit (based on longer-term investment returns) before amortization of goodwill and tax from continuing operations | | |
| UK and Europe Operations | **284** | 262 |
| US Operations | **169** | 156 |
| Asian Operations | **110** | 58 |
| Other Income and Expenditure | **(93)** | (102) |
| Total continuing operations | **470** | 374 |
| Discontinued UK banking operation | **2** | (35) |
| Discontinued US banking operation | | 9 |
| Operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and tax | **472** | 348 |
| Goodwill impairment charge | **(85)** | |
| Amortization of goodwill | **(43)** | (49) |
| Short-term fluctuations in investment returns | **102** | (18) |
| Profit on ordinary activities before tax | **446** | 281 |
| Tax on profit on ordinary activities | **(162)** | (117) |
| Profit on ordinary activities after tax before minority interests | **284** | 164 |
| Minority interests | **(2)** | (7) |
| Profit on ordinary activities after tax and minority interests | **282** | 157 |

**Profit on ordinary activities before tax**

Profit on ordinary activities before tax in the first half of 2005 was £446 million compared with £281 million in the first half of 2004. This increase principally reflected growth in operating profit of £124 million and an increase in short-term fluctuations in investment returns of £120 million, offset by a goodwill impairment charge of £85 million due to slower than expected growth in the development of the Japanese life business.

**Profit on ordinary activities after tax**

Profit after tax before minority interests in the first half of 2005 was £284 million compared with £164 million in the first half of 2004. The increase reflects the movement in the profit before tax in those periods and a lower effective tax rate of 36% in the first half of 2005 (42% in the first half of 2004). The decrease in the effective rate of tax on total profit is due to the lack of tax relief on certain unrealized depreciation.

**United Kingdom and Europe Operations**

Prudential's UK and Europe operations are structured into three business units, each focusing on its respective target customer markets, namely, UK and Europe Insurance Operations, M&G and Egg. Egg plc is a quoted UK company, 78% owned by Prudential. On December 1, 2005, Prudential announced its intention to acquire the minority interest in Egg. For further information, see note 9 of the notes to Prudential's unaudited condensed consolidated interim financial statements.

The following table shows operating profit (based on longer-term investment returns) before amortization of goodwill and tax, for the periods indicated.

| | Six Months Ended June 30, | |
|---|---|---|
| | **2005** | **Restated 2004** |
| | **(In £ Millions)** | |
| UK and Europe Insurance Operations | **187** | 152 |
| M&G | **83** | 78 |
| Egg | **14** | 32 |
| Total operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and tax | **284** | 262 |

Operating profit from UK and Europe Insurance Operations in the first half of 2005 was £187 million, £35 million higher than the £152 million recorded in the first half of 2004. The increase was primarily driven by an increase in profit from the with-profits fund, reflecting bonus rates announced in February 2005 and an increase in annuity sales.

M&G's operating profit of £83 million in the first half of 2005 was £5 million higher than in the first half of 2004. This increase reflected strong growth at the underlying level combined with a continuing emphasis on cost control but being partially offset by lower performance related fees. The operating profit included £12 million and £19 million of performance related fees in the first half of 2005 and 2004 respectively generated by PPM Capital after several realizations in both periods, which are not expected to recur.

Egg recorded an operating profit of £14 million in the first half of 2005 compared to a profit of £32 million in the first half of 2004 for its continuing operations. Strong revenue from the credit card business was offset by an increase in impairment charges on loans and advances to customers, lower revenue from the associated insurance on loans and restructuring charges in the first half of 2005.

**US Operations**

Prudential's principal US operations are Jackson National Life, its US insurance company, which includes Jackson National Life Insurance Company, National Planning Holdings and Curian, its US broker-dealer group and PPM America, its US internal and institutional fund manager. Jackson Federal Bank, the US banking operation, was sold to Union Bank of California in October 2004. In May 2005, Jackson National Life completed the acquisition of the Life Insurance Company of Georgia from ING Groep, NV.

The following table shows operating profit (based on longer-term investment returns) before amortization of goodwill and tax for the periods indicated.

| | Six Months Ended June 30, 2005 | Six Months Ended June 30, Restated 2004 |
|---|---|---|
| | (In £ Millions) | |
| Jackson National Life | **157** | 158 |
| National Planning Holdings and Curian | **(3)** | (9) |
| PPM Holdings | **15** | 7 |
| Total operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and tax | **169** | 156 |

Operating profit of £169 million in the first half of 2005 was £13 million higher than in the first half of 2004. The increase in profits primarily reflected an increase in spread and fee income, offset by increased deferred acquisition cost amortization together with increased profits from PPM America, a subsidiary of PPM Holdings. The PPM America profits arose primarily due to a one-off £6 million revaluation of an investment vehicle managed by PPM America. The operating result in the first half of 2004 benefited from two one-off items; a receipt of a legal settlement and an accounting adjustment arising from the adoption of SOP 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long Duration Contracts and for Separate Accounts". These items increased operating profit in the first half of 2004 by £19 million and £8 million respectively. In addition, the US results are translated into pounds sterling at the average exchange rates for the relevant periods. The US dollar to pounds sterling average rates were 1.87 and 1.82 for the periods ended June 30, 2005 and June 30, 2004, respectively. The operating profit has increased by 11% rather than 8% before the impact of the adverse foreign currency translation movements.

**Asian Operations**

Prudential is Europe's leading life insurer in Asia with 24 operations in 12 countries across the region. The following table shows operating profit (based on longer-term investment returns) before amortization of goodwill and tax for the periods indicated. Asian head office costs are included in "Other Income and Expenditure" below.

| | Six Months Ended June 30, 2005 | Six Months Ended June 30, Restated 2004 |
|---|---|---|
| | (In £ Millions) | |
| Operating profit (based on longer-term investment returns) before amortization and impairment of goodwill and tax | **110** | 58 |

Operating profit in the first half of 2005 was £110 million, an increase of £52 million from the first half of 2004. This included a contribution of £34 million from exceptional items, of which the largest is a one-off reserve release due to the introduction of risk based capital regulatory framework in Singapore. The increase also reflected the steady growth in the operating profits from the more established life operations (Singapore, Hong Kong and Malaysia) as well as the Indonesian and Vietnamese life businesses starting to make meaningful contributions.

**Other Income and Expenditure**

Other income and expenditure comprises investment return on centrally retained shareholder funds, interest expense on Group core borrowings and central corporate expenditure relating to the UK and Asian head offices.

| | Six Months Ended June 30, | |
|---|---|---|
| | **2005** | **Restated 2004** |
| | **(In £ Millions)** | |
| Other income and expenditure | **(93** | |