

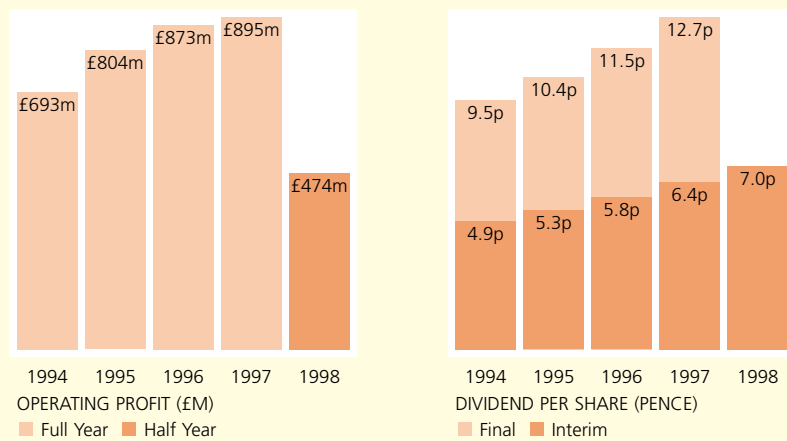


Prudential Corporation plc, Registered office: 142 Holborn Bars, London EC1N 2NH. Telephone 0171 583 1415  
[www.prudentialcorporation.com](http://www.prudentialcorporation.com)

# Prudential Corporation Interim Report 1998



## 1998 Unaudited Interim Results

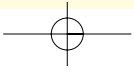
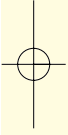


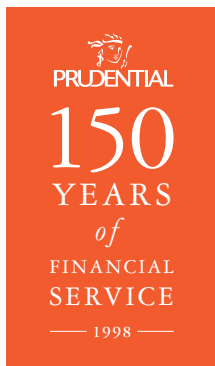
- Operating profit up seven per cent to £474 million
- Dividend up 9.4 per cent to 7.0 pence per share
- Operating earnings per share up 13 per cent to 18.0 pence
- UK IFA weighted sales up 71 per cent boosted by acquisition of Scottish Amicable

Results summary	Half year ended 30 June		Full year 1997 £m
	1998 £m	1997 £m	
Operating profit (including averaged investment gains)			
UK operations	221	197	391
Jackson National Life	197	176	367
Prudential Asia	4	4	11
Australia and New Zealand	6	14	30
Prudential Portfolio Managers	27	18	44
Other income	19	33	52
<b>Total operating profit</b>	<b>474</b>	<b>442</b>	<b>895</b>
Adjustment from averaged to actual investment gains	25	(1)	52
Reclassification of shareholder reserves of Australian operation	–	204	204
Profit on business disposals	–	–	18
<b>Profit before tax (including actual investment gains)</b>	<b>499</b>	<b>645</b>	<b>1,169</b>
Operating earnings per share	18.0p	15.9p	33.3p
Total earnings per share	19.2p	24.1p	43.3p
Dividend per share	7.0p	6.4p	19.1p
Achieved profits basis shareholders' funds	£7.5bn	£7.1bn	£6.9bn
Funds under management	£130bn	£100bn	£119bn

Profit before tax includes actual investment gains and exceptional items. The Company believes that operating profit, which includes averaged investment gains but excludes exceptional items, better reflects the Group's underlying performance. An abridged statutory profit and loss account is set out on page 10. Supplementary achieved profits basis results are shown on pages 12 to 15.

The dividend will be paid as a foreign income dividend (FID) on 26 November 1998 to shareholders on the register at the close of business on 25 September 1998.





Dear Shareholder,

I am pleased to report that in the first six months of 1998 pre-tax operating profit increased by seven per cent to £474 million.

Operating earnings per share are up 13 per cent at 18.0 pence.

Given this performance and our confidence in the future prospects of your business, the Board has decided to increase the interim dividend by 9.4 per cent to 7.0 pence per share. As in 1997, the Board has decided to pay the interim dividend as a foreign income dividend.

Prudential has continued to make real progress in developing its retail financial services and fund management operations around the world. In particular, we have set about vigorously reshaping the structure of our UK operations in order to improve customer focus, management accountability and business performance. We are pleased with our progress to date and the new structure of individual business units and their management teams is now in place. Overseas, Jackson National Life

continues to show strong profit growth and to demonstrate the benefits of its product and distribution channel diversification.

In Asia we have taken advantage of opportunities to strengthen our position in the region.

Earlier this month, Prudential announced its total estimated costs for compensation in Phases I and II of the pensions review currently underway within the UK. As I mentioned in the 1997 Annual Report, this issue has been a setback for us and the effect on our reputation is a matter of great regret. I reiterate my statement that we are determined to seek final resolution of this issue and that customers of Prudential will not suffer from any loss as a result of mis-selling. The total estimated costs of £1.1 billion have been included within the Group's reserves and have been provided from the capital of the long-term fund. Given the strength of the long-term fund, the directors are of the opinion that this will not have an adverse effect on the levels of bonus paid to policyholders or their reasonable

expectations. In the unlikely event of this proving not to be the case, the directors' intention would be to make an appropriate contribution to the long-term fund from shareholder funds. Prudential's strategy is to focus on developing its retail financial services and fund management activities in its chosen markets. The action we are taking around the Group and the restructuring we have initiated within the UK are important steps towards achieving this goal.

Sir Martin Jacomb  
Chairman  
30 July 1998

## Group Chief Executive's Review

During the first six months of 1998, Prudential has continued to pursue its strategy in the United Kingdom, the United States and the Asia Pacific region.

In the UK, our priorities have been to integrate Scottish Amicable, to restructure our UK operations, to implement value based management and to resolve pensions mis-selling. We have made good progress with these tasks. In the US, Jackson National Life is established firmly as one of the major players within its market. In Asia, Prudential acquired a controlling interest in our Malaysian operation and established an asset management company in India.

Our sales performance for the half year shows weighted premiums up five per cent at constant exchange rates and two per cent ahead after exchange rate movements.

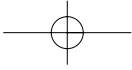
In the UK the key feature is the strong performance of our IFA businesses. Total weighted IFA sales were £227 million, up 71 per cent on prior year boosted by a first time contribution from Scottish Amicable branded products. IFA

business now amounts to over half of our UK sales. Weighted sales of our insurance products through the direct salesforce are in line with last year at £172 million. Sales of investment products are however down following our decision to stop selling regular premium PEPs through this channel.

Overseas Jackson's performance in growing single premiums five per cent to US\$2.5 billion at a time of low US interest rates demonstrates the success of its product diversification strategy. Sales within Asia have, as expected, been impacted by adverse market conditions.

Operating profit on the modified statutory basis is up seven per cent at £474 million. On the achieved profits basis operating profit includes an £84 million charge for the increase in the pensions mis-selling provision, and is down eight per cent at £557 million.

As Prudential enters its 151st year we will continue to explore opportunities for growing our major businesses around the world for the benefit of our shareholders.



## United Kingdom

### *Restructuring*

It is Prudential's intention to remain a major player in the UK retail financial services market.

We recognise that, as the market continues to evolve rapidly, the winners will be those who place customer service and value for shareholders at the heart of both their business strategy and corporate culture.

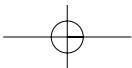
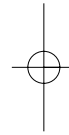
These objectives were fundamental to the review we undertook of our UK operations. This led to the creation of smaller, more focused and accountable business units, charged with enhancing flexibility and responsiveness to the customer and delivering shareholder value. We have been working to develop value based measures and are now introducing these throughout our business units as part of implementing a value based culture. These new business units are led by strong management teams from backgrounds which give Prudential a good blend of internal, external and industry-wide expertise.

John Elbourne, as Chief Executive of Prudential Retail Financial Services, is responsible for four business units, each with its own managing director. These business units are Prudential Retail which is responsible for an integrated direct salesforce distribution channel; Prudential Life and Pensions which manufactures long-term insurance products and services the in force customer base; General Insurance and Prudential Annuities.

It is our intention to move away from a commission led salesforce, to an integrated sales approach using direct channels and the salesforce, with reward driven off business retention and portfolio growth rather than purely business acquisition. We view this aspect as being particularly important as it more closely aligns the interests of the customer with those of the salespeople.

Roy Nicolson is Chief Executive of the Retail IFA business which covers the Scottish Amicable and Prudential brand names including Scottish Amicable International. Mike Harris is Chief Executive of

Prudential Banking, responsible for building on the success the bank has achieved to date and charged with developing new initiatives for the direct market. Collective Investments, which is responsible for PEPs and unit trusts, and Prudential Corporate Pensions now sit alongside the Company's asset management arm, PPM Worldwide, reflecting the investment-led nature and common marketing requirements of these businesses. All three investment-led businesses report to Derek Higgs. Prudential has made significant external appointments to head up three of the new business units: Rodney Baker-Bates has become Managing Director of the Corporate Pensions business having previously been Director of Finance and Information Technology at the BBC; Roger Flynn joins as Managing Director of Prudential Retail having worked at British Airways and Virgin; David Harding becomes Managing Director of Prudential Life and Pensions having previously been Managing



## Group Chief Executive's Review

Director of Charles Schwab Europe (formerly ShareLink).

### *Pensions Review*

Prudential is committed to resolving the complex issues relating to the pensions review and has devoted considerable resources to ensure that customers' interests are safeguarded and there is no such re-occurrence in the future. The Company has now dealt with all of its priority cases in advance of the deadline set by the regulators and has been taken off the Treasury's watch list.

We estimate that our total cost of Phase I and II will be approximately £1.1 billion. This amount has been included within the long-term reserves and has been provided from the capital of the long-term fund, consistent with HM Treasury guidelines.

### *Sales*

Weighted sales through the IFA channel for the first six months of 1998 were up 71 per cent at £227 million. Sales from our Retail IFA business, which comprises Scottish

Amicable and Prudential Retail products totalled £156 million. Scottish Amicable branded sales continue to forge strongly ahead with underlying growth up 43 per cent for single premiums excluding DSS rebates and seven per cent for regular premium business.

Single premium sales of Prudence Bond were up 24 per cent at £613 million.

Other IFA single premium sales also showed strong growth over 1997; Prudential Annuity products were up 18 per cent at £267 million while sales of Prudential Corporate products were 47 per cent ahead at £231 million. Sales of Prudential Corporate regular premium products through IFAs were down a third at £21 million. Weighted insurance product sales through the direct salesforce of £172 million were in line with last year. This is in spite of the 20 per cent reduction in the size of the salesforce due to the moratorium on recruitment of new salespeople. Investment product sales were down following the decision to stop sales of regular premium PEPs due

to their low profitability.

Prudential Banking continues to make good progress and provides valuable experience of the direct market. Prudential Banking is opening a second call-centre in Derby towards the end of this year, initially creating around 300 jobs.

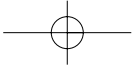
### *Profits*

Total operating profit from our UK operations on the modified statutory basis was £221 million for the half year, 12 per cent ahead of prior year. Within this result profits from long-term business were up 22 per cent at £207 million, reflecting increased funds under management and higher terminal bonus values. General insurance profits totalled £23 million, some £14 million down on prior year, due mostly to increased weather related claims.

### **United States**

The first half of 1998 has seen difficult conditions for sales of traditional fixed annuity products, with low US interest rates and high equity markets. Despite these





conditions, Jackson National Life's first half single premiums increased by five per cent to US\$2.5 billion, up four per cent in sterling terms. This represents a very creditable performance and once again demonstrates the benefits of Jackson's successful strategy to expand its distribution and product capability. Jackson's operating profit increased 12 per cent in 1998 to £197 million. Variable annuity sales of US\$450 million were 17 per cent ahead of prior year and equity linked index annuity sales were 12 per cent up at US\$238 million. Sales of variable annuities enjoyed a strong second quarter, with marketing initiatives and improved market conditions providing the boost to sales. Guaranteed interest contracts continue to be written to agreed targets and returns, and totalled US\$1.2 billion for the first six months of the year, an increase of over US\$500 million over prior year reflecting increased capacity within Jackson and favourable market conditions. Based on current market conditions and plans,

Jackson's total single premiums for 1998 should be in line with last year. In the first half of 1998 Jackson has made further moves to re-inforce its product and distribution capability. These have included the launch of an operation in New York and of its own broker dealer, National Planning Corporation. Jackson has also acquired the small broker dealer SII Investments Inc. With total assets of US\$37 billion and 1997 full year premium income of US\$5.4 billion, Jackson is now the 14th largest life company by revenue premiums and the second largest writer of fixed annuity products in the US.

#### Asia

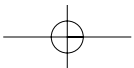
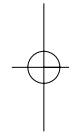
Prudential's Asian operations are an integral part of the Group's strategy and we continue to look for opportunities to strengthen our position in the region. We have acquired a controlling interest in our Malaysian operation, now renamed Prudential Assurance Malaysia Berhad. Prudential is also proud to have re-entered the Indian

financial services sector in partnership with the leading local company ICICI and, in response to the Indian government's ambition to improve the personal savings ratio, we have already launched successfully three open-ended mutual funds.

As expected, the economic uncertainty in Asia has disrupted new business flows in the region. The first six months of 1998 saw regular premiums fall £23 million to £35 million, while single premiums were down £84 million at £38 million. The reduction in single premiums is in the main due to 1997's exceptional results from the further liberalisation of Singapore's Central Provident Fund. The fall in regular premiums similarly reflects the decline in CPF sales, while the fall in currency values accounts for a further £10 million.

#### Australia and New Zealand

Single premium sales for Australia and New Zealand rose by 35 per cent to A\$495 million due to improved sales of the retail Master



## Group Chief Executive's Review

Fund product launched during last year, and competitively priced immediate annuities. Regular premiums were down slightly to A\$62 million. After the impact of the stronger pound, single premiums of £194 million were 12 per cent ahead of 1997 and regular premiums of £24 million were down by 23 per cent. Local management continues to work to improve the competitive position of Prudential within the region. A new chief executive, Terry Jay, was appointed to manage Prudential's businesses in Australia and New Zealand in early 1998 and the fund management and insurance operations have been integrated to better face the local market. New Zealand continues to see the benefits of the NZI Life acquisition. The operations have been successfully integrated and the original acquisition expectations exceeded. Prudential remains the market leader for regular premiums in New Zealand with a market share of over 17 per cent at 31 March 1998.

### Fund Management

As a leading institutional investor, PPM Worldwide manages approximately £130 billion of funds and controls around four per cent of UK shares. PPM's strategy is to deliver consistent investment performance around the world through its value based investment methodologies. The performance of the with-profits life fund ranks high in its peer group; our investment performance is also competitive against the industry average for UK pension funds. Within the UK, our approach has enabled PPM to secure seven new segregated fund clients during the first six months of 1998. PPM has also won 20 new pooled fund clients and total new business for the first six months is in excess of £1 billion compared with £410 million for the whole of 1997. PPM was also voted 'Best Fund Manager' by the UK's top 350 finance directors, in the Extel Survey of Investment Analysts. Profit from PPM rose by 50 per cent in the first half of 1998 to £27 million due to increased funds

under management and a good performance from our venture capital operation.

### Shareholders' Capital and Reserves

The Group remains in a strong financial position and at 30 June achieved profits basis shareholders' funds were £7.5 billion, up eight per cent on 31 December 1997. At the same time, cash and short-term investments at the holding company level totalled £1.6 billion. Discussions with HM Treasury regarding the 'unattributed assets' within the UK with-profits fund are continuing. These discussions are both long and complex and we will advise shareholders of the outcome as soon as the discussions are finalised.

### Millennium

All business areas within the Group have for some time had programmes to identify and address the risks from the Millennium issue. The Millennium issue is the potential problem arising from

computer software developed to recognise only two digits rather than four and, if not corrected, being unable to distinguish the year 2000 from the year 1900. Each business area has prepared detailed plans to ensure that its computer systems are compliant in good time and work is monitored centrally on a regular basis and progress is reported back to the Corporation's main board. In addition, external consultants have been hired to verify independently that the detailed testing procedures that form the main part of the project have been completed successfully and are on schedule. It is difficult to distinguish between discrete Millennium expenditure, general systems enhancement and development spend. The project began some years ago and it is estimated that the Group's total incremental cost relating solely to Millennium will be in the range of £130 million to £170 million.

### Conclusion

1998 has so far been an important year for Prudential. Despite difficult conditions in some of our markets, profit and sales growth have been maintained. Our management priorities are unaltered and we have continued to pursue our strategy of developing our retail management financial services and fund management activities in our chosen markets around the world. In the UK, our priorities have been the integration of Scottish Amicable, restructuring our UK business, the implementation of value based management and dealing with the pensions review. Overseas we have continued to expand in Asia and the US.

We shall pursue our strategic aims and work to improve the long-term value of Prudential for you, our shareholders.



Sir Peter Davis  
Group Chief Executive  
30 July 1998

## Segmental Analysis

Results Analysis by Business Area	Half year ended 30 June						Operating profit (including averaged investment gains)	
	Long-term new business				Gross premiums written		1998 £m	1997 £m
	Single		Regular		1998 £m	1997 £m	1998 £m	1997 £m
<b>UK operations</b>								
Long-term business								
Pensions	579	429	120	108	1,340	939	78	71
Life and annuity	1,554	1,251	62	29	2,201	1,654	131	108
Investment products	89	141	9	45	98	211	(2)	(9)
<b>Total long-term business</b>	<b>2,222</b>	<b>1,821</b>	<b>191</b>	<b>182</b>	<b>3,639</b>	<b>2,804</b>	<b>207</b>	<b>170</b>
General business	-	-	-	-	159	156	23	37
Banking	-	-	-	-	-	-	(9)	(10)
<b>Total UK operations</b>	<b>2,222</b>	<b>1,821</b>	<b>191</b>	<b>182</b>	<b>3,798</b>	<b>2,960</b>	<b>221</b>	<b>197</b>
<b>Jackson National Life</b>	<b>1,507</b>	<b>1,455</b>	<b>14</b>	<b>19</b>	<b>1,687</b>	<b>1,673</b>	<b>197</b>	<b>176</b>
<b>Prudential Asia</b>								
Long-term business	38	122	35	58	214	314	8	10
Development expenses	-	-	-	-	-	-	(4)	(6)
<b>Total Prudential Asia</b>	<b>38</b>	<b>122</b>	<b>35</b>	<b>58</b>	<b>214</b>	<b>314</b>	<b>4</b>	<b>4</b>
<b>Australia and New Zealand</b>	<b>194</b>	<b>173</b>	<b>24</b>	<b>31</b>	<b>285</b>	<b>279</b>	<b>6</b>	<b>14</b>
<b>Prudential Portfolio Managers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>18</b>
<b>Other income</b>								
Shareholders' investment return	-	-	-	-	-	-	87	79
Interest payable	-	-	-	-	-	-	(49)	(33)
Corporate expenditure	-	-	-	-	-	-	(19)	(13)
<b>Total other income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19</b>	<b>33</b>
<b>Total operating profit</b>	<b>3,961</b>	<b>3,571</b>	<b>264</b>	<b>290</b>	<b>5,984</b>	<b>5,226</b>	<b>474</b>	<b>442</b>
<b>Results Analysis by Activity</b>								
Long-term business	3,961	3,571	264	290	5,825	5,070	414	364
General business	-	-	-	-	159	156	23	37
Banking	-	-	-	-	-	-	(9)	(10)
Other activities	-	-	-	-	-	-	46	51
<b>Total operating profit</b>	<b>3,961</b>	<b>3,571</b>	<b>264</b>	<b>290</b>	<b>5,984</b>	<b>5,226</b>	<b>474</b>	<b>442</b>

## Holding Company Funds Statement

	Half year ended 30 June		Full year
	1998 £m	1997 £m	1997 £m
Operating profit after tax	350	307	644
Dividends	(136)	(124)	(370)
Reinvested in businesses	(141)	(126)	(224)
Funds available to holding company	73	57	50
New investment in businesses	(177)	(111)	(654)
Disposal of businesses	-	-	47
New share capital subscribed	26	35	44
Timing differences and other items	(83)	19	(68)
<b>Holding company net cash movement</b>	<b>(161)</b>	<b>0</b>	<b>(581)</b>

## Movement in Net Cash Balances

	Half year ended 30 June		Full year
	1998 £m	1997 £m	1997 £m
Holding company cash less shareholders' borrowings at beginning of period	405	1,149	1,149
Holding company net cash movement (as above)	(161)	0	(581)
Exchange translation gains (losses)	8	(6)	(11)
Jackson National Life surplus note	-	(150)	(152)
<b>Holding company cash less shareholders' borrowings at end of period</b>	<b>252</b>	<b>993</b>	<b>405</b>
Represented by:			
Holding company cash and short-term investments	1,622	1,708	1,559
Borrowings – Holding company	(1,220)	(565)	(1,002)
– Jackson National Life	(150)	(150)	(152)
	<b>252</b>	<b>993</b>	<b>405</b>

## Movement in Shareholders' Capital and Reserves

	Half year ended 30 June		Full year
	1998 £m	1997 £m	1997 £m
Profit for the period	372	465	837
Exchange movements	(28)	5	(43)
Goodwill charged on acquisitions	-	(21)	(442)
New share capital subscribed	26	35	44
Dividends	(136)	(124)	(370)
Net increase in shareholders' capital and reserves	234	360	26
Shareholders' capital and reserves at beginning of period	2,783	2,757	2,757
<b>Shareholders' capital and reserves at end of period</b>	<b>3,017</b>	<b>3,117</b>	<b>2,783</b>

## Abridged Statutory Profit and Loss Account

(including actual investment gains)

Results Summary	Half year ended 30 June		Full year 1997 £m
	1998 £m	1997 £m	
General business technical result	22	48	68
Long-term business technical result	421	345	791
Banking	(9)	(10)	(22)
Other non-technical result	65	58	110
Reclassification of shareholder reserves of Australian operation	-	204	204
Profit on business disposals	-	-	18
Profit on ordinary activities before tax (including actual investment gains)	499	645	1,169
Tax	(127)	(180)	(332)
Profit for the period	372	465	837
Dividends	(136)	(124)	(370)
Retained profit for the period	236	341	467

### Reconciliation of operating profit to profit on ordinary activities

Operating profit before tax (including averaged investment gains)	474	442	895
Adjustment from averaged investment gains to actual investment gains	25	(1)	52
Reclassification of shareholder reserves of Australian operation	-	204	204
Profit on business disposals	-	-	18
Profit on ordinary activities before tax	499	645	1,169

### Earnings per share

Operating profit after tax	£350m	£307m	£644m
Operating earnings per share	18.0p	15.9p	33.3p
Total profit after tax	£372m	£465m	£837m
Total earnings per share	19.2p	24.1p	43.3p
Average number of shares	1,941m	1,927m	1,932m

### Dividend per share

7.0p	6.4p	19.1p
------	------	-------

## Notes on the Unaudited Results

- (a) The results for the 1998 and 1997 half years are unaudited. The results for the 1997 full year have been derived from the Company's statutory accounts. The auditors have reported on the 1997 statutory accounts and the accounts have been delivered to the Registrar of Companies. The auditors' report was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.
- (b) The results for the 1998 half year have been prepared using the same accounting policies as were used in the 1997 statutory accounts.
- (c) The long-term business profit of the UK operations has been calculated assuming the shareholder proportion of The Prudential Assurance Company Limited remains at 10%. Provision has been made for possible reductions in bonus rates arising from the fund valuation at 31 December 1998.
- (d) The results exclude figures relating to Prudential Vita which was sold in November 1997.
- (e) Operating profit includes realised and unrealised investment gains of general insurance and shareholders' funds (including shareholder financed long-term business) on a five year averaged basis.
- (f) The statutory tax charge comprised £65m (1997 £69m) UK tax and £62m (1997 £111m) overseas tax.
- (g) The UK operations general business operating result for the 1998 and 1997 half years comprised:

	Gross premiums written		Underwriting result		Investment return		Operating profit (including averaged investment gains)	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Home	140	136	7	13	14	17	21	30
Motor	19	20	(2)	2	4	5	2	7
Total	159	156	5	15	18	22	23	37

- (h) Consistent with the recommendations included within the exposure draft of the proposed Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in January 1998, it is intended that the method for recognition of investment return be altered in the financial statements for the year ending 31 December 1998. Under the new method, investment returns credited to operating results, for investments attributable to shareholders, in most cases will be determined using the longer-term rate of return. For UK equities, which represent the most significant element of the equity content of the relevant investments, the longer-term return (net of Advance Corporation Tax credits) has been taken to be 9.2%. The effect of the change is as follows:

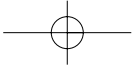
	Half year ended 30 June		Full year
	1998 £m	1997 £m	1997 £m
Total operating profit before tax			
Before change	474	442	895
After change	458	428	864
Total operating profit after tax			
Before change	350	307	644
After change	336	298	618
Operating earnings per share			
Before change	18.0p	15.9p	33.3p
After change	17.3p	15.5p	32.0p

The change of method has no effect on total profit before or after tax.

## Supplementary Achieved Profits Basis Results

Analysis by Business Area	Half year ended 30 June		Full year 1997 £m
	1998 £m	1997 £m	
Operating profit (including investment returns based on long-term rates of investment return for long-term business)			
<b>UK operations</b>			
Long-term business			
New business	131	119	208
Business in force	127	166	362
Total long-term business	258	285	570
General business	23	37	51
Banking	(9)	(10)	(22)
<b>Total UK operations</b>	<b>272</b>	<b>312</b>	<b>599</b>
<b>Jackson National Life</b>			
New business	63	70	140
Business in force	132	121	250
<b>Total Jackson National Life</b>	<b>195</b>	<b>191</b>	<b>390</b>
<b>Prudential Asia</b>			
Long-term business			
New business	16	30	62
Business in force	17	14	29
Total long-term business	33	44	91
Development expenses	(4)	(6)	(9)
<b>Total Prudential Asia</b>	<b>29</b>	<b>38</b>	<b>82</b>
<b>Australia and New Zealand</b>			
New business	4	4	8
Business in force	4	10	23
<b>Total Australia and New Zealand</b>	<b>8</b>	<b>14</b>	<b>31</b>
<b>Prudential Portfolio Managers</b>	<b>27</b>	<b>18</b>	<b>44</b>
<b>Other income</b>			
Shareholders' investment return	94	79	159
Interest payable	(49)	(33)	(75)
Corporate expenditure	(19)	(13)	(32)
<b>Total other income</b>	<b>26</b>	<b>33</b>	<b>52</b>
<b>Total operating profit</b>	<b>557</b>	<b>606</b>	<b>1,198</b>





On the achieved profits basis of reporting, Group operating profit before tax was £557 million in the first half of 1998. Of this amount, the contribution from long-term businesses was £490 million. Excluding the effects of charges for pensions mis-selling in the UK, the underlying long-term business result increased by three per cent. Profits from new business were down four per cent at £214 million but underlying profits from business in force increased by eight per cent to £360 million.

#### UK Operations

Profits from new business for the Group's UK operations grew by ten per cent to £131 million, boosted by a first time contribution from Scottish Amicable. Profits from business in force fell by £39 million to £127 million. The reduction reflects the effect of increasing the cost of pensions mis-selling from £450 million to £1,100 million, which has been charged to reserves within the PAC with-profits life fund. On the achieved profits basis, shareholders are attributed with a ten per cent interest in movements on these reserves. At the pre-tax level,

there was a charge of £84 million (1997 £27 million) for the shareholders' element of the increase in the provision. Excluding these charges, underlying profits from business in force increased by nine per cent.

#### Jackson National Life

At Jackson, growth in operating profit was two per cent. New business profits of £63 million were down ten per cent. This reflects flat year on year weighted sales combined with a change in sales mix away from fixed annuity products towards Guaranteed Interest Contracts. The contribution from business in force increased by nine per cent to £132 million.

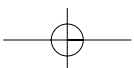
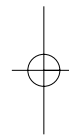
#### Other Operations

As expected, given very difficult trading conditions, profits from new business in Prudential Asia fell broadly in line with sales to £16 million. Results from the Group's operations in Australia and New Zealand were also subdued with foreign currency movements and adverse experience reducing the 1998 contribution to £8 million.

#### Shareholders' Funds

Total achieved profits basis shareholders' funds were approaching £7.5 billion at 30 June 1998 (31 December 1997 £6.9 billion). The increase of eight per cent reflects retention of profits within the business and the impact of strong investment markets.

Jonathan Bloomer  
Group Finance Director  
30 July 1998



## Supplementary Achieved Profits Basis Results

Results Summary	Half year ended 30 June		Full year 1997 £m
	1998 £m	1997 £m	
Operating profit (including investment returns based on long-term rates of investment return for long-term business)			
Long-term business			
New business	214	223	418
Business in force	276	305	655
Total long-term business	490	528	1,073
General business	23	37	51
Banking	(9)	(10)	(22)
Other activities	53	51	96
Total operating profit	557	606	1,198
Adjustment from long-term to actual investment gains	444	342	507
Loss from changes to UK projected long-term rate of investment return and risk discount rate	-	(184)	(184)
Reclassification of shareholder reserves of Australian operation	-	187	187
Profit on ordinary activities before tax (including actual investment gains)	1,001	951	1,708
Tax	(299)	(293)	(519)
Profit for the period	702	658	1,189
Dividends	(136)	(124)	(370)
Retained profit for the period	566	534	819

### Earnings per Share

Operating profit after tax	£391m	£399m	£837m
Operating earnings per share	20.1p	20.7p	43.3p
Total profit after tax	£702m	£658m	£1,189m
Total earnings per share	36.2p	34.1p	61.5p
Average number of shares	1,941m	1,927m	1,932m

### Movement in Shareholders' Capital and Reserves

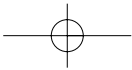
Profit for the period	702	658	1,189
Exchange movements	(40)	19	(64)
Goodwill charged on acquisitions	-	(21)	(460)
New share capital subscribed	26	35	44
Dividends	(136)	(124)	(370)
Net increase in shareholders' capital and reserves	552	567	339
Shareholders' capital and reserves at beginning of period	6,912	6,573	6,573
Shareholders' capital and reserves at end of period	7,464	7,140	6,912

Summarised Consolidated Balance Sheet	30 June		31
	1998 £m	1997 £m	December 1997 £m
<b>Net Assets</b>			
Investments (non-linked):			
Equities	53,342	36,409	45,999
Fixed income securities	32,200	27,343	31,922
Properties	7,130	4,854	6,313
Deposits with credit institutions	3,519	2,009	3,420
Other investments*	1,867	1,393	1,701
Total investments	98,058	72,008	89,355
Assets held to cover linked liabilities	10,889	7,170	9,911
Holding company cash less shareholders' borrowings:			
Holding company cash and short-term investments	1,622	1,708	1,559
Borrowings – Holding company	(1,220)	(565)	(1,002)
– Jackson National Life	(150)	(150)	(152)
	252	993	405
Deferred acquisition costs	2,543	2,032	2,499
Dividend payable	(136)	(124)	(246)
Other net (liabilities) assets	(128)	295	229
	111,478	82,374	102,153
Long-term business technical provisions (net of reinsurance) and fund for future appropriations:			
UK operations	(85,169)	(56,273)	(76,451)
Jackson National Life	(18,819)	(16,855)	(18,032)
Prudential Asia	(1,203)	(1,727)	(1,310)
Australia and New Zealand	(2,766)	(3,687)	(3,061)
Discontinued operations	–	(191)	–
	(107,957)	(78,733)	(98,854)
Less: shareholders' accrued interest in the long-term business	4,447	4,023	4,129
Long-term business technical provisions (net of reinsurance) and fund for future appropriations, less shareholders' accrued interest	(103,510)	(74,710)	(94,725)
General business technical provisions	(504)	(524)	(516)
<b>Total net assets</b>	<b>7,464</b>	<b>7,140</b>	<b>6,912</b>
<b>Shareholders' Capital and Reserves</b>			
Share capital	97	97	97
Share premium	183	149	157
Statutory basis retained profit	2,737	2,871	2,529
Additional reserves on the achieved profits basis	4,447	4,023	4,129
<b>Total shareholders' capital and reserves</b>	<b>7,464</b>	<b>7,140</b>	<b>6,912</b>
Comprising:			
UK operations	4,049	3,392	3,700
Jackson National Life	1,939	1,681	1,846
Prudential Asia	297	280	260
Australia and New Zealand	258	343	269
Other operations (including net shareholders' cash)	921	1,444	837
	7,464	7,140	6,912

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

#### Notes on the supplementary achieved profits basis results

- (a) The results have been prepared in accordance with the draft "Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business" issued by the Association of British Insurers and are provided as a supplement to the statutory basis results contained in this report.
- (b) The results for the 1998 and 1997 half years are unaudited. The results for the 1997 full year have been derived from the achieved profits basis results supplement to the Company's statutory accounts. The supplement included an unqualified report from the auditors.
- (c) The results for the 1998 half year have been prepared using the same principal assumptions as were used for the 1997 full year.



## Review Report by the Auditors

to the Board of Directors of Prudential Corporation plc

We have reviewed the interim financial information for the six months ended 30 June 1998 set out on pages 8 to 11 and pages 14 and 15 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review. Our review was carried out having regard to the Bulletin, Review of Interim Financial Information, issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently

applied, and making enquiries of Group management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information. On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those

adopted by Prudential Corporation plc in its financial statements for the year ended 31 December 1997; and

- we are not aware of any material modifications that should be made to the interim financial information as presented.

PricewaterhouseCoopers  
Chartered Accountants  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY  
30 July 1998

## Shareholder Information

### Registrars

A number of technical innovations over the past few years, but particularly the introduction of electronic trading and share registration in the form of CREST, have caused us to review the longer term practicability of continuing to operate our own share registration arrangements.

As a result, Lloyds Bank Registrars became the Company's Registrars with effect from 13 July 1998. Their address is: Lloyds Bank Registrars, The Causeway, Worthing, West Sussex, BN99 6DA.

Telephone 0870-6000190.

### Financial Calendar

Payment of 1998 interim dividend	26 November 1998
Announcement of 1998 full year results	24 February 1999
Annual General Meeting	6 May 1999
Payment of 1998 final dividend	26 May 1999
Announcement of 1999 interim results	29 July 1999
Payment of 1999 interim dividend	25 November 1999

