PRUDENTIAL PLC
Form 6-K
January 30, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Commission File Number: 1-15040

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of January, 2003

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales
(Jurisdiction of Incorporation)

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 ý Form 40-F o

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

Indicate by check mark if 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 o No ý

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

Enclosures:

Prudential plc Half Year 2002 UK GAAP Results Reconciliation to US GAAP Results

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SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. This data is derived from Prudential's consolidated financial statements prepared in accordance with UK GAAP under which insurance business is accounted for on the modified statutory basis (MSB). These accounting principles differ in certain significant respects from US GAAP. The unaudited consolidated interim financial statements included elsewhere in this document include a reconciliation of the differences between UK GAAP and US GAAP that are significant to the financial statements. This table is only a summary and you should read it in conjunction with Prudential's consolidated interim financial statements and the related notes included elsewhere in this document.

The profit and loss account and balance sheet data presented below have been derived from Prudential's consolidated financial statements.

	Six Months Ended June 30,		
	2002[1]	2002	2001
	(In $ Millions)	(In £ Millions)	
Profit and loss account data UK GAAP basis			
Gross premiums from continuing operations including acquisitions:			
Long-term business	12,697	8,326	7,844
Gross premiums from discontinued operations:			
General business	282	185	197
Reinsurance and change in unearned premiums	(343)	(225)	(97)
Total earned premiums, net of reinsurance	12,636	8,286	7,944
Investment returns	(1,319)	(865)	(477)
Operating profit before amortization of goodwill and tax[2]			

	Six Months Ended June 30,		
Continuing operations:			
UK operations	381	250	185
US operations	229	150	220
Asian operations	8	5	12
European operations	(3)	(2)	(9)
Group activities	(131)	(86)	(68)
UK restructuring			(13)
Total continuing operations	484	317	327
Discontinued operations[3]			35
Operating profit before amortization of goodwill and tax[4]	484	317	362
Short term fluctuations in investment returns[5]	(232)	(152)	(105)
Amortization of goodwill	(75)	(49)	(47)
Merger break fee, net of related expenses[6]			338
Profit on sale of UK personal lines property and casualty insurance business	541	355	
Total profit on ordinary activities before tax	718	471	548
Profit after tax:			
Operating profit (including post-tax longer term investment returns)	346	227	258
Profit for the period (including post-tax actual investment returns)	644	422	384

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Statement of income and comprehensive income data US GAAP basis			
Insurance policy revenues	3,082	2,021	2,376
Investment results	(264)	(173)	493
Non-operating income:			
Merger break fee, net of related expenses			338
Other income	555	364	341
Total revenue	3,373	2,212	3,548
Net (loss) income from continuing operations (after minority interests)	(418)	(274)	117
Net income from discontinued operations including profit on sale	453	297	11
Cumulative effect of changes in accounting principles			(139)
Total net income (loss)	35	23	(11)
Total comprehensive (loss) income	(12)	(8)	302

	Six Months Ended June 30,		Year Ended December 31,
	2002[1]	**2002**	**2001**
	(In $ Millions)	**(In £ Millions)**	
Balance sheet data UK GAAP basis			

	Six Months Ended June 30,		Year Ended December 31,
Total assets	239,161	156,827	156,769
Long-term business provision	153,320	100,538	98,511
Technical provision for linked liabilities	26,248	17,212	17,783
Debenture loans	3,552	2,329	2,244
Total shareholders' funds	6,265	4,108	3,950
Balance sheet data US GAAP basis			
Total assets	237,873	155,982	155,668
Policyholder benefit liabilities	132,277	86,739	84,190
Separate account liabilities	43,275	28,377	29,729
Total shareholders' equity	8,595	5,636	5,964
Other data			
Long-term business (including investment products)			
Insurance products new business premiums:			
Single premiums sales	9,305	6,102	10,723
New regular premiums sales(7)	482	316	693
	9,787	6,418	11,416
Investment products	11,116	7,289	10,036
Total	20,903	13,707	21,452
Funds under management	242,475	159,000	163,000

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	Six Months Ended June 30,		
	2002(1)	2002	2001
Other data			
Basic earnings per share:			
Based on operating profit from continuing operations before amortization of goodwill and before tax on a UK GAAP basis	24.4¢	16.0p	18.3p
Based on operating profit before amortization of goodwill and after tax and minority interest on a UK GAAP basis	17.4¢	11.4p	13.1p
Based on total profit for the financial year after tax on a UK GAAP basis	32.4¢	21.2p	19.4p
Net earnings (loss) per share on a US GAAP basis	1.8¢	1.2p	(0.6)p
Diluted earnings per share UK GAAP basis	32.4¢	21.2p	19.4p
Diluted earnings (loss) per share US GAAP basis	1.8¢	1.2p	(0.6)p
On a pro forma US GAAP basis(8):			
Basic earnings per share	1.8¢	1.2p	2.7p
Diluted earnings per share	1.8¢	1.2p	2.7p
Dividend per share(9)	13.6¢	8.9p	8.7p
Equivalent cents per share(9)(10)		13.8¢	12.4¢
Market price at end of period	$9.15	600.0p	861.0p
Share capital (in millions)	$152	£100	£100
Number of shares outstanding (in millions)		1,997	1,991
Average number of shares (in millions)		1,986	1,976

(1) Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.525 per £1.00 (the noon buying rate in New York City on June 28, 2002).

(2) Investment returns credited to operating profit for investments attributable to shareholders are based on longer term investment returns. For the purposes of determining longer term investment returns, Jackson National Life averages realized investment gains and losses

over five years. Operating profit excludes amortization of goodwill and one-off items.

(3)
Discontinued operations are restated each period in order that continuing operations reflect those operations, which form part of the group as at the most recent period-end date.

(4)
Due to the long-term nature of Prudential's business, the basis of presentation of operating profit may not be comparable with other UK companies.

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

(6)
In 2001 Prudential entered into a merger agreement with American General Corporation. Following the termination of the merger, a break fee of $600 million (£423 million) was paid to Prudential by American General. After deducting directly related expenses of £85 million, a net amount of £338 million was included in Prudential's results.

(7)
New regular business sales are reported above 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.

(8)
On a pro forma US GAAP basis consistent with the cessation of goodwill amortization under FAS 142.

(9)
The dividend with respect to any half year ended June 30, is paid in the following November.

(10)
The dividends have been translated into US dollars at the noon buying rate on the date 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 the average noon buying rate on the last business day of each month, 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.

Month Ended	Average
June 30, 2001	1.41
December 31, 2001	1.45
June 30, 2002	1.52

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

Month Ended	High	Low
June 30, 2001	1.42	1.37
December 31, 2001	1.46	1.42
June 30, 2002	1.53	1.46

On January 29, 2003, the noon buying rate in New York City was £1.00 = $1.65.

Forward-Looking Statements

This report may contain certain "forward-looking statements". All statements regarding Prudential's future financial condition, results of operations and businesses, strategy, plans and objectives are forward-looking. Statements containing the words "believes", "intends", "expects" and words of similar meaning are also forward-looking. Such statements involve unknown risks, uncertainties and other factors that may cause Prudential's results, performance or achievements or conditions in the markets in which it operates to differ from those expressed or implied in such statements. These factors include regulatory changes, technological development, globalization, levels of spending in major economies, the levels of marketing and promotional expenditures, actions of competitors, employee costs, future exchange and interest rates, changes in tax rates and future business combinations or dispositions, together with other factors.

Prudential may also make or disclose written and/or oral forward-looking statements in reports filed or furnished to the US Securities and Exchange Commission, Prudential's annual report and accounts to shareholders, proxy statements, offering circulars, registration statements and prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Prudential to third parties, including financial analysts. Prudential undertakes no obligation to update any of its forward-looking statements.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with Prudential's unaudited consolidated interim financial statements and the related notes to Prudential's consolidated interim financial statements included elsewhere in this document. Prudential's 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 7 and 8 to Prudential's 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 2002, Prudential continued to provide retail financial products and services and fund management to its customers in the United Kingdom, United States, Asia and Europe. Capital markets fell sharply in the first half of 2002 and Prudential's results for the period reflect the declines in equity markets around the world and the level of corporate defaults in the bond markets. No new accounting standards affecting Prudential's UK GAAP consolidated financial statements were issued in the first half of 2002.

UK GAAP Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's unaudited consolidated interim financial statements, which have been prepared in accordance with UK GAAP. The preparation of these financial statements requires Prudential to make estimates and judgments 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 the circumstances. These estimates form the basis for making judgments 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 judgments 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 described below.

Long-term Business Provision

At June 30, 2002, the long-term business provision represented 64% of Prudential's total liabilities. These liabilities predominantly relate to medium to long-term savings products with life cover attached, and also include whole-life products and pure protection (term) products. These liabilities are estimated using actuarial methods based on assumptions relating to premiums, product guarantees, interest rates, investment returns, expenses, mortality and surrenders. If actual experience differs from these assumptions, then the value of the liabilities would need to be adjusted.

With-profits Funds

The excess of assets over liabilities of the Group's long-term with-profits funds are retained within the fund for future appropriations and excluded from equity. Similarly, excesses and deficits of net income over the UK basis surplus for distribution to policyholders and shareholders are transferred to, or from, the fund for future appropriations.

Fair Value of Assets

Equity securities, debt and other fixed income securities, except for those held by Jackson National Life (which are carried at amortized cost), are carried at fair value with unrealized gains and losses being reflected in the profit and loss account. Fair value is based on market prices for listed securities and on quotations provided by external fund managers, brokers, independent pricing services or values determined by management for unlisted securities.

Investments in real estate are carried at estimated fair value with changes in the fair value being recognized in the profit and loss account. Properties are valued annually either by the group's qualified surveyors or professional external valuers.

Bonus Rates

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 boards of directors of the subsidiary companies with with-profit operations determine, with the advice of their appointed actuary, the amount of annual and terminal bonuses to be declared each year on each group of contracts.

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 Jackson National Life. These securities are carried in the balance sheet at amortized cost. For debt and other fixed interest securities held by Jackson National Life, 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 dimunitions, are recognized in income on the date of sale as determined on a specific identification basis for Jackson National Life and on an average cost basis elsewhere.

Deferred Acquisition Costs

As is common with other insurers, Prudential incurs significant costs in connection with acquiring new insurance business. These costs, which vary with, and are primarily related to, the production of new business, 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. Management makes assumptions 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 is 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, including principally Jackson National Life. For with-profits funds, the accounting policy for acquisition costs has no direct impact on profit due to the aforementioned treatment of the excess of assets over liabilities.

Overview of Consolidated Results

The following table shows Prudential's consolidated total profit on ordinary activities for the periods indicated.

	Six Months Ended June 30,

	Six Months Ended June 30, 2002	2001
	(In £ Millions)	
Operating profit before amortization of goodwill and tax (based on longer term investment returns)		
Continuing operations:		
UK operations	**250**	185
US operations	**150**	220
Asian operations	**5**	12
European operations	**(2)**	(9)
Group activities	**(86)**	(68)
UK restructuring		(13)
Total continuing operations	**317**	327
Discontinued operations		
UK personal lines property and casualty insurance business		35
Operating profit before amortization of goodwill and tax (based on longer term investment returns)	**317**	362
Amortization of goodwill	**(49)**	(47)
Short-term fluctuations in investment returns	**(152)**	(105)
Merger break fee, net of related expenses		338
Profit on sale of UK personal lines property and casualty insurance business	**355**	
Total profit on ordinary activities before tax	**471**	548
Tax on profit on ordinary activities		
Tax on operating profit before amortization of goodwill	**(90)**	(114)
Tax on items excluded from operating profit before amortization of goodwill	**40**	(69)
Total tax on profit on ordinary activities	**(50)**	(183)
Profit on ordinary activities after tax before minority interests	**421**	365
Minority interests	**1**	19
Profit on ordinary activities after tax and minority interests	**422**	384

Profit Before Tax

Total profit on ordinary activities before tax in the first half of 2002 was £471 million compared with £548 million in the first half of 2001. This reflects a £70 million decrease in profits from Jackson National Life in the United States, a £47 million increase in negative short-term fluctuations in investment returns primarily due to defaults and impairments on bonds and the absence of a profit of £35 million in 2001 recorded by the UK personal lines property and casualty insurance business, which was sold on January 4, 2002. These decreases were partially offset by a £65 million increase in profits from continuing UK operations, including principally Egg. In addition the profit in the first half of 2002 included £355 million on the sale of the UK personal lines property and casualty insurance business and the profit in the first half of 2001 included £338 million, net of related expenses, in respect of the merger break fee.

Profit After Tax

Profit after tax before minority interests in the first half of 2002 was £421 million compared with £365 million in the first half of 2001. The increase reflects the movement in profit before tax in those periods and effective tax rates of 10.6% in the first half of 2002 and 33.4% in the first half of 2001. The reduction in the effective tax rate in the first half of 2002 is mainly due to the tax payable on the profit on sale of UK personal lines property and casualty insurance business being relieved against capital losses available to the Group that were acquired in 2001.

United Kingdom

Prudential's UK business is structured into three business units, each focussing on its respective target customer markets. Prudential's UK business units are UK Insurance Operations, M&G and Egg. Egg plc is a quoted UK company, 79% owned by the Group.

The following table shows operating profit before amortization of goodwill, tax and restructuring, for the periods indicated.

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Continuing operations:		
UK Insurance Operations long-term business	**215**	208
M&G	**34**	40
Egg	**1**	(63)
Total continuing operations	**250**	185
Discontinued operations:		
Personal lines property and casualty insurance business		35
Total operating profit before amortization of goodwill, tax and restructuring	**250**	220

Continuing Operations

Operating profit from UK Insurance Operations long-term business in the first half of 2002 was £215 million, which was slightly higher than the £208 million recorded in the first half of 2001, due to a higher amount of bonuses declared to policy holders.

M&G's operating profit of £34 million in the first half of 2002 was £6 million lower than in the first half of 2001 due to reduced fee income resulting from the significant fall in investment markets.

Egg recorded an operating profit of £1 million in the first half of 2002 compared to a loss of £63 million in the first half of 2001. This was due to higher operating income and interest receivable of £154 million, compared to £76 million in the first half of 2001, offset by expenses of £153 million, compared to £139 million in the first half of 2001.

Discontinued Operations

In November 2001, Prudential agreed to transfer its personal lines property and casualty insurance business to Winterthur Insurance and its UK subsidiary, the Churchill Group. The sale was completed on January 4, 2002, for consideration of £353 million. After allowing for the costs of the sale and other related items, the profit on sale recorded in the 2002 results was £355 million before tax. In the first half of 2001, this business recorded an operating profit of £35 million.

United States

Prudential's principal US operations are its US insurance company, Jackson National Life, which includes Jackson Federal Bank, and PPM America, its US internal and institutional investment manager.

The following table shows operating profit before amortization of goodwill and tax for the periods indicated.

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Jackson National Life	**140**	209
PPM America	**10**	11
Total operating profit before amortization of goodwill and tax	**150**	220

Operating profit of £150 million in the first half of 2002 was £70 million lower than in the first half of 2001. The decline principally reflects a £63 million charge in the first half of 2002 in respect of average realized losses on bonds (which are taken through operating profit on a five-year averaging basis) up from £7 million in the first half of 2001.

The US results are translated into pounds sterling at the average exchange rates for the relevant periods. As the US dollar to pounds sterling rates were 1.44 for both the periods indicated, exchange rate fluctuations have had no impact on the translation of results of Prudential's US operations into pounds sterling.

Asian Operations

Prudential is Europe's leading life insurer in Asia with operations in 12 countries across the region. Only 6 years ago, Prudential's presence in Asia was confined to Singapore, Hong Kong and Malaysia.

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Asian operations operating profit before amortization of goodwill and tax	**5**	12

Operating profit from Prudential's Asian operations in the first half of 2002 was £5 million, a decrease of £7 million from the first half of 2001. The decrease primarily reflects development and rebranding costs associated with PCA Life of Japan.

European Operations

The Prudential Europe business segment was formed in 1999 to implement Prudential's strategy in Continental Europe, including operations in France and Germany.

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(In £ Millions)	
European operations operating loss before amortization of goodwill and tax	**(2)**	(9)

Operating loss from Prudential's European operations was £2 million in the first half of 2002 compared to £9 million in the first half of 2001. The reduced loss in the first half of 2002 reflects lower development expenses compared to the first half of 2001.

Group Activities

Operating results from Group Activities represent the longer-term investment return on centrally retained shareholder capital and funds, interest expense on Group borrowings and central corporate expenditure.

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(In £ Millions)	
Group activities operating loss before amortization of goodwill and tax	**(86)**	(68)

Operating loss for group activities increased to £86 million in the first half of 2002 from £68 million in the first half of 2001, principally due to a £12 million decrease in investment return and a £7 million increase in interest expense.

UK Restructuring

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(In £ Millions)	
UK restructuring		(13)

In February 2001, Prudential announced the restructuring of the direct sales force and customer service channels of its UK Insurance Operations. The cost of this restructuring was £110 million, of which £13 million was borne by shareholders' funds. Details of this restructuring program are set out in Note 4 to the interim financial statements.

Geographic Analysis by Nature of Income and Expense

The following table shows Prudential's consolidated total profit on ordinary activities before amortization of goodwill, tax and minority interests for the periods indicated:

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Long-term business:		
Gross premiums	**8,326**	7,844
Reinsurance	**(74)**	(69)
Earned premiums	**8,252**	7,775
Investment returns	**(976)**	(672)
Expenses	**(806)**	(912)
Restructuring costs attributable to with-profits policyholders		(97)
Taxation within long-term business funds	**229**	185
Benefits and claims	**(10,340)**	(8,912)
Transfers from the fund for future appropriations	**3,902**	2,926
Shareholders' profit after tax	**261**	293
Add back: tax on shareholders' profit	**113**	148
Shareholders' profit from long-term business before tax, restructuring costs attributable to shareholders and development costs	**374**	441
Development costs	**(16)**	(21)
Long-term business restructuring costs attributable to shareholders		(13)
Shareholders' profit from long-term business	**358**	407
Other operations:		
Continuing operations		
Broker dealer and fund management	**44**	51
Banking	**1**	(63)
Other income and expenditure	**(86)**	(68)
Total continuing operations	**(41)**	(80)
Discontinued operations		
UK personal lines property and casualty insurance business		35

	Six Months Ended June 30,	
Shareholders' profit from other operations	**(41)**	(45)
Total operating profit before amortization of goodwill, tax and minority interests (based on longer term investment returns)	**317**	362

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Gross Premiums

	Six Months Ended June 30,	
	2002	2001
	(In £ Millions)	
Long-term business:		
United Kingdom	**4,331**	3,907
United States	**3,048**	2,806
Asia	**855**	1,034
Europe	**92**	97
Total	**8,326**	7,844

Gross premiums totaled £8,326 million in the first half of 2002, an increase of 6% over the first half of 2001.

In the United Kingdom, gross premiums increased 11% in the first half of 2002 to £4,331 million compared to £3,907 million in the first half of 2001 due to increased sales of Prudential's single premium with-profits bond.

In the United States, gross premiums in the first half of 2002 increased by 9% to £3,048 million, compared to £2,806 million in the first half of 2001, due to strong sales of fixed annuity products.

In Asia, gross premiums in the first half 2002 were £855 million, 17% below premiums in the first half of 2001 of £1,034 million. This fall was principally due to a decrease in single premium Central Provident Fund (CPF) related sales in Singapore, which were at exceptional levels in the first half of 2001 due to further government liberalization of the CPF funds.

In Europe, gross premiums in the first half of 2002 of £92 million were little changed from £97 million in the first half of 2001.

Investment Returns

	Six Months Ended June 30,	
	2002	2001
	(In £ Millions)	
Long-term business:		

	Six Months Ended June 30,	
United Kingdom	**(1,844)**	(1,395)
United States	**702**	819
Asia	**167**	(74)
Europe	**(1)**	(22)
Total	**(976)**	(672)

The investment returns shown above represent actual investment income and realized and unrealized investment appreciation and depreciation, less investment expenses and charges, except for shareholder- financed businesses, including principally the operations in the United States, where they represent longer-term investment returns.

Total investment returns of negative £976 million in the first half of 2002 were 45% lower than the negative £672 million reported in the first half of 2001. This reflects the impact of the continuing economic slowdown; falling equity markets; credit related losses in the United States; and, the impact of

lower interest rates on earnings related to fixed income investments. Management believes that this trend will continue in the near term.

In the United Kingdom, investment returns decreased from a loss of £1,395 million in the first half of 2001 to a loss of £1,844 million in the first half of 2002. The investment return primarily represents the return on the assets supporting the with-profits fund, which was significantly impacted by the decline in the UK investment market in the first half of 2002.

In the United States, investment returns of £702 million in the first half of 2002 were £117 million lower than in the first half of 2001 principally as a result of bond write-downs.

In Asia, investment returns moved from a loss of £74 million in the first of 2001, which included unrealized losses of £156 million, to a gain of £167 million in the first half of 2002, which included unrealized gains of £77 million. The increase mainly reflected stronger investment markets in Singapore.

In Europe, investment returns improved from a loss of £22 million in the first half of 2001 to a loss of £1 million in the first half of 2002 mainly due to unrealized losses decreasing from £25 million to £7 million.

Expenses

	Six Months Ended June 30,	
	2002	**2001**
	(in £ Millions)	
Long-term business:		
United Kingdom	**(511)**	(617)
United States	**(56)**	(70)
Asia	**(209)**	(190)
Europe	**(30)**	(35)
Total	**(806)**	(912)

Total expenses of £806 million were incurred in the first half of 2002, 12% lower than the £912 million incurred in the first half of 2001.

In the United Kingdom, expenses in the first half of 2002 were £511 million compared to £617 million in the first half of 2001. The reduction in expenses mainly reflects the absence of costs relating to the direct sales force operation that was closed in 2001.

In the United States, expenses of £56 million in the first half 2002 were 20% lower than the £70 million incurred in the first half of 2001. The reduction in expenses primarily represents lower levels of amortization of deferred acquisition costs, which reflects lower spread income and variable annuity fees, and improved persistency.

In Asia, expenses in the first half of 2002 were £209 million, an increase of 10% compared to the £190 million incurred in the first half of 2001. This increase was principally due to expenditure incurred by PCA Life of Japan, which was acquired in February 2001.

In Europe, expenses in the first half of 2002 of £30 million were little changed from £35 million in the first half of 2001.

Benefits and Claims

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Long-term business:		
United Kingdom	**(6,010)**	(4,703)
United States	**(3,504)**	(3,308)
Asia	**(776)**	(866)
Europe	**(50)**	(35)
Total	**(10,340)**	(8,912)

Benefits and claims represent payments, including terminal bonuses, to policyholders in respect of maturities, surrenders and deaths plus the change in technical provisions, which primarily represents the movement in amounts owed to policyholders.

Total benefits and claims increased by £1,428 million in the first half of 2002 to £10,340 million compared to £8,912 million in the first half of 2001.

In the United Kingdom, benefits and claims increased from £4,703 million in the first half of 2001 to £6,010 million in the first half of 2002. This increase was primarily due to higher amounts owed to policyholders as a result of strong sales of with-profits bonds.

In the United States, benefits and claims increased from £3,308 million in the first half of 2001 to £3,504 million in the first half of 2002. This movement reflected strong sales of fixed annuity products.

In Asia, benefits and claims fell by 10% to £776 million in the first half of 2002 compared to £866 million in the first half of 2001. A fall of £245 million in Singapore due to lower Central Provident Fund related sales was partially offset by increased technical provisions in Hong Kong and Taiwan.

In Europe, benefits and claims increased from £35 million in the first half of 2001 to £50 million in the first half of 2002 due to increased technical provisions in France.

Transfer from (to) the Fund for Future Appropriations

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Long-term business:		
United Kingdom	**3,904**	2,791
Asia	**(2)**	135
Total	**3,902**	2,926

The transfer from the fund for future appropriations in the United Kingdom in the first half of 2002 was £3,904 million compared to £2,791 million in the first half of 2001, an increase of £1,113 million. The increase predominantly reflects higher negative investment returns on the with-profits fund.

In Asia, there was a transfer to the fund for future appropriations of £2 million in the first half of 2002 compared with a transfer from the fund for future appropriations of £135 million in the first half of 2001. This was due to stronger investment markets in Singapore than 2001.

US GAAP Analysis

Prudential's unaudited consolidated interim financial statements have been prepared in accordance with UK GAAP, which differs in certain material respects from US GAAP.

US GAAP Critical Accounting Policies

Although there are a number of differences between accounting policies under UK GAAP and US GAAP, the critical accounting policies under US GAAP are the provision for policy liabilities and the treatment of the with-profits business.

Provision for Policy Liabilities

The concept for providing for policy liabilities is consistent with that under UK GAAP, in that the liabilities are estimated using actuarial methods based on assumptions about premiums, interest rates, investment returns, expenses, mortality and surrenders. However, the underlying classification of policies, reserving methodology and assumptions are different from those used under UK GAAP. If actual results differ from the assumptions used then the value of the liabilities would need to be adjusted.

Treatment of With-Profits Business

Under UK GAAP, the shareholders' profit in respect of with-profits business represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. As a consequence, current year amounts in respect of premiums, product guarantees, investment returns and operating expenses do not have an effect on the distribution of profit to shareholders' in that year. Consistent with this treatment, as mentioned in " UK GAAP Critical Accounting Policies", amounts retained within with-profit funds are accounted for within the fund for future appropriations.

For US GAAP purposes, the provision for the policyholders' share of earnings on with-profits business charged to income represents 90% of the current year's pre-bonus earnings, before income taxes and as a result will be directly impacted by current year amounts in respect of premiums, investment returns and operating expenses.

Investment Returns

Except primarily for Jackson National Life and UK annuity business (other than with-profits), all investment returns for long-term insurance business are accounted for on a trading basis. Accordingly, investment returns reported in the income statement include unrealized gains and losses. This reflects the fact that policyholder benefits, in particular for with-profits business, include the impact of unrealized appreciation over time through the bonus mechanism.

Jackson National Life and UK annuity business (other than with-profits) is presented on an available-for-sale basis. Unrealized gains and losses are reported in the statement of other comprehensive income.

Impairment of Assets

The Group conducts regular impairment reviews in respect of those investment securities held at amortized cost. The Group considers indicators, such as serious downgrades in credit ratings, breach of covenants or failure to make interest payments, that may suggest that interest and principal may not be paid in full. Any impairment losses that are not considered temporary are recognized in the profit and loss account.

Changes in Net Income on Application of US GAAP

The following table analyzes the adjustments to consolidated profit and loss in accordance with UK GAAP on application of US GAAP for the operations and periods indicated.

	Six Months Ended June 30,	
	2002	**2001**
	(In £ Millions)	
Consolidated profit and loss in accordance with UK GAAP	**422**	384
US GAAP adjustments:		
With-profits fund	**(321)**	(262)
Other operations	**(78)**	(133)
	(399)	(395)
Net income (loss) in accordance with US GAAP	**23**	(11)
Comprising:		
Net (loss) income from continuing operations after minority interests	**(274)**	117
Net income from discontinued operations including profit on sale of UK personal lines property and casualty insurance business	**297**	11
Cumulative effect of changes in accounting principles		(139)
	23	(11)

On a US GAAP basis, consolidated net income amounted to a gain of £23 million in the first half of 2002 and amounted to a loss of £11 million in the first half of 2001. Consolidated net income on a US GAAP basis for the first half of 2002 was £399 million less than consolidated profit under UK GAAP, and for the first half of 2001 was £395 million less than consolidated profit under UK GAAP. The US GAAP adjustments to UK GAAP consolidated profit and loss in respect of the with-profits fund totaled a reduction of £321 million in the first half of 2002 and a reduction of £262 million in the first half of 2001. The table below analyzes the shareholders' 10% interest in the adjustments to the with-profits fund's results, as reflected above.

	Six Months Ended June 30,	
	2002	2001
	(In £ Millions)	
US GAAP adjustments:		
Land and buildings	**14**	22
Investment securities	**(13)**	5
Revenue and expense recognition	**(14)**	(10)
Deferred acquisition costs	**13**	23
Policy liabilities	**(2)**	0
Movement in UK basis excess of assets over liabilities	**(326)**	(304)
Other	**6**	0
Deferred tax effect of the above adjustments	**1**	2
	(321)	(262)

The decrease in the US GAAP adjustment for movement in the UK basis excess of assets over liabilities from a negative amount of £304 million in the first half of 2001 to a negative amount of £326 million in the first half of 2002 primarily reflects lower investment returns in the first half of 2002.

The main effects on the accounting for the income and expenditure of the with-profits fund on a US GAAP basis are:

exclusion of the unrealized appreciation for land and buildings and inclusion of depreciation on buildings;

exclusion of the unrealized appreciation/depreciation for securities classified as available for sale; and

adjustments to income recognition, deferred acquisition costs and insurance liabilities.

The following table analyzes the US GAAP adjustments for other operations.

	Six Months Ended June 30,	
	2002	2001
	(In £ Millions)	
Business acquisitions and investments in associates	**49**	(15)
Securities	**(22)**	19
Revenue and expense recognition	**(31)**	(69)
Deferred acquisition costs	**28**	19
Policy liabilities	**40**	56
Pension plans	**9**	8
Deferred income tax	**(13)**	
Derivative instruments:		
Investment results	**(69)**	(22)

	Six Months Ended June 30,	
Cumulative effect of change in accounting principles (gross of tax)		(193)
Equalization provision	**(40)**	4
Deferral of gains on sale of UK personal lines property and casualty insurance business	**(21)**	
Other	**(2)**	(6)
Deferred tax effect of the above adjustments	**(6)**	66
	(78)	(133)

The US GAAP adjustments for business acquisitions and investments in associates reflect the adoption of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Tangible Assets", on January 1, 2002. Under FAS 142, amortization relating to goodwill and other indefinite lived intangible assets is discontinued. These assets will then be subject to an impairment test at least annually. Any impairments will be charged to net income. Prior to January 1, 2002, the US GAAP adjustment for business acquisitions and investments in associates primarily reflected the amortization of goodwill on acquisitions made prior to 1999. Under UK GAAP, the goodwill had been charged to equity in the year of acquisition.

The US GAAP adjustments for derivative instruments reflect the adoption of Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities", as amended, on January 1, 2001. Under FAS 133, all derivative instruments, including certain derivative instruments embedded in other contracts, are recognized as either assets or liabilities in the balance sheet at their fair values, and changes in such values are recognized immediately in earnings unless specific hedging criteria are met.

Upon adoption of FAS 133, a transitional adjustment totaling negative £126 million was recorded to reflect the fair value of derivative instruments previously accounted for as hedges. This comprised a gross transitional adjustment of negative £193 million, less related tax effects of £67 million.

Under UK GAAP, upon disposal of the UK personal lines property and casualty insurance business, equalization provisions of £40 million were reversed increasing the gain on disposal. These equalization provisions are not carried under US GAAP and therefore the gain concerning the provision is reversed.

In conjunction with the transfer of this business to Winterthur Insurance and the Churchill group, its UK subsidiary, the Company reinsured its in-force contracts. Under US GAAP, in accordance with Statement of Financial Accounting Standard No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts", the deferral of gains on the sale reflects profit margins in the unearned premium reserve that emerge after the balance sheet date.

Changes in Shareholders' Funds on Application of US GAAP

The following table shows the adjustments in shareholders' funds from UK GAAP to consolidated shareholders' equity under US GAAP for the operations and periods indicated.

	At June 30, 2002	At December 31, 2001
	(In £ Millions)	
Shareholders' funds in accordance with UK GAAP	**4,108**	3,950
US GAAP adjustments:		
With-profits fund	**1,181**	1,476
Other operations	**347**	538

	At June 30, 2002	At December 31, 2001
	1,528	2,014
Shareholders' equity in accordance with US GAAP	**5,636**	5,964

Shareholders' equity was greater under US GAAP than UK GAAP at June 30, 2002, and at December 31, 2001, respectively, by £1,528 million and £2,014 million. The increased equity in respect of with-profits business was £1,181 million at June 30, 2002, and £1,476 million at December 31, 2001. This difference predominantly reflects the attribution to shareholders of a 10% interest in the excess of assets over liabilities held within the fund.

The following table analyzes the shareholders' 10% interest in the adjustments to the with-profits fund as reflected above.

	At June 30, 2002	At December 31, 2001
	(In £ Millions)	
US GAAP adjustments:		
Land and buildings	**(381)**	(394)
Revenue and expense recognition	**(156)**	(144)
Deferred acquisition costs	**142**	131
Policy liabilities	**661**	652
UK basis excess of assets over liabilities	**813**	1,139
Other	**103**	96
Deferred tax effect of the above adjustments	**(1)**	(4)
	1,181	1,476

Under UK GAAP, the excess of assets over liabilities within the with-profits fund is not allocated between policyholders and shareholders but is held in the fund for future appropriations. Under US GAAP, shareholders are credited with a 10% interest in the adjusted excess of assets over liabilities.

The main effects on the accounting for the assets and liabilities in the with-profits fund are:

- write-down of land and buildings values from market value to depreciated historic cost; and
- adjustments to revenue and expense recognition, deferred acquisition costs and insurance liabilities.

The following table analyzes US GAAP adjustments to shareholders' interests in other operations.

	At June 30, 2002	At December 31, 2001
	(In £ Millions)	
Business acquisitions	**321**	274
Investment securities	**45**	(6)
Revenue and expense recognition	**(516)**	(485)

	At June 30, 2002	At December 31, 2001
Deferred acquisition costs	**385**	382
Policy liabilities	**125**	90
Deferral of gains on sale of UK personal lines property and casualty insurance business	**(21)**	
Pension plans	**259**	250
Deferred income tax		13
Shareholder dividend liability	**177**	332
Derivative instruments	**(403)**	(355)
Other	**(38)**	10
Deferred income tax of the above adjustments	**13**	33
	347	538

For other operations, shareholders' equity on a US GAAP basis exceeded that on a UK GAAP basis by £347 million at June 30, 2002, and £538 million at December 31, 2001.

The principal reasons for the increases in consolidated shareholders' equity under US GAAP compared to consolidated shareholders' funds under UK GAAP are:

- capitalization of goodwill,
- elimination of the UK basis accrual for the dividend for the period, and
- inclusion of Jackson National Life's fixed income security portfolio on an available-for-sale basis, with related shadow deferred acquisition cost adjustments. Under UK GAAP, the securities are carried on an amortized cost basis.

Partially offsetting these items is the effect of the implementation of FAS 133 on the carrying value of derivative instruments.

New US Accounting Pronouncements

Several new US accounting standards were issued during the first half of 2002 that are pertinent to Prudential's US GAAP consolidated financial statements. These are discussed in detail in Note 8 to Prudential's unaudited condensed consolidated interim financial statements.

Liquidity and Capital Resources

Prudential operates a central treasury function, which has overall responsibility for managing the Group's capital funding, as well as its cash and liquidity positions. Prudential arranges the financing of each of its subsidiaries, except Egg, primarily by raising external funds either at the Prudential parent company level (including through finance subsidiaries whose obligations the parent company guarantees) or at the operating company level. Egg has its own treasury function to manage its cash and liquidity positions.

Liquidity Requirements

The parent company's principal cash requirements are the payment of dividends to shareholders, the servicing of debt, the payment of Group activity expenses and the acquisition of and investment in businesses.

In the first half of 2002, the parent company paid the 2001 final dividend to shareholders, which amounted to £332 million. The 2000 final dividend paid in the first half of 2001 amounted to £322 million.

Debt service costs paid in the first half of 2002 were £71 million, reflecting little change from the £68 million paid in the first half of 2001.

In the first half of 2002, Group activity expenses totaled £42 million compared to £33 million in the first half of 2001.

No acquisitions were made in the first half of 2002 but £69 million was invested in existing operations, principally to satisfy solvency requirements. In September 2002, the parent company invested £320 million in Jackson National Life, as forewarned in July, due to the high volume of fixed annuities business being written and to investment losses incurred. In the first half of 2001 the Group acquired Orico Life Insurance Company of Japan (subsequently renamed PCA Life of Japan) for £139 million and invested a further £76 million in existing operations.

Liquidity Sources

The parent company's principal sources of cash are dividends, loans and interest received from operating subsidiaries, proceeds from borrowings, the sale of businesses and recourse to the equity markets.

In the first half of 2002, the parent company received cash of £321 million from The Prudential Assurance Company Limited, the Group's main UK operating company, in respect of the statutory profit transfer from the long-term business fund. In the same period, the parent company received dividends and loans of £95 million from M&G and of £26 million from Asia, together with interest of £19 million from Jackson National Life. In the first half of 2001, the parent company received cash of £307 million from The Prudential Assurance Company Limited but nothing from M&G, Asia or Jackson National Life.

In the first half of 2002, the parent company received £386 million resulting from the sale of the Group's UK personal lines property and casualty insurance business. In the first half of 2001, the parent company received £240 million in respect of the American General merger termination break fee.

Borrowings

Core structural borrowings of shareholder-financed operations were £2,055 million at June 30, 2002, compared with £2,152 million at December 31, 2001. Within this total, the parent company and finance subsidiaries had core structural borrowings of £1,891 million outstanding at June 30, 2002, including £43 million floating rate guaranteed loan notes due to mature in 2004, $250 million (£164 million) of bonds due to mature in 2005 and £150 million of bonds due to mature in 2007. The

remaining outstanding borrowings are due to mature in more than five years. Also at June 30, 2002, the parent company and finance subsidiaries held cash and short-term investments, less short-term borrowings, of £288 million, compared with £19 million at December 31, 2001.

Accordingly, net core structural borrowings fell by £366 million from £2,133 million at December 31, 2001 to £1,767 million at June 30, 2002.

Credit Facilities and Recourse to the Equity Markets

Prudential has in place an unlimited global commercial paper program. At June 30, 2002 commercial paper of £1,526 million had been issued under this program. Prudential also has in place a £5,000 million medium term note program. At June 30, 2002 hybrid debt of £435 million and of Euros 500 million, and senior debt of Euros 20 million had been issued under this program.

In addition, the parent company has access to £1,200 million committed revolving credit facilities and to £900 million uncommitted credit facilities. There have been no drawdowns under the committed facilities since inception, and there were no amounts outstanding under either the committed or the uncommitted facilities at June 30, 2002.

The commercial paper program, the medium term note program, the committed revolving credit facilities and the uncommitted facilities are all available for general corporate purposes and to support the liquidity needs of the parent company. Prudential anticipates that these funding and liquidity facilities are sufficient to meet foreseeable requirements to support shareholders' existing operations and to cover interest and dividend payments. However, to meet all of its strategic objectives, such as the funding of potential future acquisitions, Prudential may need to raise further financing which might include recourse to the equity markets. Prudential aims to maintain an appropriate debt to equity ratio.

Consolidated Cash Flows

The consolidated statement of cash flows prepared under UK GAAP and included in Prudential's financial statements includes only the cash flows in respect of Prudential's shareholders' businesses. Cash flows resulting from activity within the with-profits fund are excluded because UK GAAP requires that insurance companies include cash flows in respect of long-term business only to the extent that cash is transferred to shareholders and is available to meet the obligations of Prudential as a whole. In the case of UK long-term business, this amount represents the profit after tax allocated to shareholders.

The discussion that follows is based on the condensed consolidated statement of cash flows prepared under US GAAP presented in Note 8 to Prudential's unaudited condensed consolidated interim financial statements, which includes all of the cash flows of Prudential, including those of the with-profits fund.

Net cash provided by operating activities was £960 million in the first half of 2002 compared with £983 million in the first half of 2001.

Net cash used for investing activities in the first half of 2002 was £3,922 million compared with £2,789 million in the first half of 2001. Cash used to purchase investments exceeded proceeds from sales and maturities by £4,043 million in the first half of 2002 compared with £2,731 million in the first half of 2001. The Group had no cash outflow in respect of acquisitions of subsidiaries in the first half of 2002 compared with £147 million in the first half of 2001. Net cash provided by financing activities was £3,291 million in the first half of 2002 compared with £1,426 million in the first half of 2001. The increase primarily reflects an increase in Egg customer deposits from £6,356 million in the first half of 2001 to £7,667 million in the first half of 2002. Policyholders' deposits exceeded withdrawals by £2,033 million in the first half of 2002 and £1,621 million in the first half of 2001. Repayments of long-term borrowings in the first half of 2002 were £211 million and there were no repayments in the

first half of 2001. Proceeds from long-term borrowings in the first half of 2002 were £24 million and £41 million in the first half of 2001.

As at June 30, 2002, the Group had cash of £1,626 million compared with £832 million at June 30, 2001, an increase of £794 million.

Contingencies and Related Obligations

Details of Prudential's contingencies and related obligations as at June 30, 2002, are set out in Note 6 to the interim financial statements.

Off-Balance Sheet Arrangements

Jackson National Life offers synthetic guaranteed investment contracts to group customers including pension funds and other institutional organizations. These contracts represent an off-balance sheet fee-based product where the customer retains ownership of the assets related to these contracts and Jackson National Life guarantees each contractholder's obligations to its own members in respect of these assets. Management believes the risk under these contracts is mitigated by careful underwriting of the contractholder and a number of features associated with these contracts, including controls on the plan's investments, requirements for "buffer funds" to absorb unexpected fluctuations in member withdrawals and, for most contracts, experience rating of the crediting rates granted to plan members. The values of off-balance sheet guarantees were £nil at June 30, 2002.

Jackson National Life has commitments for future payments related to equity index call options totaling £26 million, which are accounted for on a deferred basis and therefore were considered off-balance sheet as at June 30, 2002. These commitments were entered into during the normal course of business to hedge obligations associated with the issuance of equity index-linked immediate and deferred annuities. The commitments are due over the next six years.

Jackson National Life has unfunded commitments related to its investments in limited partnerships totalling £328 million at June 30, 2002. These commitments were entered into in the ordinary course of business and management does not expect a material adverse impact on the operations to arise from them.

Contractual Obligations

Contractual obligations with specified payment dates at December 31, 2001 included the following:

	Principal payments due by period						
	Less than 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**	**Total**
	(In £ Millions)						
Borrowings	1,524		45	173		2,515	4,257
Other contractual obligations							
Reverse repurchase agreements	961						961
UK Banking	284	100	524	7			915
US Banking	93	33	91	2	22	3	244
Jackson National Life funding arrangements	248	213	895	496	762	530	3,144
Equity indexed call options	7	7	6	6	4	1	31
Leases on land and buildings	42	42	42	40	39	8,407	8,612
Borrowings of associates		1	2	3		370	376
Other	5						5
	3,164	396	1,605	727	827	11,826	18,545

The obligations shown above include details for leases in respect of land and buildings that have been corrected from those included in the Company's Form 20-F for the year ended December 31, 2001, filed with the Securities and Exchange Commission on May 16, 2002. The significant size of the obligations under these leases payable after 5 years primarily reflects lease payments of £17.5 million per annum on properties with end lease dates in the year 2382 and lease payments of £8.6 million per annum on a property with an end lease date in the year 2141. Obligations at June 30, 2002 are broadly similar to those at December 31, 2001.

INDEX TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Profit and Loss Accounts

Six Months Ended June 30

	2002	2001
	(In £ Millions, Except Per Share Amounts)	
Earned premiums, net of reinsurance	**8,286**	7,944
Claims incurred, net of reinsurance	**(6,221)**	(6,673)
Change in long-term technical provisions, net of reinsurance	**(4,122)**	(2,346)
Investment returns	**(865)**	(477)
Investment expenses and charges	**(316)**	(315)
Net operating expenses	**(886)**	(1,123)
Shareholder and policyholder tax attributable to long-term business	**229**	185
Add back: Shareholder tax attributable to long-term business	**113**	148
Transfers from the fund for future appropriations	**3,902**	2,926
Results of investment management and products operations	**34**	40
Results of US broker dealer and fund management	**10**	11
Results of banking operations	**1**	(63)
Amortization of goodwill	**(49)**	(47)
Other income:		
Merger break fee (net of related expenses)		338
Profit on sale of UK personal lines property and casualty insurance business	**355**	
Profit on ordinary activities before shareholder tax	**471**	548
Shareholder tax on profit on ordinary activities	**(50)**	(183)
Profit for the period before minority interests	**421**	365
Minority interests	**1**	19
Profit for the period	**422**	384
Dividends at 8.9p and 8.7p per share, respectively	**(178)**	(172)
Retained profit for the period	**244**	212
Earnings per share:		
Basic (based on 1,986 million and 1,976 million shares, respectively)	**21.2p**	19.4p
Diluted (based on 1,987 million and 1,982 million shares, respectively)	**21.2p**	19.4p

The accompanying notes are an integral part of these interim financial statements

	2002	2001
	(In £ Millions, Except Per Share Amounts)	
Reconciliation of profit on ordinary activities before shareholder tax to operating profit before amortization of goodwill after tax (based on longer term investment returns)		
Profit on ordinary activities before shareholder tax	**471**	548
Short-term fluctuations in investment returns	**152**	105
Merger break fee (net of related expenses)		(338)
Profit on sale of UK personal lines property and casualty insurance business	**(355)**	
Amortization of goodwill	**49**	47
Operating profit before amortization of goodwill and before tax (based on longer term investment returns)	**317**	362
Minority interests in Egg		10
Tax on operating profit before amortization of goodwill and before tax (based on longer term investment returns)	**(90)**	(114)
Operating profit before amortization of goodwill after tax (based on longer term investment returns)	**227**	258
Earnings per share:		
Operating profit before amortization of goodwill after tax (based on longer term investment returns) (based on 1,986 million and 1,976 million shares, respectively)	**11.4p**	13.1p

The accompanying notes are an integral part of these interim financial statements