PRUDENTIAL PLC
Form 6-K
August 12, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of August, 2010

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,
LONDON, EC4R 0HH, ENGLAND
(Address of principal executive offices)

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

Form 20-F X   Form 40-F

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

Yes   No X

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

Enclosures: Prudential PLC Half Yearly Report 2010 Part 6

IFRS Disclosure

PRUDENTIAL PLC HALF YEAR 2010 RESULTS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
Earned premiums, net of reinsurance	**11,256**	9,518	19,976
Investment return (notes G and I)	**5,027**	3,625	26,889
Other income	**754**	574	1,234
Total revenue, net of reinsurance	**17,037**	13,717	48,099
Benefits and claims and movement in unallocated surplus of with-profits funds,			
net of reinsurance (note J)	**(13,650)**	(10,783)	(41,195)
Acquisition costs and other expenditure (notes G and H)	**(2,654)**	(2,446)	(4,572)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(129)**	(84)	(209)
Loss on sale of Taiwan agency business (note K)	**-**	(559)	(559)
Total charges, net of reinsurance	**(16,433)**	(13,872)	(46,535)
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)**	**604**	(155)	1,564
Tax (charge) credit attributable to policyholders' returns	**(11)**	79	(818)
Profit (loss) before tax attributable to shareholders (note C)	**593**	(76)	746
Tax (charge) credit (note L)	**(160)**	(103)	(873)
Less: tax attributable to policyholders' returns	**11**	(79)	818
Tax (charge) credit attributable to shareholders' returns (note L)	**(149)**	(182)	(55)

Profit (loss) from continuing operations after tax	**444**	(258)	691
Discontinued operations (net of tax)**	**-**	-	(14)
Profit (loss) for the period	**444**	(258)	677
Attributable to:			
Equity holders of the Company	**442**	(254)	676
Non-controlling interests	**2**	(4)	1
Profit (loss) for the period	**444**	(258)	677

Earnings per share (in pence)

	Half year 2010	**Half year 2009**	**Full year 2009**
Basic:			
Based on profit (loss) from continuing operations attributable to the equity holders of the Company (note M)	**17.5p**	(10.2)p	27.6p
Based on loss from discontinued operations attributable to the equity holders of the Company	**-**	-	(0.6)p
	17.5p	(10.2)p	27.0p
Diluted:			
Based on profit (loss) from continuing operations attributable to the equity holders of the Company (note M)	**17.5p**	(10.2)p	27.6p
Based on loss from discontinued operations attributable to the equity holders of the Company	**-**	-	(0.6)p
	17.5p	(10.2)p	27.0p

* This measure is the formal profit (loss) before tax measure under IFRS but it is not the result attributable to shareholders.

**The full year 2009 charge which was net of £nil tax, reflected completion adjustments for a previously disposed business.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half year 2010	Half year 2009	Full year 2009

	£m	£m	£m
Profit (loss) for the period	**444**	(258)	677
Other comprehensive income (loss):			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the period	**315**	(292)	(206)
Related tax	**(8)**	(6)	11
	307	(298)	(195)
Available-for-sale securities:			
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Unrealised holding gains arising during the period	**1,123**	662	2,249
Add back net losses included in the income statement on disposal and impairment	**21**	146	420
Total (note W)	**1,144**	808	2,669
Related change in amortisation of deferred income and acquisition costs (note S)	**(510)**	(235)	(1,069)
Related tax	**(215)**	(150)	(557)
	419	423	1,043
Other comprehensive income for the period, net of related tax	**726**	125	848
Total comprehensive income (loss) for the period	**1,170**	(133)	1,525

Attributable to:			
Equity holders of the Company	**1,168**	(129)	1,524
Non-controlling interests	**2**	(4)	1
Total comprehensive income (loss) for the period	**1,170**	(133)	1,525

<u>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 Jun 2010							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	**Shareholders' equity £m**	**Non-controlling interests £m**	**Total equity £m**

Reserves								
Total comprehensive income for the period	-	-	442	307	419	1,168	2	1,170
Dividends	-	-	(344)	-	-	(344)	-	(344)
Reserve movements in respect of share-based payments	-	-	15	-	-	15	-	15
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	3	3
Share capital and share premium								
New share capital subscribed	-	39	-	-	-	39	-	39
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(26)	26	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	8	-	-	8	-	8
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	4	-	-	4	-	4
Net increase in equity	-	13	151	307	419	890	5	895
At beginning of period	127	1,843	3,964	203	134	6,271	32	6,303
At end of period	127	1,856	4,115	510	553	7,161	37	7,198

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 Jun 2009							
	Share capital £m	**Share premium £m**	**Retained earnings £m**	**Translation reserve £m**	**Available-for-sale securities reserve £m**	**Shareholders' equity £m**	**Non-controlling interests £m**	**Total equity £m**
Reserves								
Total comprehensive income (loss) for the period	-	-	(254)	(298)	423	(129)	(4)	(133)
Dividends	-	-	(322)	-	-	(322)	-	(322)
Reserve movements in respect of share-based payments	-	-	18	-	-	18	-	18
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	(22)	(22)
Share capital and share premium								
New share capital subscribed	1	95	-	-	-	96	-	96
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(95)	95	-	-	-	-	-
Treasury shares								

Movement in own shares in respect of share-based payment plans	-	-	7	-	-	7	-	7
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(8)	-	-	(8)	-	(8)
Net increase (decrease) in equity	1	-	(464)	(298)	423	(338)	(26)	(364)
At beginning of period	125	1,840	3,604	398	(909)	5,058	55	5,113
At end of period	126	1,840	3,140	100	(486)	4,720	29	4,749

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 Dec 2009							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Reserves								
Total comprehensive income (loss) for the year	-	-	676	(195)	1,043	1,524	1	1,525
Dividends	-	-	(481)	-	-	(481)	-	(481)
Reserve movements in respect of share-based payments	-	-	29	-	-	29	-	29
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	(24)	(24)

Share capital and share premium								
New share capital subscribed	2	139	-	-	-	141	-	141
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(136)	136	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	3	-	-	3	-	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(3)	-	-	(3)	-	(3)
Net increase (decrease) in equity	2	3	360	(195)	1,043	1,213	(23)	1,190
At beginning of year	125	1,840	3,604	398	(909)	5,058	55	5,113
At end of year	127	1,843	3,964	203	134	6,271	32	6,303

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<u>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Jun 2010	30 Jun 2009	31 Dec 2009
	£m	£m	£m
<u>Assets</u>			
Intangible assets attributable to shareholders:			
Goodwill (note R)	**1,465**	1,310	1,310
Deferred acquisition costs and other intangible assets (note S)	**4,028**	4,045	4,049
	5,493	5,355	5,359
Intangible assets attributable to with-profits funds:			
In respect of acquired subsidiaries for venture fund and other investment purposes	**124**	159	124

Deferred acquisition costs and other intangible assets	**110**	111	106
	234	270	230
Total	**5,727**	5,625	5,589
Other non-investment and non-cash assets:			
Property, plant and equipment	**382**	428	367
Reinsurers' share of insurance contract liabilities	**1,369**	1,114	1,187
Deferred tax assets (note L)	**2,691**	2,149	2,708
Current tax recoverable	**575**	389	636
Accrued investment income	**2,559**	2,366	2,473
Other debtors	**1,467**	1,311	762
Total	**9,043**	7,757	8,133
Investments of long-term business and other operations:			
Investment properties	**11,360**	10,479	10,905
Investments accounted for using the equity method	**9**	6	6
Financial investments:			
Loans (note U)	**9,587**	8,613	8,754
Equity securities and portfolio holdings in unit trusts	**71,775**	56,069	69,354
Debt securities (note V)	**113,334**	89,399	101,751
Other investments	**6,768**	6,085	5,132
Deposits	**9,766**	8,806	12,820
Total	**222,599**	179,457	208,722
Properties held for sale	**3**	5	3
Cash and cash equivalents	**6,040**	6,542	5,307
Total assets (note O)	**243,412**	199,386	227,754

	30 Jun 2010	30 Jun 2009	31 Dec 2009
	£m	£m	£m
<u>Equity and liabilities</u>			
Equity			
Shareholders' equity	**7,161**	4,720	6,271
Non-controlling interests	**37**	29	32
Total equity	**7,198**	4,749	6,303

Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds			
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**198,913**	165,047	186,398
Unallocated surplus of with-profits funds	**10,066**	7,061	10,019
Total (note AA)	**208,979**	172,108	196,417
Core structural borrowings of shareholder-financed operations:			
Subordinated debt	**2,767**	2,198	2,691
Other	**715**	701	703
Total (note X)	**3,482**	2,899	3,394

Other borrowings:			
Operational borrowings attributable to shareholder-financed operations (note Y)	**3,234**	2,855	2,751
Borrowings attributable to with-profits operations (note Y)	**1,313**	1,349	1,284
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements	**3,222**	4,218	3,482
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,667**	2,706	3,809
Current tax liabilities	**1,272**	663	1,215
Deferred tax liabilities (note L)	**4,115**	2,651	3,872
Accruals and deferred income	**555**	626	594
Other creditors	**3,246**	1,640	1,612
Provisions	**641**	614	643
Derivative liabilities	**2,033**	1,379	1,501
Other liabilities	**1,455**	929	877
Total	**19,206**	15,426	17,605
Total liabilities	**236,214**	194,637	221,451
Total equity and liabilities (note O)	**243,412**	199,386	227,754

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Full year

	Half year 2010 £m	Half year 2009 £m	2009 £m
Cash flows from operating activities			
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)* (note (i))	**604**	(155)	1,564
Loss before tax from discontinued operations	**-**	-	(14)
Total profit (loss) before tax	**604**	(155)	1,550
Changes in operating assets and liabilities (note (ii))	**516**	1,068	(2,139)
Other items (note (ii))	**167**	633	697
Net cash flows from operating activities	**1,287**	1,546	108
Cash flows from investing activities			
Net cash flows from purchases and disposals of property, plant and equipment	**(22)**	(22)	(37)
Completion adjustment for previously disposed business	**-**	-	(20)
Disposal of Taiwan agency business (notes (iii) and K)	**-**	(436)	(497)
Acquisition of UOB Life, net of cash balance (note (iv))	**(101)**	-	-
Net cash flows from investing activities	**(123)**	(458)	(554)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations (notes (v) and X):			
Issue of subordinated debt, net of costs	**-**	379	822
Redemption of senior debt	**-**	(249)	(249)
Interest paid	**(131)**	(98)	(207)
With-profits operations (notes (vi) and Y):			
Interest paid	**(4)**	(9)	(9)
Equity capital (note (vii)):			
Issues of ordinary share capital	**13**	-	3
Dividends paid	**(318)**	(226)	(344)
Net cash flows from financing activities	**(440)**	(203)	16
Net increase (decrease) in cash and cash equivalents	**724**	885	(430)
Cash and cash equivalents at beginning of period	**5,307**	5,955	5,955
Effect of exchange rate changes on cash and cash equivalents	**9**	(298)	(218)
Cash and cash equivalents at end of period	**6,040**	6,542	5,307

Notes

(i) This measure is the formal profit (loss) before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) The adjusting items to profit (loss) before tax include changes in operating assets and liabilities, and other items including adjustments in respect of non-cash items, together with operational interest receipts and payments, dividend receipts, and tax paid. The figure of £633 million for other items at half year 2009 (full year 2009: £697 million) includes £559 million (full year 2009: £559 million) for the loss on disposal of Taiwan agency business. The elements of the adjusting items within changes in operating assets and liabilities are as follows:

	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m
Other non-investment and non-cash assets	**(997)**	227	(384)
Investments	**(5,278)**	(1,076)	(26,388)
Policyholder liabilities (including unallocated surplus)	**6,086**	2,265	24,932
Other liabilities (including operational borrowings)	**705**	(348)	(299)
Changes in operating assets and liabilities	**516**	1,068	(2,139)

(iii) The amount of £436 million for half year 2009 and £497 million for full year 2009 in respect of the disposal of the Taiwan agency business shown above, represents the cash and cash equivalents of £388 million held by Taiwan agency business transferred on disposal and restructuring costs paid in cash in the period (half year 2009: £3 million; full year 2009: £ 64 million). In addition, the cashflow for the disposal includes a £45 million outflow to purchase a 9.99 per cent stake in China Life.

(iv) On 6 January 2010, the Group announced the acquisition from United Overseas Bank Limited (UOB) of its 100 per cent interest in UOB Life Assurance Limited in Singapore (see note Q). The amount of £101 million net cash outflow in respect of this acquisition represents consideration which has been paid as at 30 June 2010 of £188 million, acquisition-related costs paid of £2 million, less cash and cash equivalents acquired of £89 million.

(v) Structural borrowings of shareholder-financed operations comprise core debt of the holding company and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(vi) Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(vii) Cash movements in respect of equity capital exclude scrip dividends.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

NOTES ON THE IFRS BASIS RESULTS

A Basis of preparation and audit status

These condensed consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRSs that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 30 June 2010, there were no unendorsed standards effective for the period ended 30 June 2010 affecting the condensed consolidated financial statements, and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2010 and 2009 half years are unaudited. The 2009 full year IFRS basis results have been derived from the 2009 statutory accounts. The auditors have reported on the 2009 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

B Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this announcement are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2009, except for the following adoption of new accounting pronouncements in 2010:

Revised IFRS 3, 'Business Combinations' and Amendments to IAS 27, 'Consolidated and Separate Financial Statements'

The Group has applied the revised IFRS 3 and amended IAS 27 from 1 January 2010. The revised IFRS 3 and amended IAS 27 are the outcomes of the second phase of the IASB's and the US Financial Accounting Standards Board's (FASB) joint business combination project. The change in accounting policy as a result of the adoption of these standards has been applied prospectively. No restatement to 2009 comparatives is required. The more significant changes from the revised IFRS 3 include:

- the immediate expensing of acquisition-related costs rather than inclusion in goodwill; and

- recognition and measurement at fair value of contingent consideration at acquisition date with subsequent changes to income.

The amendments to IAS 27 reflect changes to the accounting for non-controlling interests (known as minority interests prior to the amendments). From 1 January 2010, transactions that increase or decrease non-controlling interests without a change of control are accounted as equity transactions and therefore no goodwill is recognised.

The adoption of revised IFRS 3 and amended IAS 27 has resulted in presentational and disclosure changes in the Group's financial statements, and affected the accounting for the acquisition of United Overseas Bank (UOB) Life Assurance Limited in Singapore. The disclosure on this acquisition is provided in note Q. As a result of the adoption of the revised IFRS 3, the Group has expensed the UOB Life acquisition-related costs incurred of £2 million which would otherwise have been included within goodwill.

Other accounting pronouncements adopted in 2010

In addition, the Group has adopted the following accounting pronouncements in 2010 but their adoption has had no material impact on the results and financial position of the Group:

- Improvements to IFRSs (2009)
- Amendments to IFRS 2 - Group cash-settled share-based payment transactions
- Amendments to IAS 39, 'Financial instruments: Recognition and Measurement' - Eligible hedged items

This is not intended to be a complete list of accounting pronouncements effective in 2010 as only those that could have an impact upon the Group's financial statements have been discussed.

C Segment disclosure - income statement

	Half year	**Half year**	**Full year**
	2010	2009	2009
	£m	**£m**	**£m**
Asian operations (note (i))			
Insurance operations (note E (i)):			
Underlying results before exceptional credit	**262**	149	353

Exceptional credit (note E (i)(b))	**-**	63	63
Total Asian insurance operations	**262**	212	416
Development expenses	**(3)**	(5)	(6)
Total Asian insurance operations after development expenses	**259**	207	410
Asian asset management	**36**	21	55
Total Asian operations	**295**	228	465
US operations			
Jackson (US insurance operations) (notes (ii) and E (ii))	**450**	217	459
Broker-dealer and asset management	**15**	2	4
Total US operations	**465**	219	463
UK operations			
UK insurance operations:			
Long-term business (note E (iii))	**307**	303	606
General insurance commission (note (iii))	**23**	27	51
Total UK insurance operations	**330**	330	657
M&G	**143**	102	238
Total UK operations	**473**	432	895
Total segment profit	**1,233**	879	1,823
Other income and expenditure			
Investment return and other income	**5**	13	22
Interest payable on core structural borrowings	**(129)**	(84)	(209)
Corporate expenditure:			
Group Head Office	**(86)**	(74)	(146)
Asia Regional Head Office	**(27)**	(23)	(57)
Charge for share-based payments for Prudential schemes (note (iv))	**(3)**	(11)	(5)
Total	**(240)**	(179)	(395)
Solvency II implementation costs	**(22)**	-	-
Restructuring costs (note (v))	**(3)**	(12)	(23)
Operating profit based on longer-term investment returns (note (i))	**968**	688	1,405
Short-term fluctuations in investment returns on shareholder-backed business (note F)	**26**	(80)	36
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note (vi))	**(24)**	(63)	(74)
Costs of terminated AIA transaction (note G)	**(377)**	-	-
Loss on sale and results for Taiwan agency business (notes (i) and K)	**-**	(621)	(621)
Profit (loss) from continuing operations before tax attributable to shareholders	**593**	(76)	746

Notes

(i) Sale of Taiwan agency business: In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan business for which the sale process was completed in June 2009 are included separately within the supplementary analysis of profit for 2009.

(ii) The US insurance operating profit of £450 million includes £123 million of net equity hedging gains, net of related DAC, (half year 2009: losses of £23 million; full year 2009: losses of £159 million) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of Jackson's variable and fixed index annuity products, for which a significant proportion are not fair valued. These net gains / losses are variable in nature.

(iii) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the net commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.

(iv) The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.

(v) Restructuring costs of £3 million have been incurred in the UK (half year 2009: £7 million; full year 2009: £16 million) and £nil in central operations (half year 2009: £5 million; full year 2009: £7 million).

(vi) The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

Determining operating segments and performance measure of operating segments

The Group's operating segments determined in accordance with IFRS 8, are as follows:

Insurance operations

- Asia
- US (Jackson)
- UK

Asset management operations

- M&G
- Asian asset management
- US broker-dealer and asset management (including Curian)

Prudential Capital has been incorporated into the M&G operating segment for the purposes of segment reporting.

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and transaction costs arising from business combinations. In addition, for 2010 this measure excluded costs associated with the terminated AIA transaction. For 2009 it excluded the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns. Furthermore, in 2009 the Company sold its Taiwan agency business. In order to facilitate comparisons on a like for like basis, the loss on sale and the results of the Taiwan agency business during the period of ownership are shown separately within the supplementary analysis of profits. Segments results that are reported to the Group Executive Committee (GEC) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and Asian Regional Head Office.

For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on the expected longer-term rates of return. This reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance for life businesses exclusive of changes in market conditions. In determining profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

(a)Debt and equity securities

Longer-term investment returns comprise income and longer-term capital returns. For debt securities the longer-term capital returns comprise two elements. These are a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

The shareholder-backed operation for which the risk margin reserve (RMR) charge is most significant is Jackson National Life. During the second half of 2009, the National Association of Insurance Commissioners (NAIC) changed its approach to the determination of regulatory ratings of residential mortgage-backed securities (RMBS), using an external third party, PIMCO, to develop regulatory ratings detail for more than 20,000 RMBS securities owned by US insurers at end of 2009. Jackson has used the ratings resulting from this model to determine the average annual RMR for half year 2010 and full year 2009 as this is considered more relevant information for the RMBS securities concerned than the previous approach of using ratings by Nationally Recognised Statistical Ratings Organisation (NRSRO). It should be noted that this has no impact on the valuation applied to those securities within the IFRS statement of financial position and there is no impact to IFRS profit before tax or shareholders' equity as a result of this change.

(b)Derivative value movements

Value movements for Jackson's equity-based derivatives and variable and fixed index annuity product embedded derivatives are included in operating profits based on longer-term investment returns. To ensure these reflect longer-term movements the fair value movement included in operating profit is based on longer-term equity volatility levels and long-term average AA corporate bond rate curves, with the movement relating to change in current rates being included in short-term fluctuations. The operating profits based on longer-term investment returns explicitly include:

- The fair value movement in free standing hedging derivatives, excluding the impact of the difference between longer-term and current period implied equity volatility levels as mentioned above;

- The movement in liabilities for those embedded derivative liabilities which are fair valued in accordance with IFRS, primarily GMWB "not for life" and fixed index annuity business, excluding the impacts of the differences between longer-term and current period equity volatility and incorporating 10-year average yield curves, in lieu of current period yield curves;

- Movements in IFRS basis guarantee liabilities for GMWB "for life", being those policies where a minimum annual withdrawal is permitted for the duration of the policyholders life subject to certain conditions, and GMDB business for which, under the US GAAP rules applied under IFRS, the reserving methodology under US GAAP principles generally gives rise to a muted impact of current period market movements; and

- Related changes to the amortisation of deferred acquisition costs for each of the above items.

The effects of the above components give rise to variable gains and losses arising from the differing measuring basis between some assets and liabilities. This is further discussed in note E (ii).

Other derivative value movements are excluded from operating results based on longer-term investment returns. These derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement) and product liabilities (for which US GAAP accounting does not reflect the economic features being hedged).

These key elements are of most importance in determining the operating results based on longer-term investment returns of Jackson.

There are two exceptions to the basis described above for determining operating results based on longer-term investment returns. These are for:

- Unit-linked and US variable annuity business. For such business the policyholder liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns.

- Assets covering non participating business liabilities that are interest rate sensitive. For UK annuity business policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly asset value movements are recorded within the operating results based on longer-term investment returns. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

(c)Liabilities to policyholders and embedded derivatives for product guarantees

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

(i) Asia

· *Vietnamese participating business*

For the participating business in Vietnam the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholders' interest in investment appreciation and other surpluses primarily reflect the level of realised investment gains above contract specific hurdle levels. For this business, operating profit based on longer-term investment returns includes the aggregate of longer-term returns on the relevant investments, a credit or charge equal to movements on the liability for the policyholders' interest in realised investment gains (net of any recovery of prior deficits on the participating pool), less amortisation over five years of current and prior movements on such credits or charges.

The overall purpose of these adjustments is to ensure that investment returns included in operating results equal longer-term returns but that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the supplementary analysis of profit before tax attributable to policyholders.

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· *Non-participating business*

Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates is included in short-term fluctuations and in the income statement.

· *Guaranteed Minimum Death Benefit (GMDB) product features*

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB Accounting Standards Codification Subtopic 944-80 (formerly SOP 03-01), which partially reflects changes in market conditions. Under the Company's supplementary basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

(ii) US operations - Embedded derivatives for variable annuity guarantee features

Under IFRS, the 'not for life' Guaranteed Minimum Withdrawal Benefit (GMWB) is required to be fair valued as an embedded derivative. The movement in carrying values is affected by changes in equity market levels, as well as the level of observed implied equity volatility and changes to the interest rates applied from period to period. For these embedded derivatives the interest rates applied reflect current yield curve rates. For the purposes of determining operating profit based on longer-term investment returns the charge for these features is determined using historical longer-term equity volatility levels and long-term average yield curves.

The Guaranteed Minimum Income Benefit (GMIB) liability, which is fully reinsured, subject to annual claim limits, is accounted for in accordance with FASB Accounting Standards Codification Subtopic 944-80 (formerly SOP 03-01). As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39 and the asset is therefore recognised at fair value. As the GMIB benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term derivative fluctuation.

(iii) UK shareholder-backed annuity business

With one exception, the operating result based on longer-term investment returns reflects the impact of all value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund.

The exception is for the impact on credit risk provisioning of actual downgrades during the period. As this feature arises due to short-term market conditions, the effect of downgrades, if any, in a particular period, on the overall provisions for credit risk is included in the category of short-term fluctuations in investment returns.

The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(d) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

Additional segmental analysis of revenue

The additional segmental analyses of revenue from external customers are as follows:

	Half year 2010				
	Asia	**US**	**UK**	**Intragroup**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue from external customers:					
Insurance operations	**3,009**	**5,676**	**2,733**	**(6)**	**11,412**
Asset management	**120**	**295**	**322**	**(146)**	**591**
Unallocated corporate	**-**	**-**	**7**	**-**	**7**
Intragroup revenue eliminated on consolidation	**(36)**	**(32)**	**(84)**	**152**	**-**
Total revenue from external customers	**3,093**	**5,939**	**2,978**	**-**	**12,010**

	Half year 2009				
	Asia	**US**	**UK**	**Intragroup**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue from external customers :					
Insurance operations	2,783	3,970	3,048	(8)	9,793
Asset management	64	190	162	(122)	294
Unallocated corporate	-	-	5	-	5
Intragroup revenue eliminated on consolidation	(32)	(29)	(69)	130	-
Total revenue from external customers	2,815	4,131	3,146	-	10,092

	Full year 2009				
	Asia	**US**	**UK**	**Intragroup**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue from external customers:					
Insurance operations	5,336	9,097	5,822	(11)	20,244
Asset management	213	499	513	(271)	954
Unallocated corporate	-	-	12	-	12
Intragroup revenue eliminated on consolidation	(70)	(67)	(145)	282	-
Total revenue from external customers	5,479	9,529	6,202	-	21,210

Revenue from external customers is made up of the following:

	Half year 2010	**Half year 2009**	**Full year 2009**
	£m	**£m**	**£m**
Earned premiums, net of reinsurance	**11,256**	9,518	19,976
Fee income from investment contract business and asset management (included within 'Other income')	**754**	574	1,234
Total revenue from external customers	**12,010**	10,092	21,210

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G, the US and the Asian asset management businesses earns fees for investment management and related services. These fees totalled £146 million in half year 2010 (half year 2009: £122 million; and full year 2009: £271 million) and are included in the asset management segment above. In half year 2010, the remaining £6 million (half year 2009: £8 million; full year 2009: £11 million) of intragroup revenue was recognised by UK insurance operations. These services are charged at appropriate arm's length prices, typically priced as a percentage of funds under management.

D Profit before tax - Asset management operations

The profit included in the income statement in respect of asset management operations is as follows:

	M&G	**US**	**Asia**	**Half year**	Half year	Full year

				2010	2009	2009
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue (note (i))	**364**	**299**	**121**	**784**	663	1,516
Charges (note (i))	**(225)**	**(284)**	**(85)**	**(594)**	(537)	(1,163)
Profit before tax	**139**	**15**	**36**	**190**	126	353
Comprising:						
Operating profit based on longer-term investment returns (note (ii))	**143**	**15**	**36**	**194**	125	297
Short-term fluctuations in investment returns	**12**	**-**	**-**	**12**	3	70
Actuarial losses on defined benefit pension schemes	**(16)**	**-**	**-**	**(16)**	(2)	(14)
	139	**15**	**36**	**190**	126	353

Notes

(i) Included within M&G are realised and unrealised net investment gains/losses in respect of consolidated investment funds and Prudential Capital. The investment funds are managed on behalf of third parties and consolidated under IFRS in recognition of the control arrangements for the funds. The investment gains/losses in respect of the investment funds are non-recourse to M&G and the Group and are added back through charges. Consequently there is no impact on profit before tax. Excluding the grossing up in respect of the consolidated investment funds, the revenue for M&G would be £ 338 million (half year 2009: £262 million; full year 2009: £697 million) and the charges £199 million (half year 2009: £159 million; full year 2009: £403 million).

(ii) M&G operating profit based on longer-term investment returns

	Half year	Half year	Full year
	2010	2009	2009
	£m	**£m**	**£m**
Asset management fee income	**298**	195	457
Other income	**1**	7	13
Staff costs	**(122)**	(85)	(205)
Other costs	**(58)**	(42)	(100)
Underlying profit before performance-related fees	**119**	75	165
Performance-related fees	**3**	-	12
Operating profit from asset management operations	**122**	75	177
Operating profit from Prudential Capital	**21**	27	61
Total M&G operating profit based on longer-term investment returns	**143**	102	238

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown in the main table primarily relates to income and investment gains (losses) earned by Prudential Capital and by investment funds controlled by the asset management operations which are consolidated under IFRS.

E Key assumptions, estimates and bases used to measure insurance assets and liabilities

(i) Asian insurance operations

(a) In half year 2010, one-off changes made to reserving assumptions resulted in a release from liabilities of £19 million.

(b) In 2009, the local regulatory basis in Malaysia was replaced by the Malaysian authority's Risk-Based Capital (RBC) framework. In light of this development, the Company re-measured these liabilities by reference to the method applied under the new RBC framework which resulted in a one-off release from liabilities at 1 January 2009 of £63 million.

(ii) US insurance operations

(c) In half year 2010, half year 2009, full year 2009 and full year 2008, the operating result for Jackson was affected by net equity hedge effects in the following manner:

	Half year 2010 £m	**Half year 2009 £m**	**Full year** 2009 **£m**	Full year 2008 **£m**
Result excluding equity hedge result and related amortisation of deferred acquisition costs (note (i))	**327**	240	618	335
Equity hedge results net of related amortisation of deferred acquisition costs	**123**	(23)	(159)	71
Operating profit based on longer-term investment returns	**450**	217	459	406

Note

(i) The result excluding the equity hedge result after amortisation of deferred acquisition costs which varies both with the underlying financial performance of the Jackson business and with the difference between the actual separate account return in the period and that assumed in the prior year DAC valuation. This acceleration or deceleration in DAC as a result of market movement is discussed further in note S.

Equity hedge results

The equity hedge result relates to the management of the equity hedge risk within the Group's variable annuity, and to a much lesser extent fixed index annuity businesses. It primarily reflects the difference between the value movement included in operating profit on free-standing derivatives and the movement in the accounting value of liabilities for guarantees in Jackson's variable annuity products. For certain of these guarantees, namely Guaranteed Minimum Death Benefit (GMDB) and "for-life" Guaranteed Minimum Withdrawal Benefit (GMWB) features, the liabilities are not fair valued for accounting purposes but are reported pursuant to the US GAAP measurement basis applied for IFRS. Among other factors, these differences in approach to valuing assets and liabilities give rise to variable hedging gains or losses, which for the six month period ended 30 June 2010 totalled £123 million positive after allowing for related DAC amortisation. Over the longer term it is anticipated that such gains and losses will substantially reverse. The total cumulative impact of these equity hedge results, net of related deferred acquisition costs, for the 30 months ended 30 June 2010 is a small gain of £35 million.

Jackson hedges on an economic basis all embedded derivatives as well as related fees and claims, through a combination of options and futures after taking into account the natural offsets in the book. These equity related hedging instruments and the liabilities to which they relate have been included in operating results consistent with the fees and claims to which they will ultimately relate.

(iii) UK insurance operations - annuity business: allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

The additional yield received on corporate bonds relative to swaps can be broken into the following constituent parts:

- the expected level of future defaults;
- the credit risk premium that is required to compensate for the potential volatility in default levels; and

- the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps.

The credit risk allowance is a function of the asset type and the credit quality of the underlying portfolio. Government bonds are generally given a credit default allowance of zero. For corporate bonds the credit allowance varies by credit rating. An analysis of the credit ratings of debt securities is included in note V.

Given that the normal business model is for Prudential's annuity business to hold bonds to match long-term liabilities, the valuation rate that is applied to discount the future annuity payments includes a liquidity premium that reflects the residual element of current bond spreads over swap rates after providing for the credit risk.

Historically, until the second half of 2007, when corporate bond spreads widened significantly, the allowance for credit risk was calculated as the long-term expected defaults and a long-term credit risk premium. This long-term credit risk was supplemented by a short-term allowance from 31 December 2007 to allow for the concern that credit ratings applied by the rating agencies may be downgraded and defaults in the short term might be higher than the long-term assumptions.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 30 June 2010, 30 June 2009 and 31 December 2009, based on the asset mix at the relevant balance sheet date are shown below.

30 June 2010	**Pillar I regulatory basis**	**Adjustment from regulatory to IFRS basis**	**IFRS**
	(bps)	**(bps)**	(bps)
Bond spread over swap rates (note (i))	**173**	**-**	**173**
Credit risk allowance			
Long-term expected defaults (note (ii))	**17**	**-**	**17**
Long-term credit risk premium (note (iii))	**11**	**-**	**11**
Short-term allowance for credit risk (note (iv))	**39**	**(25)**	**14**
Total credit risk allowance	**67**	**(25)**	**42**
Liquidity premium	**106**	**25**	**131**

30 June 2009	**Pillar I regulatory basis**	**Adjustment from regulatory to IFRS basis**	**IFRS**
			(bps)

	(bps)	(bps)	
Bond spread over swap rates (note (i))	275	-	275
Credit risk allowance			
Long-term expected defaults (note (ii))	24	-	24
Long-term credit risk premium (note (iii))	15	-	15
Short-term allowance for credit risk (note (iv))	46	(28)	18
Total credit risk allowance	85		