PRUDENTIAL PLC
Form 6-K
August 10, 2017
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

12 Arthur Street,

London EC4R 9AQ, England

(Address of Principal Executive Offices)

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

Form 20-F X Form 40-F __

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

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

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This report on Form 6-K is hereby incorporated by reference, in its entirety, into Prudential Public Limited Company s registration statement on Form F-3 (File No. 333-199148).

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As used in this document, unless the content otherwise requires; the terms Prudential , the Group , we , us and our refer to Prudential plc, together with its subsidiaries, while the terms Prudential plc , the Company and the parent company each refer to Prudential plc .

Limitations on Enforcement of US Laws against Prudential plc, its Management and Others

Prudential plc is a public limited company incorporated and registered in England and Wales. Most of its directors and executive officers are resident outside the United States, and a substantial portion of its assets and the assets of such persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or Prudential plc in US courts judgements obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there may be doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgements of US courts, of liabilities predicated solely upon the federal securities laws of the United States.

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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. Certain data is derived from Prudential s consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2017, there were no unendorsed standards effective for the periods presented below which impact the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below is derived from Prudential s consolidated financial statements prepared in accordance with IFRS as issued by the IASB. This table is only a summary and should be read in conjunction with Prudential s unaudited condensed consolidated interim financial statements and the related notes included in this document, together with the Summary of Operating and Financial Review and Prospects section below.

	Six Months Ended 30 June		
	2017[(1)]	**2017**	**2016**
	(In $ Millions)	**(In £ Millions)**	**(In £ Millions)**
Income statement data			
Earned premiums, net of reinsurance	**27,496**	**21,158**	17,394
Investment returns	**26,807**	**20,629**	17,062
Other income	**1,587**	**1,222**	1,085
Total revenue, net of reinsurance	**55,890**	**43,009**	35,541
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(46,057)**	**(35,442)**	(30,939)
Acquisition costs and other expenditure	**(6,926)**	**(5,330)**	(3,563)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(281)**	**(216)**	(169)
Disposal of Korea life business:			
Cumulative exchange loss recycled from other comprehensive income	**79**	**61**	-
Remeasurement adjustments	**6**	**5**	-
Total charges, net of reinsurance	**(53,179)**	**(40,922)**	(34,671)
Share of profits from joint ventures and associates, net of related tax	**156**	**120**	86
Profit before tax *(being tax attributable to shareholders and policyholders returns)*[(2)]	**2,867**	**2,207**	956
Tax charge attributable to policyholders returns	**(510)**	**(393)**	(292)
Profit before tax attributable to shareholders	**2,357**	**1,814**	664
Tax (charge) credit attributable to shareholders returns	**(401)**	**(309)**	23
Profit for the period attributable to equity holders of the Company	**1,956**	**1,505**	687

	Six Months Ended 30 June		
	2017[(1)]	**2017**	**2016**
Other data			
Based on profit for the period attributable to the Prudential s equity holders:			
Basic earnings per share	**76.3 ¢**	**58.7p**	26.9p
Diluted earnings per share	**76.2 ¢**	**58.6p**	26.8p
Dividend per share paid in reporting period:			

Second interim dividend for prior year[5]	**39.73 ¢**	**30.57**	26.47p
Equivalent cents per share[6]		**39.80¢**	38.42¢
Special dividend for prior year[5]	**-**	**-**	10.00p
Equivalent cents per share[6]		**-**	14.51¢
Market price per share at end of period[7]	**2288 ¢**	**1761p**	1257p
Weighted average number of shares (in millions)		**2,565**	2,558

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	As at 30 June		As at 31 December
	2017[1]	2017	2016
	(In $ Millions)	(In £ Millions)	(In £ Millions)
Statement of financial position data			
Total assets	**625,228**	**481,130**	470,498
Total policyholder liabilities and unallocated surplus of with-profits funds	**538,084**	**414,070**	403,313
Core structural borrowings of shareholder-financed operations	**8,595**	**6,614**	6,798
Total liabilities	**605,151**	**465,680**	455,831
Total equity	**20,077**	**15,450**	14,667

	As of and for the Six Months Ended 30 June		
	2017[1]	2017	2016
	(In $ Millions)	(In £ Millions)	(In £ Millions)
Other data			
New business:			
Single premium sales[3]	**22,071**	**16,984**	13,755
New regular premium sales[3][4]	**2,503**	**1,926**	1,604
Funds under management	**825,053**	**634,900**	562,300

(1) Amounts stated in US dollars in the half year 2017 column have been translated from pounds sterling at the rate of $1.2995 per £1.00 (the noon buying rate in New York City on 30 June 2017).

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

(3) The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders (see EEV basis, new business results and free surplus generation below). The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 Insurance Contracts as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and guaranteed investment contracts and similar funding agreements written in US operations.

The new business premiums shown above, including the comparative figures, exclude the new business premiums from the sold Korea life business, the sale of which was completed in May 2017.

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

(5) Under IFRS, dividends declared or approved after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes dividend in respect of the prior year that was declared or approved after the balance sheet date of the prior reporting period. The parent company dividend relating to the reporting period was a first interim dividend of 14.50p per share, as against an interim dividend of 12.93p per share for the first half of 2016.

(6) The dividend per share has been translated into US dollars at the noon buying rate in New York City on the date each payment was made.

(7) Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Forward-Looking Statements

This document may contain forward-looking statements with respect to certain of Prudential s plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential s beliefs and expectations and including, without limitation, statements containing the words may , will , should , continue , aims , estimates , projects , believes , inten plans , seeks and anticipates , and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential s actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK s decision to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or G-SII ; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential s business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential s actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential s forward-looking statements can be found under the Risk Factors heading in this document.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the Risk Factors heading of this document. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business.

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Summary of Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with Prudential s unaudited condensed consolidated interim financial statements and the related notes for the period ended 30 June 2017 included in this document. The critical accounting policies which have been applied to these statements are discussed in the section below entitled IFRS Critical Accounting Policies .

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains 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 due to a number of factors (including those discussed in the Risk Factors section of this document). See also the discussion under the heading Forward-looking statements above.

Introduction and Overview

In the first half of 2017, Prudential continued to provide a broad range of financial products and services, primarily to the retail market. Prudential s principal operations continue to be in Asia, the United States and the United Kingdom. The accounting policies applied by Prudential in determining the IFRS basis results reflected in Prudential s unaudited condensed consolidated interim financial statements for the period ended 30 June 2017 are the same as those previously adopted in Prudential s consolidated financial statements for the year ended 31 December 2016.

Currency volatility

Despite the uncertainty caused by the outcome of the general election in the UK, sterling has strengthened slightly against most of the currencies in our major international markets since the beginning of the year. However, average sterling exchange rates in the first half of 2017 were significantly lower than in the same period in 2016, contributing to a positive effect on the translation of our non-sterling operations.

In 2014 we adopted the approach of evaluating the financial performance of the Group by presenting percentage growth rates before the impact of the fluctuations in the value of sterling against local currencies in the US and Asia. In a period of currency volatility this approach allows a more meaningful assessment of underlying performance trends. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects. To maintain comparability in the discussion below the same basis has been applied. Growth rates based on actual exchange rates are also shown in the financial tables presented in this report. Consistent with previous reporting periods, the assets and liabilities of our overseas businesses are translated at period-end exchange rates so the effect of currency movements has been fully incorporated within reported shareholders equity.

The table below explains how the Group s profit before tax on an IFRS basis reconciles to profit before tax and the supplementary analysis of operating profit based on longer-term investment returns. Further explanation on the determination of operating profit based on longer-term investment returns is provided in the Basis of Performance Measures section. Further explanation on non-operating items is provided in the sub-section IFRS non-operating items . The table presents the half year 2016 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (AER) are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. Constant Exchange Rates (CER) results are calculated by translating prior period results using the current period foreign exchange rate i.e. current period average rates for the income statement and current period closing rates for the balance sheet. Further discussion on currency volatility and the use of constant exchange rates to discuss the performance of our businesses is provided in the Reconciliation of total profit by business segment and geography to IFRS operating profit based on longer-term investment returns section of this document.

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IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2017 £m	2016 £m	Change	2016 £m	Change
	Half year	Half year	%	Half year	%
Profit after tax for the period attributable to shareholders	**1,505**	687	119%	720	109%
Tax attributable to shareholders returns	**309**	(23)	n/a	(43)	n/a
Profit before tax attributable to shareholders	**1,814**	664	173%	677	168%
Non-operating items:					
Losses/(gains) from short-term fluctuations in investment returns	**573**	1,385	(59)%	1,580	(64)%
Other non-operating expense/(income)	**32**	35	(9)%	39	(18)%
Cumulative exchange (gain) on the sold Korea life business recycled from other comprehensive income	**(61)**	-	n/a	-	n/a
Profit attaching to the held for sale Korea life business	**-**	(40)	n/a	(47)	n/a
	544	1,380	(61)%	1,572	(65)%
Operating profit before tax based on longer-term investment returns(i),(ii)	**2,358**	2,044	15%	2,249	5%
Analysed into:					
Insurance operations:					
Asia	**870**	667	30%	752	16%
US	**1,079**	888	22%	1,010	7%
UK	**497**	492	1%	492	1%
Asset management:					
M&G	**248**	225	10%	225	10%
Prudential Capital	**6**	13	(54)%	13	(54)%
Eastspring Investments	**83**	61	36%	69	20%
US	**(6)**	(12)	50%	(13)	54%
Other income and expenditure	**(419)**	(290)	(44)%	(299)	(40)%
Operating profit before tax based on longer-term investment returns(i),(ii)	**2,358**	2,044	15%	2,249	5%

(i) Operating profit before tax based on longer-term investment returns for half year 2016 includes £43 million in relation to interest received from tax settlement.

(ii) Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. All comparative results have been similarly adjusted.

In the remainder of this section every time we comment on the performance of our businesses, (except with respect to cash remittances), we focus on their performance measured in local currency (presented here by reference to percentage growth expressed at constant exchange rates) unless otherwise stated. In each such case, the performance of our businesses in actual exchange rate terms was explained by the same factors discussed in the comments below and the impact of currency movements implicit in the CER data.

Overview

Profit after tax for half year 2017 was £1,505 million compared to a profit of £687 million in the first half of 2016 (on an actual exchange rate basis). The increase reflects the movement in profit before tax attributable to shareholders, which increased from a profit before tax of £664 million in half year 2016 (on an actual exchange rate basis) to a profit of £1,814 million in half year 2017, partially offset by an increase in the tax charge attributable to shareholders returns from a tax credit of £23 million in half year 2016 (on an actual exchange rate basis) to a tax charge of £309 million in half year 2017.

On an actual exchange rate basis, the increase in the total profit before tax attributable to shareholders from £664 million in half year 2016 to £1,814 million in half year 2017 reflects an improvement in operating profit based on longer-term investment returns of £314 million or 15 per cent, which was further improved by a favourable

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change in non-operating items of £836 million, from a loss of £1,380 million to a loss of £544 million. The improvement of £314 million in total operating profit based on longer-term investment returns on an actual exchange rate basis reflects an increase in Asia (from £728 million to £953 million), the US (from £876 million to £1,073 million), the UK insurance operations (from £492 million to £497 million) and M&G (from £225 million to £248 million), partially offset by a decrease in Prudential Capital s operating profit based on longer-term investment returns (from £13 million to £6 million) and an increase in loss from other income and expenditure (from a loss of £290 million to £419 million). The increase of £314 million or 15 per cent in total operating profit based on longer-term investments includes a positive exchange translation impact of £205 million. Excluding the currency volatility, on a constant exchange rate basis, total operating profit based on longer-term investment returns increased from £2,249 million to £2,358 million.

In the first half of 2017, the performance of the Group has been underpinned by the successful execution of our strategy, driven by the strength of our capabilities and the quality of our products.

Prudential helps to remove uncertainty from the most significant financial moments in the lives of our customers. We provide financial protection against unexpected events such as the diagnosis of critical illness or the loss of a loved one, the opportunity to turn savings into reliable retirement income and the ability to look to the future with confidence. At the same time, we put our customers money to work by investing in the real economy, fuelling growth and improving the quality of people s lives in the communities in which we work.

Our strategy is focused on markets where the opportunities for us are strongest. In each of these markets, we are developing our product range and improving our distribution and technological capabilities in order to meet the needs of customers as fully as we can.

On 10 August 2017, we announced an important step forward for our UK businesses. We are combining M&G and Prudential UK & Europe to create a savings and investments business focused on meeting growing customer demand for comprehensive financial solutions. Combining these businesses will allow us to better leverage our considerable scale and capabilities. This will enable us to increase our growth prospects by providing better outcomes for our millions of customers.

Our first half financial performance

We have continued to make progress in the first half, building on the positive business momentum seen in the second half of 2016.

Our life businesses in Asia remain the key driver of growth for the Group, with a double-digit increase in our profitability, capital generation and cash metrics, as we continue to build out our capabilities and increase our scale across the region. We have also seen a positive performance from our asset management operations, with combined net inflows[1] from external clients at record levels for the period. In our UK life business, consumer appetite for our distinctive PruFund product proposition is supporting high levels of growth in new business sales, while in the US Jackson continues to outperform its peers in the variable annuity market[2].

Group operating profit based on longer-term investment returns[3] increased by 5 per cent[4] (15 per cent on an actual exchange rate basis) to £2,358 million, reflecting growth in Asia, the US and in our UK asset management operations. IFRS operating profit continues to benefit from the recurring nature of our earnings and our focus on income from protection and fee business.

We announced objectives for 2017 at our investor conference in December 2013 in London on underlying free surplus generation[16] at the Group level and in Asia and growth of Asia life and asset management pre-tax operating profit based on longer-term investment returns[17]. With the first half contribution, we have now exceeded the Group cumulative free surplus financial objective six months early. We remain on track to achieve our Asia objectives by the end of this year.

In Asia, the addition of long-term, high-quality new business is building scale in our in-force portfolio, which underpins growth and security in current and future earnings and cash generation. Operating profit based on longer-term investment returns[3] in Asia increased by 16 per cent[4] (up 31 per cent on an actual exchange rate basis). Our Asia-based asset manager, Eastspring, ended the period with total funds under management of £131 billion, 11 per cent higher on an actual exchange rate basis than at the start of the year.

In the US, Jackson s variable annuity business continues to drive earnings, with operating profit based on longer-term investment returns[3] in this product line increasing by 17 per cent (33 per cent on an actual exchange rate

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basis) on higher asset balances that reflect continued positive net flows and market appreciation. Our business was well prepared for the application of the Department of Labor reforms on 9 June and has maintained relationships with its key distribution partners. Although some uncertainty remains on the direction of the regulatory process, we continue to develop products and distribution that meet the needs and preferences of the market, backed by a distinctive value proposition that differentiates Jackson from its peers.

In the UK and Europe, M&G and our life operations are both securing significant business flows, driven by the strength of their product performance and market position. At M&G, institutional net inflows of £1.7 billion and record retail net inflows of £5.5 billion have contributed to period-end assets under management on behalf of external clients of £149 billion. Together with internal assets, M&G s total assets under management have increased by 6 per cent to £281 billion since the end of 2016, resulting in a 10 per cent increase in operating profit based on longer-term investment returns[3]. In our UK life operations, growth is seen in flexible personal pensions, backed by the popular PruFund investment option.

We continue to operate with strong, conservatively managed cash and capital positions at both the Group and local levels. Cash remittances from our business units to the Group increased by 10 per cent to £1,230 million (2016: £1,118 million), with well-balanced contributions across all of our geographic regions. The Group s shareholder Solvency II capital surplus[5] was £12.9 billion at 30 June 2017, equating to cover of 202 per cent[6].

Over the period IFRS shareholders funds increased by 5 per cent[7] to £15.4 billion after taking into account profit after tax of £1,505 million (2016: £687 million on an actual exchange rate basis) and other movements including negative foreign exchange movements of £224 million.

A clear and consistent strategy

This performance demonstrates the success of our clear and consistent strategy, which is focused on three long-term opportunities in Asia, the US and the UK, each driven by a structural and growing demand for our products.

In Asia we offer products that meet the savings, health and protection needs of the region s fast-growing and increasingly affluent middle class. Over the next five years, nearly 700 million people in Asia are expected to enter the middle class[8], driving sustained and material growth in consumer demand. By 2020, the spending of the middle class in the Asia-Pacific region is expected to surpass that of the US and Europe combined[8].

The rapidly increasing scale of the Asian middle class is creating a growing need for the financial savings and protection products we provide. Those needs are largely unmet today, with the protection gap in Asia estimated at $45 trillion[9] and private health insurance in some areas accounting for less than a quarter of private healthcare spend[10], while insurance penetration remains extremely low[11]. As a result, there is a clear market opportunity for our products in Asia.

The United States is the world s largest retirement savings market, with 10,000 Americans retiring per day[12], which is a significant opportunity for us as a provider of retirement products and income strategies. Consumers in the US express clear demand for an investment option through which they can grow their savings while protecting income. Our variable annuity products meet this need, making them attractive for people moving into retirement. More than $16 trillion is invested in adviser-distributed retirement assets in the US[13], while variable annuities account for just $2 trillion[14] of that amount, demonstrating the scale of the opportunity for us.

There is a similar demand from under-saved populations in Europe. In the United Kingdom the proportion of the population aged over 60 is expected to increase by 50 per cent over the next 20 years[15]. As in the US, the demand for risk-managed investments to fund retirement represents a significant area of growth for our business. Our new combined business, M&G Prudential, will leverage our scale, financial strength and capabilities to continue developing customer-focused solutions and thereby more fully address these needs.

Our customers and products

We address all three of these long-term opportunities through our close attention to the needs of our customers and by continually improving our products and capabilities to meet those needs.

In Asia, our broad-based portfolio of businesses continues to drive our progress. We remain focused on the quality of our execution in addressing distinct consumer needs and opportunities in each of our local markets. In Hong Kong, our track record of introducing innovative features to our range of health and savings products has established us as a leader in the growing critical illness protection segment, and in June we strengthened that track record with the launch of a new lump-sum health insurance policy providing whole of life cover against 75 early to late stage disease conditions. In mainland China, our long-term joint-venture partnership with CITIC is reaching more customers than ever, and China is now our third-largest contributor to new business sales in Asia. We are continuing to build the scale of our platform in China, through expansion of our bancassurance and agency distribution, and by launching in new cities such as Taizhou, our 72nd city, in Zhejiang province in July.

In Singapore, we have introduced more flexibility for customers buying private healthcare insurance with market-leading product options to encourage healthy living and help them better manage their healthcare budgets. We also introduced our first DNA-based health and nutrition programme in Singapore, following the successful launch in Hong Kong last year. In Indonesia, we launched a new medical rider, PRUprime healthcare, in February, followed by its syariah version in April. Designed to meet the needs of customers in a higher economic segment, it includes among its features worldwide coverage with emergency hospitalisation in the US and cashless admission at a network of Prudential partner hospitals in Indonesia, Singapore and Malaysia.

Eastspring continues to attract good levels of net inflows and in May won Asian Investor s prestigious Asia Fund House of the Year award for the second time in three years. In June Eastspring became the first Asian investor to sign an agreement with International Finance Corporation, a member of the World Bank Group, committing US $500 million to a programme to fund infrastructure projects in emerging markets. This is an example of our commitment to the economies and communities of developing countries.

In the United States, we are continuing to develop our business to ensure that we capture the opportunity presented by the large numbers of Americans reaching retirement age in the next decade. As regulatory developments and industry trends introduce new areas of growth potential in variable annuities, for example in the fee-based advice market, we are adapting our product accordingly, while using our superior platform and distribution capabilities to drive speed-to-market. During the first half of 2017, we launched a fee-based version of our popular Elite Access product, filed a new fee-based version of our leading Perspective variable annuity and saw Jackson maintain relationships with its key distributors post the application of the Department of Labor s fiduciary rule on 9 June. We remain well positioned to build on our strength in the US retirement market.

Our businesses in the UK are serving customers with needs similar to those of consumers in the US. At M&G, we are developing the breadth and the depth of our offering, designing products that align to the outcomes our customers are looking to achieve. Our strong track record of translating innovative investment strategies to commercial success distinguishes M&G from its peers. Our Global Floating Rate High Yield Fund is a clear example of this, offering customers participation in a rising rate environment through investment in high-yield floating-rate notes. Launched in September 2014, it attracted net inflows of £2,259 million in the first half of 2017 and now has assets under management of over £3.5 billion. We are also making good operational progress in our preparations for Brexit, including setting up a new legal structure and SICAV fund range in Luxembourg. These initiatives will ensure that customers retain access to our investment strategies and funds through the most appropriate structure for their needs.

Prudential UK & Europe is responding with agility to regulatory change and consumer preferences following the pensions freedoms introduced in 2015. The strength of our retail sales growth shows how the extension of our popular PruFund investment option to ISAs and retirement products, is meeting customers demand for proven investment capability and risk-managed solutions as they move towards the latter stages of accumulation and into retirement income. Our Retirement Account provides a flexible Personal Pension which allows customers to save through single or regular payments, transfer from another pension and take income flexibly, and has proven popular with customers, accumulating funds under management of £4.1 billion since its launch at the end of 2016.

Since 2014 we have also been offering our products to a new and growing middle class in Africa, and just last month we entered our fifth African market, Nigeria, building on our success in Ghana, Kenya, Uganda and Zambia. The conditions for growth in these markets are similar to those in Asia 20 years ago, and we are excited about the long-term outlook for our new businesses in the region.

Our capabilities

We continue to invest in our capabilities across the organisation. We are developing a range of digital innovations that will enable us to serve our customers at greater scale and speed, and we continue to invest in talent. In July,

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we welcomed Mark FitzPatrick to our executive team as Chief Financial Officer, succeeding Nic Nicandrou, who has taken over from Tony Wilkey as Chief Executive of PCA.

Our outlook long-term growth

Our ability to serve the needs of consumers across the wide footprint of our target markets creates value for our customers and our shareholders. Our strategy is focused on markets where the need for our products is strong and growing, and we continue to develop our products and our capabilities to ensure that we access those opportunities to the fullest.

Global economic conditions remain uncertain and markets remain volatile. However, the strength of the underlying opportunities we are accessing, and our proven ability to innovate to create new products and develop our capabilities, along with our ongoing focus on risk management and the strength of our balance sheet leave us well positioned to continue to grow profitably into the future.

Notes:

1. External net inflows exclude Asia Money Market Fund (MMF) net inflows of £499 million (2016: net inflows of £656 million on an actual exchange rate basis).
2. ©2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. 1Q 2017 Morningstar VA Report with Commentary.
3. IFRS operating profit is management s primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in the Basis of Performance Measures section.
4. Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. The half year 2016 comparative results have been similarly adjusted.
5. The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus. The solvency positions include management s estimate of transitional measures reflecting operating and market conditions at the valuation date. The estimated Group shareholder surplus would increase from £12.9 billion to £13.6 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.
6. Before allowing for first interim dividend (31 December 2016: Second interim dividend).
7. Comparable to 31 December 2016 on an actual exchange rate basis
8. Brookings institution, the unprecedented expansion of the global middle class, 2017.
9. Swiss Re, Mortality Protection Gap: Asia-Pacific, 2015.
10. World Bank, Out-of-pocket health expenditure, 2014.
11. OECD, Global insurance market trends, 2016
12. Social Security Administration, Annual Performance Plan 2012.
13. Cerulli Associates US Advisor Metrics 2016.
14. LIMRA/SRI U.S. Individual Annuities Executive Summary 1Q YTD 2017.
15. UK Government Office for Science, Future of an ageing population, 2016.
16. Underlying free surplus generated comprises underlying free surplus generated from long-term business (net of investment in new business) and that generated from asset management operations. Underlying free surplus is

defined in the section EEV Basis, New Business Results and Free Surplus Generation .

17. The objectives assume exchange rates at December 2013 and economic assumptions made by Prudential in calculating EEV basis supplementary information for the half year objectives ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume the existing EEV, IFRS and Free Surplus methodology at December 2013 will be applicable over the period. In addition, following its sale in May 2017, the operating results exclude the contribution of the Korea life business and all comparative results have been similarly adjusted. The relevant 2017 objective (Asia IFRS operating profit) has been adjusted accordingly.

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Financial Performance

IFRS Critical Accounting Policies

Prudential s discussion and analysis of its financial condition and results of operations are based upon Prudential s consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU. The Group s policy for preparing this consolidated 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 IFRS that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 30 June 2017, there were no unendorsed standards effective for the period ended 30 June 2017 which impact the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential s financial information for the period ended 30 June 2017 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and 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 and the fair value of assets.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions.

Prudential s critical accounting policies and the critical aspects of its estimates and judgements in determining the measurement of the Group s assets and liabilities are further discussed IFRS Critical Accounting Policies of the Group s 2016 annual report on Form 20-F. In preparing the unaudited condensed consolidated interim financial statements included elsewhere in this document, the significant judgements made by management in applying the Group s accounting policies and the key sources of estimation uncertainty were for the same items as those described therein, which are:

- Classification of insurance and investment contracts;
- Measurement of policyholder liabilities;
- Measurement of deferred acquisition costs;
- Determination of fair value of financial investments; and
- Determining impairment related to financial assets.

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Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential s consolidated total profit on an actual exchange rate basis for the periods indicated.

	2017 £m Half year	2016 £m Half year
Total revenue, net of reinsurance	**43,009**	35,541
Total charges, net of reinsurance	**(40,922)**	(34,671)
Share of profits from joint ventures and associates, net of related tax	**120**	86
Profit before tax *(being tax attributable to shareholders and policyholders returns)**	**2,207**	956
Less tax charge attributable to policyholders returns	**(393)**	(292)
Profit before tax attributable to shareholders	**1,814**	664
Total tax charge attributable to policyholders and shareholders	**(702)**	(269)
Adjustment to remove tax charge attributable to policyholders returns	**393**	292
Tax (charge)/credit attributable to shareholders returns	**(309)**	23
Profit for the period	**1,505**	687

*This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as with-profits and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its unaudited condensed consolidated interim results by reference to profits for the period, reflecting profit after tax. In explaining movements in profit for the period, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 to Prudential s unaudited condensed consolidated interim financial statements. This basis is used by management and reported externally to the holders of shares listed on the UK, Hong Kong and Singapore exchanges and to the financial markets in those countries. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

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Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

a) Group overview

Profit after tax for half year 2017 was £1,505 million compared to a profit of £687 million in the first half of 2016. The increase reflects the movement in profit before tax attributable to shareholders, which increased from a profit before tax of £664 million in half year 2016 to a profit of £1,814 million in half year 2017, partially offset by an increase in the tax charge attributable to shareholders returns from a tax credit of £23 million in half year 2016 to a tax charge of £309 million in half year 2017.

The increase in the total profit before tax attributable to shareholders from £664 million in half year 2016 to £1,814 million in half year 2017 reflects primarily an improvement in operating profit based on longer-term investment returns from £2,044 million in half year 2016 to £2,358 million in half year 2017 and a favourable change in non-operating items of £836 million from a negative £1,380 million in half year 2016 to a negative £544 million in half year 2017. The increase of £314 million or 15 per cent in operating profit based on longer-term investment returns includes a positive impact of exchange translation of £205 million. Excluding the currency volatility, on a constant exchange rate basis, the Group operating profit based on longer-term investment returns increased by £109 million or 5 per cent reflecting growth in Asia, the US and in the UK asset management.

The favourable change in non-operating items of £836 million is primarily due to the favourable change in short-term fluctuations in investment returns from negative £1,385 million in half year 2016 to £573 million in half year 2017 and the inclusion in half year 2017 of a £61 million cumulative foreign exchange gains recycled from other comprehensive income upon the disposal of the Korea life business.

The half year 2017 effective rate of tax on the total profit attributable to shareholders was 17 per cent (half year 2016: negative 3 per cent). The movement is driven by a reduction in the negative short-term fluctuations in the US insurance operations, which attracts tax relief at a higher rate than profits taxed elsewhere in the Group.

b) Summary by business segment and geographical region

Prudential s operating segments, as determined under IFRS 8, are insurance operations split by geographic regions in which it conducts business, which are Asia, the US and the UK, and asset management operations. The asset management operations are split into M&G, which is Prudential s UK and European asset management business, Prudential Capital, which undertakes treasury functions for the Group, Eastspring Investments, which is the Asia asset management business, and the US broker-dealer and asset management business.

The following table shows Prudential s IFRS consolidated total profit (loss) after tax for the periods indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in Prudential s consolidated accounts.

	2017 £m Half year				
	Asia	US	UK	Unallocated corporate**	Total

Insurance operations	**835**	**249**	**411**	**-**	**1,495**
Asset management*	**72**	**(4)**	**273**	**-**	**341**
Total profit attributable to the segments	**907**	**245**	**684**	**-**	**1,836**
Unallocated corporate	**-**	**-**	**-**	**(331)**	**(331)**
Total profit (loss) for the period	**907**	**245**	**684**	**(331)**	**1,505**

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	2016 £m (Actual Exchange Rate) Half year				
	Asia	US	UK	Unallocated corporate**	Total
Insurance operations	579	(313)	600	-	866
Asset management*	53	(8)	131	-	176
Total profit (loss) attributable to the segments	632	(321)	731	-	1,042
Unallocated corporate	-	-	-	(355)	(355)
Total profit (loss) for the period	632	(321)	731	(355)	687

* For the US, including the broker dealer business

** Representing principally central operations.

Profit from insurance operations

Total profit from insurance operations in half year 2017 was £1,495 million compared to a total profit of £866 million in half year 2016. All of the profits from insurance operations in the half years 2017 and 2016 were from continuing operations. The movement in profits for insurance operations can be summarised as follows:

	2017 £m Half year	2016 £m Half year
Profit before shareholder tax	**1,771**	859
Shareholder tax	**(276)**	7
Profit after tax	**1,495**	866

The increase of £912 million from profit before tax attributable to shareholders in half year 2016 of £859 million compared to a profit of £1,771 million in half year 2017 is attributable to an increase of £399 million in operating profit based on longer-term investment returns from £2,047 million in half year 2016 to £2,446 million in half year 2017 and the positive change of £489 million in the short-term fluctuations in investment returns from a negative £1,193 million in half year 2016 to a negative £704 million in half year 2017. The increase in the operating profit based on longer-term investment returns was primarily driven by continued strong growth in the Asia life insurance and increased levels of fee income on higher variable annuity account balances in the US. The increase of £399 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £207 million.

The effective shareholder tax rate on profits from insurance operations increased from negative 1 per cent in half year 2016 to 16 per cent in half year 2017. The movement is driven by a reduction in negative short-term fluctuations in the US insurance operations, which attracts tax relief at a higher rate than profits are taxed elsewhere in the Group.

In order to understand how Prudential s results are derived, it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asia operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, measurement of the insurance assets and liabilities is determined substantially by reference to US GAAP principles. This basis is applied in India and Taiwan. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described under United Kingdom Basis of profits below.

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Comparison of total profit arising from Asia insurance operations

The following table shows the movement in profit arising from Asia insurance operations from half year 2016 to half year 2017:

	2017 £m Half year	**2016 £m Half year**
Profit before shareholder tax	**968**	704
Shareholder tax	**(133)**	(125)
Profit after tax	**835**	579

The increase of £264 million from the profit before tax is attributable to shareholders in half year 2016 of £704 million to a profit of £968 million in half year 2017 primarily reflects an increase of £203 million in operating profit based on longer-term investment returns (from £667 million to £870 million), a favourable change in short-term fluctuations in investment returns of £40 million (from £1 million to £41 million) and a one-off cumulative exchange gain of £61 million recycled from other comprehensive income upon the disposal of the Korea life business. The increase of £203 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £85 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 16 per cent or £118 million. The increase in operating profit based on longer-term investment returns of our life insurance operations in Asia was as a result of the continued growth of our in-force book of recurring premium business.

The effective shareholder tax rate decreased from 18 per cent in half year 2016 to 14 per cent in half year 2017 reflecting an increase in the proportion of income that is not subject to local taxation.

United States

Basis of profits

The underlying profit on Jackson s business arises predominantly from fee income on variable annuity business, spread income from interest-sensitive products, such as fixed annuities and institutional products, and insurance margin, net of expenses measured on a US GAAP basis. In addition, the profit (including non-operating items) in any period include the incidence of realised gains and losses (including impairment) on assets classified as available-for-sale, fair value movements on derivatives and securities classified as fair value through profit and loss and value movements on product guarantees.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profits arising from US insurance operations from half year 2016 to half year 2017:

	2017 £m Half year	**2016 £m Half year**
Profit before shareholder tax	**297**	(583)
Shareholder tax	**(48)**	270

Profit after tax	**249**	(313)

The increase of £880 million in profit before tax attributable to shareholders from a loss of £583 million in half year 2016 to a profit of £297 million in half year 2017, primarily comprised an increase of £191 million in operating profit based on longer-term investment returns (from £888 million to £1,079 million) and a positive change of £686 million in short-term fluctuations in investment returns (from a negative £1,440 to a negative £754 million). The increase of £191 million in operating profit based on longer-term investment returns includes a positive exchange translation impact of £122 million. Excluding the currency volatility, on a constant exchange rate basis, the operating profit based on longer-term investment returns in half year 2017 was up 7 per cent or £69 million, reflecting increased levels of fee income on higher variable annuity account balances driven by continued positive net flows and buoyant investment markets.

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The negative short-term fluctuations in the first half are mainly attributable to the net value movement in the period of the hedge instruments held to manage market exposures and reflect the positive equity market performance in the US during the period.

The effective tax rate on profits from US operations decreased from 46 per cent in half year 2016 to 16 per cent in half year 2017. The rate has been altered by the reduction in negative short-term fluctuations, which attracts an effective rate of 35 per cent (half year 2016: 30 per cent) as compared to 30 per cent (half year 2016: 28 per cent) on operating profit.

United Kingdom

Basis of profits

Prudential s results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund recognised in line with the amounts credited or paid to policyholders in the period as well as profits from its shareholder backed annuity and other businesses.

For Prudential s UK insurance operations, the primary annual contribution to shareholders profit comes from its with-profits products. With-profits products are designed to provide policyholders with smooth investment returns through a mix of regular and final bonuses.

For with-profits business (including non-participating business owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

The results of the UK shareholder-backed annuity business reflect the inclusion of investment returns including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B4 to the unaudited condensed consolidated financial statements.

Comparison of total profit arising from UK insurance operations

The following table shows the movement in profits arising from UK insurance operations from half year 2016 to half year 2017:

	2017 £m Half year	**2016 £m Half year**
Profit before shareholder tax	**506**	738
Shareholder tax	**(95)**	(138)
Profit after tax	**411**	600

The decrease of £232 million in profit before tax attributable to shareholders from £738 million in half year 2016 to £506 million in half year 2017 primarily attributable to the negative change of £237 million in the short-term fluctuations in investment returns from £246 million in half year 2016 to £9 million in half year 2017. This negative impact was partially offset by an increase of £5 million in operating profit based on longer-term investment returns from £492 million to £497 million. Operating profit based on longer-term investment returns was in line with the first half of 2016, with lower shareholder annuity profits offset by larger contributions from management actions.

The decrease of £237 million in the gains from the short-term fluctuations in investment returns from £246 million in half year 2016 to £9 million in half year 2017 is attributable to lower gains on bonds backing share capital reflecting a more muted change in interest rates in the first half of 2017 as compared to the same period in 2016.

The effective shareholder tax rate on profits from UK insurance operations for half year 2016 of 19 per cent remained unchanged in half year 2017.

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Profit from asset management

The following table shows the movement in profits from asset management from half year 2016 to half year 2017:

	2017 £m Half year	2016 £m Half year
Profit before shareholder tax	**415**	211
Shareholder tax	**(74)**	(35)
Profit after tax	**341**	176

Total profit before tax from asset management increased from £211 million in half year 2016 to £415 million in half year 2017. The £204 million increase in profit before tax attributable to shareholders in half year 2017 is attributable to an increase of £44 million in operating profit based on longer-term investment returns (from £287 million in half year 2016 to £331 million in half year 2017) and a favourable change in short-term fluctuations in investment returns of £160 million.

The increase of £44 million in operating profit based on longer-term investment returns is attributable to profit increases in M&G of £23 million, Eastspring Investments of £22 million and the US asset management of £6 million, partially offset by a decrease in Prudential Capital of £7 million.

The increase in the M&G operating profit based on longer-term investment returns of £23 million to £248 million in half year 2017 was driven by increased funds under management as a result of asset inflows and positive markets. The increase in the Eastspring Investments operating profit based on longer-term investment returns of £22 million reflected the continued strong growth of its assets under management.

The effective tax rate on profits from asset management operations increased marginally from 17 per cent in half year 2016 to 18 per cent in half year 2017.

Unallocated corporate result

The following table shows the movement in the unallocated corporate result from half year 2016 to half year 2017:

	2017 £m Half year	2016 £m Half year
Loss before shareholder tax	**(372)**	(406)
Shareholder tax	**41**	51
Loss after tax	**(331)**	(355)

The loss after shareholder tax for unallocated corporate activity decreased by £24 million from £355 million in half year 2016 to £331 million in half year 2017.

The loss before shareholder tax decreased by £34 million from £406 million at half year 2016 to £372 million at half year 2017. The decrease in the loss before shareholder tax is attributable to the favourable movement in short-term fluctuations in investment returns of £163 million from a loss of £116 million in half year 2016 to a gain of £47 million in half year 2017, partially offset by the £129 million increase in net other expenditure (including restructuring and Solvency II implementation costs) from £290 million in half year 2016 to £419 million in half year

2017. The increase in net other expenditure primarily reflects higher interest costs related to the debt issued in 2016 and a credit of £43 million in half year 2016 for interest received from a tax settlement.

The effective tax rate on unallocated corporate result decreased from 13 per cent at half year 2016 to 11 per cent at half year 2017, principally reflecting an increase in withholding tax suffered on remittances which is irrecoverable, reducing the overall tax credit.

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Basis of Performance Measures

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group s results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee (GEC), which is Prudential s chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential s other components. An operating segment s operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management). The Group s operating segments determined in accordance with IFRS 8, Operating Segments , are as follows:

Insurance operations:	**Asset management operations:**
Asia	Eastspring Investments
US (Jackson)	US broker-dealer and asset management
UK	M&G
	Prudential Capital

The Group s operating segments are also its reportable segments for the purposes of internal management reporting.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes operating profit based on longer-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns on shareholder-backed business including the impact of short-term market effects on the carrying value of Jackson s guarantee liabilities and related derivatives as explained below;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Profit (loss) attaching to the sold Korea life business including the recycling of the cumulative exchange translation gain on the sold Korea life business from other comprehensive income to the income statement in 2017.

Segment results 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 the Asia Regional Head Office.

Determination of operating profit based on longer-term investment returns for investment and liability movements

(a) General principles

(i) UK style with-profits business
The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

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(ii) Unit-linked business
The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii) US variable annuity and fixed index annuity business
This business has guarantee liabilities which are measured on a combination of fair value and other, US GAAP derived, principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv) Business where policyholder liabilities are sensitive to market conditions
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 (ie after allocated investment return and charge for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively. For other types of Asia non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(v) Other shareholder-financed business
The measurement of operating profit based on longer-term investment returns 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 of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group s shareholder-financed operations.

Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

Debt, equity-type securities and loans

Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

- Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
- The 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.

At 30 June 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £876 million (half year 2016: net gain of £605 million).

Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

Derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson, as discussed below in section (c).

(b) Asia insurance operations

(i) Business where policyholder liabilities are sensitive to market conditions
For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (also applied for IFRS basis) was used.

For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business
Debt securities

For this business the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed operations amounted to £1,535 million as at 30 June 2017 (30 June 2016: £1,035 million). The rates of return applied for half year 2017 ranged from 4.7 per cent to 17.2 per cent (half year 2016: 3.2 per cent to 13.0 per cent) with the rates applied varying by territory. These rates may be different between territories reflecting, for example, differing expectations of inflation in each territory. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures and associates accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

(c) US insurance operations

(i) Separate account business

For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

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(ii) US variable and fixed index annuity business

The following value movements for Jackson s variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii) to the unaudited condensed consolidated financial statements:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the not for life portion of Guaranteed Minimum Withdrawal Benefit and fixed index annuity business, and Guaranteed Minimum Income Benefit reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit and the for life portion of Guaranteed Minimum Withdrawal Benefits and Guaranteed Minimum Income Benefit liabilities, for which, under the grandfathered US GAAP applied under IFRS for Jackson s insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

Embedded derivatives for variable annuity guarantee minimum income benefit

The Guaranteed Minimum Income Benefit liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services Insurance Separate Accounts (formerly SOP 03-1) under IFRS using grandfathered US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, Financial Instruments: Recognition and Measurement , and the asset is therefore recognised at fair value. As the Guaranteed Minimum Income Benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson. Non-equity based 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), product liabilities (for which US GAAP accounting as grandfathered under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based embedded derivatives.

(iv) Other US shareholder-financed business

Debt securities

Jackson is the shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as BlackRock Solutions to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2 to the unaudited condensed consolidated financial statements.

Equity-type securities

As at 30 June 2017, the equity-type securities for US insurance non-separate account operations amounted to £1,256 million (half year 2016: £1,115 million). For these operations, the longer-term rates of return for income and capital applied in half year 2017 and 2016, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2017 Half year	**2016 Half year**
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	**6.2% to 6.5%**	5.5% to 5.9%
Other equity-type securities such as investments in limited partnerships and private equity funds	**8.2% to 8.5%**	7.5% to 7.9%

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The amounts of the actual less longer-term returns for the equity-type securities of the US insurance operations for half year 2017 and 2016 are shown in note B1.2(ii) to the unaudited condensed consolidated financial statements.

(d) UK Insurance operations

(i) Shareholder-backed annuity business

For this 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.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business within the non-profit sub-fund of The Prudential Assurance Company (PAC) after adjustments to allocate the following elements of the movement to the category of short-term fluctuations in investment returns :

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared with assumptions; and
- Short-term value movements on assets backing the capital of the business.

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared with assumptions is included within short-term fluctuations in investment returns without further adjustment. 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.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

(e) 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 in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. 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.

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Analysis of operating profit based on longer-term investment returns

The following tables reconcile Prudential s operating profit based on longer-term investment returns to total profit attributable to shareholders.

	Insurance operations			Asset management						
Half year 2017	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated corporate	Total
					(In £ Millions)					
Operating profit based on longer-term investment returns	870	1,079	497	248	6	(6)	83	2,777	(419)	2,358
Short-term fluctuations in investment returns on shareholder- backed business	41	(754)	9	33	51	-	-	(620)	47	(573)
Amortisation of acquisition accounting adjustment	(4)	(28)	-	-	-	-	-	(32)	-	(32)
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	61	-	-	-	-	-	-	61	-	61
Profit before tax attributable to shareholders	968	297	506	281	57	(6)	83	2,186	(372)	1,814
Tax attributable to shareholders										(309)
Profit for the period										1,505

	Insurance operations			Asset management						
Half year 2016 (AER)*	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated corporate	Total
					(In £ Millions)					
Operating profit based on longer-term investment returns	667	888	492	225	13	(12)	61	2,334	(290)	2,044
Short-term fluctuations in investment returns on shareholder- backed business	1	(1,440)	246	(2)	(74)	-	-	(1,269)	(116)	(1,385)
	(4)	(31)	-	-	-	-	-	(35)	-	(35)

Amortisation of acquisition accounting adjustment										
Profit attaching to the held for sale Korea life business	40	-	-	-	-	-	-	40	-	40
Profit before tax attributable to shareholders	704	(583)	738	223	(61)	(12)	61	1,070	(406)	664
Tax attributable to shareholders										23
Profit for the period										687

	Insurance operations			**Asset management**						
Half year 2016 (CER)*	**Asia**	**US**	**UK**	**M&G**	**Prudential Capital**	**US**	**Eastspring Investments**	**Total segment**	**Unallocated corporate**	**Total**
						(In £ Millions)				
Operating profit based on longer-term investment returns	752	1,010	492	225	13	(13)	69	2,548	(299)	2,249
Short-term fluctuations in investment returns on shareholder- backed business	4	(1,638)	246	(2)	(74)	-	-	(1,464)	(116)	(1,580)
Amortisation of acquisition accounting adjustment	(4)	(35)	-	-	-	-	-	(39)	-	(39)
Profit attaching to the held for sale Korea life business	47	-	-	-	-	-	-	47	-	47
Profit before tax attributable to shareholders	799	(663)	738	223	(61)	(13)	69	1,092	(415)	677
Tax attributable to shareholders										43
Profit for the period										720

* Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. All comparative results have been similarly adjusted.

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Explanation of Performance and Other Financial Measures

IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate	
	2017 £m Half year	2016* £m Half year	Change%	2016* £m Half year	Change%
Operating profit before tax based on longer-term investment returns(i)					
Long-term business(ii):					
Asia*	**870**	667	30	752	16
US	**1,079**	888	22	1,010	7
UK	**480**	473	1	473	1
Long-term business operating profit before tax	**2,429**	2,028	20	2,235	9
UK general insurance commission(iii)	**17**	19	(11)	19	(11)
Asset management business:					
M&G	**248**	225	10	225	10
Prudential Capital	**6**	13	(54)	13	(54)
Eastspring Investments	**83**	61	36	69	20
US	**(6)**	(12)	50	(13)	54
Other income and expenditure	**(419)**	(333)	(26)	(342)	(23)
Total operating profit based on longer-term investment returns before tax and interest received from tax settlement	**2,358**	2,001	18	2,206	7
Interest received from tax settlement	**-**	43	n/a	43	n/a
Total operating profit based on longer-term investment returns before tax*	**2,358**	2,044	15	2,249	5
Non-operating items:					
Short-term fluctuations in investment returns:(iv)					
Insurance operations	**(704)**	(1,193)	41	(1,388)	49
Other operations	**131**	(192)	168	(192)	168
	(573)	(1,385)	59	(1,580)	64
Amortisation of acquisition accounting adjustments	**(32)**	(35)	9	(39)	18
Result attaching to the sold Korea life business	**61**	40	53	47	30
Profit before tax attributable to shareholders	**1,814**	664	173	677	168
Tax (charge)/credit attributable to shareholders returns	**(309)**	23	n/a	43	n/a
Profit for the period attributable to shareholders	**1,505**	687	119	720	109

* Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. All comparative results have been similarly adjusted.

Notes

(i) The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential s segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in section (c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region above.

(ii) The results of Prudential s long-term business operations are affected by changes to assumptions, estimates and bases of preparation. Where applicable, these are described in note B4 to the unaudited condensed consolidated interim financial statements.

(iii) General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.

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(iv) Short-term fluctuations in investment returns on shareholder-backed business comprise:

	Actual Exchange Rate	
	2017 £m Half year	2016 £m Half year
Insurance operations:		
Asia	**41**	1
US	**(754)**	(1,440)
UK	**9**	246
Other operations	**131**	(192)
Total	**(573)**	(1,385)

Further details on the short-term fluctuations in investment returns are provided below and in note B1.2 to the unaudited condensed consolidated interim financial statements.

Earnings per share (EPS)

	Actual Exchange Rate			Constant Exchange Rate	
	2017 pence Half year	2016 pence Half year	Change%	2016 pence Half year	Change%
Basic earnings per share based on operating profit after tax	**70.0**	61.3	14	67.6	4
Basic earnings per share based on total profit after tax	**58.7**	26.9	118	28.2	108

Prudential has made a good start to 2017, with increases in all of our key performance metrics, reflecting progression in the Group s underlying earnings drivers together with the beneficial impact of positive investment market conditions and favourable currency effects. The consistency of our performance is driven by the alignment of our business to the most attractive opportunities, the quality of our franchises in those markets and our ability to adapt with speed and agility to changes in economic and regulatory conditions, both globally and locally. At a Group level, our results benefit from diversification by geography, product and distribution channel, our focus on recurring income streams that are less exposed to market movements and the capital generative nature of our business model.

In Asia, we have achieved double-digit growth in IFRS operating profit, reflecting the increasing scale and diversification of our long-term recurring premium business. We continue to take decisive actions to preserve the quality of the business that we write, building the contribution from health and protection income and improving the overall economic returns of the new business portfolio.

In the US and the UK, our financial progress is underpinned by the accumulation of assets on which we earn fees. In each of these markets, our businesses have seen strong net inflows in the first half, demonstrating their competitive positioning in product, distribution and service capabilities. Asset values were also boosted by positive investment market movements in the period.

Despite the uncertainty caused by the outcome of the general election in the UK, sterling has strengthened slightly against most of the currencies in our major international markets since the beginning of the year. However, average sterling exchange rates in the first half of 2017 were significantly lower than in the same period in 2016, contributing to a positive effect on the translation of results from our non-sterling operations. To aid comparison of underlying progress, we continue to express and comment on the performance trends of our Asia and US operations on a constant currency basis, as discussed further below.

Consistent with the explanations made in the currency volatility section in the Summary of Operating and Financial Review and Prospects comparison of the half year 2017 and half year 2016 performance is partially affected by the movements in average exchange rates used to translate into sterling the results of our overseas operations. Therefore, to facilitate explanations of changes in underlying performance, in the commentary on half year 2017 compared with half year 2016 discussions below, every time we comment on the performance of our businesses, we focus on their performance measured on the constant exchange rates basis unless otherwise stated. In each such case, the performance of our businesses in actual exchange rate terms was explained by the same factors discussed in the comments below and the impact of currency movements implicit in the constant exchange rate data.

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The key operational highlights in the first half of 2017 were as follows:

- **Operating profit based on longer-term investment returns** was 5 per cent[1] higher at £2,358 million (up 15 per cent on an actual exchange rate basis), equivalent to an annualised 24 per cent[2] return on opening IFRS shareholders funds. The Group s performance was driven by our Asia life and asset management operations which saw IFRS operating profit increase 16 per cent[1] to £953 million on growth in the in-force portfolio (31 per cent on an actual exchange rate basis). In the US, total IFRS operating profit was up 8 per cent, driven by increased levels of fee income on higher separate account balances (22 per cent increase on an actual exchange rate basis). In the UK, IFRS operating profit from our insurance and asset management operations increased by 4 per cent[3], due to stronger contributions from management actions in the life business and higher assets under management at M&G.
- **Group shareholders Solvency II capital surplus** was estimated at £12.9 billion[4,5] at 30 June 2017, equivalent to a cover ratio of 202 per cent (31 December 2016: £12.5 billion, 201 per cent). The movement since the start of the year primarily reflects the Group s continuing strong operating capital generation, partially offset by the payment of the 2016 second interim dividend.

Investment markets have been generally supportive through the period, with equity markets trending upwards and more stability in bond and currency markets compared with 2016. The recovery in equity markets towards the end of 2016 has continued into 2017, with the S&P 500 index up 8 per cent and the FTSE 100 index gaining 2 per cent in the first six months. Longer-term yields at 30 June 2017 were almost unchanged from those at the start of the year in the UK and down slightly in the US. In Asia, where yield movements have been more pronounced, our operating earnings are largely insensitive to interest rates. Overall, we continue to reduce the sensitivity of our earnings and balance sheet to investment markets, but remain significant long-term holders of financial assets to back the commitments that we have made to our customers. Short-term fluctuations in both these assets and related liabilities are reported outside the operating result, which is based on longer-term investment return assumptions. In the first half of 2017, these short-term fluctuations were overall negative, driven by the effect of higher equity markets on our hedging programme in the US. In the first half of the year total IFRS post tax profit was up at £1,505 million (2016: £720 million on a constant exchange rate basis and £687 million on an actual exchange rate basis).

Reflecting the strong operating results, the Group s IFRS shareholders equity increased by 5 per cent[6] over the six month period to £15.4 billion (31 December 2016: £14.7 billion).

Operating profit based on longer-term investment returns

Total operating profit increased by 5 per cent[1] (15 per cent on an actual exchange rate basis) in the first half of 2017 to £2,358 million.

- Asia total operating profit of £953 million was 16 per cent[1] higher (31 per cent on an actual exchange rate basis), with continued strong growth in both life insurance and asset management through Eastspring.
- US total operating profit at £1,073 million increased by 8 per cent (22 per cent increase on an actual exchange rate basis), reflecting increased levels of fee income on higher variable annuity account balances.
- UK total operating profit of £497 million was in line with the first half of 2016, with lower shareholder annuity profits offset by larger contributions from management actions.
- M&G operating profit was 10 per cent higher at £248 million, driven by increased funds under management as a result of asset inflows and positive markets.

Life insurance operations: Taken together, operating profit based on longer-term investment returns from our life insurance operations in Asia, the US and the UK increased 9 per cent[1] to £2,429 million (20 per cent on an actual exchange rate basis).

Operating profit based on longer-term investment returns in our life insurance operations in **Asia** was 16 per cent[1] higher at £870 million (up 30 per cent on an actual exchange rate basis), as a result of the continued growth of our in-force book of recurring premium business. Insurance margin was 24 per cent higher (39 per cent on an actual exchange rate basis) and accounted for 69 per cent of operating income[7], reflecting our ongoing preference for

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health and protection. Following strong recent growth in sales volumes, particularly in health and protection through our agency channel, the contribution to IFRS operating profit based on longer-term investment returns from China and Hong Kong combined has become more significant to the overall total, accounting for 23 per cent compared with 17 per cent one year ago. IFRS operating profit from Indonesia was 5 per cent higher (up 20 per cent on an actual exchange rate basis) and on the same basis Singapore was 6 per cent higher (up 20 per cent on an actual exchange rate basis).

In the **US**, life operating profit based on longer-term investment returns was up 7 per cent at £1,079 million (up 22 per cent on an actual exchange rate basis), reflecting increased profits from our variable annuity business. US equity markets rallied towards the end of 2016 and have risen further during the first half of 2017, which together with continued positive net asset flows of £2.0 billion, has led to separate account balances that were on average 16 per cent higher than in the prior year period. As a result, fee income was up 15 per cent (30 per cent on an actual exchange rate basis) at £1,145 million driven by fees earned on separate account assets. Spread-based income decreased by 6 per cent (6 per cent on an actual exchange rate basis), as anticipated, reflecting the impact of lower yields on our fixed annuity portfolio.

UK life operating profit based on longer-term investment returns increased by 1 per cent to £480 million. Within this total, the contribution from our core in-force book has remained relatively stable at £288 million (2016: £306 million). Profits from new annuity business reduced to £4 million from £27 million in the prior period, reflecting our withdrawal from this market. We have taken a number of asset and liability actions (including longevity reinsurance) in the first half of 2017 to improve portfolio efficiency which have generated combined profits of £188 million (2016: £140 million).

The increase in our operating earnings levels reflects the growth in the scale of our operations, driven primarily by positive business flows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each period these increase as we write new business and collect regular premiums from existing customers and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluation of our profit potential in that it reflects, for example, our ability to earn fees on the unit-linked element and indicates the scale of the insurance element, another key source of profitability for the Group.

Shareholder-backed policyholder liabilities and net liability flows*

	2017 £m Half year Actual Exchange Rate				2016 £m Half year Actual Exchange Rate			
	At 1 January 2017	Net liability flows**	Market and other movements	At 30 June 2017	At 1 January 2016	Net liability flows**	Market and other movements	At 30 June 2016
Asia***	**32,851**	**1,016**	**1,173**	**35,040**	25,032	977	4,135	30,144
US	**177,626**	**1,958**	**(1,805)**	**177,779**	138,913	2,855	17,387	159,155
UK	**56,158**	**(1,167)**	**1,500**	**56,491**	52,824	(1,699)	4,286	55,411
Total Group	**266,635**	**1,807**	**868**	**269,310**	216,769	2,133	25,808	244,710

* Includes Group s proportionate share of the liabilities and associated flows of the insurance joint ventures and associate in Asia.

** Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

*** Following its sale in May 2017, the shareholder-backed policyholder liabilities and related flows for Asia exclude the value for the Korea life business. The half year 2016 comparatives have been accordingly adjusted.

Focusing on the business supported by shareholder capital, which generates the majority of the life profit, in the first half of 2017 net flows into our businesses were overall positive at £1.8 billion. This was driven by our US and Asian operations, as we continue to focus on both retaining our existing customers and attracting new business to drive long-term value creation. The outflow from our UK operations primarily reflects the run-off of the in-force annuity portfolio following our withdrawal from selling new annuity business. This decrease in shareholder liabilities has been more than offset by the flows into the with-profit funds of £1.6 billion as shown in the table below. Positive investment markets in the first half have partly been offset by currency effects as sterling strengthened

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over the period, increasing liabilities by £0.9 billion. In total, business flows and market movements have increased policyholder liabilities from £266.3 billion to £269.3 billion.

Policyholder liabilities and net liability flows in with-profits business*,**

	2017 £m Half year Actual Exchange Rate				2016 £m Half year Actual Exchange Rate			
	At 1 January 2017	Net liability flows***	Market and other movements	At 30 June 2017	At 1 January 2016	Net liability flows***	Market and other movements	At 30 June 2016
Asia	**29,933**	**2,295**	**1,053**	**33,281**	20,934	1,551	4,355	26,840
UK	**113,146**	**1,574**	**3,729**	**118,449**	100,069	582	6,417	107,068
Total Group	**143,079**	**3,869**	**4,782**	**151,730**	121,003	2,133	10,772	133,908

* Includes Group s proportionate share of the liabilities and associated flows of the insurance joint ventures and associates in Asia.

** Includes unallocated surplus of with-profits business.

*** Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.

Policyholder liabilities in our with-profits business have increased by 6 per cent to £151.7 billion in the first half of 2017. This reflects the growing popularity of PruFund with consumers seeking protection from the impact of volatile market conditions. During the first half of 2017, net liability flows increased to £3.9 billion across our Asia and UK operations. As returns from these funds are smoothed and shared with customers, the emergence of shareholder profit is more gradual. The business, nevertheless, remains an important source of shareholder value.

Analysis of long-term insurance business pre-tax operating profit based on longer-term investment returns by driver*

	Actual Exchange Rate						Constant Exchange Rate		
	2017 £m Half year			2016 £m Half year			2016 £m Half year		
	Operating profit[1]	Average liability	Margin bps	Operating profit[1]	Average liability	Margin bps	Operating profit[1]	Average liability	Margin bps
Spread income	**583**	**89,314**	**131**	556	80,146	139	613	85,708	143
Fee income	**1,279**	**164,152**	**156**	989	129,054	153	1,118	143,526	156
With-profits	**172**	**132,701**	**26**	162	114,109	28	165	115,945	28
Insurance margin	**1,152**			898			1,013		
Margin on revenues	**1,138**			946			1,051		
Expenses:									
Acquisition costs**	**(1,241)**	**3,624**	**(34)%**	(1,027)	2,980	(34)%	(1,155)	3,296	(35)%
Administration expenses	**(1,131)**	**259,451**	**(87)**	(879)	216,075	(81)	(983)	236,974	(83)

DAC adjustments	**186**	132	149
Expected return on shareholder assets	**103**	111	124
	2,241	1,888	2,095
Longevity reinsurance and other management actions to improve solvency	**188**	140	140
Operating profit based on longer-term investment returns[1]	**2,429**	2,028	2,235

* For basis of preparation see note I (a) of Additional unaudited financial information.

** The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business. APE is defined under the section EEV Basis, New Business Results and Free Surplus Generation in this document.

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We continue to maintain our preference for higher-quality sources of income such as insurance margin and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle and prefer fee income to spread income because it is more capital-efficient. In line with this approach, on a constant exchange rate basis, in the first half of 2017, insurance margin has increased by 14 per cent[1] (up 28 per cent on an actual exchange rate basis) and fee income by 14 per cent[1] (up 29 per cent on an actual exchange rate basis), while spread income declined by 5 per cent[1] (up 5 per cent on an actual exchange rate basis). Administration expenses increased to £1,131 million[1] (2016: £983 million on a constant exchange rate basis and £879 million on an actual exchange rate basis) as the business continues to expand. The expense ratio has grown from 83 basis points to 87 basis points reflecting country mix and the continued increase in US producers selecting asset-based commissions which are treated as an administrative expense in this analysis.

Asset management

Movements in asset management operating profit are also primarily influenced by changes in the scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations.

Asset management external funds under management*,**

	2017 £m Half year Actual Exchange Rate				2016 £m Half year Actual Exchange Rate			
	At 1 January 2017	**Net flows**	**Market and other movements**	**At 30 June 2017**	At 1 January 2016	Net flows	Market and other movements	At 30 June 2016
M&G	**136,763**	**7,179**	**5,176**	**149,118**	126,405	(6,966)	10,217	129,656
Eastspring[8]	**38,042**	**2,273**	**4,281**	**44,596**	30,281	(412)	2,859	32,728
Total asset management	**174,805**	**9,452**	**9,457**	**193,714**	156,686	(7,378)	13,076	162,384
Total asset management (including MMF)	**182,519**	**9,951**	**9,571**	**202,041**				