



Prudential Corporation plc

(Incorporated and Registered in England and Wales, with limited liability,
registered no. 1397169)

£300,000,000
6⁷/₈ per cent Bonds due 2023

Issue Price: 99.499 per cent

Lead Manager

SBC Warburg Dillon Read

Managers

Barclays Capital
Deutsche Morgan Grenfell

Cazenove & Co
HSBC Markets

This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 by the London Stock Exchange Limited (the "London Stock Exchange") for the purpose of giving information with regard to the £300,000,000 6⁷/₈% Bonds due 2023 (the "Bonds") issued by Prudential Corporation plc (the "Issuer"), the Issuer and its subsidiaries (together, the "Group"). The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Bonds to be admitted to the Official List. Copies of these listing particulars have been delivered to the Registrar of Companies in England and Wales as required by Section 149 of the Financial Services Act 1986.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in "Subscription and Sale") to subscribe or purchase, any of the Bonds. No action has been taken under any regulatory or other requirements of any jurisdiction other than the United Kingdom or will be taken to permit a public offering of the Bonds or the distribution of this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

No person has been authorised to give any information or to make any representation in connection with the offering or sale of the Bonds other than those contained in this Offering Circular and other than information in the public domain at the date hereof and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof.

The Bonds have not been and will not be registered under the United States Securities Act of 1933 and are subject to United States tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to US persons. For a further description of certain restrictions on offering and sale of Bonds and on distribution of this Offering Circular, see "Subscription and Sale" below.

In this Offering Circular all references to "£", "pence" or "p" are to the currency of the United Kingdom.

In connection with this issue, Swiss Bank Corporation may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at levels which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (subject to alteration in the Trust Deed (as defined below) and save for the paragraphs in italics) will be endorsed on the Bonds in definitive form, if issued:

The £300,000,000 6⁷/₈ per cent Bonds due 2023 (the "Bonds", which expression shall, in these Conditions, unless the context otherwise requires, include any other bonds issued pursuant to Condition 12 and forming a single series therewith) of Prudential Corporation plc (the "Issuer") are constituted by a trust deed (the "Trust Deed") dated 20 January 1998 and made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a written resolution of the Board of Directors of the Issuer dated 20 November 1997 and resolutions of a duly authorised committee thereof passed on 7 January 1998. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Payments in respect of the Bonds will be made pursuant to an agency agreement dated 20 January 1998 (the "Agency Agreement") between the Issuer, the Trustee, Morgan Guaranty Trust Company of New York as principal paying agent (the "Principal Paying Agent") and the other paying agents (together with the Principal Paying Agent, the "Paying Agents") referred to therein. Copies of the Trust Deed and the Agency Agreement are available for inspection at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified offices of each of the Paying Agents. The Bondholders and the holders (the "Couponholders") of the interest coupons appertaining to the Bonds (the "Coupons") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those applicable to them of the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

The Bonds are in bearer form, serially numbered, with Coupons attached, in denominations of £1,000, £10,000 and £100,000. Bonds of one denomination may not be exchanged for Bonds of another denomination.

Title to the Bonds will pass by delivery. The Issuer, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereon or on account thereof and for all other purposes.

The Bonds will be represented by a single Temporary Global Bond, without Coupons, which will be deposited with a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") on or about 20 January 1998 for credit against payment to the accounts designated by the relevant subscribers with Euroclear or Cedel Bank. The Temporary Global Bond will be exchangeable on or after 2 March 1998 for a permanent Global Bond (the "Global Bond") upon certification of non-US beneficial ownership. The Global Bond will be exchangeable in the limited circumstances specified therein for definitive Bonds with Coupons attached.

Bonds and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code."

2. STATUS

The Bonds and the Coupons are direct and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank without any preference among themselves and (subject as aforesaid and to such exceptions as are from time to time applicable under the laws of the United Kingdom) *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Issuer.

3. NEGATIVE PLEDGE

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) the Issuer will not, and will procure, so far as the Issuer by the proper exercise of voting and other rights or powers of control exercisable by the Issuer in relation to Subsidiaries (as defined in the Trust Deed) can procure, that the Principal Subsidiary (as defined below) shall not, create or permit to subsist any mortgage or charge upon the whole or any part of its undertaking or assets (other than assets representing the fund or funds maintained by the Issuer or the Principal Subsidiary in respect of long-term business (as defined in the Insurance Companies Act 1982)), present or future, to secure payment of any present or future Relevant Indebtedness (as defined below) of the Issuer or any Subsidiary thereof or to secure any

guarantee or indemnity in respect thereof, without at the same time according to the Bonds, to the satisfaction of the Trustee, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity, or such other security as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

“Principal Subsidiary” means The Prudential Assurance Company Limited but, in the case of this Condition and paragraphs (iii) to (vii) (inclusive) of Condition 8, only for so long as it remains a Subsidiary of the Issuer.

“Relevant Indebtedness” means any indebtedness for borrowed money (other than indebtedness in the form of sterling debenture stock (as defined in the Trust Deed) or indebtedness which has a stated maturity not exceeding one year) which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which, with the agreement of the Issuer, are quoted, listed, dealt in or traded on a stock exchange, or over the counter or other recognised securities market (whether or not distributed by way of private placement).

4. INTEREST

The Bonds bear interest as from 20 January 1998 at the rate of 6 $\frac{7}{8}$ per cent per annum payable annually in arrear on 20 January in each year. The first payment of interest (representing a full year’s interest) will be made on 20 January 1999.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused. In such event, interest will continue to accrue (after as well as before any judgment) up to but excluding the date on which, upon further presentation, payment in full of the principal thereof is made or (if earlier) the seventh day after notice is duly given to the holder of such Bond (either in accordance with Condition 15 or individually) that upon further presentation of such Bond being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made.

Whenever it is necessary to compute an amount of interest in respect of any Bond for a period of less than a full year, such interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. REDEMPTION AND PURCHASE

(a) Mandatory redemption

Unless previously redeemed or purchased and cancelled as provided below, each of the Bonds shall be redeemed at its principal amount on 20 January 2023. The Bonds may not be redeemed at the option of the Issuer other than in accordance with Condition 5(b) or 5(c). A notice given by the Issuer under Condition 5(b) or 5(c) (a “Redemption Notice”) shall specify the date (the “Redemption Date”) when the relevant redemption will take place.

(b) Redemption for tax reasons

If the Issuer at any time satisfies the Trustee that, as a result of any actual or proposed change in the laws, regulations or treaties of the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, or in the application or interpretation of such laws, regulations or treaties, on the occasion of the next payment of principal or interest in respect of the Bonds, the Issuer would be unable to make such payment without having to pay additional amounts as provided or referred to in Condition 7, the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders (which notice shall be irrevocable), redeem all the Bonds, but not some only, at their respective principal amounts together with interest accrued to the date of such redemption.

It shall be sufficient to establish the existence of the circumstances required to be established pursuant to this paragraph if the Issuer shall deliver to the Trustee a certificate of an independent lawyer or accountant satisfactory to the Trustee in a form satisfactory to the Trustee to the effect either that such circumstances exist or that, upon a change in the laws, regulations or treaties of the United Kingdom or the application or interpretation thereof, which at the date of such certificate is proposed and which in the opinion of such lawyer or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Bonds would otherwise be made, becoming so effective, such circumstances would exist.

(c) Redemption at the option of the Issuer

On giving not less than 30 nor more than 90 calendar days' notice to the Trustee and the Bondholders in accordance with Condition 15, the Issuer may at any time redeem all of the Bonds for the time being outstanding or (as the case may be) some of the Bonds in the principal amount of £5,000,000 or an integral multiple of £1,000,000 in excess thereof, together with interest accrued up to and including the Redemption Date at a price which shall be the higher of the following:

- (a) par; and
- (b) that price expressed as a percentage (as reported in writing to the Issuer and the Trustee by a financial adviser selected by the Issuer and approved by the Trustee) at which the Gross Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 3.00 pm (London time) on that date of 8 per cent Treasury Stock 2021 while that stock is in issue, and thereafter such government stock as the Trustee and the Issuer shall be advised by two financial advisers selected by the Issuer and approved by the Trustee to be appropriate by way of substitution for the aforementioned Treasury Stock.

For the purposes of this Condition 5(c), "Reference Date" means the date which is three dealing days prior to the giving of the notice to the Bondholders referred to in this Condition 5(c), and "Gross Redemption Yield" means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978, page 18 or such other basis as the Trustee may approve.

(d) Drawings

Bonds to be called for redemption will, where appropriate, be drawn in a place and manner chosen by the Issuer and approved by the Trustee and a notice containing a list of the serial numbers and denominations of the Bonds so called, the redemption price of such Bonds and specifying the date fixed for redemption thereof will be given by the Issuer to the Bondholders not less than 30 nor more than 90 calendar days before such date in accordance with Condition 15.

(e) Purchases

The Issuer or any of its Subsidiaries may at any time purchase Bonds at any price, in the open market or by tender (available to all Bondholders alike) or by private treaty. The Issuer or the relevant Subsidiary may at its option retain such Bonds for its own account and/or resell or cancel or otherwise deal with such Bonds at its discretion. Bonds held by or on behalf of the Issuer or any of its Subsidiaries shall not entitle the holder to vote at any meetings of the Bondholders and such Bonds shall be deemed to be not outstanding for the purposes of calculating quorums at meetings of Bondholders.

(f) Cancellation

All Bonds redeemed or purchased by the Issuer or any of its Subsidiaries and surrendered for cancellation shall be cancelled forthwith (together with all unmaturing Coupons presented or purchased therewith) and such Bonds and Coupons may not be re-issued or re-sold.

6. PAYMENTS

Payments of principal and interest in respect of Bonds will be made against presentation and surrender or (as the case may be) endorsement of Bonds, or in the case of payments of interest due on each 20 January against surrender of Coupons, at the specified office of any Paying Agent. All such payments shall be made at the option of the holder at any specified office of any Paying Agent by a sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in the City of London.

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

Upon the due date for redemption of any Bond, unmaturing Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond is presented for redemption without all unmaturing Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

If the date for redemption is not 20 January in any year, the interest accrued from the last preceding 20 January shall be payable only against presentation of the relevant Bond.

If the due date for payment of any Bond or Coupon or any later date upon which a Bond or Coupon is presented for payment is not a business day then the holder thereof shall not be entitled to payment of the amount due until the next following day which is a business day or to any further interest or other payment in respect of such delay.

In this Condition, "business day" shall mean, in relation to any Bond or Coupon, a day on which banks and foreign exchange markets are open for business in the place where such Bond or Coupon is presented for payment, and, in the case of payment by transfer to a sterling account, in the City of London.

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to terminate or to vary the appointment of any Paying Agent and may appoint additional or other Paying Agents, provided that it will at all times maintain at least two Paying Agents having specified offices in European cities approved by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange, shall be in London and the other of which shall be in continental Europe. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Issuer to the Bondholders in accordance with Condition 15.

7. TAXATION

All payments of principal and interest in respect of the Bonds and Coupons shall be made without withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("Taxes") imposed or levied by the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Bonds or, as the case may be, Coupons in the absence of such withholding or deduction except that no such additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (i) to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom or any political subdivision thereof or any authority therein or thereof other than the mere holding of the Bond or Coupon; or
- (ii) presented for payment in the United Kingdom; or
- (iii) to, or to a third party on behalf of, a holder who would not be liable to such withholding or deduction if such holder had made a declaration of non-residence or similar claim for exemption to any authority; or
- (iv) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days.

As used herein the "Relevant Date" means the date on which such payment first becomes due, but if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly published in accordance with Condition 15. Any reference herein to principal or interest shall be deemed also to refer to any additional amounts which may be payable under this provision or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

8. REPAYMENT IN EVENT OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, (but, in the case of the happening of any of the events mentioned in paragraphs (ii), (v), (vi) and (vii) below in relation to the Issuer and (iii) to (viii) below (inclusive) in relation to the Principal Subsidiary, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Bondholders) give notice to the Issuer that the Bonds are, and they shall accordingly immediately become, due and

repayable at their principal amount, together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:

- (i) if default is made for a period of 14 days or more in the payment of any principal or interest due in respect of the Bonds or any of them; or
- (ii) if default is made by the Issuer in the performance or observance of any obligation, condition or provision binding upon it under the Bonds or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Bonds) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof has been given by the Trustee to the Issuer requiring the same to be remedied; or
- (iii) if an order is made or an effective resolution is passed for the winding up of, or an administration order is made in relation to, the Issuer or the Principal Subsidiary (save, in the case of the Principal Subsidiary, (a) with the prior consent of the Trustee or the prior sanction of an Extraordinary Resolution for the purposes of or in connection with an amalgamation or reconstruction, or (b) a voluntary solvent winding-up where surplus assets are available for distribution); or
- (iv) if the Issuer or the Principal Subsidiary stops or threatens to stop payment to its creditors generally or the Issuer or the Principal Subsidiary ceases or threatens to cease to carry on its business or substantially the whole of its business (except for the purposes of, or in connection with, a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or an Extraordinary Resolution or, in the case of the Principal Subsidiary, such a winding-up as is referred to in (iii)(b) above); or
- (v) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the undertaking, property and assets of the Issuer or the Principal Subsidiary or if a distress or execution is levied or enforced upon or sued out against the whole or any substantial part of the chattels or property of the Issuer or the Principal Subsidiary and, in the case of any of the foregoing events, is not discharged within 60 days or such longer period as the Trustee may allow; or
- (vi) if the Issuer or the Principal Subsidiary is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986; or
- (vii) if indebtedness for moneys borrowed (as defined below) which indebtedness has an outstanding aggregate principal amount of at least £30,000,000 (or its equivalent in any other currency or currencies) of the Issuer or the Principal Subsidiary is not paid on its due date (or by the expiry of any applicable grace period) or becomes due and payable prior to its stated maturity by reason of default, or if any guarantee or indemnity in respect of indebtedness for moneys borrowed (having an outstanding aggregate principal amount as aforesaid) of any third party given by the Issuer or the Principal Subsidiary is not honoured when due and called upon and, in any such case, the liability of the Issuer or the Principal Subsidiary to make payment is not being contested in good faith; or
- (viii) if the Principal Subsidiary shall cease to be a subsidiary of the Issuer, except pursuant to such an amalgamation, reconstruction or winding-up as is referred to in paragraph (iv) above.

“Indebtedness for moneys borrowed” means the principal amount of (a) all moneys borrowed and (b) all debentures (together in each case with any fixed or minimum premium payable on final redemption or repayment) which are not for the time being beneficially owned by the Issuer or any of its Subsidiaries.

9. ENFORCEMENT

The Trustee may at its discretion institute such proceedings as it may think fit to enforce the obligations of the Issuer under the Trust Deed, but it shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to institute proceedings directly against the Issuer

unless the Trustee having become bound so to proceed fails to do so within a reasonable time and such failure is continuing.

10. PRESCRIPTION

Bonds and Coupons will become void unless presented for payment within ten years and five years respectively from the Relevant Date (as defined in Condition 7) for payment thereof.

11. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and the provisions of the Trust Deed, the quorum shall be two or more persons holding or representing not less than two-thirds, or at any such adjourned meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed contains provisions for an Extraordinary Resolution to take the form of an instrument or instruments signed by the holder or the holders of not less than three-quarters in principal amount of the Bonds for the time being outstanding.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of or to the waiver or authorisation of any breach or proposed breach of any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. The Trustee may also agree without consent as aforesaid (i), subject to the Bonds and the Coupons being unconditionally and irrevocably guaranteed by the Issuer, to the substitution of a Subsidiary of the Issuer in place of the Issuer as principal debtor under the Trust Deed, the Bonds and the Coupons or (ii) to the substitution of (a) a successor in business (as defined in the Trust Deed) to the Issuer (whether as Issuer or as guarantor pursuant to (i) above) in place of the Issuer or, where the Issuer is substituted pursuant to (i) above, a successor in business to any such substituted issuer in place of such substituted issuer or (b) a Subsidiary of the Issuer acceptable to the Trustee, as guarantor of the Bonds in place of the Issuer (where the Issuer has given a guarantee under (i) above), any such substitution as aforesaid being subject to the Trustee being satisfied that the interests of Bondholders will not be materially prejudiced thereby and to such other amendments to the Trust Deed and such other conditions as the Trustee may require, provided that in connection with any proposed substitution as aforesaid the Trustee shall not have regard to the tax consequences of such substitution for individual Bondholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Bondholders or Couponholders except to the extent already provided for in Condition 7 (as from time to time amended).

Any such modification, waiver, authorisation or substitution shall be binding on the Bondholders and Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15.

12. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further notes or bonds either ranking *pari passu* in all respects (or in all respects save for the amount of and/or the date of the first payment of interest thereon) and (in the case of bonds) so that the same shall be consolidated and form a single series with the Bonds or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may at the time of issue thereof determine. Any such notes or bonds, if they are to form a single series with the Bonds, shall be constituted by a deed supplemental to the Trust Deed and in any

other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

13. REPLACEMENT OF BONDS AND COUPONS

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent, upon payment by the claimant of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses incurred in connection therewith (including the fees and expenses of the Principal Paying Agent and its designated agents) and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. INDEMNIFICATION

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce payment unless indemnified to its satisfaction.

15. NOTICES

All notices regarding the Bonds shall be valid if published in the *Financial Times* or any other daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

16. GOVERNING LAW

The Trust Deed, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, which are expected to amount to approximately £296,622,000, will be used for the general corporate purposes of the Group.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this Offering Circular. The following is a summary of those provisions:

1. EXCHANGE

The Temporary Global Bond is exchangeable in whole or in part for interests in the Global Bond on or after a date which is expected to be 2 March 1998 upon certification as to non-US beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the definitive Bonds described below (i) if the Global Bond is held on behalf of Euroclear or Cedel Bank or the Alternative Clearing System (as defined under "Notices" below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so by such holder giving notice to the Principal Paying Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by any Director of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Principal Paying Agent and the Bondholders of its intention to exchange the Global Bond for definitive Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying Agent. In exchange for the Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with all applicable stock exchange requirements substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Bond, the Issuer will procure that it is cancelled and returned to the holder together with any relevant definitive Bonds.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and, in the case of exchange pursuant to (ii) above, in the cities in which Euroclear or Cedel Bank or, if relevant, the Alternative Clearing System are located.

2. PAYMENTS

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Principal and interest in respect of the Global Bond will be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of the Principal Paying Agent in respect of the Bonds (or to or to the order of such other Paying Agent as will have been notified to the Bondholders for this purpose) which will endorse such payment or cause such payment to be endorsed in the appropriate Schedule to the Global Bond (such endorsement being *prima facie* evidence that the payment in question has been made). References in the Conditions to Coupons and Couponholders will be construed accordingly. No person will however be entitled to receive any payment on the Global Bond falling due after the Exchange Date, unless exchange of the Global Bond for definitive Bonds is improperly withheld or refused by or on behalf of the Issuer.

3. NOTICES

So long as the Global Bond is held on behalf of Euroclear or Cedel Bank or such other clearing system as shall have been approved by the Trustee (the "Alternative Clearing System"), notices required to be given to Bondholders may be given by their being delivered to Euroclear and Cedel Bank or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Conditions.

4. PRESCRIPTION

Claims in respect of principal and interest in respect of the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

5. MEETINGS

The holder of the Global Bond will (unless the Global Bond represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each £1.00 principal amount of Bonds for which the Global Bond may be exchanged.

6. PURCHASE AND CANCELLATION

Cancellation of any Bond represented by the Global Bond which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Global Bond on its presentation to or to the order of the Principal Paying Agent for notation in Schedule A to the Global Bond. Bonds may only be purchased by the Issuer or any of its Subsidiaries if they are purchased together with the right to receive interest thereon.

7. TRUSTEE'S POWERS

In considering the interests of Bondholders in circumstances where the Global Bond is held on behalf of any one or more of Euroclear, Cedel Bank and the Alternative Clearing System, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (i) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Global Bond and (ii) consider such interests on the basis that such accountholders were the holder of the Global Bond.

8. REDEMPTION AT THE OPTION OF THE ISSUER

The option of the Issuer provided for in Condition 5(b) or 5(c) will be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by Condition 5 except that the notice will not be required to contain the serial numbers of Bonds drawn for redemption in the case of a partial redemption of Bonds and accordingly no drawing of Bonds for redemption will be required.

CAPITALISATION AND INDEBTEDNESS OF THE GROUP

The authorised share capital of the Issuer is £120,000,000 divided into 2,400,000,000 Ordinary Shares of 5 pence each, of which 1,939,019,692 were allotted and fully paid at 7 January 1998, the latest practicable date before the publication of this document.

The following tables set out the statutory basis capital and reserves of the Group at 31 December 1996, as extracted from the published audited consolidated accounts of the Group, and the unaudited consolidated borrowings of the Group at 31 December 1997. There has been no material change in total unaudited consolidated borrowings since 31 December 1997 and borrowings have not been adjusted to reflect the issue of the Bonds.

Capital and reserves at 31 December 1996	£ million
Share capital	96
Share premium	131
Profit and loss account	2,530
Shareholders' funds – equity interests	2,757

Borrowings at 31 December 1997 (all unsecured except where stated)	Note	£ million
Shareholders' fund borrowings		
Holding company:	1	
US\$300 million 8.25% Guaranteed Bonds 2001	2	182
US\$250 million 7.125% Bonds 2005	2	152
£150 million 9.375% Guaranteed Bonds 2007		150
SF200 million 4.75% Guaranteed Bonds 1998	2	83
Sterling guaranteed commercial paper 1998		166
Bank loans and overdrafts		305
Currency translation liability on swap transactions	3	3
		1,041
Jackson National Life		
US\$250 million 8.15% Surplus Note 2027	2	152
Secured Senior and Subordinated debt issued by investment subsidiaries managed by Prudential Portfolio Managers		58
Total		1,251
Long term fund borrowings	4	138

Notes:

1. Holding Company borrowings include borrowings of finance subsidiaries.
2. Borrowings denominated in foreign currencies have been translated at exchange rates ruling at 31 December 1997.
3. The Group had entered into a swap transaction in respect of the SF200 million Guaranteed Bond, the effective liability of which was US\$141 million at 31 December 1997.
4. Long term fund borrowings comprise £100 million in respect of Undated Subordinated Guaranteed Bonds issued by Scottish Amicable Finance PLC, £2 million of variable rate loan notes 1997-2007 and £36 million of bank loans and overdrafts.
5. As part of their ordinary business activities, at 31 December 1997 Prudential Banking had £958 million of customer deposits and Jackson National had £862 million of obligations under sale and repurchase agreements.
6. Save as disclosed above and except for obligations under external finance leases of £32 million and intra group borrowings, no member of the Group had outstanding at 31 December 1997 any loan capital (whether outstanding or created but unissued), term loans or other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments.
7. The Group has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom. These liabilities include the costs of redress arising from the pensions review in the UK which have been to date, and are expected to be in the future, borne by the free estate of the UK long term fund.
The Group may be required to make payments to the Investors' Compensation Scheme in respect of compensation awarded to holders of personal pension policies sold by independent financial advisers. No provision has been made in the accounts because the basis of any levy and its potential amount are not known.
Save as disclosed above, the Group had no material guarantees nor material contingent liabilities at 31 December 1997.
8. References to "US\$" and "SF" are to the currencies of the United States of America and Switzerland respectively.

INTRODUCTION

The Issuer is the parent company of the Group. The Group's business is primarily conducted in the United Kingdom, the United States of America and the Asian and Southern Pacific markets. Its main areas of business are life insurance, pensions, medium to long-term savings ("long-term business"), general insurance (home and motor) and investment management. Its strategy is to reposition itself as a global retail financial services and fund management company.

The Issuer was established as a holding company in 1978 to acquire all the share capital of The Prudential Assurance Company Limited, which was founded in 1848 and which remains the Group's major subsidiary in terms of funds under management.

At 31 December 1996 the Group ranked as the largest UK life insurer and one of the largest in the world. It employs more than 20,000 people and has over nine million customers worldwide. The Issuer's head office is 142 Holborn Bars, London EC1N 2NH.

DESCRIPTION OF BUSINESS

United Kingdom

In the United Kingdom, the Group sells all major life insurance products and many types of retail financial services products as well as home and motor general insurance. The Group launched a new banking operation at the beginning of October 1996 which now offers deposit accounts, mortgages and personal loans. On 30 September 1997 the Group acquired the business of Scottish Amicable Life Assurance Society, a Scottish mutual life insurance company.

In the UK the Group is a major pension provider with some 2.4 million pension contracts in existence. In 1996, total revenue premiums from long-term business in the United Kingdom rose by over 38% from £3,986 million to £5,532 million. Premiums from home and motor business in the United Kingdom were £303 million. These figures will be supplemented by those of Scottish Amicable from 1 October 1997 onwards.

The United Kingdom business sells via its sales force, through Independent Financial Advisers ("IFAs") and direct.

United States of America

The Group's American life insurance subsidiary, Jackson National Life Insurance Company ("Jackson National"), was acquired in 1986. It is among the top 25 American-based life insurance companies in terms of asset size, with assets of US\$27 billion at the end of 1996.

In recent years Jackson National has sought to expand its product range and diversify its distribution capability. Single premium sales increased by 43% to a record US\$2.4 billion in the first half of 1997. Total annuity sales increased by 71% to US\$1.7 billion, with sales of the new variable and equity linked annuity products being particularly strong at US\$597 million compared with US\$129 million in the first half of 1996. Sales of guaranteed investment contracts, which were introduced in late 1995, remained robust at US\$635 million.

Asia

Prudential Asia is based in Hong Kong and is represented in nine Asian countries.

Other International Operations

The Group has operations in Australia and New Zealand and in March 1997 acquired NZI Life in New Zealand for £70 million.

Fund Management

Prudential Portfolio Managers (which trades as PPM Worldwide) is the Group's investment management arm and is responsible for managing the Group's investment funds. In the first half of 1997 total funds under management reached the £100 billion mark. The completion of the Scottish Amicable purchase in the second half of 1997 took this total over £110 billion.

Acquisition of Scottish Amicable

As mentioned above, on 30 September 1997 the Group completed the purchase of the mutual life insurer, Scottish Amicable. The consideration was £850 million, £485 million of which was paid by Prudential's shareholders funds and the balance of £365 million by Prudential's policyholders funds.

Estimated goodwill of £435 million will be borne by the shareholders funds as a result of the acquisition and will be written off to reserves immediately. New Scottish Amicable business is being sold by a newly formed subsidiary called Scottish Amicable Life plc.

DIRECTORS

The directors of the Issuer, each of whose address is 142 Holborn Bars, London EC1N 2NH, their functions within the Issuer or their principal outside activities of significance are as follows:

Executive Directors

Sir Peter Davis	Group Chief Executive. Director of Boots plc
Keith Bedell-Pearce	Director, International Development
Jonathan Bloomer FCA	Group Finance Director
Derek Higgs	Chairman of Prudential Portfolio Managers

Non-Executive Directors

Sir Martin Jacomb	Chairman. Chairman of the British Council and Delta plc. Director of Rio Tinto plc and Marks & Spencer plc.
Michael Abrahams CBE, DL	Deputy Chairman. Chairman of Prudential Staff Pensions, Cavaghan and Gray, and the London Clinic. Director of John Waddington and Drummonds. Deputy Chairman of the Council of the Prince of Wales's Institute of Architecture.
Ann Burdus	Director of Safeway, Dawson International and Next. Board member of the Committee of the Automobile Association and the Council of the Institute of Directors.
Niall FitzGerald	Chairman of Unilever plc and the Confederation of British Industry Europe Committee. Director of the Bank of Ireland.
Lord Gillmore GCMG	Vice Chairman of Vickers and Governor of Birkbeck College, University of London.
Andrew Teare	Group Chief Executive of The Rank Group.
Sandy Stewart	Director of Murray Split Capital Trust plc.

**EXTRACTS FROM THE INTERIM REPORT OF PRUDENTIAL CORPORATION PLC
FOR THE SIX MONTHS ENDED 30 JUNE 1997**

Set out below are extracts from the text of the unaudited interim report of the Issuer for the six months ended 30 June 1997:

“RESULTS SUMMARY

	Half year ended 30 June		Full year
	1997 £m	1996 £m	1996 £m
Operating profit (including averaged investment gains):			
Prudential UK	197	170	344
Jackson National Life	176	153	328
Prudential Asia	4	4	12
Other international operations	14	7	14
Prudential Portfolio Managers	18	14	35
Other (including interest payable)	(20)	(20)	(49)
Income on disposal proceeds	53		7
Total continuing operations	442	328	691
Discontinued operations		93	182
Total operating profit	442	421	873
Adjustment from averaged to actual investment gains	(1)	(60)	(56)
Reclassification of shareholder reserves of Australian operation	204		
Profit on business disposals			797
Profit before tax (including actual investment gains)	<u>645</u>	<u>361</u>	<u>1,614</u>
Operating earnings per share	15.9p	15.2p	34.1p
Total earnings per share	24.1p	12.9p	73.4p
Dividend per share	6.4p	5.8p	17.3p
Accruals basis shareholders' funds	£6.5bn	£5.2bn	£5.8bn
Funds under management	£100bn	£85bn	£91bn

Profit before tax includes actual investment gains and exceptional items. The Company believes that operating profit, which includes averaged investment gains but excludes exceptional items, better reflects the Group's underlying performance.”

“GROUP CHIEF EXECUTIVE'S REVIEW

In the first six months of 1997 sales have continued to grow in all Prudential's major businesses around the world and operating profit totalled £442 million. Operating profit from our continuing operations, after adjusting for the effect of disposals in 1996, increased by 19 per cent. In addition, this year we have reached agreement to purchase Scottish Amicable, bought a strategic stake in St James's Place Capital—the owner of high net worth insurer J Rothschild Assurance—acquired NZI Life in New Zealand and arranged to sell our small Italian operation, Prudential Vita.

All these actions are part of our stated strategy of concentrating our energies and resources on the development of our retail financial services and fund management activities in the United Kingdom, United States, Asia, Australia and New Zealand.

In pursuit of this strategy, we continue to explore opportunities for growing our major businesses both organically and by acquisition. Any acquisition, of course, would require a clear demonstration of enhanced shareholder value.

Prudential UK

In the UK our objectives of expanding our product range and distribution capabilities and building our customer base remain unaltered. The purchase of Scottish Amicable, a well respected brand name with a good service reputation, is in line with these objectives. This acquisition will expand our customer base by 1.4 million, provide us with a series of regular premium products which complement our own single premium product range and significantly increase our

distribution capability amongst Independent Financial Advisers (IFAs). Adding Scottish Amicable to Prudential secures our position as a leading provider of financial services products to IFAs.

We are developing plans to integrate Scottish Amicable with Prudential UK's existing IFA business, with the objectives of maximising efficiency and providing the best platform for future sales and profit growth. We are also in the process of integrating Scottish Amicable's investment function within Prudential Portfolio Managers in London.

The increasingly competitive UK market for retail financial services continues to change and consolidate. We will continue to explore opportunities to develop our business in the UK and improve customer access to Prudential.

Sales

As regards sales, Prudential UK had a very successful first six months. Building on the strong growth seen in 1996, single premium sales increased by 15 per cent. to £1.8 billion and regular premium sales rose by 16 per cent. to £182 million.

We continued to build on our success in the IFA market, with single premium sales rising by 18 per cent. to £958 million. Our direct salesforce also enjoyed a successful six months, with single premium sales rising by 13 per cent. to £863 million and regular premiums increasing by 15 per cent. to £145 million, boosted by the relaunch of a competitively priced PEP product.

Prudential UK continued to be a leading player in the £4 billion annuity market with a 24 per cent. share of this important sector. We are currently reviewing our range of annuity products with the aim of consolidating this leading position.

Banking

Prudential Banking, which was launched on 1 October last year, has been steadily building a book of quality business and since launch has attracted £250 million of mortgage applications and £274 million of deposits. The bank is constantly monitoring its product range and the recently launched 60 Day Notice account currently provides one of the best rates in the market.

Technology

Information Technology ("IT") is an integral part of the service we provide to our customers and a key tool in the management of our business. In order to develop our IT service further and to place a sharper focus on IT within the UK business, we have decided to set up a new company "PruTech" in conjunction with leading IT advisers, Andersen Consulting. PruTech will be staffed by our existing IT employees and managed in partnership with Andersen's. The new company will drive and implement an IT strategy that will meet the future needs of our business as it grows.

SIB Pensions Review

The Securities and Investments Board ("SIB") pensions review has been a major and complex logistical exercise to which we have committed considerable time and resource. As I have said before, we are determined to resolve this issue as quickly and effectively as possible. To that end we have now agreed with the SIB that we can provide guarantees to affected customers that they will not suffer any financial loss. These guarantees, together with the decision not to argue the onus of proof in each case, will allow us to accelerate significantly the progress of the review and help us to meet the agreed deadline for completing it in March 1998. However, these decisions, together with the recent abolition of ACT credit, will impact the costs of the review. As a result, we have increased the provision, set up within the free estate of our life fund, to cover these costs from £240 million to £450 million. Due to the size and strength of our £46 billion life fund, these provisions will have no impact on the bonuses paid to our policyholders or consequently our statutory profit. As always, our chief priority during this review is to ensure that all our customers are dealt with fairly.

Compliance

Following a routine inspection visit during January and February this year, the SIB felt the process for testing our sales people's product knowledge was not as strong as it should have been and, as a result, we have been asked to re-test the salesforce. While we were working hard to equip successfully our sales people with the industry standard FPC3 qualification, we did not place sufficient emphasis on some of the product knowledge elements of our testing procedures. The SIB's findings are important and we are committed to remedying the situation urgently.

We are confident the re-testing exercise will be completed by the end of September and we will endeavour to keep any impact on sales to a minimum.

We remain committed to the highest standards of compliance and training and at the beginning of this year we strengthened this function and appointed a new compliance director. We have also asked external compliance specialists from KPMG to verify that our compliance and training procedures are robust.

Profit

Profit from Prudential UK increased by 16 per cent. to £197 million, boosted by strong profit from the life, pension and investment business and, as planned, a lower investment than last year in the new banking operation.

The life, pension and investment business saw a 9 per cent. increase in profit to £170 million, reflecting strong growth in assets and buoyant sales.

Profit from our home and motor insurance business did not match the exceptional level of 1996 but remained very strong at £37 million. Our strategy of increasing direct sales of home insurance is proving to be successful, with 38 per cent. of new business now conducted over the telephone.

With an increased share of the IFA market following the purchase of Scottish Amicable, strong sales, competitive costs and a healthy profit, Prudential UK is well placed to continue its successful development into the future.

Jackson National Life

Our strategy for Jackson National Life, our retail business in the United States, has been to expand its product range and distribution capabilities while completing its geographic expansion into all US states. The success of the strategy has been readily apparent in Jackson's very strong growth in sales and profit. Our challenge for the future is to build on this success.

Sales

In the first half of 1997, Jackson's single premium sales rose by 43 per cent. to a record US\$2.4 billion. Total annuity sales increased by 71 per cent. to US\$1.7 billion, with sales of the new variable and equity linked annuity products being particularly strong at US\$597 million compared with US\$129 million in the first half of 1996. Sales of guaranteed interest contracts, which were introduced in late 1995, remain robust at US\$635 million. Jackson has successfully diversified its distribution capability, with 46 per cent. of annuity sales now being via the new broker dealer and bank distribution channels, compared with only 11 per cent. two years ago.

Profit

Profit from Jackson grew by 15 per cent. to £176 million in the first half of 1997. This increase appears somewhat subdued because of the strength of sterling, but in local currency terms, Jackson's profit rose by 23 per cent. to US\$288 million, an excellent result driven by continued sales and asset growth and good investment spreads. The investment spreads earned in the first half of 1997 were slightly ahead of target and we expect them to return to more normal levels in the second half of the year.

Prudential Asia

Prudential Asia is based in Hong Kong and represented in nine Asian countries; its objective is to capitalise on the opportunities for growth that exist in the region. Sales remained strong in the first six months of 1997, with single premium sales increasing three-fold to £122 million and regular premiums increasing by 38 per cent. to £58 million boosted by particularly good performances from our businesses in Singapore and Malaysia.

The potential for future growth in Asia is exciting. This year we signed joint venture agreements with ICICI, one of the best known financial institutions in India, to explore opportunities in the life insurance, mutual fund, pensions and health sectors. In China, we opened our fourth and fifth representative offices, increasing our opportunity of gaining operating licences.

After an increased investment of £6 million in developing our businesses in the region, profit from Prudential's operations in Asia was steady at £4 million.

Other International Operations

Profit from our operations in Australia and New Zealand doubled to £14 million, boosted by the interest earned on the £151 million capital within the Australian life fund, recently attributed to shareholders.

In March this year we acquired NZI Life in New Zealand for £70 million. This purchase consolidates our position as the leading writer of regular premium business in New Zealand and doubles our funds under management in the country to over £1 billion.

Given our focus on larger operations in other markets, we agreed in April to sell our small business in Italy to Royal SunAlliance.

Prudential Portfolio Managers ("PPM")

In the first half of 1997, funds managed on behalf of our customers and external clients around the world reached the £100 billion mark. The expected completion of the Scottish Amicable purchase in the second half of the year will take this total to over £110 billion. PPM remains the leading institutional investor headquartered in the UK.

Profit from PPM rose by nearly 30 per cent. in the first half of 1997 to £18 million, boosted by increased funds under management and higher fee income.

Shareholders' Capital and Reserves

The Group remains in a strong financial position and at 30 June accruals basis shareholders' funds were £6.5 billion, up 12 per cent. on 31 December 1996. Cash and short-term investments at the holding company level totalled £1.7 billion, slightly lower than at the end of 1996 due to the repayment on maturity of one of the Group's long-term loans. The cash position is anticipated to fall in the second half of the year following the payment of £485 million as the shareholders' part of the purchase price of Scottish Amicable.

The discussions with the Department of Trade and Industry regarding the 'unattributed assets' within the UK with-profits fund are ongoing. These discussions, as anticipated, are proving to be both long and complex, and we expect them to continue for some time yet.

Life Profit Reporting

For some years now we have reported supplementary results on the accruals accounting basis in order to provide additional information on the performance of our life operations.

Reporting practices within the life industry are continuing to evolve and the Association of British Insurers has proposed replacing accruals accounting with the more widely used achieved profits accounting basis. Given the similarities between the two bases and our desire to narrow the range of reporting practices within the industry, we shall adopt the achieved profits basis for the publication of our full year 1997 supplementary results.

Conclusion

So far in 1997 we have seen healthy increases in profit and sales and we have made a number of acquisitions and disposals that will strengthen our franchises in our key markets. We are pursuing a clear strategy and have the financial strength and management expertise to ensure this strategy is successfully implemented. We shall continue to work to improve the long-term value of Prudential for you, our shareholders.

Sir Peter Davis
Group Chief Executive
6 August 1997 "

The comments below are of a general nature, are based on the Company's understanding of current United Kingdom taxation law and Inland Revenue practice, are subject to changes therein and are not intended to be exhaustive. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and Coupons and may not apply to certain other classes of persons such as dealers. Any Bondholders or Couponholders who are in doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

1. INTEREST ON THE BONDS

While the Bonds continue to be in bearer form and listed on a recognised stock exchange within the meaning of Section 841 Income and Corporation Taxes Act 1988 ("ICTA"), the Bonds will constitute "quoted Eurobonds" within the terms of Section 124 ICTA. Accordingly, payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax where they are:

- (a) made by or through a person outside the United Kingdom; or
- (b) made by or through a person who is in the United Kingdom and:
 - (i) the beneficial owner of the Bonds and the related Coupons is not resident in the United Kingdom; or
 - (ii) the Bonds and related Coupons are held in a "recognised clearing system" within the meaning of Section 841A ICTA (Euroclear and Cedel Bank have each been designated as a recognised clearing system for this purpose).

and a declaration to that effect in the form required by law has been given to the person by whom or through whom the payment is made, or the Inland Revenue has issued a notice to that effect to the person by or through whom the payment is made; provided that the Inland Revenue has not issued a direction that it considers that neither of the conditions in (i) or (ii) is satisfied.

In other cases, payments of interest will be made under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Where a person in the United Kingdom in the course of a trade or profession acts as a collecting agent, ie either:

- (a) acts as custodian of the Bonds and receives interest on the Bonds, or directs that interest on the Bonds be paid to another person, or consents to such payment; or
- (b) collects, receives or secures, or arranges to collect, receive or secure, payment of interest on the Bonds for a Bondholder or a Couponholder

except, in each case, by means of clearing a cheque or arranging for the clearing of a cheque, the collecting agent will be required to account for, and will be entitled to withhold, United Kingdom income tax at the lower rate (currently 20 per cent.) unless, *inter alia*:

- (i) the relevant Bonds are held in a recognised clearing system for which the collecting agent is a depositary or the collecting agent pays or accounts for the interest directly or indirectly to the recognised clearing system; or
- (ii) the person beneficially entitled to the interest and the related Bonds is not resident in the United Kingdom; or
- (iii) the interest arises to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, none of the beneficiaries of the trust is resident in the United Kingdom); or
- (iv) the person beneficially entitled to the interest is eligible under specified provisions for certain relief from United Kingdom tax in respect of the interest (for example, charities or pension funds); or
- (v) the interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organisation.

For exception (i) to be available, a declaration in a specified form has to be provided (or a notice issued by the Inland Revenue) to the collecting agent if the interest is payable to, or at the direction of, the depositary of the clearing system. For exceptions (ii) to (v) to be available, such a declaration has to be provided (or notice issued) in all cases. The collecting agent is required to account for, and will be entitled to withhold United Kingdom income tax at the lower rate, if the Inland Revenue issues a direction to that effect, having reason to believe that no exception applies or that the depositary or collecting agent has failed to comply with certain requirements.

The interest on the Bonds will have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Bondholders may be liable to pay further United Kingdom tax on the interest received or be entitled to a refund of all or part of the tax deducted at source, depending on their individual circumstances. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of a Bondholder who is not resident for tax purposes in the United Kingdom throughout the relevant year, except where such person carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency.

Where interest has been received under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Holders of Bonds should note that the provisions relating to additional amounts referred to in "Terms and Conditions of the Bonds – Taxation" above would not apply if the Inland Revenue sought to assess directly the person entitled to the relevant interest to United Kingdom tax on income. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

2. RETURNS ON THE BONDS

The Bonds are "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992 with the result that on a disposal (which includes a redemption or exchange) of the Bonds by a Bondholder, neither chargeable gains nor allowable losses will generally arise for the purposes of taxation of capital gains.

Pursuant to provisions contained in the Finance Act 1996, Bondholders which are companies within the charge to United Kingdom corporation tax (other than certain particular types of companies, such as certain insurance companies, or authorised unit trusts) ("Qualifying Companies") will generally be subject to tax as income in each accounting period by reference to interest and all profits and gains arising from, and from fluctuations in the value of, the Bonds (whether of an income or capital nature) which in accordance with an authorised accruals or mark to market basis of accounting is applicable to that period.

A transfer of a Bond by certain Bondholders which are not Qualifying Companies may give rise to a charge to United Kingdom income tax (under the accrued income scheme) in respect of interest accrued since the preceding interest payment date if the transferor is resident or ordinarily resident in the United Kingdom or if he carried on a trade, profession or vocation in the United Kingdom through a branch or agency to which the bonds are attributable.

3. STAMP DUTY AND STAMP DUTY RESERVE TAX

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue of a Bond or on its transfer by delivery.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated 16 January 1998, Swiss Bank Corporation, Barclays de Zoete Wedd Limited, Cazenove & Co, Deutsche Bank AG London and Midland Bank plc (the "Managers") have jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at the issue price of 99.499% of their principal amount plus accrued interest, if any. The Issuer will pay to the Managers a combined management and underwriting commission and selling commission of 0.625% of the principal amount of the Bonds. The Issuer has agreed to pay certain of the expenses of the Managers in connection with the issue of the Bonds. The Managers are entitled to terminate and to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer.

The Bonds have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented and agreed that (1) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 (the "Act") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Act, (2) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom, and (3) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Save for having obtained approval of this document by the London Stock Exchange pursuant to listing rules made under Part IV of the Act and for having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Issuer or the Managers that would permit a public offering of the Bonds or possession or distribution of this document or other offering material relating to the Bonds in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Neither the Issuer nor any of the Managers represent that the Bonds may at any time lawfully be sold in or from any jurisdiction (other than in or from Great Britain) in compliance with any applicable registration requirements or pursuant to an exemption available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

1. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the London Stock Exchange will be granted on or before 16 January 1998 subject only to the issue of the temporary Global Bond. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the date of the transaction.
2. Neither the Issuer nor any of its subsidiaries is engaged in legal or arbitration proceedings which may have or have had during the previous twelve months a significant effect on the Group's financial position, nor, so far as the Issuer is aware, are any such legal or arbitration proceedings threatened or pending.
3. Save as disclosed herein, since 31 December 1996, the date to which the latest published audited consolidated accounts of the Group were made up, there has been no significant change in the financial or trading position of the Group, taken as a whole, nor has there been any material adverse change in the prospects or financial position of the Group taken as a whole.
4. Price Waterhouse, Chartered Accountants, of Southwark Towers, 32 London Bridge Street, London SE1 9SY, have audited the Issuer's statutory and accruals basis results for each of the three financial years ended 31 December 1996. No audited accounts of the Issuer have been prepared in respect of any period subsequent to 31 December 1996.
5. Copies of the following documents will be available for inspection during business hours on any weekday (Saturdays and public holidays excepted) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB until 30 January 1998:
 - (i) the Memorandum and Articles of Association of the Issuer;
 - (ii) the published audited consolidated accounts of the Issuer for the two years ended 31 December 1996 and the unaudited interim report of the Issuer for the six months ended 30 June 1997;
 - (iii) the Subscription Agreement; and
 - (iv) drafts, subject to modification, of the Trust Deed (including the forms of the temporary Global Bond, the definitive Bonds and the Coupons) and of the Agency Agreement.
6. Copies of the published audited consolidated accounts of the Issuer in respect of each financial year subsequent to 31 December 1996 will, so long as any Bond is outstanding, be available to Bondholders at the specified office of each Paying Agent for the time being.
7. The Bonds have been accepted for clearance through Euroclear and Cedel. The ISIN No. for the Bonds is XS0083544212 and the Common Code is 8354421.

REGISTERED OFFICE OF THE ISSUER

142 Holborn Bars
London EC1N 2NH

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Princes House
95 Gresham Street
London EC2V 7LY

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

PAYING AGENTS

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to the Managers and the Trustee
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Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY

LISTING AGENT

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London EC4V 3SB