Summer Infant, Inc.
Form DEF 14A
April 30, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

SUMMER INFANT, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SUMMER INFANT, INC.

1275 Park East Drive
Woonsocket, RI 02895

NOTICE OF
2010 ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the 2010 Annual Meeting of Stockholders of Summer Infant, Inc. will be held at 10:00 a.m. on Thursday, June 3, 2010, at Summer Infant's principal executive offices, 1275 Park East Drive, Woonsocket, Rhode Island, to consider and act upon the following matters:

1. To elect two Class C directors, each to serve for a three-year term expiring in 2013;

2. To amend our Amended and Restated Certificate of Information to decrease the number of authorized shares of common stock from 100,000,000 to 49,000,000;

3. To ratify the appointment of Caturano and Company, P.C., an independent registered public accounting firm, as the independent auditor of our company for the fiscal year ending December 31, 2010; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements of the Annual Meeting.

Stockholders owning Summer Infant shares at the close of business on April 29, 2010 are entitled to notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the Annual Meeting.

By Order of the Board of Directors,

Jason Macari
Chief Executive Officer

Woonsocket, Rhode Island
April 30, 2010

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JUNE 3, 2010. The proxy materials relating to the Annual Meeting, including the proxy statement and proxy card, are available at no cost on our website at *www.summerinfant.com*. You may also request copies of the proxy materials from our company as described in the enclosed proxy statement.

Whether or not you plan to attend the Annual Meeting, and in order to ensure that your shares are represented at the Annual Meeting, please sign and return the enclosed proxy card as promptly as possible in the enclosed postage-prepaid envelope. If you plan to attend to attend the Annual Meeting and need directions to our offices, please telephone (401) 671-6550.

SUMMER INFANT, INC.

1275 Park East Drive
Woonsocket, RI 02895

PROXY STATEMENT

2010 Annual Meeting of Stockholders

This Proxy Statement is furnished by the Board of Directors of Summer Infant, Inc., a Delaware corporation, in connection with the solicitation of proxies to be used at the Annual Meeting of Stockholders to be held on Thursday, June 3, 2010, and at any adjournments or postponements of that meeting. Our Board of Directors has fixed April 29, 2010 as the record date for determining those stockholders entitled to receive notice of, and to vote at, the Annual Meeting. Only stockholders of record at the close of business on April 29, 2010 will be entitled to vote at the Annual Meeting. We intend to first mail or give to holders of our common stock this Proxy Statement and the accompanying proxy card on or about April 30, 2010.

Any proxy, if received in time for voting and not revoked, will be voted at the Annual Meeting in accordance with the stockholder's instructions on the proxy card. If no instructions are given on the proxy card, the proxy will be voted (1) **FOR** the election as directors of the nominees named in this proxy statement, (2) **FOR** the amendment to our Amended and Restated Certificate of Incorporation described in this proxy statement, (3) to ratify the appointment of Caturano and Company, P.C., an independent public accounting firm, as the independent auditor of our company for the year ending December 31, 2010, and (4) as the persons specified in the proxy deem advisable on such other business as may properly come before the meeting. At present, management knows of no additional business to be presented at the Annual Meeting, but if other business is presented, the persons named in the proxy card and acting under the proxy card will vote or refrain from voting in accordance with their best judgment pursuant to the discretionary authority conferred by the proxy.

Revocability of Proxies

A proxy may be revoked at any time prior to its exercise:

- by submitting a written notice revoking that proxy, addressed to our Board of Directors at our principal office at 1275 Park East Drive, Woonsocket, RI 02895, or

- at the Annual Meeting prior to the taking of a vote.

Any stockholder entitled to vote at the Annual Meeting may attend the Annual Meeting and vote in person on any matter presented for a vote to our stockholders at the Annual Meeting, whether or not that stockholder has previously given a proxy.

Solicitation of Proxies

Proxies in the form enclosed are solicited by our Board of Directors. Solicitation of proxies will be made initially by mail. Proxies may also be solicited personally, by telephone, e-mail or by facsimile transmission by our directors, officers and other employees. We will bear all costs and expenses incurred in connection with this solicitation, including the cost of printing and mailing these proxy materials and the expenses, charges and fees of brokers, custodians, nominees and other fiduciaries who, at the request of our management, mail material to, or otherwise communicate with, the beneficial owners of our common stock held of record by those brokers, custodians, nominees or other fiduciaries.

Householding of Special Meeting Materials

Some banks, brokers, and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of these proxy materials may have been sent to multiple stockholders in each household. We will promptly deliver a separate copy of these proxy materials to any stockholder upon written or verbal request to us at our principal office at 1275 Park East Drive, Woonsocket, RI 02895, telephone: (401) 671-6550. Any stockholder who wants to receive separate copies of proxy materials in the future, or any stockholder who is receiving multiple copies and would like to receive only one copy per household, should contact that stockholder's bank, broker, or other nominee record holder, or that stockholder may contact us at the address and phone number set forth above.

Voting Securities

As of April 29, 2010, the record date for the Annual Meeting, there were 15,437,477 shares of common stock issued and outstanding, all of which are entitled to vote at the Annual Meeting. Fractional shares will not be entitled to vote, but each full share of common stock entitles the holder of that share to one vote on all matters properly brought before the Annual Meeting. At present, our common stock is the only class of our capital stock that is issued and outstanding.

Vote Required

Each stockholder is entitled to one vote for each share held by that stockholder on April 29, 2010. The representation in person or by proxy of at least a majority of the shares of common stock entitled to vote at the Annual Meeting is necessary to establish a quorum for the transaction of business. Abstentions and "broker non-votes," as described below, will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting.

The affirmative vote of a plurality of the shares of our common stock represented in person or by proxy at the Annual Meeting is necessary for the election of directors. The affirmative vote of a majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting is necessary for the approval of the amendment to our Amended and Restated Certificate of Incorporation. The affirmative vote of the majority of shares present in person or represented by proxy and entitled to vote at the Annual Meeting is required for approval of the other proposals described in this proxy statement. With regard to these proposals, shares which are entitled to vote but abstain from voting on a matter will be excluded from the vote and will have no effect on its outcome. Furthermore, shares held in "street name" by a broker or nominee who indicates on a proxy that it does not have discretionary authority to vote those shares as to a particular matter will also be entirely excluded from the vote and will have no effect on its outcome. We refer to these shares as "broker non-votes." If you are a beneficial holder and do not provide specific voting instructions to your broker, under a recent rule change the organization that holds your shares will not be authorized to vote on the election of directors. Accordingly, we encourage you to vote promptly, even if you plan to attend the Annual Meeting.

We will report voting results at *www.summerinfant.com* and in a filing with the United States Securities and Exchange Commission, or the SEC, on Form 8-K.

Annual Report and Other Matters

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was made available to stockholders with or preceding this proxy statement, contains financial and other information about our company, but is not incorporated into this proxy statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, or Exchange Act.

Through our website, *www.summerinfant.com*, we make available free of charge all of our SEC filings, including our proxy statements, our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K, as well as Form 3, Form 4, and Form 5 Reports of our directors, officers, and principal stockholders, together with amendments to these reports filed or furnished pursuant to Section 13(a), 15(d), or 16 of the Exchange Act. We will also provide upon written request, without charge to each stockholder of record as of the record date, a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as filed with the SEC. Any exhibits listed in the Form 10-K report also will be furnished upon request at the actual expense we incur in furnishing such exhibits. Any such requests should be directed to our corporate secretary at our executive offices at 1275 Park East Drive, Woonsocket, RI 02895, telephone: (401) 671-6550.

OWNERSHIP OF SUMMER INFANT, INC. COMMON STOCK

Except as otherwise indicated in the footnotes, the following table sets forth information regarding the beneficial ownership of our common stock as of April 15, 2010 by:

each person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock;

each of our directors and named executive officers listed in the Summary Compensation Table under the section entitled "Executive Compensation"; and

all of our executive officers and directors as a group.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)(3)	Percent of Common Stock(4)
5% Stockholders		
Wynnefield Capital Management LLC and related entities (5) 450 Seventh Avenue, Suite 509 New York, NY 10123	2,320,406	15.0%
Buckingham Capital Management Incorporated (6) 750 Third Avenue, Sixth Floor New York, NY 10017	1,843,673	11.9%
Directors and Executive Officers		
Jason Macari	3,562,003	23.1%
Steven Gibree	767,702	5.0%
Joseph Driscoll	200,000	1.3%
Dan Almagor		
Martin Fogelman	44,000	*
Derial Sanders		
Robert Stebenne	44,000	*
Richard Wenz	44,000	*
All directors and executive officers as a group (9 persons)	4,661,705	30.2%

*
Less than 1%

(1)
Unless otherwise noted, the business address of each named person is 1275 Park East Drive, Woonsocket, Rhode Island 02895.

(2)
Unless otherwise noted, each person named in the table has sole voting and investment power with regard to all shares beneficially owned, subject to applicable community property laws.

(3)
Includes the following number of shares that can be acquired through stock option exercises through June 14, 2010 as follows:

Directors and Executive Officers	Options Exercisable through June 14, 2010
Mr. Macari	155,000
Mr. Gibree	182,500
Mr. Driscoll	180,000
Mr. Fogelman	40,000
Mr. Stebenne	40,000

Mr. Wenz	40,000

(4) The percentages shown are calculated based on 15,437,477 shares of common stock outstanding on April 15, 2010. In calculating the percentage of ownership, all shares of common stock that the identified person or group had the right to acquire within 60 days of April 15, 2010 upon the exercise of options are deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by that person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by any other person or group.

(5) The information is as reported on Amendment No. 4 to Schedule 13G/A filed with the SEC on February 16, 2010 (the "Schedule 13G") and a Form 4 filed with the SEC on April 28, 2010. Mr. Nelson Obus may be deemed to hold an indirect beneficial interest in these shares, which are directly beneficially owned by Wynnefield Partners Small Cap Value, L.P., Wynnefield Partners Small Cap Value, L.P. I, Wynnefield Small Cap Value Offshore Fund, Channel Partnership II, L.P. and Wynnefield Capital, Inc. Profit Sharing Plan, because he is a co-managing member of Wynnefield Capital Management, LLC, a principal executive officer of Wynnefield Capital, Inc. (the investment manager of Wynnefield Small Cap Value Offshore Fund), the general partner of Channel Partnership II, L.P. and the portfolio manager of Wynnefield Capital, Inc. Profit Sharing Plan. The inclusion of information in the Schedule 13G with respect to Mr. Obus shall not be considered an admission that he, for the purpose of Section 13(g) of the Exchange Act, is the beneficial owner of any shares in which he does not have a pecuniary interest. Mr. Obus disclaims any beneficial ownership of the shares of common stock covered by the Schedule 13G.

Mr. Joshua Landes may be deemed to hold an indirect beneficial interest in 2,340,269 of these shares, which are directly beneficially owned by Wynnefield Partners Small Cap Value, L.P., Wynnefield Partners Small Cap Value, L.P. I and Wynnefield Small Cap Value Offshore Fund, because he is a co-managing member of Wynnefield Capital Management, LLC and a principal executive officer of Wynnefield Capital, Inc. The inclusion of information in the Schedule 13G with respect to Mr. Landes shall not be considered an admission that he, for the purpose of Section 13(g) of the Exchange Act, is the beneficial owner of any shares in which he does not have a pecuniary interest. Mr. Landes disclaims any beneficial ownership of the shares of common stock covered by the Schedule 13G.

(6) The information is as reported on Amendment No. 3 to Schedule 13G/A filed with the SEC on February 10, 2010 (the "Schedule 13G"). Buckingham Capital Management Incorporated is a registered investment adviser which acts as the general partner and investment manager for various private investment funds and which also manages other accounts on a discretionary basis. Buckingham Research Group Incorporated, a registered broker-dealer, is the parent company of Buckingham Capital Management Incorporated and thus may be deemed to be the beneficial owner of the securities reported in the Schedule 13G.

PROPOSAL NUMBER ONE

ELECTION OF DIRECTORS

Pursuant to our Amended and Restated Certificate of Incorporation, our board of directors is divided into three classes. The terms of our current Class C directors, Jason Macari and Dan Almagor, expire at our Annual Meeting. The terms of our current Class A directors, Derial Sanders and Robert Stebenne, will expire at our annual meeting of stockholders to be held in 2011. The terms of our current Class B directors, Steven Gibree, Martin Fogelman and Richard Wenz, will expire at the annual meeting of stockholders to be held in 2012. Mr. Macari and Mr. Almagor have been nominated and recommended for election to serve as directors for a three-year term until our annual meeting of stockholders to be held in 2013, or until their successors have been elected and qualified.

Nominees for Directors

The following table sets forth certain information with respect to the two nominees for election to our Board of Directors, their principal occupations, ages, independence status, as determined in accordance with rules of The NASDAQ Stock Market, and periods of service on our Board of Directors. Information regarding their ownership of shares of our common stock as of April 15, 2010 may be found at "Ownership of Summer Infant, Inc. Common Stock". Messrs. Macari and Almagor currently are directors of our company. In the event either Mr. Macari or Mr. Almagor is unable or declines to serve as a director at the time of the meeting, the proxies will be voted for any nominees designated by the current board of directors to fill the vacancies. It is not expected that either Mr. Macari or Mr. Almagor will be unable or will decline to serve as director.

Class	Name	Age	Principal Occupation	Independent Status	Director Since
C	Jason Macari	48	Chairman and CEO of Summer Infant, Inc.	N	March 2007
C	Dan Almagor	56	Consultant and private investor	Y	November 2009

Mr. Macari has been our Chief Executive Officer since March 2007 and Chairman of the Board since October 2008. Prior to March 2007, Mr. Macari was Chief Executive Officer and founder of the predecessor company to Summer Infant, Inc., which he founded in 2001. Prior to that time, Mr. Macari was vice president of product development and general manager of Safety 1st, Inc., a manufacturer of safety and juvenile products from August 1994 to June 2001. From May 1988 to August 1994, Mr. Macari managed the manufacturing engineering group of the Davol Division of CR Bard, a manufacturer of surgical products. In determining that Mr. Macari should continue serving as a director of our company, the Nominating Committee considered his current role as Chief Executive Officer, his intimate knowledge of the company acquired over the last decade, and his previous experience in the industry. Mr. Macari provides the board of directors with insight into the day-to-day operations of the company as well as a broad understanding of our business as a result of his prior experience. This experience, as well as his management and leadership skills and ability to create a link between management and the board of directors, led the Nominating Committee to conclude that his abilities would fit the needs of our board of directors.

Mr. Almagor is a consultant and private investor. He currently serves on the Board of Directors of Jakks Pacific, Inc., a publicly traded multi-line, multi-brand toy company, and is the Chairman of its Nominating and Corporate Governance Committee and a member of its Compensation Committee. From 1999 to 2005, Mr. Almagor was the Chairman and CEO of ACG International, a $3 billion private equity fund and affiliate of Bank One, where he was involved in formulating deal terms for investments and in the sourcing of high quality investment opportunities. From 1996 to 1998, he was the Chairman and Chief Executive Officer for ID B.V. From 1993 to 1996, he was the President and Chief Executive Officer for Kushi Foods, a position he accepted after being Managing Partner and Director for American Consulting from 1989 to 1993. At American Consulting he was responsible for business strategy and served as advisor to Fortune 1000 boards. Mr. Almagor has also authored *Business Visions, A Practical Guide for Strategic Decisions and Shareholder Value Creation*. Mr. Almagor received a B.S. in mechanical and industrial engineering from SUNY. The Board has determined that Mr. Almagor meets the applicable independence requirements of The NASDAQ Stock Market listing standards. Mr. Almagor currently serves as a member of our Audit Committee. In determining that Mr. Almagor should continue serving as a director of our company, the Nominating Committee considered his experience in business strategy and understanding of capital markets and investments, as well as his service on other boards of directors. This experience, as well as well as being an independent director, led the Nominating Committee to conclude that his abilities would fit the needs of our board of directors.

Vote Required

The affirmative vote of a plurality of the shares of our common stock represented in person or by proxy at the Annual Meeting is necessary for the election of the individuals named above. Unless otherwise instructed, proxy holders will vote the proxies received by them for the nominees named above. If you are a beneficial holder and do not provide specific voting instructions to your broker, under a recent rule change the organization that holds your shares will not be authorized to vote on the election of directors. Accordingly, we encourage you to vote promptly, even if you plan to attend the Annual Meeting.

Recommendation

Our Board of Directors recommends that stockholders vote "FOR" the election of each of Mr. Macari and Mr. Almagor for a three-year term.

Continuing Directors

The following table sets forth certain information about those directors whose terms of office do not expire at the Annual Meeting and who consequently are not nominees for re-election at the Annual Meeting. Information regarding their ownership of shares of our common stock as of April 15, 2010 may be found at "Ownership of Summer Infant, Inc. Common Stock".

Class	Name	Age	Principal Occupation	Independent Status	Director Since	Term of Office Will Expire
A	Derial Sanders	67	Consultant	Y	November 2009	2011
A	Robert Stebenne	57	Owner, Bob Stebenne Associates	Y	March 2007	2011
B	Steven Gibree	43	EVP of Product Development, Summer Infant, Inc.	N	March 2007	2012
B	Martin Fogelman	66	Independent consultant, Baby products industry	Y	March 2007	2012
B	Richard Wenz	60	Consultant and private investor	Y	March 2007	2012

Mr. Sanders currently acts as a consultant to Precept Marketing Group and Frontline Placement Technologies. From January 2001 to December 2008, Mr. Sanders was President of Precept Marketing Group, which he founded. Prior to June 2001, Mr. Sanders was a longtime employee of Graco Children's Products, Inc., where his last role was as President and COO. He was instrumental in the growth of the company through his departure, and helped Graco achieve this growth via strategic domestic sales initiatives, international expansion, and the addition of several key new product categories. Mr. Sanders also saw the company through several acquisitions, the last of which was by its current holder, Rubbermaid, in 1996, then Newell Rubbermaid in 1998. Mr. Sanders received a B.S. in marketing and commerce from Rider University. Mr. Sanders currently serves as a member of our Compensation Committee. Mr. Sanders was chosen to serve on the board of directors because of his extensive experience in the industry at Graco, including his management positions at that company and his achievements while serving at Graco.

Mr. Stebenne currently owns and manages Bob Stebenne Associates, a firm he founded in 2002 that provides consulting services in the areas of brand development, product development, and strategic planning. From February 1999 to July 2002, Mr. Stebenne was the president of new business development for Hasbro Industries, a provider of children's and family leisure time products and services. From 1991 to February 1999, he was president of Hasbro's FOB/LC division, where he created a U.S. marketing, sales, product development, finance and logistics group. From 1982 to 1991, he was president of Hasbro's Playskool Baby division. Mr. Stebenne currently serves as Chairman of our Nominating Committee, as a member of our Audit Committee and Compensation Committee, and he is Lead Director of our board of directors. Mr. Stebenne was chosen to serve on the board of directors because of his extensive experience in the industry, including his experience at Hasbro.

Mr. Gibree is our Executive Vice President of Product Development and provides management oversight of research and development, product design and engineering, and manufacturing relations. Prior to March 2007, Mr. Gibree held these same positions at the predecessor company to Summer Infant, Inc., with whom he had been employed since November 2001. From March 2001 to November 2001, Mr. Gibree was the vice president of engineering for Little Kids, Inc., a manufacturer of innovative toys. From May 1997 to March 2001, Mr. Gibree was director of engineering at Safety 1st, Inc., a manufacturer of safety and juvenile products. From May 1985 to May 1997, Mr. Gibree was employed by Hasbro, rising to project manager for the Kid Dimension division. Mr. Gibree was chosen to serve on the board of directors because, in his role as Executive Vice President and his past experience with the company, he has considerable historical knowledge of the company as well as insight into the day-to-day operations of the company.

Mr. Fogelman has been an independent consultant to the baby products industry since April 2007. From May 2003 until March 2007, Mr. Fogelman was President of Baby Trend, Inc., a manufacturer of infant products. From 1983 to May 2003, he was senior vice president and general merchandise manager of both Toys "R" Us, a leading retailer of children's toys, and Babies "R" Us juvenile products division, a leading retailer of products for infants and toddlers. Mr. Fogelman currently serves as a member of our Compensation Committee and of our Nominating Committee. Mr. Fogelman was chosen to serve on the board of directors because of his extensive experience in the industry, including his experience in creating strategic growth Toys "R" Us and Babies "R" Us.

Mr. Wenz is a consultant and private investor. Since July 2006, Mr. Wenz has served on the board of directors of Easton-Bell Sports, Inc., a publicly traded company that designs, develops and markets branded sports equipment, protective products and related accessories, and is currently the chairman of its audit committee. Mr. Wenz also serves as a director of Coach America, a transportation company, and Strategic Partners, Inc., a company that designs and markets nurses scrubs and apparel. From 2000 to 2003, Mr. Wenz was an operating partner/affiliate of DB Capital Partners, LLC, the private equity arm of Deutsche Bank A.G., and served on the boards of directors of a number of portfolio companies, including NewRoads, Inc. and Jenny Craig International. Mr. Wenz also served as Chief Executive

Officer of Jenny Craig International during 2002 and 2003. From 1997 to 2000, Mr. Wenz was President and Chief Operating Officer of Safety 1st, Inc., a manufacturer of safety and juvenile products. During 1995 and 1996, Mr. Wenz was the partner in charge of the Chicago office with The Lucas Group, a business strategy consulting firm. Prior to 1995, Mr. Wenz held senior executive positions with Wilson Sporting Goods Co., Electrolux Corporation, The Regina Company and Professional Golf Corporation. Mr. Wenz began his career in 1971 with Arthur Young & Company (predecessor of Ernst & Young) and left the firm as a partner in 1983. Mr. Wenz is a certified public accountant. Mr. Wenz currently serves as Chairman of our Audit Committee, Chairman of our Compensation Committee, and as a member of the Nominating Committee. Mr. Wenz was chosen to serve on the board of directors because he has substantial leadership and financial experience as described above. His background as a certified public accountant and service on other public company board of directors provides valuable experience needed to serve as our Audit Committee financial expert.

Board Leadership Structure and Board's Role in Risk Oversight

Board Leadership Structure

Our board of directors believes that the company's Chief Executive Officer is best situated to serve as Chairman of the Board because he is the director most familiar with our business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. Our independent directors bring experience, oversight and expertise from outside the company and industry, while the Chief Executive Officer brings company-specific experience and expertise. Our board believes that the combined role of Chairman and Chief Executive Officer promotes strategy development and execution, and facilitates information flow between management and the board, which are essential to effective governance.

One of the key responsibilities of the board is to assist the company in developing strategic direction and to hold management accountable for the execution of strategy once it is developed. The board believes the combined role of Chairman and Chief Executive Officer, together with an independent Lead Director having the duties described below, is in the best interests of the company because it provides the appropriate balance between strategy development and independent oversight of management.

Lead Director

Robert Stebenne, an independent director, was selected by our board to serve as the Lead Director for all meetings of the non-employee directors held in executive session. The Lead Director has the responsibility of presiding at all executive sessions of the board, consulting with the Chairman and Chief Executive Officer on board and committee meeting agendas, acting as a liaison between management and the non-employee directors, including maintaining frequent contact with the Chairman and Chief Executive and advising him on the efficiency of the board meetings, facilitating teamwork and communication between the non-employee directors and management, as well as additional responsibilities.

Board's Role in Oversight of Risk

Our board is responsible for overseeing the company's risk management. The board of directors regularly reviews information regarding the company's credit, liquidity and operations, as well as the risks associated with each. The Audit Committee discusses with the company's independent auditor the major financial risk exposures and the steps management has taken to monitor and control such exposures.

Corporate Governance

Independence

In determining the independence of directors, our board of directors will analyze each director's relationship with the company and its subsidiaries to determine whether our directors are independent under the applicable rules of The NASDAQ Stock Market and the SEC. Our board of directors has determined that all of our current directors, except Messrs. Macari and Gibree, are "independent" within the meaning of the independence rules of The NASDAQ Stock Market and the SEC.

Executive Sessions

All directors who are not employees of our company or our subsidiaries meet in executive session from time to time, and met at least four times in 2009.

Code of Ethics

We have adopted a comprehensive Code of Ethics for all employees and directors, which can be found on our website at *www.summerinfant.com*.

Communications with Directors

Stockholders may send communications to our board of directors, the Chairman, or one or more non-employee directors by using the contact information provided on our website. Stockholders also may send communications by letter addressed to us at Summer Infant, Inc., 1275 Park East Drive, Woonsocket, Rhode Island 02895. All communications will be received and reviewed by our Chief Executive Officer. Stockholder concerns about our accounting, internal controls, auditing matters or business practices will be reported to the Audit Committee. All other concerns will be reported to the appropriate committee(s) of our board of directors.

Board of Directors Meetings and Committees of the Board

Attendance of Directors

In 2009, our Board of Directors met four times. All directors attended more than seventy-five percent of the meetings. All directors attended in excess of 75% of the meetings of the committees of our board of directors on which they served. Our directors are encouraged, but not required, to attend annual meetings. Three of our directors attended our 2009 annual meeting of stockholders.

Compensation of Directors

We do not pay our directors who are also executive officers any additional compensation for service as directors. The compensation for non-employee directors includes the following:

- a $50,000 annual retainer for each non-employee director;
- an additional $10,000 annual retainer for the Chairman of the Audit Committee;
- an additional $5,000 annual retainer for the Chairman of the Compensation Committee;
- an additional $15,000 annual retainer for the Lead Director and Nominating Committee Chairman;
- expense reimbursement for all reasonable expenses incurred in attending meetings and tending to our business; and
- a one-time grant to each non-employee director of options to purchase 40,000 shares of our common stock under the 2006 Performance Equity Plan.

10

In addition, in January 2009, the Compensation Committee and full Board of Directors approved the one-time grant of 8,000 shares of restricted common stock under our 2006 Performance Equity Plan to each of our non-employee directors. Of these shares, 2,000 were immediately vested and the remaining shares vest in equal installments over a three-year period.

Director Compensation in 2009

The following table shows non-employee director compensation in 2009:

Name(1)	Fees Earned or Paid in Cash ($)	Stock Awards ($)(2)	Options Awards ($)(3)	Non-Equity Incentive Plan Compensation Earnings	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other ($)	Total ($)
Dan Almagor(4)	$ 12,500						$ 12,500
Martin Fogelman(5)	$ 50,000	$ 22,080				$ 57,000	$ 129,080
Myra Hart(6)	$ 27,500	$ 22,080					$ 49,580
Derial Sanders(4)	$ 12,500						$ 12,500
Robert Stebenne	$ 65,000	$ 22,080					$ 87,080
Richard Wenz	$ 62,500	$ 22,080					$ 84,580

(1) Messrs. Macari and Gibree are not included in this table as they are executive officers and, accordingly, receive no compensation for their service as directors. The compensation received by Messrs. Macari and Gibree as executive officers is shown in the Summary Compensation Table below.

(2) The amounts in this column reflect the aggregate grant date fair value for financial statement reporting purposes in accordance with FASB ASC Topic 718 of the award of 8,000 shares of restricted common stock to each of the directors indicated. The aggregate number of stock awards granted to directors as of December 31, 2009, was as follows: Mr. Fogelman, 8,000 shares; Ms. Hart, 2,000 shares; Mr. Stebenne, 8,000 shares; and Mr. Wenz, 8,000 shares. For the grants to Messrs. Fogelman, Stebenne, and Wenz, 2,000 shares were immediately vested and the remaining shares vest in equal installments over the next three anniversaries of the grant date. Because Ms. Hart resigned from the board of directors in 2009, she retained only 2,000 vested shares and the remaining shares were forfeited.

(3) The amounts in this column reflect the aggregate grant date fair value for financial statement reporting purposes in accordance with FASB ASC Topic 718 of the award of options to purchase common stock granted to each of the directors indicated. The aggregate number of options outstanding as of December 31, 2009, for each director was as follows: Mr. Fogelman, 40,000; Mr. Stebenne, 40,000; and Mr. Wenz, 40,000.

(4) Messrs. Almagor and Sanders each joined our board of directors in November 2009, and therefore received 25% of their annual retainer. In January 2010, Messrs. Almagor and Sanders each received an option to purchase 40,000 shares of common stock, which are not reflected in this table because they were not granted until 2010.

(5) Mr. Fogelman receives $4,750 per month as a paid consultant to our company.

(6) Effective July 31, 2009, Ms. Hart resigned from our Board of Directors.

Committees of the Boards of Directors

Our Board of Directors has designated the following standing committees: an Audit Committee, a Compensation Committee and a Nominating Committee. The composition and objectives of each committee are described below.

Audit Committee

The Audit Committee held four meetings in 2009. As described in the Audit Committee's charter, a copy of which is available on our website at *www.summerinfant.com*, the primary function of the Audit Committee is to appoint, retain, set compensation of, and supervise our independent accountants, review the results and scope of the audit and other accounting related services, and review our accounting practices and systems of internal accounting and disclosure controls.

The Audit Committee currently consists of three members: Richard Wenz, Chairman, Dan Almagor, and Robert Stebenne. Each member of the Audit Committee is an "independent" director under the rules of The NASDAQ Stock Market. The members of the Audit Committee are required to have extensive business and financial experience. They are also required to have a good understanding of financial statements, including our balance sheet, income statement, cash flow statement and our quarterly and annual reports on Forms 10-Q and 10-K and related financial statements and disclosures. Our Board of Directors has determined that Mr. Wenz qualifies as an Audit Committee "financial expert."

The Audit Committee meets with our external and internal auditors and principal financial personnel to review quarterly financial results and the results of the annual audit (in both regular and executive sessions). The Audit Committee reviews and approves annual external auditor engagement plans, scopes and fees. The Audit Committee approves all fees and terms related to the annual independent audit as well as all permissible non-audit engagements of the external auditors. The Audit Committee pre-approves all audit and permissible non-audit services to be performed by the external auditors.

Compensation Committee

The Compensation Committee met four times in 2009. The Compensation Committee currently consists of four members: Richard Wenz, Chairman, Martin Fogelman, Robert Stebenne, and Derial Sanders. Each member of the Compensation Committee is an "independent" director under the rules of The NASDAQ Stock Market.

As described in the Compensation Committee's charter, which is available on our website at *www.summerinfant.com*, the Compensation Committee is responsible, on behalf of our board of directors, for reviewing and approving the amounts and types of compensation paid to our executive officers and non-employee directors, as well as all bonus and equity compensation paid to other company employees. The committee is responsible for determining that compensation paid under the company's compensation programs is equitable (i.e., that it is appropriate to the responsibilities of the position), is based on the performance of the company and the individual, and meets the standards of the competitive marketplace. The committee meets at least four times per year and additionally as needed. The Chairman of the committee regularly reports to our board of directors on compensation committee policy, procedures, actions, and recommendations. The committee has authority to retain (at our company's expense) outside counsel, compensation consultants and other advisors to assist as needed.

Compensation Objectives and Methodology

The following describes the committee's current compensation philosophy and objectives, and the various methodologies, policies and practices for establishing and administering the compensation program for our executive officers. The goals of the compensation program are:

- To attract, retain and motivate qualified executives who will lead the company to in achieving high performance.
- To support business strategies that result in superior long term stockholder value.
- To align pay with performance by making a substantial portion of compensation dependent on achievement of corporate financial and strategic objectives as well as individual performance goals.
- To align management interests with those of our stockholder base by making a substantial portion of compensation equity-based.

The committee believes that a properly structured compensation program attracts and retains talented individuals and motivates them to achieve specific short and long-term strategic objectives. In order to do that, a significant percentage of executive pay is based on the principle of pay-for-performance. The committee is committed to ensuring that the total compensation package of executive officers is competitive with compensation at peer-group companies.

The company's executive compensation programs are designed to provide:

- levels of base compensation that are appropriate to the responsibilities of the position and competitive with comparable companies;
- annual incentive awards that vary in a manner consistent with the achievement of the performance targets for the company and of individual performance objectives;
- long-term incentive compensation that focuses executive efforts on building stockholder value through meeting longer-term financial and strategic goals; and
- executive benefits that are competitive with comparable companies.

In designing and administering our executive compensation program, the committee attempts to strike an appropriate balance among these various elements. Compensation includes cash, in the form of base salary and annual incentives, and equity, in the form of restricted stock and options. The compensation committee evaluates the mix between these elements of compensation based on the pay practices of comparable companies. Summer Infant is a young company and its compensation design is a work in progress.

With respect to performance-based cash compensation, the committee believes that executive compensation should be closely tied to achievement of the financial and operational goals established in advance by our board of directors, as well as to the achievement individual performance goals of the executive officers. The committee uses equity-based compensation to align the executives' interests with those of our stockholders over a longer period of time. For purposes of retention, the committee believes that the equity-based compensation should have meaningful conditions that encourage valued employees to remain in the employ of the company as well as to achieve the performance goals of the company. The committee also considers executive benefit programs as a means to attract, retain and motivate highly qualified executives. Executive officers are entitled to participate in the benefits programs that are available to all full-time employees, including health, dental, and life insurance, healthcare reimbursement accounts, paid vacation and company contributions to a 401(k) profit-sharing retirement plan. The company's 401(k) plan provides for matching contributions by us in an amount equal to the first 2% of employee compensation deferred, plus 50% of the next 1% of employee compensation deferred.

The compensation committee is responsible for all compensation decisions for the chief executive officer and other executive officers. The chief executive officer annually reviews the performance of the other executive officers, including consideration of market pay practices of the comparable companies in conjunction with both company and individual performance. The conclusions and recommendations of the chief executive officer are presented to the compensation committee for approval. The compensation committee has absolute discretion as to whether it approves the recommendations of the chief executive officer or makes adjustments, as it deems appropriate.

All compensation decisions are made with consideration of the compensation committee's guiding principles of fairness to employees, retention of talented executives and the achievement of improved company performance, which ultimately benefits the company's stockholders. Additional information about the components of compensation for our named executive officers in 2009 can be found in the narrative description following the Summary Compensation Table in this proxy statement.

Nominating Committee

The Nominating Committee met twice in 2009. As described in the Nominating Committee's charter, which is available on our website at *www.summerinfant.com,* the Nominating Committtment returns of £5,518 million in the first half of 2003 compared to investment losses of £1,845 million in the first half of 2002. The investment return primarily represented the positive return on the assets supporting the with-profits fund. During the first six months of 2003 the PAC with-profits fund earned a return of positive 6.7%, compared with the 4.5% return on the FTSE 100 share-index. This compares with a return on the long-term fund of negative 8.1% for the 2002 full year and negative 2.6% for the comparative period in 2002. At June 30, 2003, 32% of PAC's assets were invested in UK equities, 13% in overseas equities, 34% in fixed maturities, 17% in real estate, and 4% in cash and other assets.

In the United States, investment returns of £619 million in the first half of 2003 were £83 million lower than in the first half of 2002 principally due to adverse foreign exchange rate movements.

In Asia, investment returns increased from £167 million in the first half of 2002 to £321 million in the first half of 2003. The increase mainly reflected higher unrealized gains following the strengthening of investment markets in Singapore.

14

Expenses

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Long-term business:		
United Kingdom and Europe	**(512)**	(546)
United States	**(89)**	(56)
Asia	**(226)**	(220)
Total	**(827)**	(822)

Total expenses of £827 million were incurred in the first half of 2003, 1% higher than the £822 million incurred in the first half of 2002.

In the United Kingdom and Europe, expenses in the first half of 2003 were £512 million compared to £546 million in the first half of 2002. The reduction in expenses mainly reflected reduced commission on lower sales levels and progress made towards targeted cost savings announced in 2001.

In the United States, expenses of £89 million in the first half of 2003 compared with £56 million incurred in the first half of 2002. This increase primarily represented higher levels of amortization of deferred acquisition costs and development costs at Curian Capital, LLC.

In Asia, expenses in the first half of 2003 were £226 million, in line with the £220 million incurred in the first half of 2002.

Benefits and Claims

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Long-term business:		
United Kingdom and Europe	**(6,397)**	(6,060)
United States	**(3,019)**	(3,504)
Asia	**(826)**	(776)
Total	**(10,242)**	(10,340)

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

Total benefits and claims fell by £98 million in the first half of 2003 to £10,242 million compared to £10,340 million in the first half of 2002.

In the United Kingdom and Europe, benefits and claims increased from £6,060 million in the first half of 2002 to £6,397 million in the first half of 2003. While payments to policyholders in the first half of 2002 and 2003 were relatively stable at £4,187 million and £4,304 million respectively, the change in long-term technical provisions increased from £1,873 million in the first half of 2002 to £2,093 million in the first half of 2003.

In the United States, benefits and claims decreased from £3,504 million in the first half of 2002 to £3,019 million in the first half of 2003. This movement reflected a 10% decrease in death benefits,

maturities and surrenders of deposit products from £1,787 million in the first half of 2002, to £1,617 million in the first half of 2003. In addition, the change in technical provisions fell from £1,717 million to £1,402 million.

In Asia, benefits and claims increased by 6% to £826 million in the first half of 2003 compared to £776 million in the first half of 2002. This increase reflected a 14% increase in the change in long-term technical provisions, offset by an 11% fall in claims.

Transfer (to) from the Fund for Future Appropriations

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Long-term business:		
United Kingdom and Europe	**(2,098)**	3,904
Asia	**(113)**	(2)

	Six Months Ended June 30,	
Total	**(2,211)**	3,902

The transfer to the fund for future appropriations in the United Kingdom in the first half of 2003 was £2,098 million compared to £3,904 million being transferred from the fund for future appropriations in the first half of 2002, an increase of £6,002 million. The increase predominantly reflects the improving return on the assets supporting the with-profits fund which earned a return of 6.7% during the first six months of 2003 compared with negative 2.6% for the comparative period in 2002.

In Asia, there was a transfer to the fund for future appropriations of £113 million in the first half of 2003 compared with £2 million in the first half of 2002. This was primarily due to stronger investment returns in Singapore.

US GAAP Analysis

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

The most significant difference in the results of operations between UK GAAP and US GAAP is the treatment of the with-profits business.

Under UK GAAP, profit attributable to shareholders in respect of Prudential's with-profits business reflects up to one-ninth of the value of bonuses paid to policyholders. To the extent the annual earnings of the with-profits fund exceed policyholder bonuses and related shareholder distributions, this excess is added to the fund for future appropriations by a charge to the profit and loss account. However, to the extent the annual earnings of the with-profits fund are less than policyholder bonuses and related shareholder distributions, the shortfall is transferred from the fund for future appropriations.

Under US GAAP, the impact of pre-bonus operating results within the with-profits fund is reflected in net income in the period in which it occurs. However, 90% of these results are allocated to with-profits policyholders by a charge to net income. The residual 10% interest is allocated to shareholders.

This treatment of Prudential's with-profits fund under US GAAP causes profits attributable to shareholders to be strongly influenced by annual investment returns, particularly on equities. Annual investment returns include unrealized gains and losses and, accordingly, these returns and shareholders' profits are subject to considerable volatility in the US GAAP figures.

Other material differences between UK GAAP and US GAAP results include the method of deferral and amortization of acquisition costs, the accounting for certain investments and derivative instruments, revenue and claims recognition on investment-type contracts, the measurement of and changes in policyholder benefit and dividend liabilities, and the accounting for deferred income tax.

US GAAP Critical Accounting Policies

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

Provision for Policy Liabilities

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

For unitized with-profits life insurance and other investment-type policies, the liability is represented by the policyholders' account balances before any applicable surrender charges. Policyholder benefit liabilities for conventional with-profits life insurance and other protection-type insurance policies are developed using the net level premium method, with assumptions for interest, mortality, morbidity, withdrawals and expenses using best estimates at the date of policy issue plus provisions for adverse deviation based on group experience. Interest assumptions range from 0.736% to 12%. When the policyholder benefit liability plus the present value of expected future gross premiums are insufficient to provide for expected future policy benefits and expenses, using current best assumptions, deferred acquisition costs are written down and/or a deficiency liability is established by a charge to earnings.

The impact of changes would depend upon whether or not the liabilities being adjusted are for the with-profits business, non-participating business of Prudential Annuities Limited (which is owned by the Prudential Assurance long-term fund) or shareholder financed long-term business operations.

For with-profits business, adjustments to liabilities and any related tax effects, are recognized in the income statement. However, an amount equal to nine-tenths of the related increase or decrease in pre-bonus earnings of the with-profits fund is transferred to or from the Undistributed Policyholder Allocation and charged or credited to the income statement. US GAAP shareholder profits are therefore only affected to the extent of one-tenth of the change in liabilities.

This effect also applies to changes in liabilities of Prudential Annuities Limited. To the extent that movements in liabilities are recorded in Other Comprehensive Income as shadow adjustments to the income statement under Statement of Financial Accounting Standard No. 115 ("Accounting for certain investments in debt and equity securities", (FAS 115)), an amount equal to nine-tenths of the movement is recognized within Other Comprehensive Income as a consequential change to the Undistributed Policyholder Allocation. Net movements on Other Comprehensive Income for this item will therefore reflect only one-tenth of the gross change.

For shareholder financed long-term business operations, other than for exchange translation effects, changes to policy liabilities will be directly reflected in net income and shareholders' equity.

Treatment of With-Profits Business

Under UK GAAP, the shareholders' profit in respect of with-profits business represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. As a consequence, current year amounts in respect of premiums, investment returns and operating expenses do not have

an effect on the profit attributable to shareholders in that year. Consistent with this treatment, as mentioned in " UK GAAP Critical Accounting Policies", amounts retained within with-profits funds are accounted for within the fund for future appropriations.

For US GAAP purposes, the provision for the policyholders' share of earnings on with-profits business charged to income represents 90% of the current year's pre-bonus earnings, before income taxes. As a result, reported profit is directly impacted by current year amounts in respect of premiums, investment returns and operating expenses. As investments of with-profits operations are accounted for on a trading basis, the shareholders' 10% share of the pre-bonus earnings is likely to be highly volatile from year to year as a result of the vagaries of market returns, irrespective of underlying long-term performance.

Investment Returns

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

Impairment of Assets

The Group conducts regular impairment reviews in respect of those investment securities held on an available for sale basis. The Group considers indicators, such as serious downgrades in credit ratings, breach of covenants or failure to make interest payments, that may suggest that interest and principal may not be paid in full. Any impairment losses that are not considered temporary are recognized in the profit and loss account. In assessing the securities' fair value for impairment testing purposes, where third party information is not available, the Group performs alternative valuation techniques including discounted cash flow analysis, option-adjusted spread models and enterprise valuation.

Among the factors considered are whether the decline in fair value results from a change in the quality of the security itself, or from a downward movement in the market as a whole, and the likelihood of recovering the carrying value based on the current and short term prospects of the issuer. Unrealized losses that are considered to be primarily the result of market conditions, such as increasing interest rates, unusual market volatility or industry-related events, and where the Group also believes there exists a reasonable expectation for recovery and, furthermore, has the intent and ability to hold the investment until maturity or the market recovers, are usually determined to be temporary.

Deferred Acquisition Costs

Commissions, salesforce direct costs and costs associated with policy issue and underwriting that vary with and are primarily related to the production of new and renewal contracts are deferred. Deferred acquisition costs are regularly evaluated for recoverability and amounts determined not to be recoverable are charged to income. Deferred acquisition costs for conventional with-profits life insurance and other protection-type insurance policies are amortized in relation to premium income using assumptions consistent with those used in computing policyholder benefit provisions. Deferred acquisition costs for unitized with-profits life insurance and investment-type policies are amortized in relation to expected gross profits. Expected gross profits are evaluated regularly against actual experience and revised estimates of future gross profits and amortization are adjusted for the effect of any changes. Deferred acquisition costs associated with internally replaced policies are written off in the year replacement occurs and the incremental commissions and selling costs of the replacement contract are capitalized and amortized over the life of the replacement policy.

The deferral and amortization of deferred acquisition costs is of most relevance to the Group's reported profits for shareholder financed long-term business operations, principally Jackson National Life in the United States. For shareholder financed long-term business operations the full accounting impact of deferring and amortizing DAC is taken to net income.

For with-profits funds, the shareholder impact of the accounting policy for acquisition costs is limited to 10% of the direct income statement and balance sheet effect due to 90% of the excess of US GAAP basis assets (including deferred acquisition costs) over liabilities in the funds being allocated to the Undistributed Policyholder Allocation. Accordingly, after this allocation, income before tax includes effectively only 10% of the amortization of deferred acquisition costs and shareholders' equity includes effectively only a 10% shareholder interest in the balance sheet value of deferred acquisition costs.

Deferred Income Tax

Deferred taxes are provided under the liability method for all temporary differences except for undistributed earnings of foreign subsidiaries that are not expected to be remitted for an indefinite period. Deferred tax assets are recognized subject to adjustment for valuation allowances when it is more likely than not that the underlying tax benefit will not be realized.

Derivatives and Financial Instruments

Under US GAAP, derivatives and financial instruments may only be accounted for as hedges where they are appropriately documented and comply with the strict criteria required by FAS 133. Derivative financial instruments held by the Group's with-profits operations are generally entered into for the purposes of efficient portfolio management rather than as hedges. Consistent with the accounting treatment of other investment assets of with-profits funds, the movements in the fair value of derivative financial instruments are recognized in the income statement with shareholders' net income reflecting, as part of the 10% of pre-bonus earnings of the fund, 10% of the movement in the values of the derivative instruments.

For the Group's shareholder financed long-term business operations, principally Jackson National Life, which accounts for investments under FAS 115 on an available-for-sale basis, the impact of temporary movements in the values of investments are recorded in Other Comprehensive Income. However, although Jackson National Life uses derivative financial instruments (primarily interest rate swaps) to hedge certain risks in conjunction with its asset/liability program, it has elected not to incur the costs of restructuring its derivative contracts, segregating investment portfolios and adding the systems personnel required to qualify for hedge accounting treatment on an ongoing basis. Accordingly, value movements on its derivative financial instruments are recognized in income while the largely offsetting changes in fair value of hedged instruments are reflected as an adjustment to equity as unrealized gains and losses.

Scottish Amicable Insurance Fund (SAIF)

In order to reflect the ring-fenced nature of the closed block fund SAIF, both UK and US GAAP net income record a nil post-tax result. For UK GAAP, a nil pre-tax result is also recorded, reflecting the sole interest of SAIF policyholders in the performance of the fund. However, as

SAIF is accounted for as separate account business under US GAAP it is necessary for a pre-tax shareholder result to be recorded. The amount of this result is equal and opposite to the amount of the tax charge borne by SAIF.

19

Changes in Net Income on Application of US GAAP

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

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Consolidated profit and loss in accordance with UK GAAP	**139**	422
US GAAP adjustments:		
With-profits fund	**177**	(321)
Other operations	**(16)**	(78)
	161	(399)
Net income in accordance with US GAAP	**300**	23
Comprising:		
Net income (loss) from continuing operations after minority interests	**264**	(274)
Net income from discontinued operations including profit on sale of German life business and UK personal lines property and casualty insurance business	**36**	297
	300	23

On a US GAAP basis, consolidated net income of £300 million was considerably higher than consolidated net income of £23 million reported in the first half of 2002. Consolidated net income on a US GAAP basis for the first half of 2003 was £161 million higher than consolidated profit under UK GAAP, and for the first half of 2002 was £399 million less than consolidated profit under UK GAAP. The US GAAP adjustments to UK GAAP consolidated profit and loss in respect of the with-profits fund totalled an increase of £177 million in the first half of 2003 and a reduction of £321 million in the first half of 2002. The table below analyzes the shareholders' 10% interest in the adjustments to the with-profits fund's results, as reflected above.

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
US GAAP adjustments:		
Land and buildings	**9**	14
Investment securities	**(25)**	(13)
Revenue and expense recognition	**(14)**	(14)
Deferred acquisition costs	**5**	13
Policy liabilities	**24**	(2)
Movement in UK basis excess of assets over liabilities	**195**	(326)

	Six Months Ended June 30,	
Other	**(4)**	6
Deferred tax effect of the above adjustments	**(13)**	1
	177	(321)

The increase in the US GAAP adjustment for movement in the UK basis excess of assets over liabilities (represented by the transfer to or from the fund for future appropriations) from a negative amount of £326 million in the first half of 2002, to a positive amount of £195 million in the first half of 2003, primarily reflected stronger investment returns in the first half of 2003.

20

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

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

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

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

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

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Business acquisitions and investments in associates	**45**	49
Investment securities	**(90)**	(22)
Revenue and expense recognition	**(76)**	(31)
Deferred acquisition costs	**49**	28
Policy liabilities	**32**	40
Pension plans	**(9)**	9
Derivative instruments	**(37)**	(69)
Equalization provision		(40)
Profit on disposal of German life business	**38**	
Deferral of gains on sale of UK personal lines property and casualty insurance business		(21)
Other	**(5)**	(2)
Accounting for income taxes		(13)
Deferred tax effect of the above adjustments	**37**	(6)
	(16)	(78)

The US GAAP adjustments for business acquisitions and investments in associates reflect the adoption of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Tangible Assets". Under FAS 142, amortization relating to goodwill and other indefinite lived intangible assets is discontinued. However, these assets are subject to an impairment test at least annually and any impairments are charged to net income. Prior to January 1, 2002, the US GAAP adjustment for business acquisitions and investments in associates primarily reflected the amortization of goodwill on acquisitions made prior to 1999. Under UK GAAP, goodwill for acquisitions up to 1998 has been charged to equity in the year of acquisition.

Under UK GAAP, upon disposal of the UK personal lines property and casualty insurance business in 2002, equalization provisions of £40 million were released increasing the gain on disposal. These equalization provisions were not carried under US GAAP and therefore the gain concerning the provision was reversed.

In conjunction with the transfer of this business to Winterthur Insurance and the Churchill group, its UK subsidiary, the Company reinsured its in force contracts. Under US GAAP, in accordance with Statement of Financial Accounting Standard No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts", the deferral of gains on the sale reflected profit margins in the unearned premium reserve that emerged after the June 30, 2002, balance sheet date. These gains have since been released.

Prudential sold its German life business to Canada Life Financial Corporation (Canada Life) for £82 million on January 1, 2003. Under UK GAAP, the profit on disposal was £2 million. Under US GAAP, because the net assets of the German business were lower, the profit on disposal was £40 million. The difference in net assets between the two accounting bases arose due to different policy liability and deferred acquisition cost values, and the deferral and matching of premiums and policy charges relating to future periods in relation to the future expected benefits under US GAAP.

Changes in Shareholders' Funds on Application of US GAAP

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

	June 30, 2003	December 31, 2002
	(In £ Millions)	
Shareholders' funds in accordance with UK GAAP	**3,667**	3,668
US GAAP adjustments:		
With-profits fund	**784**	599
Other operations	**865**	611
	1,649	1,210
Shareholders' equity in accordance with US GAAP	**5,316**	4,878

Shareholders' equity was greater under US GAAP than UK GAAP at June 30, 2003, and at December 31, 2002, respectively, by £1,649 million and £1,210 million. The increased equity in respect of with-profits business was £784 million at June 30, 2003, and £599 million at December 31, 2002. This difference predominantly reflected the attribution to shareholders of a 10% interest in the excess of assets over liabilities held within the fund.

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

	June 30, 2003	December 31, 2002
	(In £ Millions)	
US GAAP adjustments:		
Land and buildings	**(396)**	(404)
Revenue and expense recognition	**(155)**	(150)
Deferred acquisition costs	**150**	148

	June 30, 2003	December 31, 2002
Policy liabilities	**282**	287
UK basis excess of assets over liabilities	**917**	723
Recognition of pension scheme minimum liability	**(110)**	(118)
Other	**99**	99
Deferred tax effect of the above adjustments	**(3)**	14
	784	599

Under UK GAAP, the excess of assets over liabilities within the with-profits fund is not allocated between policyholders and shareholders. Under US GAAP, shareholders are credited with a 10% interest in the adjusted excess of assets over liabilities. The movement in the excess from December 31, 2002, to June 30, 2003, is primarily due to positive investment performance within the with-profits fund during the period.

22

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

writedown of land and buildings values from market value to depreciated historic cost;

adjustments to revenue and expense recognition, deferred acquisition costs and insurance liabilities, and

the recognition of a pension scheme minimum liability.

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

	June 30, 2003	December 31, 2002
	(In £ Millions)	
Business acquisitions	**410**	366
Investment securities	**1,886**	732
Revenue and expense recognition	**(743)**	(670)
Deferred acquisition costs	**(316)**	128
Policy liabilities	**291**	310
Pension plans	**255**	264
Recognition of pension scheme minimum liability	**(319)**	(346)
Shareholder dividend liability	**106**	341
Derivative instruments	**(519)**	(495)
Profit on disposal of German life business	**38**	
Other	**(1)**	(25)
Deferred income tax of the above adjustments	**(223)**	6
	865	611

For other operations, shareholders' equity on a US GAAP basis exceeded that on a UK GAAP basis by £865 million at June 30, 2003, and £611 million at December 31, 2002.

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

capitalization of goodwill and discontinuance of goodwill amortization under FAS 142 (subject to any impairments that may arise),

elimination of the UK basis accrual for the dividend for the period, and

inclusion of Jackson National Life's fixed income security portfolio on an available-for-sale basis, with related shadow deferred acquisition cost adjustments; under UK GAAP, the securities are carried on an amortized cost basis.

Partially offsetting these items are the effect of the implementation of FAS 133 on the carrying value of derivative instruments and the recognition of a pension scheme minimum liability.

New US Accounting Pronouncements

Several new US accounting standards were issued during 2002 and 2003 that are pertinent to Prudential's US GAAP consolidated financial statements. These are discussed in detail in Note 8 to Prudential's consolidated interim financial statements.

Liquidity and Capital Resources

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

Liquidity Requirements

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

In the first half of 2003, the parent company paid the 2002 final dividend to shareholders, which amounted to £341 million. The 2001 final dividend paid in the first half of 2002 amounted to £332 million.

Debt service costs paid in the first half of 2003 were £76 million, little altered from the £71 million paid in the first half of 2002.

In the first half of 2003, Group activity expenses totalled £30 million compared to £25 million in the first half of 2002.

No acquisitions were made in the first half of 2003 or 2002, but £91 million and £93 million were invested in existing operations respectively, principally to satisfy solvency requirements.

Liquidity Sources

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

In the first half of 2003, the parent company received cash of £286 million from The Prudential Assurance Company Limited, the Group's main UK operating company, in respect of the statutory profit transfer from the long-term business fund in respect of the year 2002. The parent company also received dividends and loans of £40 million from M&G and £26 million from Asia. In the first half of 2002, the parent company received cash of £324 million from The Prudential Assurance Company Limited. In the same period, the parent company received dividends and loans of £95 million from M&G and of £25 million from Asia, together with interest of £19 million from Jackson National Life.

In the first half of 2002, the parent company received £386 million resulting from the sale of the Group's UK personal lines property and casualty insurance business.

Borrowings

Core structural borrowings of shareholder financed operations were £2,626 million at June 30, 2003, compared with £2,452 million at December 31, 2002. Within this total, the parent company and finance subsidiaries had core structural borrowings of £2,474 million outstanding at June 30, 2003, including £23 million floating rate guaranteed loan notes due to mature in 2004, US$250 million (£152 million) of bonds due to mature in 2005 and £150 million of bonds due to mature in 2007. The remaining outstanding borrowings are due to mature in more than five years. Also at June 30, 2003, the parent company and finance subsidiaries held net cash and short-term investments of £364 million, compared with £226 million at December 31, 2002.

Accordingly, net core structural borrowings increased by £36 million from £2,226 million at December 31, 2002 to £2,262 million at June 30, 2003.

In the first half of 2003 Prudential issued US$1 billion deeply subordinated perpetual capital securities in Asia. The coupon on the bond was 6.5% which has now been swapped into floating rate payments at 3 month US$ LIBOR + 80 basis points. The proceeds of the issue have been mainly used to refinance existing senior debt, primarily commercial paper.

Credit Facilities and Recourse to the Equity Markets

Prudential has in place an unlimited global commercial paper program. At June 30, 2003 commercial paper of £1,404 million was in issue under this program. Prudential also has in place a £5,000 million medium term note program. At June 30, 2003, £435 million and €500 million of hybrid debt, as well as US$12 million and €20 million of senior debt, were outstanding under this program. As mentioned earlier, Prudential also had US$1 billion of deeply subordinated perpetual capital securities outstanding as at June 30, 2003, which were issued on a standalone basis.

In addition, the parent company has access to £1,300 million committed revolving credit facilities, to £500 million committed securities lending liquidity facilities, and to £350 million uncommitted credit facilities. There have been no drawdowns under the committed facilities since inception, and there were no amounts outstanding under either the committed or the uncommitted facilities at June 30, 2003.

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

Consolidated Cash Flows

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

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

Net cash provided by operating activities was £2,373 million in the first half of 2003 compared with £960 million in the first half of 2002.

Net cash used for investing activities in the first half of 2003 was £2,529 million compared with £3,922 million in the first half of 2002. Cash used to purchase investments exceeded proceeds from sales and maturities by £2,134 million in the first half of 2003 compared with £4,043 million in the first half of 2002. Net cash provided by financing activities was £928 million in the first half of 2003 compared with £3,291 million in the first half of 2002. The decrease reflected lower policyholders' deposits with higher withdrawals and a reduction in Egg customer deposits from £7,667 million in the first half of 2002 to £7,317 million in the first half of 2003. Policyholders' deposits exceeded withdrawals by £191 million in the first half of 2003 and £2,033 million in the first half of 2002. There were no repayments of long-term borrowings in the first half of 2003 compared to £211 million in the first half of 2002. Proceeds from long-term borrowings in the first half of 2003 were £1,089 million and £24 million in the first half of 2002.

As at June 30, 2003, the Group had cash of £1,855 million compared with £1,626 million at June 30, 2002, an increase of £229 million.

Contingencies and Related Obligations

Details of Prudential's contingencies and related obligations as at June 30, 2003, are set out in Note 6 to the consolidated interim financial statements.

Off-Balance Sheet Arrangements

During the normal course of business Prudential enters into various off-balance sheet arrangements in order to increase liquidity and decrease certain risks.

At June 30, 2003, Egg had two credit default swaps in place. The effect is to remove from Egg's balance sheet the risk of default on the underlying assets, comprising residential mortgages of £1,750 million and asset backed securities of £1,042 million, and reduce the regulatory capital that must be held by Egg in relation to these assets.

Egg has also entered into interest rate swaps for the purpose of hedging interest rate risk on lending to customers. The total notional value of these swaps is £4,690 million.

Any potential credit risk relates to the swap counter-party, namely its ability to pay in the event of default on the underlying assets. If such a double failure occurred, Egg could be required to increase regulatory capital held against the underlying assets. All swap counter-parties are highly rated financial institutions.

At June 30, 2003, M&G had entered into a series of off-balance sheet transactions relating to interest rate swaps and caps, cross currency swaps, credit default swaps and similar instruments. These derivatives were entered into in the normal course of business and solely for the purpose of matching or eliminating risks arising from potential movements in interest and exchange rates inherent in M&G's assets and liabilities. These derivatives are reviewed regularly for their effectiveness as hedges.

Jackson National Life has commitments for future payments related to equity index call options totalling £18 million, which are accounted for on a deferred basis and therefore were considered off-balance sheet as at June 30, 2003. These commitments were entered into during the normal course of business to hedge obligations associated with the issuance of equity index-linked immediate and deferred annuities. The commitments are due over the next five years.

Jackson National Life has unfunded commitments related to its investments in limited partnerships totalling £272 million at June 30, 2003. These reflect on demand contractual commitments to fund further investments by the limited partnerships.

INDEX TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Profit and Loss Accounts

Six Months Ended June 30

	2003	2002
	(In £ Millions, Except Per Share Amounts)	
Earned premiums, net of reinsurance	**7,154**	8,286
Claims incurred, net of reinsurance	**(6,142)**	(6,221)
Change in long-term technical provisions, net of reinsurance	**(4,104)**	(4,122)
Investment returns	**6,799**	(865)
Investment expenses and charges	**(319)**	(316)
Net operating expenses	**(859)**	(886)
Shareholder and policyholder tax attributable to long-term business	**(164)**	229
Add back: Shareholder tax attributable to long-term business	**66**	113
Transfers (to) from the fund for future appropriations	**(2,211)**	3,902
Results of UK fund management operations	**38**	34
Results of US broker dealer and fund management operations	**9**	10
Results of UK banking operations	**(23)**	1
Amortization of goodwill	**(49)**	(49)
Other income:		
Profit on sale of UK personal lines property and casualty insurance business		355
Profit on ordinary activities before shareholder tax	**195**	471
Shareholder tax on profit on ordinary activities	**(61)**	(50)
Profit for the period before minority interests	**134**	421
Minority interests	**5**	1
Profit for the period	**139**	422
Dividends at 5.3p and 8.9p per share, respectively	**(106)**	(178)
Retained profit for the period	**33**	244
Earnings per share:		
Basic (based on 1,995 million and 1,986 million shares, respectively)	**7.0p**	21.2p
Diluted (based on 1,997 million and 1,987 million shares, respectively)	**7.0p**	21.2p

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Profit and Loss Accounts

Six Months Ended June 30

	2003	2002
	(In £ Millions, Except Per Share Amounts)	
Reconciliation of profit on ordinary activities before shareholder tax to operating profit before amortization of goodwill after tax (based on longer-term investment returns)		
Profit on ordinary activities before shareholder tax	**195**	471
Short-term fluctuations in investment returns	**(72)**	152
Profit on sale of UK personal lines property and casualty insurance business		(355)
Amortization of goodwill	**49**	49
Operating profit before amortization of goodwill and before tax (based on longer-term investment returns)	**172**	317
Minority interests in Egg	**5**	
Tax on operating profit before amortization of goodwill and before tax (based on longer-term investment returns)	**(52)**	(90)
Operating profit before amortization of goodwill after tax (based on longer-term investment returns)	**125**	227
Earnings per share:		
Operating profit before amortization of goodwill after tax (based on longer-term investment returns) (based on 1,995 million and 1,986 million shares, respectively)	**6.3p**	11.4p

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Profit and Loss Accounts

Six Months Ended June 30, 2003

	General Business Technical Account	Long-Term Business Technical Account	Non-Technical Account	Total
		(In £ Millions)		
Earned premiums, net of reinsurance		7,154		**7,154**
Claims incurred, net of reinsurance	(4)	(6,138)		**(6,142)**
Change in long-term technical provisions, net of reinsurance		(4,104)		**(4,104)**
Investment returns		6,741	58	**6,799**
Allocated investment returns	5	(72)	67	
Investment expenses and charges		(211)	(108)	**(319)**
Net operating expenses	(1)	(827)	(31)	**(859)**
Shareholder and policyholder tax attributable to long-term business		(164)		**(164)**
Transfers to the fund for future appropriations		(2,211)		**(2,211)**

	General Business Technical Account	Long-Term Business Technical Account	Non-Technical Account	Total
Balance on the technical accounts		168		
Add back: Shareholder tax attributable to long-term business		66		**66**
Technical accounts subtotal		234		
Profit on insurance activities transferred to the non-technical account		(234)	234	
Results of UK fund management operations			38	**38**
Results of US broker dealer and fund management operations			9	**9**
Results of UK banking operations			(23)	**(23)**
Amortization of goodwill			(49)	**(49)**
Profit on ordinary activities before shareholder tax			195	**195**
Shareholder tax on profit on ordinary activities			(61)	**(61)**
Profit for the period before minority interests			134	**134**
Minority interests			5	**5**
Profit for the period			139	**139**

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Profit and Loss Accounts

Six Months Ended June 30, 2002

	General Business Technical Account	Long-Term Business Technical Account	Non-Technical Account	Total
		(In £ Millions)		
Earned premiums, net of reinsurance	34	8,252		**8,286**
Claims incurred, net of reinsurance	(3)	(6,218)		**(6,221)**
Change in long-term technical provisions, net of reinsurance		(4,122)		**(4,122)**
Investment returns		(933)	68	**(865)**
Allocated investment returns	2	147	(149)	
Investment expenses and charges		(190)	(126)	**(316)**
Net operating expenses	(33)	(822)	(31)	**(886)**
Shareholder and policyholder tax attributable to long-term business		229		**229**
Transfers from the fund for future appropriations		3,902		**3,902**
Balance on the technical accounts		245		
Add back: Shareholder tax attributable to long-term business		113		**113**
Technical accounts subtotal		358		

	General Business Technical Account	Long-Term Business Technical Account	Non-Technical Account	Total
Profit on insurance activities transferred to the non-technical account		(358)	358	
Results of UK fund management operations			34	**34**
Results of US broker dealer and fund management operations			10	**10**
Results of UK banking operations			1	**1**
Amortization of goodwill			(49)	**(49)**
Other income:				
Profit on sale of UK personal lines property and casualty insurance business			355	**355**
Profit on ordinary activities before shareholder tax			471	**471**
Shareholder tax on profit on ordinary activities			(50)	**(50)**
Profit for the period before minority interests			421	**421**
Minority interests			1	**1**
Profit for the period			422	**422**

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

Assets	**June 30, 2003**	**December 31, 2002**
	(In £ Millions)	
Goodwill	**1,555**	1,604
Investments		
Land and buildings	**10,788**	10,766
Investments in associates and other participating interests	**70**	73
Other financial investments	**107,760**	104,299
Total investments	**118,618**	115,138
Assets held to cover linked liabilities	**17,498**	15,763
Total reinsurers' share of technical provisions	**1,234**	1,243
Total debtors	**1,330**	866
Other assets		
Banking business assets:		
UK operations (Egg)	**11,116**	10,526

Assets	June 30, 2003	December 31, 2002
US operations	**988**	976
Tangible assets	**191**	196
Cash at bank and in hand	**1,397**	1,115
Ordinary shares of parent company	**29**	34
Present value of acquired in force long-term business	**106**	113
Present value of future margins relating to advances from reinsurers	**115**	118
Total other assets	**13,942**	13,078
Prepayments and accrued income		
Accrued interest and rent	**1,260**	1,156
Deferred acquisition costs	**3,214**	3,218
Other prepayments and accrued income	**107**	95
Total prepayments and accrued income	**4,581**	4,469
Total assets	**158,758**	152,161

The accompanying notes are an integral part of these financial statements

I-6

Shareholders' funds and liabilities	June 30, 2003	December 31, 2002
	(In £ Millions)	
Shareholders' funds		
Ordinary share capital, 5p par value per share, 2,400 million shares authorized; 2,007 million and 2,002 million shares issued and outstanding, respectively	**100**	100
Share premium	**550**	550
Retained profit and loss reserve	**3,017**	3,018
Total shareholders' funds	**3,667**	3,668
Minority interests	**103**	108
Commitments and contingencies		
Fund for future appropriations	**9,869**	7,663
Technical provisions		
Provision for unearned premiums	**40**	163
Long-term business provision	**100,700**	99,114
Claims outstanding	**945**	953
Total technical provisions	**101,685**	100,230
Technical provisions for linked liabilities	**17,843**	16,007
Provisions for other risks and charges		

Shareholders' funds and liabilities	June 30, 2003	December 31, 2002
Deferred tax	**680**	696
Deposits received from reinsurers	**124**	173
Creditors		
Creditors arising out of direct insurance operations	**257**	252
Creditors arising out of reinsurance operations	**53**	184
Debenture loans	**3,154**	2,293
Amounts owed to credit institutions	**1,470**	296
Other borrowings	**1,537**	1,784
Jackson National Life funding and stocklending arrangements	**4,274**	5,098
Banking business liabilities:		
UK operations (Egg)	**10,241**	9,882
US operations	**909**	902
Tax payable	**840**	924
Shareholders' dividends accrued	**106**	341
Other creditors	**1,430**	1,022
Total creditors	**24,271**	22,978
Accruals and deferred income	**516**	638
Total shareholders' funds and liabilities	**158,758**	152,161

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Unaudited Condensed Consolidated Statement of Cash Flows

from General Business and Shareholders' Funds

Six Months Ended June 30

	2003	2002
	(In £ Millions)	
Net cash inflow from operating activities before interest and tax	**55**	61
Interest paid	**(88)**	(90)
Taxes recovered	**81**	45
Acquisitions and disposals		
Proceeds received on sale of UK personal lines property and casualty insurance business		353

	2003	2002
Equity dividends paid	**(341)**	(332)
Net cash (outflow) inflow before financing	**(293)**	37
Financing		
Issue of borrowings	**811**	75
Movement in credit facility utilized by investment subsidiaries managed by PPM America	**(141)**	(39)
Issues of ordinary share capital	**21**	19
Net cash inflow from financing	**691**	55
Net cash inflow for the period	**398**	92
Net cash inflow was invested and (financed) as follows:		
Purchases of portfolio investments:		
Equity securities	**1**	4
Debt and other fixed income securities	**583**	2,341
Total purchases of portfolio investments	**584**	2,345
Sales of portfolio investments:		
Equity securities	**(1)**	(280)
Debt and other fixed income securities	**(574)**	(2,156)
Total sales of portfolio investments	**(575)**	(2,436)
Net purchases (sales) of portfolio investments	**9**	(91)
Increase in cash and short-term deposits, net of overdrafts	**389**	183
Net cash inflow	**398**	92

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2003

1 Basis of Presentation

The results for the six months ended June 30, 2003 and 2002 are unaudited. Prudential's external auditors have reported on the December 31, 2002 statutory accounts and the accounts have been delivered to the UK Registrar of Companies. The auditors' report was unqualified and did not contain a statement under Section 237(2) or (3) of the UK Companies Act 1985. These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2002. Management believes that the interim results include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented.

The results and cash flows for the six months ended June 30, 2003 and 2002 and the balance sheet at June 30, 2003 have been prepared using the same accounting policies as were used in the consolidated financial statements for the year ended December 31, 2002.

The long-term business profit of the UK and Europe Insurance operations has been calculated assuming that the proportion of surplus allocated to shareholders from the with-profits business of The Prudential Assurance Company Limited remains at 10 per cent. At June 30, 2003, a provision was made for possible reductions in bonus rates arising from the fund valuation at December 31, 2003.

The six months "2003" and "2002" refer to the six months ended June 30, 2003 and 2002, respectively.

A reconciliation of the weighted average number of ordinary shares used for calculating basic and diluted earnings per share is set out below:

	Six Months Ended June 30,	
	2003	2002
	(In Millions)	
Number of shares		
Weighted average shares for basic earnings per share	**1,995**	1,986
Shares under option at end of period	**14**	12
Assumed treasury share purchases at average fair value from proceeds of assumed option exercise	**(12)**	(11)
Weighted average shares for diluted earnings per share	**1,997**	1,987

2 Segment Analysis

The Group's reportable business segments are based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Group has recently amalgamated its UK and European Insurance Operations, thereby reducing the number of business segments to five, as follows: UK and Europe Insurance Operations, M&G and Egg, which are all located in the UK (collectively, "UK and Europe Operations"), US Operations and Asian Operations. The 2002 comparative information has been restated accordingly. This realignment is consistent with how the Group manages its business and the markets it serves.

I-9

The performance measure of reportable segments utilized by management is operating profit before amortization of goodwill and before tax. Operating profit before amortization of goodwill and before tax includes investment gains on investments attributable to shareholders based on the longer-term rate of return.

Analysis of Operating Profit before amortization of goodwill and before tax

The following table presents operating profit before amortization of goodwill and before tax (based on longer-term investment returns) by segment:

	Six Months Ended June 30,	
	2003	2002
	(In £ Millions)	
UK and Europe Operations		
UK and Europe Insurance Operations	**133**	213
M&G	**38**	34

	Six Months Ended June 30,	
Egg	**(23)**	1
Total UK and Europe Operations	**148**	248
US Operations		
Jackson National Life	**77**	140
Broker dealer and fund management	**9**	10
Total US Operations	**86**	150
Asian Operations		
Long-term business and investment products	**36**	16
Development expenses	**(12)**	(11)
Total Asian Operations	**24**	5
Operating profit of reportable segments	**258**	403
Group activities	**(86)**	(86)
Operating profit before amortization of goodwill and before tax (based on longer-term investment returns)	**172**	317

I-10

The following table presents revenue by reportable segment and geographical region:

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
UK and Europe Operations		
UK and Europe long-term business gross premiums	**3,803**	4,423
M&G investment products gross inflows[(1)]	**2,016**	2,441
Reinsurance premiums ceded	**(83)**	(6)
Investment returns	**5,696**	(1,696)
Revenue from banking and fund management operations	**300**	271
Total UK and Europe Operations	**11,732**	5,433
US Operations		
Long-term business gross premiums	**2,604**	3,048
Reinsurance premiums ceded	**(39)**	(43)
Investment returns	**710**	642
Revenue from banking, broker dealer and fund management operations	**114**	131
Total US Operations	**3,389**	3,778
Asian Operations		
Long-term business gross premiums	**894**	855

	Six Months Ended June 30,	
Investment products gross inflows[1]	**8,363**	6,669
Reinsurance premiums ceded	**(25)**	(25)
Investment returns	**369**	168
Revenue from fund management operations	**12**	12
Total Asian Operations	**9,613**	7,679
Total revenue for reportable segments	**24,734**	16,890
Discontinued Operations and Other[2]		
General business gross premiums		185
Reinsurance premiums ceded		(185)
Change in unearned premiums		34
Investment returns	**24**	21
Total Discontinued Operations and Other	**24**	55
Total revenue	**24,758**	16,945
Represented by:		
Earned premiums from insurance business	**7,154**	8,286
Investment returns	**6,799**	(865)
Revenue from banking, broker dealer and fund management operations	**426**	414
Gross inflows from investment products[1]	**10,379**	9,110
Total revenue	**24,758**	16,945

(1) Gross revenue presented by reportable segments include deposits to unit trusts and other similar products (gross inflows from investment products), which are excluded from earned premiums in the consolidated profit and loss accounts.

(2) Discontinued operations relate to UK personal lines property and casualty insurance business that was sold in 2002.

Other Profit and Loss Account Information

Selected information is provided below on a segment basis. In cases where information is not allocated to a segment, amounts are provided by geographical region.

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Claims incurred, net of reinsurance		
UK and Europe Insurance Operations	**4,308**	4,190

	Six Months Ended June 30,	
US Operations	**1,617**	1,787
Asian Operations	**217**	244
Total claims incurred, net of reinsurance	**6,142**	6,221
Change in long-term technical provisions, net of reinsurance		
UK and Europe Insurance Operations	**2,093**	1,873
US Operations	**1,402**	1,717
Asian Operations	**609**	532
Total change in long-term technical provisions, net of reinsurance	**4,104**	4,122
Investment expenses and charges and net operating expenses		
UK Operations:		
UK and Europe Insurance Operations	**653**	654
Egg	**26**	39
US Operations	**159**	140
Asian Operations	**234**	228
Corporate expenditure not allocated to segments	**31**	31
Shareholders' interest payable not allocated to segments	**75**	76
Total continuing operations	**1,178**	1,168
Discontinued operations[1]		34
Total investment expenses and charges and net operating expenses	**1,178**	1,202

(1) Discontinued operations relate to UK personal lines property and casualty insurance business that was sold in 2002.

Assets

An analysis of assets by geographical region is presented below. Except for Egg, the assets of the UK and Europe Operations are managed and analyzed as a whole.

	UK and Europe	US	Asia	Total
	(In £ Millions)			
June 30, 2003				
Insurance and fund management operations:				
Investments	**85,072**	**28,256**	5,290	118,618
Deferred acquisition costs	**1,214**	**1,594**	406	3,214
Linked assets	**13,225**	**3,205**	1,068	17,498
Other	**6,011**	**934**	379	7,324
	105,522	**33,989**	7,143	146,654

	UK and Europe	US	Asia	Total
Banking business assets	**11,116**	**988**		12,104
Total assets	**116,638**	**34,977**	7,143	158,758
December 31, 2002				
Insurance and fund management operations:				
Investments	82,664	27,619	4,855	115,138
Deferred acquisition costs	1,350	1,503	365	3,218
Linked assets	12,104	2,724	935	15,763
Other	5,218	975	347	6,540
	101,336	32,821	6,502	140,659
Banking business assets	10,526	976		11,502
Total assets	111,862	33,797	6,502	152,161

Shareholders' Funds

An analysis of shareholders' funds by segment is set out below:

	June 30, 2003	December 31, 2002
	(In £ Millions)	
UK and Europe Operations	**1,306**	1,360
US Operations	**2,458**	2,449
Asian Operations	**656**	579
Other operations[1]	**(753)**	(720)
Total shareholders' funds	**3,667**	3,668

(1) Other operations represent operations managed centrally and not allocated to a business segment.

Fund for Future Appropriations and Net Technical Provisions

An analysis of the fund for future appropriations and of technical provisions (net of reinsurers' share) by segment is set out below:

	June 30, 2003	December 31, 2002
	(In £ Millions)	
Fund for future appropriations:		
Group companies, excluding Scottish Amicable Insurance Fund (SAIF)[1]	**9,167**	7,226

	June 30, 2003	December 31, 2002
SAIF[(2)]	**702**	437
	9,869	7,663
Technical provisions (net of reinsurers' share)	**118,294**	114,994
	128,163	122,657
Comprising:		
UK and Europe Insurance Operations	**97,212**	93,026
US Operations	**24,859**	24,074
Asian Operations	**6,092**	5,557
Total	**128,163**	122,657

(1) Balance relates mainly to the with-profits fund of Prudential Assurance.

(2) SAIF is closed to new business and the balance is wholly attributable to, but not allocated, to SAIF policyholders.

3 Corporate Activity

Sale of German life business and of UK personal lines property and casualty insurance business

The Group sold its German life business to Canada Life Financial Corporation (Canada Life) for £82 million on January 1, 2003. After allowing for the costs of sale and other related items of £17 million and for the write off of deferred acquisition costs of £63 million, the profit on sale was £2 million before tax. This amount has been included within investment returns in the consolidated profit and loss accounts.

The Group completed the transfer of its UK personal lines property and casualty insurance business to Winterthur Insurance and the Churchill group, its UK subsidiary, on January 4, 2002, for a consideration of £353 million. After allowing for the costs of the sale and other related items, the profit on sale was £355 million before tax.

As part of the arrangements for the handover of the operations, new general insurance business for the 3 months to April 1, 2002, was written by Prudential with full reinsurance to Winterthur. After April 1, 2002, all new Prudential branded general insurance business has been and will continue to be written by the Churchill group.

4 Restructuring costs

UK and Europe Insurance Operations

In September 2002, Prudential announced plans to establish an offshore service center in India to improve customer contact service levels for its UK and Europe Insurance Operations customers and to achieve further cost savings to those announced in November 2001. The new processing center is expected to be fully operational in the first half of 2004. The initiative is expected to incur a restructuring charge of approximately £20 million. Of this £20 million, £10 million was charged to net operating expenses in the long-term business technical section of the profit and loss account in 2002, £7 million being borne by Prudential Assurance's long-term fund and £3 million by shareholders' funds. A further £1 million was charged to the long-term fund in the first half of 2003. Of the total expected charge of £20 million, £15 million is expected to be borne by Prudential Assurance's long-term fund and £5 million by shareholders' funds. The £9 million outstanding as of June 30, 2003, related to termination and redundancy costs and property related charges. As part of these restructurings, Prudential planned to make 850 customer service jobs redundant, all notifications with respect to which had been completed by December 31, 2002. Termination will commence in the second half of 2003.

In February 2001, Prudential announced the restructuring of the direct salesforce and customer service channels of its UK and Europe Insurance Operations. In November 2001, Prudential announced further details of changes to the future structure of those operations, in particular the intention to pursue a single brand strategy for life and pensions business, including the integration of its Scottish Amicable operations under the Prudential brand. The changes also included a simplification of the organizational structure and plans for a significant reduction in operating costs. The total cost up to December 31, 2002, of this restructuring was £228 million, of which £221 million had been charged to net operating expenses in the long-term business technical section of the profit and loss account (£28 million in 2002 and £193 million in 2001) and £7 million charged to net operating expenses in the general business technical section (all in 2001). £169 million of the total costs were borne by Prudential Assurance's long-term fund and £59 million by shareholders' funds, of which £52 million were allocated to continuing operations and the remainder to discontinued operations.

In the first half of 2003, there were further costs of £16 million, of which £13 million were borne by the long-term fund and £3 million by shareholders' funds. The total cost up to June 30, 2003, of £244 million comprised termination and redundancy costs of £109 million, branch closures and other property-related charges of £53 million, and other transition and system-related costs of £82 million. As of June 30, 2003, £170 million of these costs had been paid. Of the remaining £74 million, £29 million was for termination and redundancy costs, £44 million was for branch closures and property-related charges and £1 million was for other transition and systems-related costs. As part of these restructurings Prudential planned to make 4,100 jobs redundant, of which approximately 3,700 had been notified and of which approximately 3,500 were completed by June 30, 2003.

I-15

5 Supplemental Cash Flow Information

The following supplemental cash flow information provides details of amounts in the consolidated statement of cash flows from general business and shareholders' funds and reconciles the investments, cash and borrowings amounts to the consolidated balance sheet:

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Reconciliation of operating profit to net cash inflow from operations		
Operating profit before amortization of goodwill and before tax (based on longer-term investment returns)	**172**	317
Add back: interest charged to operating profit	**91**	91
Adjustments for non-cash items:		
Tax on long-term business profits	**(66)**	(113)
Amounts retained and invested in long-term business operations and Egg, timing differences and other items	**(142)**	(234)
Net cash inflow from operating activities in the statement of cash flows	**55**	61
Movements arising from cash flows:		
Increase in cash and short-term deposits, net of overdrafts	**389**	183
Net purchases (sales) of portfolio investments	**9**	(91)
Increase in borrowings	**(811)**	(75)
Movement in credit facility utilized by investment subsidiaries managed by PPM America	**141**	39
Share capital issued	**(21)**	(19)
Total movements arising from cash flows	**(293)**	37
Investment appreciation		2
Foreign exchange translation and other	**(14)**	(22)
Transfer to retained profit in respect of shares issued in lieu of cash dividends	**21**	10
Portfolio investments, net of financing, beginning of period	**(1,539)**	(1,461)

	Six Months Ended June 30,	
Portfolio investments, net of financing, end of period	**(1,825)**	(1,434)

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Represented by:		
Investments (including short-term deposits)	**2,339**	2,636
Cash at bank and in hand	**946**	565
Borrowings	**(4,619)**	(4,153)
Cumulative charge to Group profit and loss account reserve in respect of shares issued to qualifying employee share ownership trust	**159**	159
Share capital and share premium	**(650)**	(641)
Portfolio investments, net of financing, end of period	**(1,825)**	(1,434)

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Reconciliation of investments to the consolidated balance sheet		
General business and shareholder investments (as above)	**2,339**	2,636
Long-term business	**116,209**	115,687
Total portfolio investments in the consolidated balance sheet(1)	**118,548**	118,323
Reconciliation of cash to the consolidated balance sheet		
General business and shareholders (as above)	**946**	565
Long-term business	**451**	1,182
Total cash at bank and in hand in the consolidated balance sheet	**1,397**	1,747
Reconciliation of borrowings to the consolidated balance sheet		
General business and shareholders (as above)	**4,619**	4,153
Long-term business	**1,542**	264
Total borrowings in the consolidated balance sheet(2)	**6,161**	4,417

(1) Excluding investments in associates and other participating interests.

(2) Total borrowings comprise debenture loans, amounts owed to credit institutions and other borrowings.

The following table provides a summary of the items comprising the cash flows relating to acquisitions and disposals of subsidiaries:

	Six Months Ended June 30,	
	2003	2002
	(In £ Millions)	
Acquisitions and disposals		
Net liabilities disposed of		2
Cash consideration received		353
Net impact on shareholders' funds		355

6 Contingencies and Related Obligations

Consistent with FRS 12, "Provisions, contingent liabilities and contingent assets", appropriate provision has been made in the financial statements where the Group has an existing obligation arising from past events or activities described below where a reliable estimate of the obligation can be made, but not for contingent liabilities.

Litigation

Jackson National Life has been named in civil litigation proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers, alleging misconduct in the sale of insurance products. At this time, it is not possible to make a meaningful estimate of the amount or range of loss, if any, that could result from an unfavorable outcome in such actions. In addition, Jackson National Life is a defendant in several individual actions that involve similar issues.

The Company and its subsidiaries are involved in other litigation arising in the ordinary course of business. Whilst the outcome of such matters cannot be predicted with certainty, management believes that the ultimate outcome of such litigation will not have a material adverse effect on the Group's financial condition, results of operations or cash flow.

Pension Mis-selling Review

In 1988, the UK government introduced new pensions legislation intended to encourage more individuals to make their own arrangements for their pensions. During the period from April 1988 to June 1994, many individuals were advised by insurance companies, Independent Financial Advisors and other intermediaries to not join, to transfer from or to opt out of their occupational pension schemes in favor of private pension products introduced under UK Income and Corporation Taxes Act 1988. The UK insurance regulator (previously the Personal Investment Authority, now the Financial Services Authority, "FSA") subsequently determined that many individuals were incorrectly advised and would have been better off not purchasing the private pension products sold to them. Industry participants are responsible for compensating the persons to whom private pensions were mis-sold. As a result, the UK regulator required that all UK life insurance companies review their potential cases of pension mis-selling and pay compensation to policyholders where necessary and, as a consequence, record a provision for the estimated costs. The Group has met the requirement of the FSA to issue offers to all Phase 1 (priority) cases and Phase 2 (non-priority) cases by June 30, 2002.

Provisions in respect of the costs associated with the review have been included in the change in the long-term technical provisions in the Group's profit and loss account and the transfer to or from the fund for future appropriations has been determined accordingly. The following is a summary of the changes in the pension mis-selling provision, including internal and external legal and administrative costs, for the six months ended June 30, 2003 and 2002:

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Balance at start of the period	**730**	1,065
Change in actuarial assumptions and method of calculation	**(132)**	(29)
Discount unwind	**15**	32
Redress to policyholders	**(49)**	(193)
Payment of administrative costs	**(14)**	(35)
Balance at end of the period	**550**	840

Every year the FSA updates the actuarial assumptions to be used in calculating the provision, including interest rates and mortality assumptions. The pension mis-selling provision represents the discounted value of future expected payments, including benefit payments and all internal and external legal and administrative costs of adjudicating, processing and settling those claims. To the extent that amounts have not been paid, the provision increases each year reflecting the shorter period of discount.

Management believes that, based on current information, the pension mis-selling provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of the Group's pension review unit established to identify and settle such cases. Such provision presents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The calculation of the pension mis-selling provision is dependent upon a number of assumptions and requirements provided by the FSA. The costs associated with the pensions mis-selling review have been met from Prudential Assurance's inherited estate. Given the strength of Prudential Assurance's with-profits fund, management believes that charging the costs to the inherited estate will not have an adverse effect on the level of bonuses paid to policyholders or on their reasonable expectations. In the unlikely event of this proving not to be the case, an appropriate contribution to the with-profits fund would be made from the shareholders' funds. In view of the uncertainty, it is not practicable to estimate the level of any potential contribution.

Free Standing Additional Voluntary Contribution Business Review

In February 2000, the UK regulator ordered a review of Free Standing Additional Voluntary Contribution (FSAVC) business, which constitutes sales of personal pensions to members of company pension schemes. Individuals who have purchased these pensions instead of the Additional Voluntary Contributions (AVC) scheme connected to their company's pension scheme may have been in a better

financial position investing their money, and any matching contributions from their employers, in their company's AVC scheme. The UK regulator's review is to ensure that any employees disadvantaged due to not being properly informed of the benefits foregone from not investing in their AVC scheme are compensated.

The review required companies to identify relevant investors and to contact them with an offer to review their individual case. The Group met an interim deadline set by the FSA of 90% of cases completed by June 30, 2002 and also the deadline for 100% completion by December 31, 2002. As a result of the review, the Group held a provision of £3 million as of June 30, 2003.

Mortgage Endowment Products Review

The Group's main exposure to mortgage endowment products is through Scottish Amicable. The FSA issued a report in March 2001 raising concerns regarding Scottish Amicable's conduct of sales of these products by its tied agents and in March 2003 it fined Scottish Amicable £750,000 in respect of cases where advisers did not place appropriate emphasis on identifying whether a customer was prepared to take the risk that their mortgage might not be repaid at the end of the term. A provision of £25 million was made in 2001 in the shareholders' fund for cases that may require redress, which the directors are satisfied continues to be adequate. Scottish Amicable withdrew from the mortgage endowment product market in April 2001 and disbanded its network of tied agents in October 2001.

Guaranteed Annuities

In common with several other insurance companies, Prudential Assurance used to sell guaranteed annuity products in the UK and held a provision of £43 million at June 30, 2003, within the main with-profits fund to honor guarantees on these products. The Group's main exposure to guaranteed annuities is through the Scottish Amicable Insurance Fund ("SAIF") and a provision of £729 million was held in SAIF at June 30, 2003 to honor the guarantees. SAIF is a separate sub-fund of the Prudential Assurance long-term business fund. Accordingly, this provision has no impact on shareholders.

Guarantees and Commitments

Guarantee funds in both the UK and US provide for payments to be made to policyholders on behalf of insolvent life insurance companies. These guarantee funds are financed by payments assessed on solvent insurance companies based on location, volume and types of business. Prudential estimated its reserve for future guarantee fund assessments for Jackson National Life to be £25 million at June 30, 2003. Similar assessments for the UK businesses were not significant. Management believes the reserves are adequate for all anticipated payments for known insolvencies.

Jackson National Life has commitments for future payments related to equity index call options totalling £18 million, which are accounted for on a deferred basis and therefore were off-balance sheet as at June 30, 2003. These commitments were entered into in the normal course of business to hedge obligations associated with the issuance of equity index-linked immediate and deferred annuities. These commitments are due over the next five years.

Jackson National Life has unfunded commitments related to its investments in limited partnerships totalling £272 million at June 30, 2003. These commitments were entered into in the ordinary course of

business and management does not expect a material adverse impact on the operations to arise from them.

The Group has provided, from time to time, certain guarantees and commitments to third parties. These arrangements include commitments and guarantees to fund the purchase or development of land and buildings and other commitments related to investments in land and buildings. At June 30, 2003, the aggregate amount of commitments and guarantees in respect of land and buildings was approximately £44 million.

The Group has provided, from time to time, other guarantees and commitments to third parties entered into in the normal course of business but management does not consider that the amounts involved are significant.

Other Matters

Prudential Assurance's Inherited Estate

The inherited estate is the assets of the main with-profits fund within the long-term fund of Prudential Assurance, less non-participating liabilities, the policyholder asset shares aggregated across with-profits policies and any additional amounts expected at the valuation date to be paid to in force policyholders in the future in respect of smoothing costs and guarantees. The inherited estate is thus the assets in the main with-profits fund in excess of what Prudential Assurance expects to pay to policyholders.

The Group believes that it would be beneficial if there were to be greater clarity as to the status of the inherited estate. With that in mind, it has been considering the principles that would apply to any re-attribution of the inherited estate to either policyholders or shareholders. Discussions have been held with the Financial Services Authority to this end. The Group has not considered or discussed any actual distribution as its current expectation is that, for the foreseeable future, the entire inherited estate will need to be retained within the long-term fund to provide working capital. However, in the light of current market conditions, the amount and timing of any re-attribution of the estate remains very uncertain.

Support of Long-term Business Funds from Shareholders' Funds

As a proprietary insurance company, the Group is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the fund for future appropriations, in excess of amounts expected to be paid for future final bonuses and related shareholder transfers ("excess assets") in the long-term funds could be materially depleted over time, by, for example, a significant or sustained equity market downturn, significant fundamental strategic change costs, or material increases in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1997, the business of Scottish Amicable Life Assurance Society, a mutual society, was transferred to Prudential Assurance ("PAC"). In effecting the transfer, a separate sub-fund, the Scottish Amicable Insurance Fund ("SAIF"), was established within PAC's long-term business fund. This sub-fund contains all the with-profits business and all other pensions business that was transferred. No new business has been or will be written in the sub-fund. The SAIF sub-fund is managed to ensure that all the invested assets of SAIF are distributed to SAIF policyholders over the lifetime of the SAIF policies. With the exception of certain amounts in respect of the unitized with-profits life business, all future earnings arising in SAIF are retained for existing SAIF with-profits policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is offset by a transfer to (from) the SAIF fund for future appropriations. Shareholders have no interest in the profits of SAIF, although they are entitled to the investment management fees paid on this business. With the exception of certain guaranteed annuity products mentioned earlier in this note, the majority of SAIF with-profits policies do not guarantee minimum rates of return to policyholders.

Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations to the policyholders of SAIF, the Prudential Assurance long-term fund would be liable to cover any such deficiency. As of June 30, 2003 the excess of SAIF assets over guaranteed benefits was £702 million. Due to the quality and diversity of the assets in SAIF, the excess of assets just stated and the ability of SAIF to revise guaranteed benefits in case of an asset shortfall, the Group believes that the probability of either the Prudential Assurance long-term fund or the Group shareholders' funds having to contribute to SAIF is very remote.

7 Summary of Material Differences Between UK Generally Accepted Accounting Practice and US Generally Accepted Accounting Principles

The Group's condensed consolidated interim financial statements are prepared in accordance with UK GAAP. These accounting practices differ in certain material respects from generally accepted accounting principles in the US ("US GAAP"). The material differences between UK GAAP and US GAAP affecting the Group's consolidated profit and loss and shareholders' funds are set forth in the following tables. The reconciliation tables present an analysis of the material differences affecting both the with-profits funds and other operations. See Note 8 for presentation of condensed consolidated US GAAP financial statements.

Reconciliation to US GAAP

The approximate effects on consolidated profit and loss of the differences between UK GAAP and US GAAP, including a breakdown of the US GAAP adjustments between with-profits funds and other operations, are as follows:

	Six Months Ended June 30, 2003			Six Months Ended June 30, 2002		
	With-profits funds	Other operations	Total	With-profits funds	Other operations	Total
	(In £ Millions)					
Consolidated profit for the period in accordance with UK GAAP			**139**			422
US GAAP adjustments:						
Business acquisitions and investments in associates		**45**	**45**	29	49	78

	Six Months Ended June 30, 2003			Six Months Ended June 30, 2002		
Restructuring charges	(1)	(1)	(2)	(7)	(4)	(11)
Investments:						
Real estate	86		86	137		137
Securities	(246)	(90)	(336)	(129)	(22)	(151)
Mortgage and other loans	(9)	(2)	(11)			
Derivative instruments		(37)	(37)		(69)	(69)
Long-term business:						
Revenue and expense recognition	(144)	(76)	(220)	(140)	(31)	(171)
Deferred acquisition costs	45	49	94	125	28	153
Policy liabilities	243	32	275	(16)	40	24
Reversal of transfer to (from) FFA	1,946		1,946	(3,261)		(3,261)
Provision for policyholders' share of earnings on with-profits business in excess of cost of policyholder bonuses declared	(1,593)		(1,593)	2,890		2,890
Equalization provision					(40)	(40)
Profit on disposal of German life business		38	38			
Deferral of gains on sale of UK personal lines property and casualty insurance business					(21)	(21)
Pension plans	(17)	(9)	(26)	42	9	51
Stock-based compensation		(2)	(2)	1	2	3
Accounting for income taxes					(13)	(13)
Deferred tax effect of the above adjustments	(133)	37	(96)	8	(6)	2
Total US GAAP adjustments	177	(16)	161	(321)	(78)	(399)
Consolidated net income in accordance with US GAAP			300			23

I-23

The approximate effects on consolidated shareholders' funds of the differences between UK GAAP and US GAAP, including a breakdown of the US GAAP adjustments between with-profits funds and other operations, are as follows:

	June 30, 2003			December 31, 2002		
	With-profits funds	Other operations	Total	With-profits funds	Other operations	Total
			(In £ Millions)			
Consolidated shareholders' funds in accordance with UK GAAP			3,667			3,668
US GAAP adjustments:						
Business acquisitions and investments in associates	216	410	626	243	366	609
Restructuring charges	5	3	8	6	4	10
Investments:						
Real estate	(3,956)		(3,956)	(4,043)		(4,043)
Securities		1,886	1,886		732	732
Mortgage and other loans	(2)	(4)	(6)	(39)	(2)	(41)
Derivative instruments	(10)	(519)	(529)	(10)	(495)	(505)
Long-term business:						

	June 30, 2003			December 31, 2002		
Revenue and expense recognition	**(1,549)**	**(743)**	**(2,292)**	(1,498)	(670)	(2,168)
Deferred acquisition costs	**1,498**	**(316)**	**1,182**	1,475	128	1,603
Policy liabilities	**2,817**	**291**	**3,108**	2,874	310	3,184
Reversal of FFA	**9,167**		**9,167**	7,226		7,226
Undistributed policyholder allocations	**(7,056)**		**(7,056)**	(5,389)		(5,389)
Profit on disposal of German life business		**38**	**38**			
Pension plans	**782**	**255**	**1,037**	799	264	1,063
Recognition of pension scheme minimum liability	**(1,096)**	**(319)**	**(1,415)**	(1,182)	(346)	(1,528)
Stock-based compensation					(27)	(27)
Shareholder dividend liability		**106**	**106**		341	341
Deferred tax effect of the above adjustments	**(32)**	**(223)**	**(255)**	137	6	143
Total US GAAP adjustments	**784**	**865**	**1,649**	599	611	1,210
Consolidated shareholders' equity in accordance with US GAAP			**5,316**			4,878

Profit on disposal of German life business

Prudential sold its German life business to Canada Life Financial Corporation (Canada Life) for £82 million on January 1, 2003. Under UK GAAP, the profit on disposal was £2 million.

Under US GAAP, because the net assets of the German business were lower, the profit on disposal was £40 million. The difference in net assets between the two accounting bases arose due to different policy liability and deferred acquisition cost values, and the deferral and matching of premiums and policy charges relating to future periods in relation to the future expected benefits under US GAAP.

Deferral of gains on sale of UK personal lines property and casualty insurance business

In conjunction with the transfer of the UK personal lines property and casualty insurance business to Winterthur Insurance and the Churchill group, its UK subsidiary, the Company reinsured its in force contracts.

Under US GAAP, in accordance with Statement of Financial Accounting Standard No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts", the deferral of gains on the sale reflects profit margins in the unearned premium reserve that emerge after the balance sheet date.

Under UK GAAP, because the reinsurance was in conjunction with the sale, no gain was deferred.

Recognition of pension scheme minimum liability

Under UK GAAP, employer contributions to defined benefit plans are calculated and expensed on a basis that spreads the cost over the service lives of the participants.

Under US GAAP, in accordance with Statement of Financial Accounting Standard No. 87 "Employers' Accounting for Pensions", an asset is recognized and amortised reflecting the overfunded status of the Group's UK staff pension plans. Additionally, however, under US GAAP, if the accumulated benefit obligation exceeds the fair value of the pension plan assets and a prepaid pension cost has been recorded then an additional liability must be recognized. This additional liability reflects the underfunding of the pension plans on an accumulated benefit obligation basis and is charged to other comprehensive income.

8 Unaudited Condensed Consolidated US GAAP Financial Statements

The following condensed consolidated US GAAP financial statements reflect the material differences between UK GAAP and US GAAP on consolidated profit and loss and consolidated shareholders' funds described in Note 7. In addition to these material differences that have an effect on the consolidated profit and loss accounts and/or consolidated shareholders' funds, there are material differences in classification between specific line items in the UK GAAP and US GAAP condensed consolidated financial statements.

Unaudited condensed consolidated US GAAP statement of income and comprehensive income

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Insurance policy revenues	**2,086**	2,021
Investment results	**5,401**	(173)
Other income	**310**	364
Total revenue	**7,797**	2,212
Benefits and claims	**(2,944)**	(2,580)
Provision for policyholders' share of (earnings) losses on with-profits business	**(3,022)**	1,288
Underwriting, acquisition and other operating expenses	**(1,524)**	(1,252)
Other charges	**(23)**	(35)
Net income (loss) before income taxes	**284**	(367)
Income tax (expense) benefit	**(252)**	277
Income tax attributable to the policyholders' share of earnings (losses) on with-profits business	**229**	(188)
Income tax (expense) benefit attributable to shareholders	**(23)**	89
Net income (loss) before minority interests	**261**	(278)
Minority interests	**3**	4
Net income (loss) from continuing operations after minority interests	**264**	(274)
Income from discontinued operations including profit on sale of German life business and UK personal lines property and casualty insurance business (net of applicable income tax of £4 million and £nil, respectively)	**36**	297
Net income	**300**	23
Other comprehensive income (loss)	**430**	(31)
Total comprehensive income (loss)	**730**	(8)
Earnings per share under US GAAP (In Pence)		
Basic (based on 1,995 million and 1,986 million shares, respectively):		
Income (loss) from continuing operations after minority interests	**13.2p**	(13.8)p
Income from discontinued operations including profit on sale	**1.8p**	15.0p
Net income	**15.0p**	1.2p
Diluted (based on 1,997 million and 1,987 million shares, respectively):		
Income (loss) from continuing operations after minority interests	**13.2p**	(13.8)p
Income from discontinued operations	**1.8p**	15.0p
Net income	**15.0p**	1.2p

Unaudited condensed consolidated US GAAP balance sheets

	June 30, 2003	December 31, 2002
	(In £ Millions)	
Assets		
Investments:		
Fixed maturities	**68,572**	63,459
Equity securities	**26,789**	25,726
Short-term investments	**3,675**	5,915
Real estate	**5,187**	4,974
Mortgage loans	**5,244**	5,518
Policy loans	**737**	749
Other loans	**4,632**	3,936
Other investments	**2,139**	1,635
Total investments	**116,975**	111,912
Cash	**1,855**	1,086
Deferred acquisition costs	**4,266**	4,696
Intangible assets	**2,600**	2,582
Other assets	**4,718**	4,310
Separate account assets	**27,610**	25,793
Total assets	**158,024**	150,379
Liabilities		
Policyholder benefit liabilities	**91,239**	89,304
Undistributed policyholder allocations	**7,056**	5,389
Debt	**11,817**	9,964
Net deferred income tax liability	**970**	591
Other liabilities	**13,904**	14,348
Separate account liabilities	**27,610**	25,793
Total liabilities	**152,596**	145,389
Minority interests	**112**	112
Shareholders' equity		
Common stock	**100**	100
Additional paid-in capital	**629**	608
Less treasury stock	**(11)**	(39)
Retained earnings	**4,313**	4,354
Accumulated other comprehensive income	**285**	(145)
Total shareholders' equity	**5,316**	4,878
Total liabilities and shareholders' equity	**158,024**	150,379

Unaudited condensed consolidated US GAAP statement of cash flows

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Cash flows from operating activities:		
Consolidated net income	**300**	23
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	**123**	147
Realized investment gains	**(146)**	(254)
Interest credited to policyholders	**1,354**	1,382
Policy fees charged to policyholders	**(100)**	(116)
Bonuses paid to policyholders	**(418)**	(649)
Change in:		
Investments held for trading purposes	**(1,627)**	2,289
Deferred policy acquisition costs	**(62)**	(148)
Other assets	**(473)**	(480)
Policy benefit liabilities	**989**	1,173
Undistributed policyholder allocations	**1,986**	(2,251)
Other liabilities	**445**	(74)
Other net changes	**2**	(82)
Net cash provided by operating activities	**2,373**	960
Cash flows from investing activities:		
Proceeds from sale or maturity of:		
Real estate	**7**	93
Available for sale securities sold	**6,756**	2,965
Available for sale securities matured	**3,225**	1,838
Mortgage and other loans	**3,858**	4,004
Purchases of:		
Real estate	**(64)**	(131)
Available for sale securities	**(13,388)**	(7,336)
Mortgage and other loans	**(4,716)**	(4,597)
Change in short-term investments, net	**2,188**	(879)
Net increases in other investments	**(479)**	(233)
Proceeds from disposal of German life business and UK personal lines property and casualty insurance business	**82**	353
Proceeds from disposal of property and equipment	**2**	1
Net cash used for investing activities	**(2,529)**	(3,922)
Cash flows from financing activities:		
Policyholders' deposits	**3,277**	4,825
Policyholders' withdrawals	**(3,086)**	(2,792)
Net change in banking product liabilities	**(674)**	1,759
Proceeds from long-term borrowings	**1,089**	24
Repayment of long-term borrowings		(211)
Net change in short-term debt	**642**	
Dividends paid to shareholders	**(341)**	(332)
Proceeds from issuance of stock	**21**	18
Net cash provided by financing activities	**928**	3,291

	Six Months Ended June 30,	
Net impact of foreign exchange fluctuations	**(3)**	(16)
Net increase in cash	**769**	313
Cash, beginning of period	**1,086**	1,313
Cash, end of period	**1,855**	1,626

Unaudited Other Comprehensive Income

An analysis of accumulated other comprehensive income is set out below:

	Six Months Ended June 30,	
	2003	2002
	(In £ Millions)	
Foreign currency translation adjustments:		
Foreign currency translation adjustments arising during the period	**(60)**	(102)
Unrealized investment gains on available-for-sale securities:		
Unrealized holding gains arising during the period	**1,567**	217
Less reclassification adjustment for gains included in net income	**(63)**	(42)
Unrealized investment gains, net	**1,504**	175
Related amortization of deferred acquisition costs	**(493)**	(22)
Related loss recognition	**(242)**	136
Policyholders' share of with-profits business	**(29)**	(240)
Related deferred taxes	**(275)**	22
Net unrealized gains on available-for-sale securities	**465**	71
Recognition of pension scheme minimum liability:		
Recognition of pension scheme minimum liability	**113**	
Related deferred taxes	**(17)**	
Policyholders' share of pension scheme minimum liability	**(71)**	
Total pension scheme adjustments	**25**	
Other comprehensive income (loss)	**430**	(31)
Accumulated other comprehensive (loss) income, beginning of period	**(145)**	125
Accumulated other comprehensive income, end of period	**285**	94

Components of accumulated other comprehensive income:

	Six Months Ended June 30,	
Foreign currency translation adjustments	**(176)**	12
Net unrealized gains on available-for-sale securities:		
Unrealized investment gains, net	**3,600**	1,154
Related amortization of deferred acquisition costs	**(787)**	(28)
Related loss recognition	**(1,370)**	(743)
Policyholders' share of with-profits business	**(164)**	(307)
Related deferred taxes	**(496)**	6
Net unrealized gains on available-for-sale securities	**783**	82
Recognition of pension scheme minimum liability:		
Recognition of pension scheme minimum liability	**(1,415)**	
Related deferred taxes	**210**	
Policyholders' share of pension scheme minimum liability	**883**	
Total pension scheme adjustments	**(322)**	
Accumulated other comprehensive income, end of period	**285**	94

Sale of German life business

The Group sold its German life business to Canada Life Financial Corporation (Canada Life) for £82 million on January 1, 2003. After allowing for the costs of sale and other related items of £17 million and for the write off of deferred acquisition costs of £63 million, the profit on sale was £2 million. There was £4 million tax on the sale. Profit on sale on a US GAAP basis was £38 million higher than on a UK GAAP basis. This difference reflects different policy liability and deferred acquisition cost values of £7 million, and the deferral and matching of premiums and policy charges relating to future periods in relation to the future expected benefits of £31 million.

Sale of UK personal lines property and casualty insurance business

The Group completed the transfer of its UK personal lines property and casualty insurance business to Winterthur Insurance and the Churchill group, its UK subsidiary, on January 4, 2002, for a consideration of £353 million. After allowing for the costs of sale and other related items of £43 million and for the write off of deferred acquisition costs of £13 million, the profit on sale was £297 million. There was no tax on the profit on sale due to the utilization of capital losses. The profit on sale on a US GAAP basis was £58 million lower than on a UK GAAP basis. This difference reflects the reversal of the equalization provision of £40 million, the deferral of gains of £21 million and a £3 million lower write off of deferred acquisition costs.

New Accounting Pronouncements

Adoption of FIN 46

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No. 51 "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties (variable interest entities). Variable interest entities (VIEs) are required to be consolidated by their primary beneficiaries if they do not effectively disperse risk among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the entity's expected losses, or receives a majority of its expected residual returns, or both, as a result of holding variable interests. FIN 46 also requires new disclosures about VIEs.

For corporate structures existing before January 31, 2003, the effective date of the interpretation is July 1, 2003. If it is reasonably possible that an enterprise will be required to consolidate or disclose information about a variable interest entity when FIN 46 becomes effective, then certain disclosures, including the Group's potential maximum exposure to loss, are required in financial statements issued after January 31, 2003.

Certain of the portfolio investments of Jackson National Life, the with-profits fund of Prudential Assurance, and PPM America's investment management activities are structured through the use of special purpose vehicles ("SPVs") operating in the United States. Currently where appropriate these SPVs are consolidated in the Company's financial statements. These SPVs are securitizations structured by a related party as traditional collateralized bond obligations whose purpose is to invest in a

diversified portfolio of high yield bonds and structured finance securities, using proceeds raised from the issuance of debt and equity interests to the aforementioned Group entities and external investors.

One of the SPVs which is not currently consolidated is a VIE in which the Group may be considered to have a significant variable interest. This VIE was structured in 2000 and has total assets of £701 million at June 30, 2003. As of June 30, 2003 the carrying value of the Group's investment in the debt and equity instruments of the VIE was £2 million. As the Group has no future funding obligations to the VIE, the maximum loss exposure is limited to its current investment.

The Prudential Group, through its fund management operations, manages other funds in which it has an interest through entitlement to management and performance fees. If the appropriate criteria under FIN 46 were to be met for these funds, then consolidation may be required once the recognition requirements become effective.

Adoption of FAS 148

In December 2002, the FASB issued Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123", (FAS 148). Effective December 15, 2002, the Group adopted the disclosure requirements of FAS 148 which requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. FAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Prudential is continuing its existing accounting policy for Stock-Based Compensation using the intrinsic value method.

If the Group had determined compensation expense based on the fair value of the options at the grant date for its share options and awards granted after December 15, 1994 under SFAS No. 123,

"Accounting for Stock-Based Compensation", the Group's pro forma earnings would have been as follows:

	Six Months Ended June 30,	
	2003	**2002**
	(In £ Millions)	
Net Income:		
As reported	**300**	23
Add: Total stock-based compensation expense (credit), net of related tax effects, included in reported net income	**2**	(3)
Add: Total stock-based employee compensation credit (expense) determined under fair value based method for all awards granted since December 15,1994, net of related tax effects	**2**	(4)
Pro forma	**304**	16

	Six Months Ended June 30,	
Basic earnings per share (pence):		
As reported	**15.0p**	1.2p
Pro forma	**15.2p**	0.8p
Diluted earnings per share (pence):		
As reported	**15.0p**	1.2p
Pro forma	**15.2p**	0.8p

In accordance with SFAS No. 123, the pro forma amounts include only the effects of share options and awards granted since December 15, 1994 and are not necessarily indicative of future pro forma net income.

The weighted average fair values and exercise prices of options granted during the six months ended June 30, 2003 and 2002 were as follows:

	2003		2002	
	Weighted Average Fair Value	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Exercise Price
	(£)	(£)	(£)	(£)
Stock options granted with exercise prices:				
Greater than or equal to grant-date market value				
Less than grant-date market value	**1.30**	**2.43**	3.18	4.56

The fair value amounts above were determined using the Black-Scholes option-pricing method using the following assumptions:

	2003	2002
Dividend yield	**3.02%**	2.28%
Expected volatility	**40%**	40%
Risk-free interest rate	**3.86%**	5.22%
Expected life	**3.84 years**	3.61 years

Adoption of FIN 45

In December 2002, the FASB issued Interpretation No.45, "Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 provides guidance regarding disclosures to be made by guarantors regarding obligations under certain guarantees. In addition, FIN 45 clarifies the requirement to recognize the fair value of the obligation undertaken in issuing the guarantee at its inception.

The Group has adopted FIN 45 and there has been no impact as of June 30, 2003 on the Group's results of operations, financial condition or liquidity.

Adoption of FAS 147

Effective October 1, 2002, the Group adopted FASB Statement of Financial Accounting Standards No. 147, "Acquisitions of Certain Financial Institutions" (FAS 147). FAS 147 removes acquisitions of financial institutions, except transactions between two or more mutual enterprises, from the scope of both FASB Statement No. 72, "Accounting for Certain Acquisitions of Banking and Thrift Institutions" and FASB Interpretation No. 9, "Applying APB Opinion Nos. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method" and requires that those transactions be accounted for in accordance with FASB Statement No.141, "Business Combinations" and FASB Statement No. 142, "Goodwill and Other Intangible Assets". FAS 147 amends FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" to include within its scope long-term customer-relationship intangibles of financial institutions. FAS 147 is effective for acquisitions occurring on or after October 1, 2002, and for all other provisions on October 1, 2002 with earlier application permitted. There has been no impact as of June 30, 2003 on the Group's results of operations, financial condition or liquidity.

Adoption of FAS 146

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). Effective January 1, 2003, the Group adopted FAS 146, which requires that a liability for costs associated with exit or disposal activities be recognized when the liability is incurred. Prior generally accepted accounting principles provided for the recognition of such costs at the date of management's commitment to an exit plan. In addition, FAS No. 146 requires that the liability be measured at fair value and be adjusted for changes in estimated cash flows. The provisions of the new standard are effective for exit or disposal activities initiated after December 31, 2002. There has been no impact as of June 30, 2003 on the Group's results of operations, financial condition or liquidity.

Adoption of FAS 144

Effective January 1, 2002, the Group adopted the FASB Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale. A long-lived asset classified as held for sale is to be measured at the lower of its carrying amount or fair value less cost to sell and to cease being depreciated. Therefore, discontinued operations are no longer

to be measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. For long-lived assets to be held and used, impairment is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted future cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off are considered held and used until disposed of. There has been no impact as of June 30, 2003 on the Group's results of operations, financial condition or liquidity, other than the financial statement presentation of gain on disposal of the UK property and casualty insurance operations.

Adoption of FAS 142

Effective January 1, 2002, the Group adopted Statement of Financial Accounting Standards No 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 142 requires, among other things, the discontinuance of amortization related to goodwill and other indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill.

In accordance with the standard, the Group ceased goodwill amortization on January 1, 2002.

The Group has completed the implementation of this Standard. No impairment losses have been recognized and there have been no reclassifications of intangible assets from goodwill.

Accounting Pronouncements not yet Adopted

In April 2003, the FASB issued guidance in Statement 133 Implementation Issue No. B36, "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor of Those Instruments", (DIG B36). DIG B36 addresses the instances in which bifurcation of an instrument into a debt host contract and an embedded credit derivative is required. In particular, DIG B36 indicates that where modified coinsurance arrangements in which funds are withheld by the ceding insurer contain an embedded derivative feature which contains economic characteristics which are not clearly and closely related to the host contract, then bifurcation is required. The same accounting treatment is required for embedded features of a debt instrument and all other arrangements which incorporate credit risk exposures that are unrelated or only partially related to the creditworthiness of the issuer of that instrument.

DIG B36 is effective for the first reporting period beginning after September 15, 2003. The Group is currently assessing the impact of the provision implementation guidance on its results of operations, financial condition and liquidity.

In April 2003, the FASB issued Statement of Financial Accounting Standard No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities" (FAS 149). FAS 149 was issued to amend and clarify financial reporting for derivative instruments, including embedded derivative instruments and hedging activities. The provisions of the new standard are effective prospectively for contracts entered into, or modified after, June 30, 2003 and for hedging relationships designated after

June 30, 2003. The provisions of FAS 149 that relate to FAS 133 Implementation issues should continue to be applied in accordance with their respective effective dates. The Group is currently assessing the impact of the provision implementation guidance on its results of operations, financial condition and liquidity.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," (FAS 150). FAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that these instruments be classified as liabilities in statements of financial position. This statement is effective prospectively for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period starting after June 15, 2003. This statement shall be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. The Group is currently assessing the impact of this new standard on its results of operations, financial condition and liquidity.

In July 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-01, "Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts" (SOP 03-01). SOP 03-01 tightens existing criteria that must be met before assets can be classified as separate account assets and carried at fair value on the balance sheet with an equivalent total being recorded for separate account liabilities. Once effective, neither seed money, nor assets failing to meet the specified criteria, can be accounted for as separate account assets. Instead, on a prospective basis, these assets must be accounted for as part of the general account. In addition, SOP 03-01 requires companies to recognize a liability for guaranteed minimum death benefits and guaranteed minimum income benefits and to capitalize and amortize sales inducements that meet specific criteria.

The provisions of SOP 03-01 are effective for financial statements beginning after December 15, 2003. The initial effects of adoption will be recorded as a cumulative effect of a change in accounting principle. The Group is currently assessing the impact of the provision on its results of operations, financial condition and liquidity.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRUDENTIAL PUBLIC LIMITED COMPANY

Date: October 24, 2003

By: /s/ JOHN PRICE

John Price
Deputy Group Secretary

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