PRUDENTIAL PLC
Form 424B4
August 02, 2004

Use these links to rapidly review the document
TABLE OF CONTENTS

Prospectus Supplement
(To Prospectus dated July 30, 2004)

Filed pursuant to
Rule 424(b)(4)
Registration No. 333-117208

Prudential plc

$250,000,000
6.75% Perpetual Subordinated Capital Securities
Exchangeable at the Issuer's Option into
Non-Cumulative Dollar Denominated Preference Shares

We are offering $250,000,000 aggregate principal amount of 6.75% Perpetual Subordinated Capital Securities, or Capital Securities. The Capital Securities will be issued pursuant to the subordinated indenture as supplemented by a supplemental indenture, each as described herein.

The Capital Securities will bear interest from the date of original issuance at a rate of 6.75% per annum on their outstanding principal amount, payable in U.S. dollars quarterly in arrear on March 23, June 23, September 23 and December 23 of each year, beginning on September 23, 2004. Interest payable on September 23, 2004 for the interest period will equal $0.2250 per Capital Security. Interest payments on the Capital Securities may be deferred as described under "*Certain Terms of the Capital Securities Deferred Interest*" in this prospectus supplement. At our option, we may elect to pay interest that is not deferred through the alternative coupon satisfaction mechanism described herein. Deferred interest will be satisfied only upon a redemption or exchange of the Capital Securities only in accordance with the alternative coupon satisfaction mechanism or upon our winding up. We may, at our option, and subject to certain conditions described herein, exchange the Capital Securities in whole or in part on any interest payment date falling on or after March 23, 2010 into one or more series of our preference shares.

The Capital Securities have no maturity date. At our option, however, we may redeem the Capital Securities on any interest payment date falling on or after September 23, 2009 at their principal amount together with any accrued and unpaid interest, including deferred interest, subject to our obligation to make payment of any deferred interest only through the alternative coupon satisfaction mechanism. We may also redeem the Capital Securities at any time in the event of a change in certain U.K. regulatory requirements applicable to us or for certain tax reasons as described under "*Certain Terms of the Capital Securities Redemption*".

The preference shares that we may issue upon exchange of the Capital Securities will be dollar denominated preference shares with a liquidation preference equal to $25 per share paying non-cumulative preferential dividends quarterly in arrears, if declared, of 6.75% of the liquidation preference per annum. Dividends on our non-cumulative preference shares will be payable on any dividend payment date only (a) if we have distributable profits, (b) we are not prohibited from paying a dividend under the terms of a Parity Security, (c) we meet certain other conditions described herein and (d) our board of directors elects, in its sole discretion, to declare dividends. If we do not pay a dividend on our preference shares on a dividend payment date, we will be restricted in our ability to make payments on or redeem certain parity and junior securities. The preference shares will be represented by American depositary shares and evidenced by American depositary receipts.

We will apply to list the Capital Securities on the New York Stock Exchange and, if the Capital Securities are exchanged for preference shares, we will use our reasonable efforts to list the American depositary shares representing the preference shares on the New York Stock Exchange. Trading of the Capital Securities on the New York Stock Exchange is expected to begin within 30 days after the initial delivery of the securities.

Investing in the Capital Securities and Preference Shares involves certain risks. See "*Risk Factors*" beginning on page S-14 and the risk factors beginning on page 5 of our annual report on Form 20-F for the year ended December 31, 2003.

We are not affiliated with Prudential Financial, Inc., or its subsidiary, the Prudential Insurance Company of America.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offence.

PRICE: $25 PER SECURITY

	Price to Public[1]	Underwriting Commissions	Proceeds to Prudential plc[2,3]

Per security	100%	3.15%	96.85%
Total	$ 250,000,000	$ 7,875,000	$ 242,125,000

1 Plus accrued interest, if any, from August 6, 2004.

2 Before deducting expenses.

3 We have granted to the underwriters a 30-day option to purchase up to an additional $37,500,000 principal amount of Capital Securities to cover over-allotments, if any. The purchase price is $36,318,750. If the option is exercised in full, the total Price to Public, Underwriting Commissions, and Proceeds to Prudential plc will be $287,500,000, $9,056,250 and $278,443,750, respectively. Any Capital Securities issued or sold under the option will have the same terms and conditions as the Capital Securities.

The underwriters expect that the securities will be ready for delivery on or about August 6, 2004.

Joint bookrunning managers

Citigroup **Merrill Lynch & Co.** **Morgan Stanley**

Senior Co-managers

UBS Investment Bank **Wachovia Securities**

Junior Co-managers

A.G. Edwards **RBC Dain Rauscher**

July 30, 2004

TABLE OF CONTENTS

We have not authorized any dealer, salesman or any other person to give any information or to make any representations not contained in this prospectus supplement or the prospectus in connection with the offer contained in this prospectus supplement and prospectus. If such information or representation is given or made, you must not rely on it. This prospectus supplement and the prospectus is not an offer to sell, or a solicitation of an offer to buy, any of the Capital Securities in any jurisdiction or to any person to whom that offer or solicitation would be illegal. The offer or sale of the Capital Securities may be restricted by law in certain jurisdictions and you should inform yourself about, and observe, any such restrictions. The delivery of this prospectus supplement and the prospectus or any sale of securities using this prospectus supplement or the prospectus does not mean that the information contained herein is correct at any time after the date of those documents.

There are certain restrictions on the distribution of this prospectus supplement as described under "Underwriting".

In connection with the issue of the Capital Securities, Citigroup Global Markets Inc. or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there will be no obligation on Citigroup Global Markets Inc. or any agent of it to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

INFORMATION-REGARDING PRUDENTIAL PLC

Certain information, including:

- our annual report on Form 20-F for the fiscal year ended December 31, 2003 (SEC File No.1-15040);
- our reports on Form 6-K furnished to the Securities and Exchange Commission on June 15, 2004, July 2, 2004, July 13, 2004 and July 28, 2004; and
- certain of our future reports on Form 6-K (to the extent therein indicated)

have been, or in the future may be, incorporated by reference into this prospectus supplement and the prospectus. We refer you to the important information contained in those documents. See "*Where You Can Find More Information About Us*" in the accompanying prospectus.

FORWARD-LOOKING STATEMENTS

Some statements in this prospectus supplement are, and some statements contained in the accompanying prospectus may be, forward-looking. All statements regarding our future financial condition, results of operations and businesses, strategy, plans and objectives are forward-looking. Statements containing the words "believes," "intends," "expects" and words of similar meaning are also forward-looking. Such statements involve unknown risks, uncertainties and other factors that may cause our results, performance or achievements or conditions in the markets in which we operate to differ from those expressed or implied in those statements. These factors include regulatory changes, technological developments, globalization, levels of spending in major economies, the levels of marketing and promotional expenditures, actions of competitors, employee costs, future exchange and interest rates, changes in tax rates and future business combinations or dispositions, together with other factors discussed in " Risk Factors" in our annual reports on Form 20-F and in this prospectus supplement. We may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the SEC, our annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses, prospectus supplements, press releases and other written materials and in oral statements made by our directors, officers or employees to third parties, including financial analysts. We undertake no obligation to, and do not expect to, update any of our forward-looking statements.

SUMMARY OF THE OFFERING

The following summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that may be important to you. You should read the entire prospectus supplement and prospectus, including the financial statements and related notes incorporated by reference herein, before making an investment decision. Unless the content requires otherwise, references to "we," "us" and "our" means Prudential plc. Terms which are defined in "Certain Terms of the Capital Securities" and "Certain Terms of the Preference Shares" included in this prospectus supplement have the same meaning when used in this summary.

Issuer	Prudential plc
Securities Offered	6.75% Perpetual Subordinated Capital Securities in an aggregate principal amount of $250,000,000, which we refer to as the **Capital Securities**. At our option, we may exchange the Capital Securities in whole or in part on any interest payment date on or after March 23, 2010 into one or more series of our preference shares. See "*Certain Terms of the Capital Securities Exchange Option*".
	The Capital Securities will be issued under a subordinated indenture between us and Citibank, N.A., as subordinated trustee as supplemented by the first supplemental indenture thereto between us and Citibank, N.A. as subordinated trustee.
Interest	The Capital Securities will bear interest from the date of issuance at a fixed rate equal to 6.75% per annum on their outstanding principal amount.
Interest Payment Dates	Unless we defer payment as described under "Deferred Interest" below, interest payments on the Capital Securities will be payable quarterly in arrear on March 23, June 23, September 23, and December 23 of each year, beginning on September 23, 2004.
Additional Amounts	Subject to certain exceptions and limitations set forth in this prospectus supplement and the accompanying prospectus, if at any time a U.K. taxing authority requires us to deduct or withhold taxes, we will pay the additional amounts on the Capital Securities that are necessary to ensure that the net amount received by each Capital Securities holder, after the deduction or withholding, will not be less than the amount the holder would have received in respect of the Capital Securities in the absence of the deduction or withholding.
Subordination	The Capital Securities will constitute our unsecured obligations and will rank equally and ratably without any preference among themselves. The rights and claims of the Capital Securities holders are subordinated to the claims of **Senior Creditors** (as defined herein). See "*Certain Terms of the Capital Securities Subordination*".

	As a result of the subordination provisions of the Capital Securities, upon our winding up, the Capital Securities holders will rank as if they were holders of our preference shares, *pari passu* with the holders of our most senior ranking class of issued preference shares if any, except to the extent such preference shares represent claims of Senior Creditors, and any other **Parity Securities** (as defined herein under "*Certain Terms of the Capital Securities Dividend and Capital Restriction*") then outstanding, junior to Senior Creditors and in priority to all holders of **Junior Securities** (as defined herein under "*Certain Terms of the Capital Securities Dividend and Capital Restriction*").
Solvency Condition	Except in a winding up, all interest and other payments on the Capital Securities will be conditional upon our meeting the Solvency Condition (as further defined herein) at the time of payment, and we will not make any payment unless we will continue to meet the Solvency Condition immediately afterwards. See "*Certain Terms of the Capital Securities The Solvency Condition*".
Deferred Interest	Payments of interest on the Capital Securities will be mandatory on a Compulsory Interest Payment Date, which is defined to include each interest payment date other than an Optional Interest Payment Date, on which: • we satisfy the Solvency Condition and • we are not prohibited from making interest payments pursuant to the terms of any Parity Security. An **Optional Interest Payment Date** will be any interest payment date on which we determine, on or after the 20th Business Day, but not later than the fifth Business Day preceding such date (and by reference to our then current financial condition), that: • the Capital Adequacy Condition (as defined herein) will not be met on such date; or • we or any of our **EEA Insurance Subsidiaries** (as defined herein), are not in compliance with, or that the payment of interest on such interest payment date would cause us or any such EEA Insurance Subsidiary to breach, any **Capital Regulations** (as defined herein).

	Any interest payments that we elect not to make in respect of the Capital Securities on an Optional Interest Payment Date, together with any interest payments we do not make because the Solvency Condition is not met or because we are prohibited from making such interest payment pursuant to the terms of any Parity Security, will, so long as they remain unpaid, constitute **Deferred Interest**. Deferred Interest will become payable only upon the redemption or exchange of the Capital Securities and only in accordance with the Alternative Coupon Satisfaction Mechanism (as described herein) or upon our winding up but not in any other circumstances. No interest will accrue on Deferred Interest, except in the limited circumstances described under "*Certain Terms of the Capital Securities Interest*", "*Certain Terms of the Capital Securities Redemption Postponement of Capital Security Redemption Date*" and "*Certain Terms of the Capital Securities Alternative Coupon Satisfaction Mechanism*" below.
Dividend and Capital Restriction	Following an Optional Interest Payment Date on which we do not make payment in full of all interest payments otherwise payable on such date, or we are prohibited from making such interest payment by the terms of any Parity Security or any interest payment date on which the Solvency Condition is not met, we will not, and we will not permit any entity that we control, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any Parity Securities or on any Junior Securities (other than a final dividend declared by us with respect to our ordinary shares prior to the date that the decision to defer such interest payment is made or a payment made by one of our wholly-owned subsidiaries to another wholly-owned subsidiary or directly to us), or (b) to redeem, purchase or otherwise acquire any Parity Securities or any Junior Securities, in each case until the next succeeding interest payment date for the Capital Securities on which the interest otherwise due and payable on all outstanding Capital Securities on such date (but excluding Deferred Interest, if any) is duly set aside and provided for or is paid in full.
Optional Redemption	The Capital Securities are perpetual securities and have no maturity date and are not redeemable at the option of the holders at any time. We may redeem the Capital Securities, however, in whole or in part at our option, on any interest payment date falling on or after September 23, 2009 at their principal amount together with interest for the then-current interest period to the date fixed for redemption (referred to as the "**Capital Security Redemption Date**") and the aggregate amount of any Deferred Interest, subject to our obligation to make payment of Deferred Interest only through the Alternative Coupon Satisfaction Mechanism (as defined below under "Alternative Coupon Satisfaction Mechanism").

	In addition, we may redeem the Capital Securities in whole (but not in part) at our option at any time upon the occurrence of a **Tax Call Event** (as defined herein) or a **Regulatory Event** (as defined herein), in either case at their principal amount together with interest for the then-current interest period to the Capital Security Redemption Date and the aggregate amount of any Deferred Interest, subject to our obligation to make payment of Deferred Interest only through the Alternative Coupon Satisfaction Mechanism. Except as otherwise indicated to us by the FSA, we may not redeem any Capital Securities upon the occurrence of a Tax Call Event or a Regulatory Event or otherwise after September 23, 2009 unless we have given at least six months' prior notice to the FSA and the FSA has issued a statement of no objections prior to such Capital Security Redemption Date, and redemption may only be effected if on, and immediately following, the Capital Security Redemption Date we are in compliance with any applicable regulatory capital requirements or capital ratios required to be maintained for insurance companies, parent companies in insurance groups or financial groups generally by the FSA. See "*Certain Terms of the Capital Securities Redemption*".
Alternative Coupon Satisfaction Mechanism	Any Deferred Interest to be satisfied on a Capital Security Redemption Date or upon exchange of the Capital Securities into Preference Shares must be satisfied by our issuing ordinary shares to our calculation agent which, when sold, will provide a cash amount sufficient to make the payments due. At our option, we may elect to pay any interest that has not been deferred (which we will refer to as **Current Interest**) in the same manner. We refer to this as the **Alternative Coupon Satisfaction Mechanism** (as further described herein). In any such case, the calculation agent will calculate in advance the number of our ordinary shares to be issued in order to enable us to raise the full amount of Deferred Interest or Current Interest to be satisfied on the relevant Capital Security Redemption Date, Exchange Date (as herein defined) or interest payment date, as the case may be. You will receive all payments in respect of the Capital Securities in cash. See "*Certain Terms of the Capital Securities Alternative Coupon Satisfaction Mechanism*".

Sufficiency and Availability of Ordinary Shares	While the Capital Securities are outstanding, we will be required to review the sufficiency of our authorized but unissued ordinary shares and the authority of our directors to issue such shares at the time of each annual shareholders' meeting and, if necessary, propose resolutions to increase the number so that we have available for issue enough ordinary shares as we reasonably consider would be required to satisfy the payment of Deferred Interest, if any, together with scheduled interest payments on the Capital Securities for the next 12 months using the Alternative Coupon Satisfaction Mechanism.
Market Disruption Event	If a **Market Disruption Event** (as defined herein) exists during the 14 Business Days preceding any Capital Security Redemption Date or Exchange Date, the Capital Security Redemption Date or Exchange Date and the related payment of Deferred Interest may be deferred until such Market Disruption Event no longer exists.
	A **Market Disruption Event** means (i) the occurrence or existence of any material suspension of or limitation imposed on trading or on settlement procedures for transactions in our ordinary shares through the London Stock Exchange (or other national securities exchange or designated offshore securities market constituting the principal trading market for our ordinary shares), or (ii) in our reasonable opinion, there has been a substantial deterioration in the price and/or value of our ordinary shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the ordinary shares to be issued in accordance with the Alternative Coupon Satisfaction Mechanism or (iii) where monies are required to be converted from one currency upon sale of ordinary shares into another currency for payment of Deferred Interest, the occurrence of any event that makes it impracticable to effect such conversion.
Exchange Option	We may elect to exchange the Capital Securities in whole or in part on any interest payment date falling on or after March 23, 2010 into our **Preference Shares** (which we describe further below), with each Capital Security being exchanged for one Preference Share with a liquidation preference of $25. Upon exchange, any Deferred Interest outstanding on the Capital Securities being exchanged shall be paid by us but only in accordance with the Alternative Coupon Satisfaction Mechanism.
	If we elect to exchange some or all of our Capital Securities, we will effect any such exchange by redeeming the Capital Securities being exchanged for their principal amount and immediately applying such principal amount to subscribe for the applicable number Preference Shares being issued to the holders.

	We may also exchange the Capital Securities in whole (but not in part) on any interest payment date upon the occurrence of a Tax Event or a Regulatory Event, subject to the Solvency Condition being met. Except as otherwise indicated to us by the FSA, we may not exchange any Capital Securities for Preference Shares upon the occurrence of a Tax Event or a Regulatory Event or otherwise after March 23, 2010 unless we have given at least six months' prior notice to the FSA and the FSA has issued a statement of no objections prior to the applicable Exchange Date, and exchange may only be effected if on, and immediately following, the Exchange Date we are in compliance with any applicable regulatory capital requirements or capital ratios required to be maintained for insurance companies, parent companies in insurance groups or financial groups generally by the FSA. See "*Certain Terms of the Capital Securities Exchange Option*". On the date of any exchange, we will deliver or procure delivery to the ADR Depositary a single share warrant to bearer evidencing all of the Preference Shares in respect of the Capital Securities so exchanged. We will not exchange any Capital Securities for our Preference Shares unless: there is no accrued but unpaid interest on such Capital Securities; any Deferred Interest related to such Capital Securities has been paid in accordance with the Alternative Coupon Satisfaction Mechanism; no Capital Security Default, Payment Event or Event of Default (each, as further defined herein) has occurred and is continuing; we have a sufficient number of authorized but unissued Preference Shares immediately prior to the exchange; our directors have all the necessary authority under English law to allot and issue the Preference Shares arising on exchange; and we comply with certain other conditions set forth in the subordinated indenture.
Preference Shares	Each series of Perpetual Non-Cumulative Preference Shares (our "**Preference Shares**") issued upon exchange of Capital Securities will constitute a separate series of our non-cumulative dollar denominated preference shares.

	If we do not declare a dividend on any dividend payment date, holders of the Preference Shares will have no claim in respect of non-payment and we will have no obligation to pay such dividend or part thereof or interest thereon.
	Our Preference Shares will be represented by American Depositary Shares, or **ADSs**, evidenced by American Depositary Receipts, or **ADRs**. Each ADR will represent a specified number of Preference Shares.
	Our Preference Shares shall rank *pari passu* as to return of assets on a winding up with Capital Securities that we issue in accordance with the terms of this prospectus supplement. The Preference Shares are subject to the dividend and redemption restrictions described below in "*Certain Terms of the Capital Securities Dividend and Capital Restriction*".
	Non-cumulative preferential dividends on each series of Preference Shares will be payable if declared by our board of directors in accordance with the procedures described below. If so declared, any such dividend will be 6.75% of the liquidation preference per annum, payable quarterly in arrears on March 23, June 23, September 23 and December 23 of each year, beginning on the first such date occurring after the applicable issue date.
	On any dividend payment date on which: • we satisfy the Solvency Condition; • we are not prohibited from paying a dividend under the terms of a Parity Security; and • our distributable profits are sufficient to cover the payment in full of, or the setting aside and providing for, the dividend on that series of Preference Shares and dividends on any of our other preference shares stated to be payable on the same date and ranking equally as to dividends with the Preference Shares; then, our board of directors, in its sole discretion, may elect to declare and pay dividends or not to declare and pay dividends on the Preference Shares.
No Additional Amounts	If at any time a U.K. taxing authority requires us to deduct or withhold taxes from payments made by us with respect to our Preference Shares, we will not pay any additional amounts. As a result, the net amount received from us by each Preference Share holder, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or withholding.

Dividend and Capital Restriction	Following a dividend payment date on which we do not declare and pay in full all dividend payments on the Preference Shares, for whatever reason, we will not, and we will not permit any entity that we control, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any preference shares or on any Junior Securities (other than a final dividend declared by us with respect to our ordinary shares prior to the date that the decision not to pay such dividend on our Preference Shares is made or a payment made by one of our wholly-owned subsidiaries to another wholly-owned subsidiary or directly to us), or (b) to redeem, purchase or otherwise acquire any Parity Securities or any Junior Securities, in each case unless or until we set aside and provide for or pay in full the dividends on the Preference Shares for the next four succeeding dividend payment dates.
Optional Redemption	Once issued, we can redeem our Preference Shares, in whole or in part, on any dividend payment date later than five years after they are issued. However, except as otherwise indicated to us by the FSA, we may not redeem any Preference Shares unless we have given at least six months' notice to the FSA and the FSA has issued a statement of no objections prior to such Preference Share Redemption Date, and redemption may only be effected if on, and immediately following, the Preference Share Redemption Date we are in compliance with any applicable regulatory capital requirements or capital ratios required to be maintained for insurance companies, parent companies in insurance groups or financial groups generally by the FSA.
Issuance Restriction	We may not issue any shares that rank senior to the Preference Shares of any series, in regard to rights to participate in our profits or assets, without the prior written consent of the holders of at least three-quarters in nominal value of such series. We have agreed that for so long as any Capital Securities remain outstanding, we will not issue any preference shares or any other non-cumulative perpetual instruments (including cumulative perpetual instruments where coupon payments may be satisfied through a mechanism similar to the Alternative Coupon Satisfaction Mechanism) of a kind capable of counting as cover for the minimum or notional amount of solvency or minimum capital pursuant to the Capital Regulations, if such instruments would rank senior to the Capital Securities or give any guarantee or support undertaking in respect of any such qualifying instruments ranking senior to the Capital Securities, unless we alter the terms of the Capital Securities such that the Capital Securities rank equally with any such preference shares, such other qualifying instruments, or such guarantee or support undertaking.

Book-entry System; Delivery and Form	The Capital Securities will be issued only in fully registered form, without coupons, in the form of beneficial interests in one or more global securities. The Capital Securities will be issued only in denominations of $25 and integral multiples of $25. We will issue Capital Securities as global Capital Securities registered in the name of Cede & Co., as nominee for The Depository Trust Company, which we refer to as **DTC**.
	We anticipate that the Capital Securities will be accepted for clearance by DTC. Beneficial interests in the global Capital Securities will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg. Owners of beneficial interests in the Capital Securities will receive payments relating to their Capital Securities in U.S. dollars.
	The Capital Securities will not be issued in definitive form except under certain limited circumstances described herein. See "*Certain Terms of the Capital Securities Book-entry System; Delivery and Form*".
Listing	We will apply to list the Capital Securities on the New York Stock Exchange and, upon our giving notice of exchange of the Capital Securities for Preference Shares, we will use our reasonable efforts to list the ADSs representing the Preference Shares on the New York Stock Exchange. Trading of the Capital Securities is expected to begin within 30 days after the initial delivery of the Capital Securities.
Governing Law	The Capital Securities and the subordinated indenture and the supplemental indenture will be governed by, and construed in accordance with, the laws of the State of New York, except that the subordination provisions will be governed by and construed in accordance with the laws of England and Wales. The terms of the Preference Shares will also be governed by and construed in accordance with the laws of England and Wales.
Use of Proceeds	The net proceeds from the sale of the Capital Securities will be used to refinance existing indebtedness and for general corporate purposes, while also counting towards our regulatory capital requirements.
Over-allotment Option	We have granted to the underwriters an option to purchase up to $37,500,000 principal amount of additional Capital Securities on the terms and at the underwriters commission set forth on the cover page of this prospectus supplement. The option may be exercised at any time up to 30 calendar days after the date of the prospectus supplement, solely to cover over-allotments, if any, made in connection with the sale of the Capital Securities offered hereby.

RISK FACTORS

Prospective investors should carefully consider the following information in conjunction with the other information contained or incorporated by reference in this prospectus supplement, including our annual report on Form 20-F for the year ended December 31, 2003 and the risk factors described therein, beginning on page five thereof.

Interest payments on the Capital Securities may be deferred if we do not meet certain solvency and capital adequacy requirements on the relevant interest payment date and any interest that is deferred will be paid only upon redemption or exchange (which may only occur in limited circumstances) or upon our winding up.

Any interest payment on the Capital Securities will be deferred if we do not satisfy the Solvency Condition at the time of payment or will not satisfy the Solvency Condition immediately afterwards. Interest payments will also be deferred if we are prohibited from making interest payments pursuant to the terms of any Parity Security. We may also defer payment of interest on the Capital Securities on any interest payment date if in our sole discretion, we determine on or after the 20th Business Day, but not later than the fifth Business Day, prior to such interest payment date (and by reference to our then current financial condition), that the Capital Adequacy Condition will not be met on such date or, we, or any of our EEA Insurance Subsidiaries, are not in compliance with, or that the payment of interest on such date would cause us or any such EEA Insurance Subsidiary to breach, any Capital Regulations applicable to us, as described herein under "*Certain Terms of the Capital Securities Deferred Interest*".

Any payment of Deferred Interest on the Capital Securities will be paid only upon redemption or exchange of the Capital Securities (which may only occur in limited circumstances) or upon our winding up, and not in any other circumstances. We are required to satisfy our obligation to pay Deferred Interest on a Capital Security Redemption Date or Exchange Date only in accordance with the Alternative Coupon Satisfaction Mechanism described herein.

Interest payments that are not deferred may nonetheless be delayed if we decide to make payments using the Alternative Coupon Satisfaction Mechanism.

On any interest payment date, we may decide to pay any interest not otherwise deferred in accordance with the Alternative Coupon Satisfaction Mechanism. In accordance with these procedures, we will sell our ordinary shares in the market in order to raise an amount equal to the interest then payable. If we are unable to issue sufficient ordinary shares to make a payment in full of all interest due to be paid on the interest payment date such interest payment may be delayed.

If we have elected to use the Alternative Coupon Satisfaction Mechanism but do not make payment in full of all interest due to be paid on an interest payment date, because we do not have a sufficient number of ordinary shares authorized to be issued or for any other reason, interest will accrue on such delayed interest from such initial interest payment date at a rate per annum equal to the rate per annum payable on the Capital Securities but any such interest shall be payable by us only in accordance with the Alternative Coupon Satisfaction Mechanism.

Dividends on our Preference Shares are non-cumulative and are fully discretionary. Also, dividends may not be declared and paid in full if certain solvency and capital adequacy requirements and other conditions are not met.

Our board of directors or its committee may at its sole discretion elect not to pay dividends on our Preference Shares. Also, our board of directors or its committee cannot declare and pay in full dividends on a series of Preference Shares if our board of directors determines that we do not have sufficient distributable profits or if we fail to meet certain solvency or other requirements prescribed by the U.K. Financial Services Authority (which we refer to as the "**FSA**") on such dividend payment date (or, owing

to our failure to meet such requirements on an earlier date, we have not made payment in full of or set aside and provided for all interest payments payable on our then outstanding Capital Securities on our most recent interest payment date). If, for any such reason, our board of directors or its committee does not pay a dividend when due on a dividend payment date in respect of the Preference Shares, then holders of such shares will have no claim in respect of the non-payment and we will have no obligation to pay the dividend accrued for the dividend period or to pay any interest on the dividend, whether or not dividends on the Preference Shares are declared for any future dividend period.

The Capital Securities are, and the Preference Shares will be, perpetual securities and need not be redeemed by us.

We are under no obligation to redeem the Capital Securities or Preference Shares at any time and the holders of the Capital Securities and Preference Shares have no right to call for their redemption.

The Capital Securities and the Preference Shares differ in certain material respects.

The Capital Securities and the Preference Shares differ in certain material respects including, among others (i) the Preference Shares and the Capital Securities are not *pari passu* as to payment; (ii) the Preference Shares do not benefit from any gross-up for taxes associated with dividend payments; (iii) dividends on Preference Shares are fully discretionary; and (iv) the Preference Shares may only be redeemed from distributable profits or the proceeds of a new issue of equity securities. As a result of these differences, there may be circumstances in which payments will be made on Capital Securities but not on the Preference Shares.

We may redeem the Capital Securities at any time for certain tax or regulatory reasons and, more generally, may redeem them at our option on or after September 23, 2009. We may redeem any Preference Shares at any time following the fifth anniversary of their issuance.

Although the Capital Securities have no maturity date, we may redeem the Capital Securities in whole or in part on any interest payment date falling on or after September 23, 2009 at par plus accrued interest, including any Deferred Interest, subject to satisfaction of certain conditions and our obligation to make payment of any outstanding Deferred Interest through the Alternative Coupon Satisfaction Mechanism. We may also redeem the Capital Securities at any time in whole but not in part upon the occurrence of a Tax Call Event or a Regulatory Event, as more particularly described under "Certain Terms of the Capital Securities Redemption". Certain of such tax or regulatory events may occur at any time after the issue date and it is therefore possible that we would be able to redeem the Capital Securities at any time after the issue date.

If your Capital Securities are exchanged for Preference Shares, the earliest date that we can redeem your investment will be extended. We may redeem Preference Shares on any date later than five years after the date they are issued.

We are not required to pay you under the Capital Securities or any Preference Shares unless we first make other required payments.

Our obligations under the Capital Securities and the Preference Shares will rank junior as to payments to all our liabilities to the Senior Creditors. In a winding up or dissolution, our assets would be available to pay obligations under the Capital Securities or any Preference Shares only after we have made all payments on liabilities to our Senior Creditors.

We may issue securities senior to or pari passu with the Capital Securities.

There is no restriction on the amount of securities that we may issue which rank senior to or *pari passu* with the Capital Securities being offered hereby. The issue of any such securities may reduce the

amount recoverable by Capital Securities holders in the event we are wound up and/or may increase the likelihood of a deferral of interest payments under the Capital Securities.

The Capital Securities and the Preference Shares into which they may be exchanged do not limit our ability to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Capital Securities.

Our holding company structure may mean that our rights to participate in assets of any of our subsidiaries upon its liquidation may be subject to prior claims of some of its creditors.

Because we are a holding company, our rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors, except to the extent that we may be a creditor with recognized claims ranking ahead of or *pari passu* with such prior claims against the subsidiary.

We may postpone any planned redemption of Capital Securities if we have insufficient ordinary shares authorized and available for issuance or if we are otherwise unable to raise sufficient proceeds by employing the Alternative Coupon Satisfaction Mechanism.

We may not redeem any Capital Securities unless all accrued but unpaid interest and other payments thereon (other than any Deferred Interest payments) and the aggregate amount of Deferred Interest payments, if any, are satisfied at the same time. In the event that we do not have a sufficient number of ordinary shares available and authorized to be issued to implement the Alternative Coupon Satisfaction Mechanism, then the Capital Security Redemption Date shall be postponed until such time as we have available, and authorized to be issued, sufficient ordinary shares and the issue proceeds of such shares are sufficient to pay the Deferred Interest in full. Even if we have authorized sufficient ordinary shares to be issued, we cannot be certain that the public market for our ordinary shares at any given time will enable us to raise sufficient proceeds to pay such redemption amount and Deferred Interest.

Our payment of Deferred Interest, when due on redemption, may be delayed in the event of certain disruptions in the market for our ordinary shares or in applicable currency markets.

If, shortly before or during the operation of the Alternative Coupon Satisfaction Mechanism to satisfy a payment of all amounts of Deferred Interest owing, a Market Disruption Event exists, the payment of all such amounts owing may be deferred until the cessation of such market disruption and such deferral will not constitute a Capital Security Default, as more particularly described under *"Certain Terms of the Capital Securities Alternative Coupon Satisfaction Mechanism Market Disruption Event"*. Any such deferred payments shall bear interest at the rate per annum applicable to the Capital Securities commencing on the date which but for the Market Disruption Event would have been the date for payment.

Holders of Capital Securities have limited remedies for non-payment of amounts owed thereon.

In accordance with current FSA requirements for subordinated capital, in most circumstances the sole remedy against us available to the subordinated trustee to recover any amounts owing in respect of the principal of or interest on the Capital Securities will be to institute proceedings for the collection of sums due and unpaid or to institute proceedings in England and Wales (but not elsewhere) for our winding up, but the subordinated trustee may not declare the principal amount of any outstanding Capital Securities to be due and payable in order to recover such amount. See *"Certain Terms of the Capital Securities Defaults; Limitation of Remedies"*.

The securities that we are offering constitute new issues of securities by us and we cannot guarantee that an active public market for the securities will develop or be sustained.

The Capital Securities being offered hereby and the Preference Shares into which they may be exchanged at our option will constitute new issues of securities by us. Prior to our present issuance of Capital Securities and future issuances, if any, of our Preference Shares, there will have been no public market for the Capital Securities or the Preference Shares. Although we will apply for the Capital Securities to be listed on the New York Stock Exchange and, upon issuance of our Preference Shares on exchange of the Capital Securities, we will use our reasonable efforts to list the Preference Shares (in the form of ADSs represented by ADRs) on the New York Stock Exchange, there can be no assurance that we will be able to list the Preference Shares (in the form of ADSs represented by ADRs) on the New York Stock Exchange or that an active public market for the Capital Securities or Preference Shares will develop and, if such a market were to develop, the underwriters are under no obligation to maintain such a market. The liquidity and the market prices for the Capital Securities and the Preference Shares can be expected to vary with changes in market and economic conditions and our financial condition and prospects and other factors that generally influence the market prices of securities.

The declaration of a Capital Security Default upon our failure to make certain payments may be deferred.

On our failure to make a payment on a Compulsory Interest Payment Date or on a Capital Security Redemption Date, the occurrence of a Capital Security Default will be deferred until (i) in the case of a missed interest payment, the date we pay a dividend on our ordinary shares or on debt securities ranking junior to or *pari passu* with the Capital Securities or (ii) in the case of a missed payment of principal (or premium thereon), any accrued but unpaid interest or any Deferred Interest payable on redemption, the first Business Day after the date that falls six months after the applicable Capital Security Redemption Date. Thus, your ability to pursue potential remedies in connection with such missed payments will be deferred until a Capital Security Default is declared.

You may not be entitled to receive U.S dollars in a winding up.

If any holder is entitled to any recovery with respect to the Capital Securities or Preference Shares in any winding up, the holder might not be entitled in those proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom. In addition, under current English law, our liability to holders of the Capital Securities or Preference Shares, would have to be converted into pounds sterling or any other lawful currency of the United Kingdom at a date close to the commencement of proceedings against us and holders of the Capital Securities or Preference Shares would be exposed to currency fluctuations between that date and the date they receive proceeds pursuant to such proceedings, if any.

PRUDENTIAL PLC

We are a leading international financial services group, providing retail financial services and fund management in our chosen markets of the United Kingdom, the United States, Asia and continental Europe. At December 31, 2003, we were one of the 30 largest public companies in the United Kingdom in terms of market capitalization on the London Stock Exchange. We are also listed on the New York Stock Exchange. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, Prudential Insurance Company of America.

United Kingdom and Europe

As at December 31, 2003, we were the proprietor of the largest U.K. long-term fund of investment assets supporting long-term insurance products of The Prudential Assurance Company. This fund is rated AA+ (stable outlook) by Standard & Poor's and Aa1 (stable outlook) by Moody's in terms of financial strength. Our U.K. insurance operations are focused on a number of key product areas including corporate pensions, annuities, and with-profit bonds.

M&G is our fund management business in the U.K. and continental Europe and comprises retail, institutional and internal fund management activities. As at December 31, 2003, M&G was the third largest U.K. retail fund manager in terms of funds under management. It has commenced distributing a range of funds in Germany, Austria and Italy.

Our on-line banking subsidiary, Egg plc ("Egg"), was launched in 1998. It offers products and services in the four main areas of banking, investments, insurance and online shopping. In June 2000, we completed an initial public offering of 21% of our holding in Egg on the London Stock Exchange.

In January 2004, we announced that we were in preliminary discussions regarding a possible transaction with respect to our remaining 79% shareholding in Egg. We have begun a process, which is still continuing, that will give a number of potential purchasers an opportunity to make a proposal which may or may not lead to a transaction.

United States

Our U.S. life insurance subsidiary, Jackson National Life ("JNL"), was the 12th largest life insurance company in the United States in terms of general account assets for the period ending December 31, 2003. It offers a range of products including fixed, equity-linked and variable annuities, life insurance, guaranteed investment contracts and funding agreements.

Asia

In Asia, we have 23 operations in 12 countries. The savings, protection and investment products we offer in Asia are tailored to the local markets in which we operate. We distribute our products primarily through our agency sales force and through bancassurance agreements.

USE OF PROCEEDS

The net proceeds from the sale of the Capital Securities will be used to refinance existing indebtedness and for general corporate purposes, while also counting towards our regulatory capital requirements.

CERTAIN TERMS OF THE CAPITAL SECURITIES

General

The following summary description of the material terms and provisions of the Capital Securities supplements the description of certain terms and provisions of Capital Securities of any series set forth in the accompanying prospectus under the heading "Description of the Debt Securities". Reference is hereby made to such description for additional information relating to the Capital Securities. The terms described here, together with the terms of Capital Securities of any series contained in the accompanying prospectus, constitute a description of the material terms of the Capital Securities. In cases of inconsistency between the terms described here and the relevant terms of the prospectus, the terms presented here will apply and replace those described in the prospectus.

The Capital Securities will be issued under a subordinated indenture dated as of August 6, 2004 between us and Citibank, N.A., as subordinated trustee as supplemented by the first supplemental indenture dated as of August 6, 2004, between us and Citibank, N.A., as subordinated trustee. The form of the subordinated indenture relating to the Capital Securities was filed as an exhibit to our registration statement, Registration No. 333-117208, with the Securities and Exchange Commission (the "Registration Statement").

If you purchase the Capital Securities, your rights will be determined by the Capital Securities, the subordinated indenture, the first supplemental indenture and the Trust Indenture Act of 1939, as amended unless we exchange your Capital Securities into Preference Shares in which case your rights will be determined in accordance with the terms of the Preference Share and our Articles of Association. In light of this, we urge you to read the subordinated indenture and the form of the Capital Securities filed as exhibits to the Registration Statement with the Securities and Exchange Commission before making an investment decision. You can read the subordinated indenture and the form of Capital Securities at the locations listed under "*Where You Can Find More Information About Us*" in the accompanying prospectus.

Interest

Interest on the Capital Securities will be payable from the date of issue of the Capital Securities and will be calculated on the basis of twelve 30-day months or, in the case of an incomplete month, the actual number of days elapsed, in each case assuming a 360-day year. Interest on the Capital Securities will be payable quarterly in arrear on March 23, June 23, September 23 and December 23 of each year, at a fixed rate per annum on their outstanding principal amount equal to 6.75%, commencing September 23, 2004. Each such date is referred to herein as an **interest payment date**. If any interest payment date is not a **Business Day** (as defined below), principal and/or interest will be paid on the next succeeding Business Day; however, we will not pay any additional interest due to the delay in payment. We refer to Business Day as any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks or foreign exchange markets are authorized or required by law, regulation or executive order to close in The City of New York or in London, as applicable.

At our option, we may elect to pay any interest that we do not defer (as described below) (such non-deferred interest, the "**Current Interest**") in accordance with the procedures we described below under " *Alternative Coupon Satisfaction Mechanism*".

If we elect to pay Current Interest using the Alternative Coupon Satisfaction Mechanism but we do not make such payment in full on the applicable interest payment date, interest will accrue on any such unpaid amount beginning on such interest payment date as described below under " *Alternative Coupon Satisfaction Mechanism*" at a rate per annum equal to the rate per annum payable on the Capital Securities.

Deferred Interest

Payments of interest on the Capital Securities will be mandatory on each **Compulsory Interest Payment Date**, which is defined as each interest payment date on which (i) we satisfy the Solvency Condition, (ii) we are not prohibited from making such payment under the terms of any Parity Security, and (iii) that is not an Optional Interest Payment Date. We may elect to defer payments of interest on any interest payment date that is an Optional Interest Payment Date.

An **Optional Interest Payment Date** means any interest payment date where we determine, at our sole discretion, on or after the 20th Business Day, but not later than the fifth Business Day, prior to such interest payment date (and by reference to our then current financial condition) that either:

the Capital Adequacy Condition will not be met on such date; or

we or any of our EEA Insurance Subsidiaries are not in compliance with, or that the payment of interest on such interest payment date would cause us or any of our EEA Insurance Subsidiaries to breach, any Capital Regulations.

For purposes of this provision:

Assets means the total amount of our non-consolidated gross assets as shown by our latest published balance sheet, but adjusted, as specified in the subordinated indenture, for contingencies and subsequent events, and to such extent as the person or persons giving the Solvency Condition report may determine.

Capital Adequacy Condition means that:

in relation to The Prudential Assurance Company Limited, our wholly owned subsidiary ("**Prudential Assurance**"), the ratio of its Regulatory Assets to its Regulatory Capital Requirement is at least 125%; or

if there is a Regulatory Capital Requirement applicable to us either directly or in relation to Prudential plc and its subsidiaries as a group, we exceed such Regulatory Capital Requirement by a factor of at least 25% of such Regulatory Capital Requirement; or

if there is no Regulatory Capital Requirement applicable to us, our total Assets exceed our total Liabilities, other than liabilities to persons that are not Senior Creditors, by at least 125% of such percentage specified by the FSA as the Regulatory Capital Requirement (currently approximately 4%).

Capital Regulations refer to rules and regulations of the FSA or any successor regulatory body that require us or any of our EEA Insurance Subsidiaries to meet a Regulatory Capital Requirement, including, without limitation, pursuant to Directive 98/78/EC of the European Union or Directive 2002/87/EC of the European Union (together, the "**Directives**") or any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the European Economic Area (which includes the European Union together with Norway, Liechtenstein and Iceland) implementing the Directives.

EEA Insurance Subsidiary means any Subsidiary of Prudential plc engaged in the insurance business and regulated as such by a member state of the European Economic Area.

Liabilities means the total amount of our non-consolidated gross liabilities as shown by our latest published balance sheet, but adjusted, as specified in the subordinated indenture, for contingencies and subsequent events, and to such extent as the person or persons giving the Solvency Condition report may determine.

Regulatory Assets means the assets available to satisfy the Regulatory Capital Requirement and, under current rules and regulations of the FSA, means the amount to be included on line 25 of Form 9

(or equivalent amount on any successor form) of the annual return for an insurance company required to be delivered to the FSA pursuant to FSA rules and regulations.

Regulatory Capital Requirement means any minimum or notional margin of solvency or minimum regulatory capital or capital ratios required for insurance companies, insurance holding companies or financial groups by the FSA or any successor regulatory body.

Subsidiary means a subsidiary undertaking, within the meaning of Section 258 of the Companies Act 1985 of Great Britain as amended by the Companies Act 1989 of Great Britain ("Section 258"). Section 258 provides that a company will be our subsidiary undertaking where:

we hold a majority of its voting rights;

we have membership in it and have the right to appoint or remove a majority of its board of directors;

we have membership in it and control alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in it;

we have the right to exercise a dominant influence over the undertaking by virtue of provisions contained in the undertaking memorandum or articles or by virtue of a control contract; or

such company is a subsidiary of any company which is our subsidiary.

Any interest payments that we elect not to make in respect of the Capital Securities on an Optional Interest Payment Date, together with any interest payments that we do not make because the Solvency Condition is not met or because we are prohibited from making such interest payments pursuant to the terms of any Parity Security on a relevant interest payment date, shall, so long as they remain unpaid, constitute Deferred Interest. No interest will accrue on Deferred Interest, except in the limited circumstances referred to herein under "*Interest*", "*Redemption Postponement of Capital Security Redemption Date*" and "*Alternative Coupon Satisfaction Mechanism Certain Conditions; Sufficiency and Availability of Ordinary Shares"*. Deferred Interest will become payable only on the redemption or exchange of the Capital Securities or upon our winding up but not in any other circumstances. We are permitted to satisfy our obligation to pay Deferred Interest only in accordance with the Alternative Coupon Satisfaction Mechanism except in the case of our winding up in which case any Deferred Interest will be payable by the liquidator in the same manner and with the same ranking as the principal on the related Capital Securities. See *"Subordination"* and *"Alternative Coupon Satisfaction Mechanism"* below.

A holder of Capital Securities is required to notify us if at any time such Capital Securities holder owns 10% or more of our voting stock, and we have the right to suspend interest payments to any such holder. Interest payments made to other holders of Capital Securities generally will be deemed to have been paid in respect of any such suspended payment. Any payments so suspended will be deemed satisfied with respect to the Capital Securities of such holder and may not be subsequently claimed.

The following table shows the ratio of the Regulatory Assets of Prudential Assurance to its Regulatory Capital Requirement at December 31, 2001, December 31, 2002 and December 31, 2003:

At December 31,			
2001	**2002**	**2003**	**Current threshold for Optional Interest Payment Date**
305%	219%	279%	125%

As of the date of this prospectus supplement, there is no Regulatory Capital Requirement applicable to Prudential plc directly. As of January 1, 2005, Prudential plc and its subsidiaries as a group may be subject to a Regulatory Capital Requirement under the Directives. We expect that we will be able to comply with this requirement when it takes effect. The following table shows the percentage by which

our total Assets exceeded our total Liabilities at December 31, 2001, December 31, 2002 and December 31, 2003:

At December 31,			
2001	**2002**	**2003**	**Current threshold for Optional Interest Payment Date**
29%	23%	26%	approximately 5%

The following table shows the minimum percentage by which our EEA Insurance Subsidiaries exceeded their minimum capital requirements pursuant to the Capital Regulations at December 31, 2001, December 31, 2002 and December 31, 2003:

At December 31,		
2001	**2002**	**2003**
28%	65%	29%

Our Capital Securities shall rank *pari passu* as to return of assets on a winding up with any Preference Shares that we issue in accordance with the terms of this Prospectus Supplement. The Capital Securities are subject to the redemption restrictions described below under "*Certain Terms of the Preference Shares Dividend and Capital Restriction*."

Dividend and Capital Restriction

Following an Optional Interest Payment Date on which we do not make payment in full of all interest payments to be paid on such date, or any interest payment date on which the Solvency Condition is not met, or any interest payment date on which we do not make a payment because we are prohibited from doing so under the terms of any Parity Security we will not, and we will not permit any entity that we control, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any Parity Securities or Junior Securities (other than (i) a final dividend declared by us with respect to our ordinary shares prior to the date that the decision to defer such interest payment is made or (ii) a payment made by one of our wholly-owned subsidiaries to another wholly-owned subsidiary or directly to us), or (b) to redeem, purchase or otherwise acquire any Parity Securities or Junior Securities, in each case unless or until the interest otherwise due and payable on the next succeeding interest payment date (but excluding Deferred Interest, if any) on the Capital Securities is duly set aside and provided for or is paid in full.

Following a Capital Security Redemption Date or Exchange Date on which we are unable to issue sufficient ordinary shares to make payment in full of all Deferred Interest to be paid on such date, as described below under " *Alternative Coupon Satisfaction Mechanism Certain Conditions; Sufficiency and Availability of Ordinary Shares*", we will not, and we will not permit any entity that we control, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any Parity Securities or Junior Securities (other than a final dividend declared by us with respect to our ordinary shares prior to such Capital Security Redemption Date or Exchange Date or a payment made by one of our wholly-owned subsidiaries to another wholly-owned subsidiary or directly to us), or (b) to redeem, purchase or otherwise acquire any Parity Securities or Junior Securities, in each case until such corporate authorizations as are required to issue the necessary ordinary shares are obtained and all Deferred Interest to be satisfied has been duly set aside or provided for or paid in full.

The foregoing restrictions do not apply to payments we make to policyholders or other customers, or transfers to or from the fund for future appropriations, in each case in the ordinary course of business consistent with past practice.

For the purposes of the foregoing provisions, the payment (or declaration of payment) of a dividend or distribution on Parity Securities or Junior Securities shall be deemed to include the making of any

interest, coupon or dividend payment (or payment under any guarantee in respect thereof) and the redemption, purchase or other acquisition of such securities (save where the funds used to redeem, purchase or acquire those securities are derived from an issue of Parity Securities or Junior Securities (i) made at any time within the six-month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same or junior ranking on a return of assets on a winding up or in respect of a distribution or payment of interest, coupons or dividends and/or any other amounts thereunder to those securities being redeemed, purchased or acquired). The subordinated trustee shall be entitled to rely on a certificate signed by two of our directors as to whether the redemption, purchase or acquisition falls within the exception set out above and, if the subordinated trustee does so rely, such certificate shall, in the absence of clear error, be conclusive and binding on us and the holders of the Capital Securities.

For the purposes of the foregoing:

Junior Securities means our ordinary shares or any of our other securities which rank, as regards distributions on a return of assets on our winding up or in respect of distributions or payments of dividends or any other payments thereon, after the Capital Securities and Preference Shares.

Parity Securities means our perpetual capital instruments (including the Capital Securities), preferred or preference shares (including the Preference Shares) or other securities issued directly or indirectly by us ranking *pari passu* with the Capital Securities as to participation in our assets in the event of our winding up.

As of May 31, 2004, we had outstanding:

- capital securities with an aggregate principal amount equal to $1 billion which are Parity Securities;
- no preference shares; and
- capital securities or other securities (excluding subsidiary debt) with an aggregate principal amount equal to $5,721 million that rank senior to the Capital Securities.

The Solvency Condition

Except in a winding up, or if the FSA has indicated that it has no objection to such payment, all payments on the Capital Securities will be conditional upon our satisfying the Solvency Condition at the time of and immediately after any such payment, and we will not make any payment and any such payment shall not be payable in respect of the Capital Securities and neither we nor any of our Subsidiaries, as applicable, may redeem or repurchase any of the Capital Securities unless we will satisfy the Solvency Condition both at the time of and immediately after any such payment, redemption or repurchase. We refer to this as the **Solvency Condition**. For this purpose, we shall be solvent if we are able to pay our debts to **Senior Creditors** (as defined under " *Subordination*" below) as they fall due and our total Assets (as defined under" *Deferred Interest"* above) exceed our total Liabilities (as defined under *" Deferred Interest"* above), other than Liabilities to persons that are not Senior Creditors, by at least 4% or such other percentage specified by the FSA as the Regulatory Capital Requirement.

A report as to our solvency by two of our directors, our auditors or, if we are in a winding up in England and Wales, our liquidator shall in the absence of proven or manifest error be treated and accepted by us, the subordinated trustee and any holder of Capital Securities as correct and sufficient evidence thereof. If we fail to make any interest payment as a result of failure to satisfy the Solvency Condition or on a Payment Event (as defined under " *Payment Event*" below), that payment will constitute Deferred Interest and will accumulate with any other Deferred Interest until paid. In a winding up, the amount payable on the Capital Securities will be determined in accordance with the subordination provisions described under " *Subordination*" below.

If the Solvency Condition is not satisfied, the amount of any payments which would otherwise have been payable in respect of the Capital Securities but are not paid by reason of the Solvency Condition will be available to meet our losses.

Redemption

The Capital Securities are perpetual securities and have no maturity date. The Capital Securities are not redeemable at the option of the holders at any time.

The Capital Securities will not be subject to any sinking fund or mandatory redemption.

Except as otherwise indicated to us by the FSA, we may not redeem any Capital Securities as described below under "*Optional Redemption*", "*Tax Call Event Redemption and Tax Event* Conversion" or "*Regulatory Event Redemption"* unless we have given at least six months' prior notice to the FSA and the FSA has issued a statement of no objections prior to the applicable Capital Security Redemption Date, and redemption may only be effected if on, and immediately following, the relevant Capital Security Redemption Date we are in compliance with any applicable regulatory capital requirements or capital ratios required to be maintained for insurance companies, parent companies in insurance groups or financial groups generally by the FSA.

Optional Redemption

We may redeem the Capital Securities in whole or in part, at our option, on any interest payment date falling on or after September 23, 2009, subject to the Solvency Condition being met.

Capital Securities to be redeemed will be drawn for redemption at such place and individually, by lot or otherwise in a manner as may be approved by the subordinated trustee. We are permitted to satisfy our obligation to pay any Deferred Interest due upon a redemption only in accordance with the Alternative Coupon Satisfaction Mechanism.

Tax Call Event Redemption and Tax Event Conversion

We may also redeem the Capital Securities in whole (but not in part), at any time upon the occurrence of a Tax Call Event (as defined below) subject to the Solvency Condition being met.

Upon the occurrence of a Tax Event (as defined below), we may at our sole discretion, subject in each case to compliance with applicable regulatory requirements, including those described above, at any time convert the Capital Securities in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the Capital Securities; *except* that such undated cumulative subordinated notes will:

be a perpetual capital security issued by us with cumulative interest payments,

rank *pari passu* with any other undated cumulative subordinated notes issued by us,

following conversion be redeemable upon any Tax Event or Regulatory Event as modified as necessary to be applicable to a class of undated cumulative subordinated notes, and

not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest outstanding at the time of conversion will be carried over and become outstanding missed cumulative interest payments for purposes of the undated cumulative subordinated notes.

If, following a Tax Event set out in clause (ii) or (iii) of the definition of Tax Event below, we give notice to the FSA of, and the FSA objects to, our proposal to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes, then the Tax Event giving rise to such proposal will become a Tax Call Event.

For purposes of the foregoing:

A **Tax Event** means we determine that: (i) in making any interest payments or Deferred Interest payments on the Capital Securities, we have paid, or will or would on the next interest payment date be required to pay, Additional Amounts, as described below under " *Additional Amounts*"; (ii) payments, including payment of Deferred Interest, on the next interest payment date in respect of any Capital Securities would be treated as "distributions" within the meaning of Section 209 of the Income and Corporation Taxes Act 1988 of the United Kingdom (as amended, re-enacted or replaced); or (iii) as a result of a change in or amendment to the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (including any treaty to which the United Kingdom is a party) or any change in an application or official interpretation of those laws or regulations, (including a holding by a court or tribunal of competent jurisdiction), which change or amendment becomes effective on or after the date of this prospectus supplement, we would not be entitled to claim a deduction in computing our U.K. taxation liabilities in respect of any interest payment (including payment of any Deferred Interest) on the Capital Securities, or the value of the deduction to us would be materially reduced. We refer to a Tax Event in the circumstances described in clause (i) above as a **Tax Call Event**, or in clause (ii) or (iii) above as a Tax Call Event either (a) following the giving of notice to the FSA of our proposal to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes and the FSA objecting to such proposal, as described above or (b) if we determine that a Tax Event applies, or would apply, to such undated cumulative subordinated notes.

Prior to the redemption or conversion of any series of Capital Securities following the occurrence of a Tax Event, we shall be required, before giving a notice of redemption or conversion, to deliver to the subordinated trustee an officers' certificate stating that all conditions precedent to such redemption or conversion have been complied with and an opinion of counsel concluding that in the opinion of such counsel a Tax Event has occurred and the Issuer is entitled to exercise its right of redemption or conversion in accordance with the terms of the Capital Securities.

Regulatory Event Redemption

We may also redeem the Capital Securities in whole (but not in part), at any time upon the occurrence of a Regulatory Event, subject to the Solvency Condition being met.

A "**Regulatory Event**" is deemed to have occurred if the Capital Securities would not be of a kind capable of counting as cover for the minimum or notional margin of solvency or minimum capital or capital ratios required of us by any Regulatory Capital Requirement as a result of any change to the Capital Regulations or the application or official interpretation thereof at any relevant time.

Prior to the redemption or exchange of any series of Capital Securities upon the occurrence of a Regulatory Event, we shall be required, before giving a notice of redemption or exchange, to deliver to the subordinated trustee an officers' certificate stating that all conditions precedent to such redemption or exchange have been complied with in accordance with the terms of the Capital Securities.

Redemption Procedures

Any redemption may be made on not less than 30 nor more than 60 days' notice to the holders of the Capital Securities, at a redemption price equal to the outstanding principal amount of the Capital Securities together with accrued interest (including any interest not paid on a Compulsory Interest Payment Date) to the date fixed for redemption (referred to as the "**Capital Security Redemption Date**") and the aggregate amount of any Deferred Interest.

As noted above, we are permitted to satisfy our obligation to pay any Deferred Interest due upon a redemption only in accordance with the Alternative Coupon Satisfaction Mechanism.

Prior to the giving of any notice of redemption following the occurrence of a Tax Call Event or Regulatory Event, we will be required by the subordinated indenture to deliver to the subordinated trustee (1) a certificate signed by two of our directors, stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred; and (2) in the case of a Tax Call Event, an opinion of independent legal advisers of recognized standing to the effect that we are entitled to exercise our right of redemption.

In addition to, or in place of, the FSA requirements described herein, the FSA may impose conditions on any such redemption or purchase at the time. Any notice of redemption will be irrevocable, subject to the postponement requirements set out below under "*Postponement of Capital Security Redemption Date*". If the redemption price in respect of any Capital Securities is improperly withheld or refused and is not paid by us, interest on the outstanding principal amount of such Capital Securities will continue to be payable until the redemption price is actually paid. Our failure to pay or set aside for payment the principal amount of the Capital Securities to be redeemed, any accrued but unpaid payments and any Deferred Interest within 14 days of the Capital Security Redemption Date, as postponed, if applicable, may constitute a Capital Security Default. See "*Defaults; Limitation of Remedies Capital Security Defaults*".

Postponement of Capital Security Redemption Date

If, following the giving of a notice of redemption with respect to a Capital Security Redemption Date on which any payments of Deferred Interest are due to be satisfied, a Market Disruption Event occurs, or we are otherwise not able to raise sufficient funds through the Alternative Coupon Satisfaction Mechanism to satisfy the payment of all Deferred Interest payable on such Capital Security Redemption Date, we will be required to postpone the Capital Security Redemption Date. In such event, the Capital Securities will continue to accrue and pay interest in accordance with their terms and such postponement will not constitute a Capital Security Default. In addition, if the Capital Security Redemption Date is postponed, interest will accrue on outstanding Deferred Interest as described below under "*Alternative Coupon Satisfaction Mechanism*".

A determination to postpone the Capital Security Redemption Date will be made not later than the Business Day prior to the initially scheduled Capital Security Redemption Date, and notice thereof will be given to holders of our Capital Securities. Notice of a new Capital Security Redemption Date will be given to holders not less than 30 nor more than 60 days prior to the newly selected Capital Security Redemption Date.

Following the postponement of a Capital Security Redemption Date, interest will accrue on outstanding Deferred Interest that would otherwise have been satisfied on such initially scheduled Capital Security Redemption Date from (and including) such initial Capital Security Redemption Date to (but excluding) the date such Deferred Interest is paid, at a rate per annum equal to the rate per annum payable on the Capital Securities.

Repurchase

We may, at any time or from time to time, purchase outstanding Capital Securities by tender, available alike to all holders of Capital Securities, in the open market, or by private agreement, in each case upon the terms and conditions that the Board of Directors or an authorized committee of the Board shall determine. Any Capital Securities that we purchase for our own account or which are purchased on our behalf will, pursuant to applicable law, be cancelled and accordingly may not be held, reissued or resold.

Exchange Option

The Capital Securities are exchangeable, in whole or in part, at our option and in our sole discretion into Preferences Shares issued by us. On any interest payment date falling on or after March 23, 2010, we may exchange the Capital Securities in whole or in part upon not less than 30 nor more than 60 days' notice (any such date so designated, an "**Exchange Date**"). We may also exchange the Capital Securities in whole (but not in part) on any interest payment date upon the occurrence of a Regulatory Event or Tax Event, subject to the Solvency Condition being met.

Except as otherwise indicated to us by the FSA, we may not exchange the Capital Securities for our Preference Shares upon the occurrence of a Regulatory Event or Tax Event or otherwise after March 23, 2010 unless we have given at least six months' prior notice to the FSA and the FSA has issued a statement of no objections prior to the applicable Exchange Date, and exchange may only be effected if on, and immediately following, the Exchange Date we are in compliance with any applicable regulatory capital requirements or capital ratios required to be maintained for insurance companies, parent companies in insurance groups or financial groups generally by the FSA.

Upon exchange, we shall pay any Deferred Interest outstanding on the Capital Securities being exchanged but only in accordance with the Alternative Coupon Satisfaction Mechanism.

The Preference Shares issued in connection with a partial exchange of Capital Securities will contain the same terms and provisions as those issued in connection with any other partial exchange, except that the different issue dates will mean that certain Preference Shares may be redeemed earlier or later than others. Accordingly, Preference Shares issued on one partial exchange will constitute a separate series from Preference Shares issued upon a different partial exchange and will therefore not be fungible.

If we exchange the Capital Securities in part only, we must do so in an aggregate principal amount of at least $100 million (or multiples of $50 million above $100 million), and no partial exchange may leave less than $100 million aggregate principal amount of Capital Securities outstanding. The Capital Securities to be exchanged in any partial exchange will be selected in a manner deemed fair and appropriate by the subordinated trustee.

We will not exchange any Capital Securities for our Preference Shares unless:

- there is no accrued but unpaid interest on such Capital Securities;
- any Deferred Interest related to such Capital Securities has been paid in accordance with the Alternative Coupon Satisfaction Mechanism;
- no Capital Security Default, Payment Event or Event Default (each, as further defined herein) has occurred and is continuing;
- we have a sufficient number of authorized but unissued Preference Shares immediately prior to the exchange;
- our directors have all the necessary authority under English law to allot and issue the Preference Shares arising on exchange;
- we comply with certain other conditions set forth in the subordinated indenture.

Prior to the exchange of any Capital Securities for our Preference Shares, we shall be required to deliver to the subordinated trustee an officers' certificate stating that all conditions precedent to such exchange have been complied with in accordance with the terms of the Capital Securities.

Upon an exchange, each Capital Security of $25 principal amount will be exchanged for one Preference Share issued by us with a liquidation preference of $25.

If we elect to exchange some or all of our Capital Securities, we will effect an exchange by redeeming the Capital Securities being exchanged for their principal amount and immediately applying such redemption proceeds to subscribe for the applicable number of Preference Shares being issued to the holders.

Investors in the Capital Securities will be deemed on purchase of the Capital Securities to have irrevocably authorized and instructed us immediately to apply the redemption amounts payable in connection with an exchange of the Capital Securities in satisfaction in cash of the applicable subscription amount of the Preferences Shares being issued upon such exchange. Accordingly, the redemption of Capital Securities and subscription for and issuance of the Preferences Shares will constitute a single transaction initiated and effected solely at our option.

As a consequence of the exchange provisions described above, holders of Capital Securities being exchanged will not be entitled under any circumstances to the redemption amounts payable in connection with the exchange as described above. Such holders will receive only the Preference Shares we will issue on the exchange date in respect of which the redemption amounts will have been applied.

The Preferences Shares will be issued at a nominal value of $0.01 per share and a premium of $24.99 per share, with both such amounts being subscribed and fully paid.

A notice of exchange will specify:

the exchange date;

that on the exchange date, the Capital Securities to be exchanged will cease to exist for any purpose on or after the exchange date;

if less than all of the Capital Securities are being exchanged, the Capital Securities to be exchanged;

the place or places where the Capital Securities are to be exchanged;

the form in which we will issue the Preference Shares;

whether there is any Deferred Interest outstanding on the Capital Securities and, if so, the amount of such Deferred Interest.

After an exchange in accordance with the subordinated indenture, the Capital Securities being exchanged will cease to exist for any purpose on the exchange date. From the exchange date, the person or persons entitled to receive Preference Shares upon an exchange will be treated as the holder or holders of those Preferences Shares in accordance with the subordinated indenture. Our Preference Shares will be represented by American Depositary Shares, or **ADSs**, evidenced by American Depositary Receipts, or **ADRs**.

If we decide to exchange the Capital Securities for Preferences Shares, upon our giving notice of such exchange, we will use our reasonable efforts to obtain a listing on the New York Stock Exchange of the Preferences Shares (in the form of ADSs evidenced by ADRs).

We undertake to pay any U.K. stamp duty, stamp duty reserve tax or similar U.K. governmental charge arising in connection with the issuance of the Preference Shares, ADSs or ADRs to, or to the respective accounts of, the holders or beneficial owners of Capital Securities that are exchanged.

Subordination

The Capital Securities will constitute our unsecured, subordinated obligations and will rank equally and ratably without any preference among themselves. The rights and claims of the Capital Securities holders are subordinated to Senior Creditors, including the claims of any subordinated debt security holders or the claims of holders of any other series of debt securities not expressed to rank equally with or junior to the Capital Securities.

The following are Senior Creditors in respect of the Capital Securities:

- any creditors who are unsubordinated creditors with claims admitted in the event of our winding up;
- any creditors having claims in respect of liabilities that are, or are expressed to be, subordinated, whether only in the event of a winding up or otherwise, to the claims of our unsubordinated creditors but not further or otherwise;
- any creditor who is a holder of capital securities other than the Capital Securities except those that rank, or are expressed to rank, equally with or junior to the Capital Securities; and
- all other creditors having claims, including other such creditors holding subordinated debt securities, except those that rank, or are expressed to rank, equally with (including holders of Parity Securities) or junior to (including holders of Junior Securities) the claims of any holder of the Capital Securities.

Accordingly, on our winding up, no amount will be payable on the Capital Securities until all claims of our Senior Creditors admitted in such winding up have been satisfied in full. Upon our winding up (except in the case of a solvent winding up solely for the purpose of a reconstruction or amalgamation or substitution in our place of a successor in business in each case where the Capital Securities remain outstanding and are assumed by such successor in business, in which event all claims for principal, interest and Deferred Interest, if any, shall remain outstanding or on such other terms as may be approved in writing by the holders of not less than 75% in aggregate principal amount of Outstanding Capital Securities), the amount payable with respect to the Capital Securities will be determined by calculating the amount, if any, that would have been payable in respect thereof as if on the day prior to the commencement of the winding up and thereafter, the holders of the Capital Securities were the holders of preference shares in our capital having a preferential right to a return of assets in the winding up over the holders of our ordinary shares (but *pari passu* with the holders of our most senior ranking class of issued preference shares if any, except to the extent such preference shares represent claims of Senior Creditors) assuming that such preference shares were entitled (to the exclusion of all other rights or privileges) to receive as a return of capital in such winding up an amount equal to the principal amount of the Capital Securities then outstanding and all interest accrued and unpaid, including Deferred Interest.

As a consequence of these subordination provisions, the holders of the Capital Securities may recover less ratably than the holders of our unsubordinated liabilities and the holders of certain of our subordinated liabilities. If, in any winding up, the amount payable on any Capital Securities and any claims ranking equally with the Capital Securities are not paid in full, the holders of the Capital Securities and other claims ranking equally will share ratably in any such distribution of our assets in proportion to the respective amounts to which they are entitled.

If any holder is entitled to any recovery with respect to the Capital Securities in any winding up or liquidation, the holder might not be entitled in those proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom. In addition, under current English law, our liability to holders of the Capital Securities would have to be converted into pounds sterling or any other lawful currency of the United Kingdom at a date close to the commencement of proceedings against us and holders of the Capital Securities would be exposed to currency fluctuations between that date and the date they receive proceeds pursuant to such proceedings, if any.

In addition, because we are a holding company, our rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors, except to the extent that we may be a creditor with recognized claims ranking ahead of or *pari passu* with such prior claims against the subsidiary.

We have agreed that for so long as any Capital Securities remain outstanding, we will not issue any preference shares or any other non-cumulative perpetual instruments (including cumulative perpetual instruments where coupon payments may be satisfied through a mechanism similar to the Alternative Coupon Satisfaction Mechanism) capable of counting as cover for the minimum or notional amount of solvency or minimum capital or capital ratios pursuant to the Capital Regulations, if such instruments would rank senior to the Capital Securities or give any guarantee or support undertaking in respect of any such qualifying instruments ranking senior to the Capital Securities, unless we alter the terms of the Capital Securities such that the Capital Securities rank equally with any such preference shares, such other qualifying instruments, or such guarantee or support undertaking.

Defaults; Limitation of Remedies

Capital Security Defaults

It shall be a **Capital Security Default** with respect to the Capital Securities if:

we fail to pay or set aside for payment the amount due to satisfy any interest payment on a Compulsory Interest Payment Date, and such failure continues for 14 days, or

we fail to pay or set aside a sum to provide for payment of the principal amount of the Capital Securities, any accrued but unpaid interest and any Deferred Interest on a Capital Security Redemption Date, as may be postponed from time to time pursuant to the terms and conditions of the Capital Securities, and such failure continues for 14 days;

provided that,

if we do not pay, or set aside, an installment of interest on any Compulsory Interest Payment Date, or

if we do not pay, or set aside, all or any part of the principal of (or premium, if any, on), any accrued but unpaid interest and any Deferred Interest on any such Capital Securities on any Capital Security Redemption Date,

then, the failure to make or set aside such payment shall not constitute a Capital Security Default and the obligation to make such payment shall be deferred until (i) in the case of a payment of interest, the date upon which we pay a dividend on any class of our share capital or we make any payment on any series of debt securities ranking junior to or *pari passu* with such series of Capital Securities and (ii) in the case of a payment of principal (or premium, if any), any accrued but unpaid interest or any Deferred Interest on a Capital Security Redemption Date, the first Business Day after the date that falls six months after such payment was originally due.

If any Capital Security Default occurs and is continuing in respect of the Capital Securities, the subordinated trustee may commence:

a proceeding in England and Wales (but not elsewhere) for our winding up, or

a judicial proceeding for the collection of the sums so due and unpaid, provided that the subordinated trustee may not declare the principal amount of any outstanding Capital Securities to be due and payable.

Payment Event

If we fail to make payment as described above and the Solvency Condition is not satisfied at the end of the 14-day period applicable to a Capital Security Default, as set forth above under " *Capital Security Defaults*", such failure shall not constitute a Capital Security Default but instead shall constitute a **Payment Event**. On any Payment Event, the subordinated trustee may institute proceedings in

England and Wales (but not elsewhere) for our winding up but may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid.

Events of Default

If either a court of competent jurisdiction makes an order, which is not successfully appealed within 30 days, or an effective shareholders' resolution is validly adopted, for our winding up in England and Wales, (except in the case of a winding up solely for the purpose of a reconstruction or amalgamation or substitution in place of the Issuer of a successor in business in each case where the Capital Securities remain outstanding and are assumed by such successor in business on terms previously approved in writing by the holders of not less than 75% in aggregate principal amount of the outstanding Capital Securities), that order or resolution will constitute an **Event of Default** with respect to the Capital Securities. If an Event of Default occurs and is continuing, the subordinated trustee or the holder or holders of at least 25% in aggregate principal amount of the outstanding Capital Securities may declare the entire principal amount of the Capital Securities to be due and payable immediately. However, after this declaration but before the subordinated trustee obtains a judgment or decree for payment of money due, the holder or holders of a majority in aggregate principal amount of the outstanding Capital Securities may rescind the declaration of acceleration and its consequences, but only if all Events of Default have been remedied and all payments due, other than those due as a result of acceleration, have been made.

General

By acceptance of the Capital Securities, each holder and the subordinated trustee, on behalf of such holders, will be deemed to have waived any right of set-off or counterclaim that such holders might otherwise have against us whether prior to or in our bankruptcy or winding up. Notwithstanding the preceding sentence, if any of the rights and claims of any holder of Capital Securities are discharged by set-off, such holder will immediately pay an amount equal to the amount of such discharge to us or, if applicable, the liquidator or subordinated trustee or receiver in our bankruptcy and, until such time as payment is made, will hold a sum equal to such amount in trust for us or, if applicable, the liquidator or subordinated trustee or receiver in our bankruptcy. Accordingly, such discharge will be deemed not to have taken place.

The holder(s) of a majority, or any greater requisite amount, as the case may be, of the aggregate principal amount of the Capital Securities may waive any past Event of Default, Capital Security Default or Payment Event with respect to the Capital Securities, except an Event of Default, Capital Security Default or Payment Event in respect of either:

the payment of principal of, interest payments or Deferred Interest payments on, any Capital Securities or

a covenant or provision of the subordinated indenture which cannot be modified or amended without the consent of each holder of Capital Securities.

Subject to the provisions of the subordinated indenture relating to the duties of the subordinated trustee, if a Capital Security Default occurs and is continuing with respect to the Capital Securities, the subordinated trustee will be under no obligation to any holder or holders of the Capital Securities to exercise any of its rights or powers under the subordinated indenture at the request of any holder of Capital Securities, unless such holder shall have offered to the subordinated trustee an indemnity reasonably satisfactory to the subordinated trustee against any loss, liability or expense, and then only to the extent required by the terms of the subordinated indenture. Subject to the subordinated indenture provisions for the indemnification of the subordinated trustee, the holder(s) of a majority in aggregate principal amount of the outstanding Capital Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the subordinated trustee or exercising

any trust or power conferred on the subordinated trustee with respect to the Capital Securities. However, the subordinated trustee may refuse to follow any direction that is in conflict with any rule of law or the subordinated indenture, or is unjustly prejudicial to the holder(s) of any Capital Securities not taking part in the direction or which would subject the subordinated trustee to personal liability. The subordinated trustee may take any other action that it deems proper which is not inconsistent with that direction.

The subordinated indenture provides that the subordinated trustee will, within 90 days after the occurrence of an Event of Default, Capital Security Default or Payment Event with respect to the Capital Securities, give to each holder of the Capital Securities notice of the Event of Default, Capital Security Default or Payment Event known to it, unless the Event of Default, Capital Security Default or Payment Event has been cured or waived. However, the subordinated trustee shall be protected in withholding notice if it determines in good faith that withholding notice is in the interest of the holders.

We are required to furnish to the subordinated trustee annually a statement as to our compliance with all conditions and covenants under the subordinated indenture.

Any money deposited with the subordinated trustee or any paying agent for the Capital Securities, or then held by us in trust for the payment of the principal of and interest and Deferred Interest, if any, on the Capital Securities and remaining unclaimed for two years after such principal and interest and Deferred Interest, if any, has become due and payable shall, unless otherwise required by mandatory provisions of applicable escheat, or abandoned or unclaimed property law, upon the giving of notice to each holder of the Capital Securities as provided in the subordinated indenture, be paid to us, or (if then held by us) shall be discharged from such trusts; and the holder of such Capital Security shall, thereafter, as an unsecured general creditor, look only to us for payment thereof, and all liability of such subordinated trustee or such paying agent with respect to such trust money, and all our liability as trustee thereof, shall thereupon cease.

Additional Amounts

We will pay any amounts to be paid by us on the Capital Securities without withholding or deduction for, or on account of, any and all present or future taxes or duties of whatever nature imposed or levied, by or on behalf of the United Kingdom or any political subdivision of or authority of, or in, the United Kingdom that has the power to tax (a **taxing jurisdiction**) unless such withholding or deduction is required by law. If at any time a U.K. taxing jurisdiction requires us to make such withholding or deduction, we will pay additional amounts with respect to the principal of, interest payments and Deferred Interest payments on, the Capital Securities, which we refer to as **Additional Amounts,** that are necessary in order that the net amounts paid to the holders of those Capital Securities, after the withholding or deduction, shall equal the amounts of principal, any interest payments and Deferred Interest payments which would have been payable on the Capital Securities in the absence of the withholding or deduction.

However, no such Additional Amounts will be payable in relation to any Capital Securities in the circumstances set forth in the accompanying prospectus under "Description of the Debt Securities Payment of Additional Amounts".

Whenever we refer in this prospectus supplement, in any context, to the payment of the principal of, any interest payments, or any Deferred Interest payments on, or in respect of, any Capital Securities, we mean to include the payment of Additional Amounts to the extent that, in the context, Additional Amounts are, were or would be payable.

Alternative Coupon Satisfaction Mechanism

General

We are permitted to satisfy our obligation to pay any Deferred Interest on redemption or exchange of the Capital Securities only in accordance with the procedures described below which we refer to as the **Alternative Coupon Satisfaction Mechanism**. Additionally, on any Compulsory Interest Payment Date or Optional Interest Payment Date on which we elect to pay and not defer such interest, we may elect, at our option, to pay such Current Interest in accordance with the Alternative Coupon Satisfaction Mechanism.

Our obligation or election to pay in accordance with the Alternative Coupon Satisfaction Mechanism will be satisfied as follows:

not later than 14 Business Days prior to the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, the **calculation agent** shall determine the number of our ordinary shares which, in its judgment, have an aggregate fair market value of not less than the aggregate amount of Deferred Interest or Current Interest, as the case may be, (after conversion from pounds sterling into U.S. dollars and after we pay any taxes, duties, costs and expenses payable by us in and associated with the issue, and placement by the calculation agent, of the ordinary shares);

no later than ten Business Days prior to the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, the calculation agent, or an appointed intermediary, shall place such number of ordinary shares in the market;

no later than the close of business on the seventh Business Day prior to the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, the calculation agent shall notify us of the number of our ordinary shares for which it has found purchasers;

as soon thereafter as reasonably practicable but not later than the sixth Business Day prior to the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, we shall, subject to having necessary corporate authorizations in place, issue and allot such ordinary shares to the purchasers who have agreed to purchase them;

if, after the operation of the above procedures there would, in the opinion of the calculation agent, be a shortfall of proceeds towards the satisfaction of the aggregate amount of Deferred Interest or Current Interest, payable on the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, the calculation agent shall use its reasonable endeavors to find purchasers for further ordinary shares and we shall, subject to having the necessary corporate authorizations in place, issue and allot such further ordinary shares to the purchasers who have agreed to purchase them in accordance with these provisions to try to ensure that a sum (after conversion into U.S. dollars and after we pay any taxes, duties, costs and expenses payable by us and associated with the issue of the shares) at least equal to the aggregate amount of Deferred Interest or Current Interest is available on the Business Day prior to the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, to make the Deferred Interest payments or Current Interest payments, as the case may be, in full on the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be; *provided* that if, despite the operation of the aforementioned provisions, such a shortfall exists on the Business Day preceding the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, we may, subject to having the necessary corporate authorizations in place, continue to issue and allot ordinary shares until the subordinated trustee (or any paying agent) shall have received funds on our behalf equal to the full amount of such shortfall and *provided further* that no Deferred Interest payment or Current Interest payment, as the case may be, shall be made to a security holder and, in the case of

payment of Deferred Interest on redemption, no security shall be redeemed until such time as we are able to pay a sum at least equal to the aggregate amount of Deferred Interest or Current Interest, as the case may be, in full in accordance with the Alternative Coupon Satisfaction Mechanism on the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, and, for the avoidance of doubt, the Capital Security Redemption Date as set out in the redemption notice or Exchange Date as set out in the exchange notice or interest payment date, as the case may be, shall be deferred until the date the payment of Deferred Interest or, Current Interest, as the case may be, can be so made in full;

we will transfer or arrange for the transfer of the issue proceeds raised from the operation of the provisions set forth above (or such amount of issue proceeds as is necessary after conversion into U.S. dollars), to satisfy the aggregate amount of Deferred Interest or Current Interest, as the case may be, to the subordinated trustee (or any paying agent) on the Business Day preceding the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, for payment by the subordinated trustee (or any paying agent), on the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be, towards the satisfaction on our behalf of the aggregate amount of Deferred Interest or Current Interest, as the case may be; and

if, pursuant to the Alternative Coupon Satisfaction Mechanism, proceeds are raised in excess of the amount required to pay the applicable Deferred Interest or Current Interest, as the case may be, plus the claims for the fees, costs and expenses to be borne by us in connection with using the Alternative Coupon Satisfaction Mechanism, any remaining proceeds shall be paid to us.

If we are required to make payment of any Deferred Interest in accordance with the Alternative Coupon Satisfaction Mechanism, or elect to make payment of Current Interest in such manner, the proceeds from the sale of ordinary shares pursuant to the Alternative Coupon Satisfaction Mechanism will be paid to you by the subordinated trustee or any paying agent in respect of the relevant Deferred Interest or Current Interest, as the case may be.

Certain Conditions; Sufficiency and Availability of Ordinary Shares

Our ability to use the Alternative Coupon Satisfaction Mechanism to satisfy our payment of Deferred Interest on the Capital Securities on a Capital Security Redemption Date or Exchange Date or Current Interest on an interest payment date is subject to the following conditions:

the procedure will only be activated if (a) we have given a redemption or exchange notice and at that time there are Deferred Interest payments to be satisfied or (b) we elect to make a Current Interest payment in such manner;

we will not be required to issue or sell any ordinary shares, or cause them to be sold, at a price below the nominal value of our ordinary shares, currently five pence per share;

we must have a sufficient number of authorized but unissued ordinary shares at the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be; and

our directors must have all the necessary authority under English law to allot and issue a sufficient number of ordinary shares at the Capital Security Redemption Date, Exchange Date or interest payment date, as the case may be.

At the date of this prospectus supplement, given the current market price of our ordinary shares (after conversion into U.S. Dollars at a current exchange rate), we have a sufficient number of authorized but unissued ordinary shares and our directors have the necessary authority to issue such ordinary shares to raise sufficient funds to make the interest payments required to be made in respect of

the Capital Securities during the next 12-month period, assuming the Alternative Coupon Satisfaction Mechanism were to be used for each interest payment during such 12-month period.

In addition, we have agreed that for so long as any Capital Securities remain outstanding we will review our ordinary share price and relevant exchange rates prior to each annual meeting of our shareholders. If we determine as the result of any such review that we do not have a sufficient number of authorized but unissued ordinary shares to permit us to issue at that date a number of ordinary shares equal to the amount of Deferred Interest, if any, outstanding together with scheduled interest payments for the next 12 months on the Capital Securities, and/or if our directors do not have the necessary authority to allot and issue such number of ordinary shares, then at the next annual shareholders' meeting, we will propose resolutions to increase the number of authorized but unissued ordinary shares and the directors' authority to allot and issue ordinary shares to the level that would enable us to issue at that date a sufficient number of ordinary shares to enable payment of Deferred Interest, if any, outstanding together with scheduled interest payments for the next 12 months on the Capital Securities pursuant to the Alternative Coupon Satisfaction Mechanism.

We may not redeem any Capital Securities unless all accrued but unpaid interest and other payments thereon (other than any Deferred Interest payments) and the aggregate amount of Deferred Interest payments, if any, are satisfied at the same time. In the event that we do not have a sufficient number of ordinary shares available, and authorized to be issued and allotted, to implement the Alternative Coupon Satisfaction Mechanism, then the Capital Security Redemption Date shall be deferred until such time as we have available, and authorized to be issued and allotted, sufficient ordinary shares and the issue proceeds of such shares are sufficient to pay for the Deferred Interest in full. See "*Redemption*" above. Such deferral shall not constitute a Capital Security Default.

If we are unable to make a payment in full of all Deferred Interest due to be paid on a Capital Security Redemption Date or Exchange Date or Current Interest on the applicable interest payment date, because we do not have a sufficient number of shares authorized to be issued and the necessary authority for our directors to issue such shares or for any other reason, interest will accrue on such Deferred Interest or Current Interest, as the case may be, from (and including) the initial Capital Security Redemption Date, Exchange Date or applicable interest payment date, as the case may be, to (but excluding) the date such Deferred Interest or Current Interest, as the case may be, is paid, at a rate per annum equal to the rate per annum payable on the Capital Securities; *provided*, that any such interest shall be payable by us only in accordance with the Alternative Coupon Satisfaction Mechanism.

Market Disruption Event

If a **Market Disruption Event** (as defined below) exists during the 14 Business Days preceding any Capital Security Redemption Date, the related payment of Deferred Interest and the Capital Security Redemption Date may, subject to certain conditions, be deferred until such Market Disruption Event no longer exists. A market disruption deferral will not constitute a Capital Security Default (as defined above under "*Defaults; Limitation of Remedies*"); *provided* that if any Deferred Interest has not been paid, or an amount set aside for payment, within 14 days after the date on which any such Market Disruption Event is no longer continuing, such failure will constitute a Capital Security Default under the subordinated indenture. If a Market Disruption Event occurs interest will accrue on such Deferred Interest from (and including) the initial Capital Security Redemption Date to (but excluding) the date such Deferred Interest is paid at a rate per annum equal to the rate per annum payable on the Capital Securities.

A **Market Disruption Event** means (i) the occurrence or existence of any material suspension of or limitation imposed on trading or on settlement procedures for transactions in our ordinary shares through the London Stock Exchange (or other national securities exchange or designated offshore securities market constituting the principal trading market for our ordinary shares), or (ii) in our

reasonable opinion there has been a substantial deterioration in the price and/or value of our ordinary shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the ordinary shares to be issued in accordance with the Alternative Coupon Satisfaction Mechanism or (iii) where monies are required to be converted from one currency upon sale of ordinary shares into another currency for payment of Deferred Interest, the occurrence of any event that makes it impracticable to effect such conversion.

Suspension

Following any take-over offer made under the City Code on Take-overs and Mergers or any reorganization, restructuring or scheme of arrangement involving us, the company which, immediately prior to such event, was the ultimate owner of the Prudential group (referred to as the "Ultimate Owner") ceases to be the Ultimate Owner, unless such event is a **Permitted Restructuring** and a **Permitted Restructuring Arrangement** (each as defined below) is put into place within six months of the occurrence of a Permitted Restructuring, an independent investment bank appointed by us (at our expense) and approved by the subordinated trustee will determine what amendments (if any) to the terms and conditions of the Capital Securities, the subordinated indenture and any other relevant documents are appropriate or necessary in order to replicate the Alternative Coupon Satisfaction Mechanism in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the subordinated trustee and us by such investment bank, the subordinated trustee and we shall, pursuant to the terms of the subordinated indenture and without the consent of the security holders but subject to the consent of the new Ultimate Owner, effect any necessary consequential changes to the terms and conditions of the Capital Securities, the subordinated indenture and any other relevant documents. Any such amendments shall be subject to the requirements that:

- we will not be obliged to reduce our net assets,
- no amendment may be proposed or made which would alter the treatment of the Capital Securities as cover for the minimum or notional margin of solvency pursuant to the Capital Regulations without prior written notice thereof being given to the FSA and the FSA having issued a statement of no objection,
- no such amendment may be made which would, in the subordinated trustee's opinion, impose more onerous obligations on it without its consent, and
- such amendments shall preserve substantially the financial effect for the security holders of a holding in the Capital Securities.

If, after using all reasonable endeavors, such investment bank is unable to formulate such amendments, it shall so notify us, the previous Ultimate Owner (if not us), the new Ultimate Owner, the subordinated trustee, any paying agent and the calculation agent of that result. We refer to the giving of such a notice by such investment bank as a **Definitive Suspension** of the Alternative Coupon Satisfaction Mechanism.

Upon the occurrence of a Definitive Suspension, we may at our sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice thereof to the FSA and the FSA not objecting, at any time convert the Capital Securities in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the Capital Securities; *except* that such undated cumulative subordinated notes will:

- be a perpetual capital security issued by us with cumulative interest payments,

rank *pari passu* with any other undated cumulative subordinated notes issued by us,

following conversion be redeemable upon any Tax Call Event or Regulatory Event as modified as necessary to be applicable to a class of undated cumulative subordinated notes, and

not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest outstanding at the time of conversion will be carried over and become outstanding missed cumulative interest payments for purposes of the undated cumulative subordinated notes.

If, following a Definitive Suspension the FSA objects to our proposal to convert the Capital Securities into another series of capital securities constituting undated cumulative subordinated notes, then, subject to giving notice thereof to, and receiving a statement of no objection from, the FSA, we will have the option to redeem the Capital Securities in whole (but not in part) at a redemption price equal to their principal amount together with accrued and unpaid interest and all Deferred Interest payments, in cash without utilizing the Alternative Coupon Satisfaction Mechanism.

For purposes of the foregoing:

Permitted Restructuring means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable all) of the shareholders of Prudential (or, if Prudential is not then the Ultimate Owner, to the shareholders of the then Ultimate Owner to acquire the whole (or as nearly as may be practicable the whole) of issued ordinary share capital, of Prudential (or, if Prudential is not then the Ultimate Owner, the then Ultimate Owner's issued ordinary share capital) other than those ordinary shares already held by or on behalf of such Eligible Company or (ii) a reorganization or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of Prudential (or, if Prudential is not the then Ultimate Owner, the then Ultimate Owner's issued share capital) other than those ordinary shares already held by such Eligible Company or pursuant to which all (or nearly as may be practicable all) of the issued ordinary share capital of Prudential (or, if Prudential is not then the Ultimate Owner, the then Ultimate Owner's issued share capital) not held by the New Holding Company is cancelled.

Permitted Restructuring Arrangement means an arrangement whereby the following conditions are satisfied (i) the execution of a supplemental indenture to the subordinated indenture and/or such other documentation as may be necessary to ensure that the Alternative Coupon Satisfaction Mechanism, the subordinated indenture and certain other agreements operate so that Prudential's ordinary shares may be exchanged for Holding Company Shares in such a manner that ensures that upon sale of such Holding Company Shares the holder of each security then outstanding will receive, in the event of a payment to be satisfied pursuant to the Alternative Coupon Satisfaction Mechanism, an amount not less than that which would have been receivable had such a Permitted Restructuring not taken place and (ii) the subordinated trustee is satisfied that the credit ratings that would be assigned to the Capital Securities by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and by Moody's Investors Service, Inc. following any such Permitted Restructuring, shall not be less than those assigned to the Capital Securities immediately prior to such Permitted Restructuring taking place.

Eligible Company means a company incorporated in a country which is a member of the Organisation for Economic Co-operation and Development and incorporated by Prudential or on behalf of Prudential whose ordinary shares are listed (i) on the official list of the FSA in its capacity as competent authority under the FSMA and are admitted to trading on the market for listed securities of the London Stock Exchange plc or (ii) on such other internationally recognized stock exchange as the subordinated trustee may approve.

Holding Company Shares means ordinary shares of the New Holding Company.

New Holding Company means an Eligible Company that becomes the ultimate holding company for the Prudential group following Permitted Restructuring.

Supplemental Indentures

The subordinated indenture contains provisions permitting us and the subordinated trustee:

without the consent of the holders of any of the Capital Securities, to execute supplemental indentures for certain enumerated purposes, such as to cure any ambiguity or inconsistency or to make any change that does not have a material adverse effect on the rights of any holder of Capital Securities, and

with the consent of the holders of not less than a majority, or any greater requisite amount, as the case may be, in aggregate principal amount of the outstanding Capital Securities to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the subordinated indenture that apply to the Capital Securities or of modifying in any manner the rights of the holders of the Capital Securities.

Notwithstanding the foregoing, no such supplemental indenture may, without the consent of the holder of each Capital Security affected thereby:

change the obligation to pay interest on the Capital Securities on a Compulsory Interest Payment Date, or change the terms of the Capital Securities to include a maturity date for repayment of the principal amount, or reduce the principal amount of any Capital Security or the rate of interest payable thereon, or any principal payable upon redemption thereof, or the circumstances in which Deferred Interest thereon, if any, may become payable or change any of our obligations to pay Additional Amounts, or change any Place of payment where, or change the currency in which, the Capital Securities or the interest thereon is payable, or change any redemption or repurchase rights to the detriment of any holder, or impair the right to institute suit for the enforcement of any such payment on or after the date any such payment is otherwise due and payable (or, in the case of redemption, on or after the redemption date),

reduce the percentage in aggregate principal amount of such outstanding Capital Securities, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver of compliance with certain provisions of the subordinated indenture or certain defaults thereunder and their consequences,

change any of our obligations to maintain an office or agency in the places and for the purposes specified in the subordinated indenture,

change the terms and conditions (i) under which the Capital Securities are exchangeable or (ii) of the Preference Shares into which such Capital Securities may be exchanged, in each case, in any manner that has a material adverse effect on the rights of any holder of such securities,

modify certain of the provisions of the subordinated indenture pertaining to the waiver by holders of the Capital Securities of defaults and the waiver by holders of the Capital Securities of certain covenants, except to increase any specified percentage in aggregate principal amount required for any actions by holders of Capital Securities or to provide that certain other provisions of the subordinated indenture cannot be modified or waived without the consent of the holder of each such Capital Security affected thereby, or

change the subordination provisions in any manner adverse to the interests of the holders of the outstanding Capital Securities.

In addition, any amendment or variation to the terms and conditions of the Capital Securities will require the provision of at least 30 days' notice to, and receipt of a statement of no objection from, the FSA.

Book-entry System; Delivery and Form

General

The Capital Securities shall initially be represented by one or more global securities in registered form, without coupons attached, and will be deposited with or on behalf of The Depository Trust Company, or **DTC**, or its nominee and registered in the name of Cede & Co., as nominee of DTC. Unless and until the Capital Securities are exchanged in whole or in part for other securities that we issue or the global securities are exchanged for definitive securities, the global securities may not be transferred except as a whole by DTC to a nominee or a successor of DTC.

We anticipate that the Capital Securities will be accepted for clearance by DTC. Beneficial interests in the global Capital Securities will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its direct and indirect participants, including Euroclear Bank S.A./N.V. or **Euroclear**, and Clearstream Banking, société anonyme, or Clearstream, Luxembourg. Owners of beneficial interests in the Capital Securities will receive payments relating to their Capital Securities in U.S. dollars.

The laws of some states may require that certain investors in securities take physical delivery of their securities in definitive form. Those laws may impair the ability of investors to own interests in book-entry securities.

So long as DTC, or its nominee, is the holder of a global Capital Security, DTC or its nominee will be considered the sole holder of such global Capital Security for all purposes under the subordinated indenture. Except as described below under "*Issuance of Definitive Securities*", no participant, indirect participant or other person will be entitled to have Capital Securities registered in its name, receive or be entitled to receive physical delivery of Capital Securities in definitive form or be considered the owner or holder of the Capital Securities under the subordinated indenture. Each person having an ownership or other interest in Capital Securities must rely on the procedures of DTC and, if a person is not a participant in DTC must rely on the procedures of the participant or other securities intermediary through which that person owns its interest, to exercise any rights and obligations of a holder under the subordinated indenture or the Capital Securities.

Payments on the Global Securities

Payments of any amounts in respect of any global Capital Securities will be made by the subordinated trustee to DTC. Payments will be made to beneficial owners of Capital Securities in accordance with the rules and procedures of DTC or its direct and indirect participants, as applicable. Neither we nor the subordinated trustee nor any of our agents will have any responsibility or liability for any aspect of the records of any securities intermediary in the chain of intermediaries between DTC and any beneficial owner of an interest in a global security, or the failure of DTC or any intermediary to pass through to any beneficial owner any payments that are made to DTC.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, (the "**Securities Exchange Act**"). DTC was created to hold securities of its participants and to facilitate the clearance and settlement of transactions among its participants in those securities through electronic book-entry changes in accounts of the participants,

thereby eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, including parties that may act as underwriters, dealers or agents with respect to the securities, banks, trust companies, clearing corporations and certain other organizations, some of which, along with certain of their representatives and others, own DTC. Access to the DTC book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Issuance of Definitive Securities

So long as DTC holds the global Capital Securities, such global securities will not be exchangeable for definitive securities unless:

DTC notifies the subordinated trustee that it is unwilling or unable to continue to hold the book-entry Capital Securities or DTC ceases to be a "clearing agency" registered under the Securities Exchange Act and we do not appoint a successor to DTC which is registered under the Securities Exchange Act within 120 days; or

in the event of our winding up we fail to make a payment on the Capital Securities when due.

Each person having an ownership or other interest in a Capital Security must rely exclusively on the rules or procedures of DTC and any agreement with any participant of DTC or any other securities intermediary through which that person holds its interest to receive or direct the delivery of possession of any definitive security.

Definitive securities will be issued in registered form only. To the extent permitted by law, we, the subordinated trustee and any paying agent shall be entitled to treat the person in whose name any definitive security is registered as its absolute owner.

Payments in respect of each series of definitive securities will be made to the person in whose name the definitive securities are registered as it appears in the register for that series. Payments will be made in respect of the Capital Securities by check drawn on a bank in New York or, if the holder requests, by transfer to the holder's account in New York. Definitive securities should be presented to the paying agent for redemption.

If we issue definitive securities of a particular series in exchange for global Capital Securities, DTC, as holder of the global Capital Securities, will surrender it against receipt of the definitive securities, cancel the book-entry securities of that series, and distribute the definitive securities of that series to the persons and in the amounts that DTC specifies.

If definitive securities are issued in the limited circumstances described above, those securities may be transferred in whole or in part in denominations of any whole number of securities upon surrender of the definitive securities certificates together with the form of transfer endorsed on it, duly completed and executed at the specified office of a paying agent. If only part of a securities certificate is transferred, a new securities certificate representing the balance not transferred will be issued to the transferor within three Business Days after the paying agent receives the certificate. The new certificate representing the balance will be delivered to the transferor by uninsured post at the risk of the transferor, to the address of the transferor appearing in the records of the paying agent. The new certificate representing the securities that were transferred will be sent to the transferee within three Business Days after the paying agent receives the certificate transferred, by uninsured post at the risk of the holder entitled to the securities represented by the certificate, to the address specified in the form of transfer.

Notices

All notices regarding the Capital Securities will be valid if published in one leading English language daily newspaper of general circulation in The City of New York and one leading English language daily newspaper of general circulation in London and shall be deemed to have been given on the date that publication in both cities is completed or, if published more than once, on the date publication is first completed in both cities. If it is not practicable to publish a notice, we may give valid notice in another manner that we shall determine, with effect from the date that we shall determine. For so long as the Capital Securities are represented by one or more global Capital Securities, we will deliver a copy of all notices to DTC as the registered holder.

The Subordinated Trustee

Citibank, N.A. is subordinated trustee under the subordinated indenture. We and certain of our subsidiaries maintain deposit accounts and conduct other banking transactions with Citibank, N.A. in the ordinary course of our business.

Consent to Service of Process

Under the subordinated indenture, we irrevocably designate Jackson National Life Insurance Company as our authorized agent for service of process in any legal action or proceeding arising out of or relating to the subordinated indenture or any Capital Securities brought in any federal or state court in The City of New York, New York and we irrevocably submit to the jurisdiction of those courts.

Governing Law

The Capital Securities and the subordinated indenture will be governed by and construed in accordance with the laws of the State of New York, except that the subordination provisions of the Capital Securities and the subordinated indenture will be governed by and construed in accordance with the laws of England and Wales.

CERTAIN TERMS OF THE PREFERENCE SHARES

The following is a summary of particular terms of our Preferences Shares. It supplements the description of the general terms and provisions of each series of our dollar preference shares set forth in the accompanying prospectus under "Description of Preference Shares." If there is any inconsistency between the following description and that set forth in the accompanying prospectus, the following description governs.

General

Each series of Preference Shares issued upon exchange of our Capital Securities will constitute a separate series of our non-cumulative dollar preference shares. As of July 28, 2004, we had no issued and outstanding preference shares.

The Preference Shares issued in connection with a partial exchange of Capital Securities will contain the same terms and provisions as those issued in connection with any other partial exchange, except that the different issue dates will mean that certain Preference Shares may be redeemed earlier or later than others. Accordingly, Preference Shares issued on one partial exchange will constitute a separate series from Preference Shares issued upon a different partial exchange and will therefore not be fungible.

Our Preference Shares shall rank *pari passu* as to a return of assets on a winding up with Capital Securities that we issue in accordance with the terms of this prospectus supplement. The Preference Shares shall be subject to the dividend and redemption restrictions described above in *"Certain Terms of the Capital Securities Dividend and Capital Restriction"*.

We may not issue any shares that rank senior to the Preference Shares of any series, in regard to rights to participate in our profits or assets, without the prior written consent of the holders of at least three-quarters in nominal value of such series.

The summary of certain terms and provisions of the Preference Shares set forth below is subject to, and qualified in its entirety by reference to, our articles of association and the resolutions adopted by our board of directors (or an authorized committee of our board) establishing the rights, preferences, privileges, limitations and restrictions relating to the Preference Shares. We will furnish a copy of these resolutions under the cover of a Report on Form 6-K with the Securities and Exchange Commission at the time of any exchange of Capital Securities for the applicable series or series of ADSs representing Preference Shares; *provided* that, the terms of the Preference Shares adopted in such resolution shall be consistent in all material respects with the form of preference share certificate we have filed as an exhibit to the Registration Statement.

A summary of certain terms and provisions of the ADR Deposit Agreement, dated as of August 6, 2004, among us, Citibank, N.A. as depositary (the "**ADR Depositary**"), and the holders of from time to time of the ADRs evidencing the applicable series of ADSs issued thereunder (the "**ADR Deposit Agreement**") is set forth in the accompanying prospectus under *"Description of American Depositary Receipts"*.

Dividends

Non-cumulative preferential dividends on each series of Preference Shares will be payable if declared by our board of directors in accordance with the procedures described below. If so declared, any such dividend will be 6.75% of the liquidation preference per annum, payable quarterly in arrears on March 23, June 23, September 23 and December 23 of each year, commencing on the first such date occurring after the applicable issue date (each, a "**dividend payment date**").

On any dividend payment date on which:

(a) we satisfy the Solvency Condition;

(b) we are not prohibited from paying a dividend under the terms of a Parity Security; and

(c) our distributable profits are sufficient to cover the payment in full of, or the setting aside and providing for the dividend on that series of Preference Shares and dividends on any of our other preference shares stated to be payable on the same date and ranking equally as to dividends with the Preference Shares

then, our board of directors, in its sole discretion, may elect to declare and pay dividends. If, on any dividend payment date, we fail to satisfy any of the conditions set forth in clauses (a), (b) and (c) of this paragraph, our board of directors will not declare or pay a dividend.

The UK Companies Act 1985 defines "distributable profits" as, in general terms, and subject to adjustment, accumulated realized profits less accumulated realized losses.

Other terms and conditions relating to the payment of dividends on each series of Preference Shares are described in the accompanying prospectus under "*Description of the Preference Shares Dividends*".

No Additional Amounts

If at any time a U.K. taxing authority requires us to deduct or withhold taxes from payments made by us with respect to our Preference Shares, we will not pay any additional amounts. As a result, the net amount received from us by each Preference Share holder, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or withholding.

Dividend and Capital Restriction

Following a dividend payment date on which we do not declare and pay in full all dividend payments on the Preference Shares, for whatever reason, we will not, and we will not permit any entity that we control, directly or indirectly, (a) to declare or pay a dividend or distribution or make any other payment on any preference shares or on any Junior Securities (other than (i) a final dividend declared by us with respect to our ordinary shares prior to the date that the decision not to pay such dividend is made or (ii) a payment made by one of our wholly-owned subsidiaries to another wholly-owned subsidiary or directly to us), or (b) to redeem, purchase or otherwise acquire any Parity Securities or any Junior Securities, in each case unless or until we set aside and provide for or pay in full the dividends on the Preference Shares for the next four succeeding quarterly dividend payment dates.

The foregoing restrictions do not apply to payments we make to policyholders or other customers, or transfers to or from the fund for future appropriations, in each case in the ordinary course of business consistent with past practice.

For the purposes of the foregoing provision, the payment (or declaration of payment) of a dividend or distribution on Junior Securities or preference shares shall be deemed to include the making of any interest, coupon or dividend payment (or payment under any guarantee in respect thereof). For the purposes of the foregoing provision, the redemption, purchase or other acquisition of the Parity Securities or Junior Securities shall be deemed not to include transactions where the funds used to redeem, purchase or acquire those securities are derived from an issue of Junior Securities or Parity Securities (i) made at any time within the six-month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same or junior ranking on a return of assets on a winding up or in respect of a distribution or payment of interest, coupons or dividends and/or any other amounts thereunder to those securities being redeemed, purchased or acquired.

Liquidation Rights

On return of capital on a winding-up or otherwise, the holders of our Preference Shares of a particular series that are outstanding at the time and the holders of any other of our preference shares ranking equally with the Preference Shares as regards participation in our surplus assets will be entitled to receive payment in U.S. dollars out of any assets available for distribution to shareholders. This distribution will be made in priority to any distribution of assets to holders of our ordinary shares or any other class of our shares ranking below the Preference Shares of the series as regards participation in our surplus assets. Holders of our Preference Shares will be entitled to a payment equal to the amount paid up (or credited as paid up) on each Preference Share together with any premium on such share as may be determined in accordance with the procedures described below under "*Optional Redemption*" unless there are insufficient assets available for distribution in which case holders of our Preference Shares will be entitled to share ratably in any distribution of our surplus assets in proportion to the full respective preferential amounts to which they are entitled. Holders of our Preference Shares will have no further right to participate in a return of capital.

If the holders of the Preference Shares are entitled to any recovery with respect to the Preference Shares in a winding up, they might not be entitled in such proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in pounds sterling.

Optional Redemption

Each series of Preference Shares is redeemable, in whole or in part, at our option on any dividend payment date later than five years after the issue date of the relevant series of Preference Shares (any such date so designated, a "**Preference Share Redemption Date**"), upon not less than 30 nor more than 60 days' notice to the holders prior to the Preference Share Redemption Date. Except as otherwise indicated to us by the FSA, we may not redeem any Preference Shares unless we have given at least six months' notice to the FSA and the FSA has issued a statement of no objections prior to such Preference Share Redemption Date, and redemption may only be effected if on, and immediately following, the Preference Share Redemption Date we are in compliance with any applicable regulatory capital requirements or capital ratios required to be maintained for insurance companies, parent companies in insurance groups or financial groups generally by the FSA.

We will pay on each Preference Share so redeemed, in U.S. dollars, an amount equal to its liquidation preference together with any dividend then payable on such dividend payment date (such amount, the "**Redemption Price**").

If any Preference Shares are to be redeemed, a notice of redemption will be mailed to the ADR Depositary and to each record holder of Preference Shares in registered form to be redeemed, not less than 30 nor more than 60 days' prior to the Preference Share Redemption Date. Each notice of redemption will specify:

the Preference Share Redemption Date;

the particular Preference Shares to be redeemed;

the Redemption Price and details of any dividend payable on the Preference Share Redemption Date and stating that dividends shall cease to accrue on redemption;

the place or places where holders may surrender documents of title and obtain payment of the Redemption Price; and that

no defect in the notice of redemption or in giving of the notice will affect the validity of the redemption proceedings.

We may (subject to the provisions of the U.K. Companies Act 1985, applicable U.S. securities laws and regulations and our articles of association) at any time or from time to time, purchase Preference Shares of any series, in the open market, or by private agreement, in each case upon the terms and conditions that our board of directors or a committee thereof shall determine. However, under the existing FSA requirements, we may not redeem or purchase any Preference Shares unless the FSA consents in advance. The FSA may impose any conditions on any redemption or purchase.

Voting Rights

Holders of our Preference Shares of any series having a registered address within the United Kingdom will be entitled to receive notice of, but will not be entitled to attend or vote at any of our general meetings except as provided by applicable law.

Form and Denomination

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value will be credited to our issued share capital account and an amount equal to the difference between its issue price and its nominal value will be credited to our share premium account. The Preference Shares will have a nominal value of $0.01 per share and will be issued at a price of $25 per share.

Preference Shares of each series will be offered in the form of ADSs and will be represented by a single warrant in bearer form, which will be deposited with the ADR Depositary under the ADR Deposit Agreement. We may consider the ADR Depositary one holder of any series of Preference Shares so deposited for all purposes. Further information regarding the form and transferability of and rights attaching to the ADRs is set forth in the accompanying prospectus under "*Description of American Depositary Receipts*".

Preference Shares may only be withdrawn from deposit as set forth in the Deposit Agreement and if so withdrawn will be evidenced by share certificates in registered form without dividend coupons that will be delivered at the time of withdrawal. Preference Shares may not be withdrawn from deposit in bearer form.

Title to Preference Shares of any series in registered form may only be transferred by transfer and registration on the register for the Preference Shares of the relevant series. The registration or transfer of Preference Shares of any series may only be made in the register for the Preference Shares of the series kept by the registrar at its office in the United Kingdom. The registrar will not charge the person requesting the transfer a registration fee. However the person requesting registration will be liable for any taxes, stamp duty or other governmental charges that must be paid in connection with the registration.

Listing

If the Capital Securities are exchanged for the Preference Shares, we will undertake to make all reasonable efforts to obtain a listing on the New York Stock Exchange of the Preference Shares (in the form of ADSs evidenced by ADRs).

TAXATION

United Kingdom Taxation

The comments below are of a general nature and are not intended to be an exhaustive description of the United Kingdom taxation consequences of the acquisition, ownership and disposal of the Capital Securities, Preference Shares or ADSs (evidenced by ADRs). They are based on our understanding of current United Kingdom law and published practice and are therefore subject to change. They relate only to the position of persons who are the absolute beneficial owners of the Capital Securities, Preference Shares or ADSs and may not apply to certain classes of such owners, such as dealers or insurance companies. They assume that the owners of the Capital Securities, Preference Shares or ADSs are not (and have not recently been) resident or ordinarily resident in the United Kingdom for tax purposes or carrying on a trade, profession or vocation in the United Kingdom through a branch or agency or a permanent establishment to which the Capital Securities, Preference Shares or ADSs are attributable or any interest received thereunder is connected. They assume that holders do not take physical delivery of their Capital Securities in definitive form or hold their Preference Shares otherwise than in the form of ADSs (evidenced by ADRs). Holders who are in any doubt as to their tax position should consult their professional advisers.

Payments of Interest on Capital Securities

Payments of interest made in respect of the Capital Securities will not be subject to withholding or deduction on account of United Kingdom tax as long as the Capital Securities are and remain at all times listed on a "recognized stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the New York Stock Exchange is a recognized stock exchange for these purposes). In all other cases, an amount must be withheld on account of United Kingdom income tax at the lower rate (currently 20%) subject to any prior direction to the contrary under a double tax treaty and subject to any other entitlement to pay gross under United Kingdom law.

EU Directive on the Taxation of Savings Income

On June 3, 2003, the European Council of Economics and Finance Ministers (which we refer to as **ECOFIN**) adopted a Directive under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period only, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Directive is scheduled to be applied by Member States from July 1, 2005, provided that a number of important conditions are met.

Disposal of Capital Securities (Including Redemption)

Holders will not be liable for United Kingdom taxation on capital gains in respect of gains realized on a sale or other disposal of Capital Securities.

Issue of Preference Shares

The issue of Preference Shares pursuant to the exercise by us of our right to exchange Capital Securities should have no United Kingdom tax consequences for holders of the Capital Securities.

Taxation of Dividends on the Preference Shares

We will not be required to withhold United Kingdom tax at source from any dividends that we pay on the Preference Shares.

Disposal of Preference Shares (Including Redemption)

Holders of Preference Shares will not be liable to United Kingdom taxation on capital gains in respect of any gains arising on a sale or other disposal of the Preference Shares.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No United Kingdom stamp duty or SDRT will be payable by holders upon the issue or transfer of the Capital Securities by us to DTC or Cede & Co. as nominee for DTC and holders will not be liable to stamp duty or SDRT on agreements to transfer Capital Securities whilst the Capital Securities remain held within DTC.

No United Kingdom stamp duty or SDRT will be payable by holders on a redemption of the Capital Securities.

If we exercise our rights to exchange the Capital Securities for Preference Shares, we will deposit or procure the deposit of the Preference Shares with a depositary or a nominee for a depositary (the "Depositary"). It is possible that a United Kingdom stamp duty or SDRT charge may arise upon the deposit of the Preference Shares with the Depositary and we have undertaken that we will pay and indemnify holders against any such duty or charge.

No United Kingdom stamp duty need be paid in respect of a transfer of a registered ADR (otherwise than to the custodian on cancellation of the ADR) provided that the instrument of transfer is executed and retained outside the United Kingdom. An agreement to transfer a registered ADR will not give rise to SDRT.

United States Federal Income Taxation

The following discussion is a summary of the material U.S. federal income tax consequences for U.S. holders of the acquisition, ownership, and disposition of the Capital Securities, Preference Shares or ADSs evidenced by ADRs (the "securities"). You will be a U.S. holder if you are:

an individual who is a citizen or resident of the United States,

a U.S. domestic corporation, or

any other person that is subject to U.S. federal income tax on a net basis in respect of income from the securities.

This summary deals only with U.S. holders that purchase securities at their issue price as part of the initial offering and hold such securities as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark-to market treatment, person that will hold securities as a hedge against currency risk or as a position in a "straddle" or conversion transaction, tax-exempt organization, or person whose "functional currency" is not the U.S. dollar.

This summary is based on laws, treaties, regulations, rulings and decisions now in effect, all of which are subject to change, possibly on a retroactive basis. Investors should consult their own tax advisers regarding the tax consequences of the acquisition, ownership, and disposition of the securities, including the application to their particular circumstances of the tax considerations discussed below, as well as the application of state, local, and other national tax laws.

U.S. Tax Status

The Capital Securities will be treated for U.S. federal income tax purposes as equity of the issuer. In this regard, the Capital Securities have no stated maturity, can be exchanged for Preference Shares in certain circumstances, and would be treated as if they were preference shares in a winding up.

Payments of Interest and Dividends

In accordance with their treatment as dividends for U.S. federal income tax purposes, payments of interest on the Capital Securities and dividends generally will be includible in your income on the date of receipt without regard to your method of tax accounting. Interest and dividend payments on the securities generally will constitute foreign source income and generally will be considered "passive" income or, in the case of certain U.S. holders, "financial services" income, which are treated separately from other types of income in computing the foreign tax credit.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual before January 1, 2009 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends". Interest and dividends received with respect to the Capital Securities and ADSs will be qualified dividends if we are a qualified foreign corporation or are so treated with respect to our payments on the Capital Securities or ADSs representing Preference Shares. We will be a qualified foreign corporation (or so treated) if: (i) either (A) we are eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines is satisfactory and which includes an exchange of information program or (B) the Capital Securities or ADSs (if we exchange the Capital Securities for Preference Shares) are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"), foreign personal holding company ("FPHC") or foreign investment company ("FIC").

We are eligible for the benefits of the U.K. U.S. income tax treaty, which satisfies the treaty requirement described above and if the Capital Securities (and, if we exchange Capital Securities for Preference Shares, the ADSs representing those Preference Shares) become listed on the New York Stock Exchange, the Capital Securities and the ADSs will be considered to be readily tradable on an established securities market in the United States. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC, FPHC, or FIC for U.S. federal income tax purposes with respect to our 2003 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC, FPHC, or FIC and therefore we anticipate that we will be a qualified foreign corporation or so treated. Accordingly, subject to the foregoing, including the exceptions for short-term and hedged positions, we anticipate that interest or dividends paid with respect to the Capital Securities or ADSs representing Preference Shares generally will be eligible for taxation as "qualified dividends".

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or shares and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are eligible to be treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether the Company will be able to comply with the procedures. The Company will use reasonable efforts to facilitate appropriate tax reporting by providing these certifications or other similar certifications pursuant to any subsequent rules the U.S. Internal Revenue Service or U.S. Treasury may promulgate to the extent it is reasonably able to do so without material cost.

Sale, Exchange, or Retirement

Upon the sale, exchange, or retirement of securities, you generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement and your tax basis in such securities. Gain on the sale, exchange, or retirement of securities held for more than one year will be treated as long-term capital gain. The net amount of long-term capital gain realized by a non-corporate holder before January 1, 2009 generally is subject to taxation at a maximum rate of 15%. Any gain or loss recognized will generally be treated as United States source gain or loss. Your ability to offset capital losses against ordinary income is subject to limitations.

In accordance with the treatment of the securities as equity for U.S. federal income tax purposes, you generally will not be required to account separately for accrued interest realized upon a sale, exchange, or retirement of the securities, and instead will treat amounts received in respect of accrued interest as part of the amount realized for purposes of determining gain or loss realized upon the sale, exchange, or retirement.

Gain or loss will not be recognized by a U.S. holder upon the exchange of Capital Securities for Preference Shares pursuant to our exercise of the exchange right. A U.S. holder's basis in the Preference Shares received in exchange for its Capital Securities will be the same as the U.S. holder's basis in the Capital Securities at the time of the exchange and the U.S. holder's holding period for the Preference Shares received in the exchange will include the holding period of the Capital Securities exchanged.

Information Reporting and Backup Withholding Rules

Payments in respect of the securities that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless you:

are a corporation or other exempt recipient or

provide a taxpayer identification number and certify that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or from certain U.S.-related payors.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement dated as of July 30, 2004, between us and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated for themselves and as representatives of the underwriters named below (together, the "**underwriters**"), we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the respective principal amount of Capital Securities shown after their names below.

Underwriters		Principal Amount of Capital Securities
Citigroup Global Markets Inc.	$	42,375,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$	42,375,000
Morgan Stanley & Co. Incorporated	$	42,375,000
UBS Securities LLC	$	42,375,000
Wachovia Capital Markets, LLC	$	42,375,000
A.G. Edwards & Sons, Inc.	$	5,000,000
RBC Dain Rauscher Inc.	$	5,000,000
Bank of America Securities LLC	$	1,250,000
Bear, Stearns & Co. Inc.	$	1,250,000
Charles Schwab & Co., Inc.	$	1,250,000
Deutche Bank Securities Inc.	$	1,250,000
H&R Block Financial Advisors, Inc.	$	1,250,000
HSBC Securities (USA) Inc.	$	1,250,000
Legg Mason Wood Walker, Incorporated	$	1,250,000
McDonald Investments Inc.	$	1,250,000
Oppenheimer & Co. Inc.	$	1,250,000
Quick & Reilly, Inc.	$	1,250,000
TD Securities (USA) Inc.	$	1,250,000
Piper Jaffray & Co.	$	1,250,000
Wells Fargo Securities, LLC	$	1,250,000
Advest, Inc.	$	625,000
BB&T Capital Markets, a Division of Scott & Stringfellow, Inc.	$	625,000
Crowell, Weedon & Co.	$	625,000
D.A. Davidson & Co.	$	625,000
Davenport & Company LLC	$	625,000
Doley Securities, Inc.	$	625,000
Ferris, Baker Watts Incorporated	$	625,000
J.J.B. Hilliard, W.L. Lyons, Inc.	$	625,000
Janney Montgomery Scott LLC	$	625,000
Mesirow Financial, Inc.	$	625,000
Morgan Keegan & Company, Inc.	$	625,000
Pershing LLC	$	625,000
Raymond James & Associates, Inc.	$	625,000
Robert W. Baird & Co. Incorporated	$	625,000
Ryan Beck & Co.	$	625,000

The Israeli Income Tax Ordinance and regulations promulgated thereunder allow "Foreign-Invested Companies," which maintain their accounts in U.S. dollars in compliance with the regulations to adjust their tax returns based on

Underwriters	Principal Amount of Capital Securities

exchange rate fluctuations of the NIS against the U.S. dollar rather than changes in the Israeli consumer price index, or CPI, in lieu of the principles set forth by the Inflationary Adjustments Law. For these purposes, a Foreign-Invested Company is a company more than 25% of the share capital of which in terms of rights to profits, voting and appointment of directors, and of the combined share capital of which including shareholder loans and capital notes, is held by persons who are not residents of Israel. A company that elects to measure its results for tax purposes based on the U.S. dollar exchange rate cannot change the election for a period of three years following the election. We adjust our tax returns based on the changes in the Israeli CPI. Because we qualify as a "Foreign-Invested Company," we are entitled to measure our results for tax purposes on the basis of changes in the exchange rate of the U.S. dollar in future tax years.

Stamp Duty

The Israeli Stamp Duty on Documents Law, 1961, or the Stamp Duty

Underwriters	Principal Amount of Capital Securities
	Law, provides that any document (or part thereof) that is signed in Israel or that is signed outside of Israel and refers to an asset or other thing in Israel or to an action that is executed or will be executed in Israel, is subject to a stamp duty, generally at a rate of between 0.4% and 1% of the value of the subject matter of such document. An amendment to the Stamp Duty Law that came into effect on June 1, 2003, determines, among other things, that stamp duty on most agreements shall be paid by the parties that signed such agreement, jointly or severally, or by the party that undertook under such agreement to pay the stamp duty. As a result of the aforementioned amendment to the Stamp Duty Law, the Israeli tax authorities have approached many companies in Israel and requested disclosure of all agreements signed by such companies after June 1, 2003, with the aim of collecting stamp duty on such agreements. Under an order published in December 2005, the said requirement to pay stamp duty is cancelled with respect to documents signed on or

Underwriters	Principal Amount of Capital Securities

after January 1, 2006.

Capital Gains Tax on the Sale of our Ordinary Shares

General

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Israeli Residents

Underwriters	Principal Amount of Capital Securities

Generally, up until the 2006 tax year, capital gains tax was imposed on Israeli residents individuals at a rate of 15% on real gains derived on or after January 1, 2003, from the sale of shares in (i) companies publicly traded on the Tel Aviv Stock Exchange ("TASE"), (ii) Israeli companies publicly traded on Nasdaq or on a recognized stock market or regulated market in a country that has a treaty for the prevention of double taxation with Israel or (iii) companies traded on both the TASE and Nasdaq or a recognized stock exchange or a regulated market outside of Israel .

This tax rate was contingent upon the shareholder not claiming a deduction for financing expenses in connection with such shares (in which case the capital gain will be taxed at a rate of 25%), and did not apply to: (i) the sale of shares to a relative (as defined in the Tax Ordinance); (ii) the sale of shares by dealers in securities (who were taxed at corporate tax rates for corporations and at marginal tax rates of up to 49% for individuals); (iii) the sale of shares by shareholders

Underwriters	Principal Amount of Capital Securities
	that report in accordance with the Inflationary Adjustments Law (who were taxed at corporate tax rates for corporations and at marginal tax rates of up to 49% for individuals); or (iv) the sale of shares by shareholders who acquired their shares prior to an initial public offering (that are subject to a different tax arrangement). As of January 1, 2006, the tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate wiill be 25%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of shares,

Underwriters	Principal Amount of Capital Securities

unless such companies were not subject to the Inflationary Adjustments Law (or certain regulations) at the time of publication of the aforementioned amendment to the Tax Ordinance that came into effect on January 1, 2006, in which case the applicable tax rate is 25%. However, the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement).

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Non-Residents of Israel

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, provided such

Underwriters	Principal Amount of Capital Securities
	gains are not derived from a permanent establishment of such shareholders in Israel, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided that such capital gains are not attributed to a permanent establishment in Israel and that such shareholders are not subject to the Inflationary Adjustments Law and did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Furthermore, under the income tax treaty between the U.S. and Israel, known as the U.S.-Israel Tax Treaty, a holder of ordinary shares who holds the ordinary shares as a capital asset

Underwriters	Principal Amount of Capital Securities
	and who qualifies as a U.S. resident within the meaning of the U.S.-Israel Tax Treaty and who is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty will be generally exempted from Israeli capital gains tax on the sale, exchange or disposition of ordinary shares unless: (i) the holder owned, directly or indirectly, 10% or more of our voting power at any time during the 12-month period before the sale, exchange or disposition; or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source. However, such residents would be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or

Underwriters	Principal Amount of Capital Securities

local taxes.

A non-resident of Israel who receives passive income such as interest, dividend and royalty income, as well as non-passive income from services rendered in Israel, derived from or accrued in Israel or capital gains derived from the sale of our ordinary shares, from which tax was withheld at the source, is generally exempted from the duty to file tax returns in Israel with respect to such income, provided such income was not derived from a business conducted in Israel by the taxpayer and the taxpayer has no other taxable sources of income in Israel.

Dividend Taxation

On distributions of dividends other than bonus shares or stock dividends, income tax is withheld at the source at the following rates: (i) for dividends distributed prior to January 1, 2006 - 25%; (ii) for dividends distributed on or after January 1, 2006 - 20%, and (iii) 15% for dividends of income generated by an Approved Enterprise (or Benefited Enterprise); unless a different tax rate is provided in a treaty

Underwriters	Principal Amount of Capital Securities

between Israel and the shareholder's country of residence. Such distribution of dividends to Israeli corporations is tax exempt, unless the source of such dividends is income derived outside of Israel.

U.S Residents

Under the U.S.-Israel Tax Treaty, the maximum Israeli tax on dividends paid to a holder of ordinary shares who is a U.S. resident (as defined in the treaty) is 25%, and if such shareholder is a U.S. corporation holding at least 10% of the issued voting shares throughout the tax year in which the dividend is distributed as well as the previous tax year the tax rate is 12.5% (however this reduced rate will not apply if more than 25% of the Company's gross income consists of interest or dividends, other than dividends or interest received from subsidiary corporations), or 15% for dividends of income generated from an Approved Enterprise (or Benefited Enterprise).

United States Federal Income Tax Considerations

Subject to the limitations described in the next

Underwriters	Principal Amount of Capital Securities

paragraph, the following discussion describes the material United States federal income tax consequences of the purchase, ownership and disposition of the ordinary shares to a U.S. holder.

A U.S. holder is:

- an individual citizen or resident of the United States;
- a corporation or another entity taxable as a corporation created or organized under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is includable in gross income for United States federal income tax purposes regardless of its source; or
- a trust, if a United States court is able to exercise primary supervision over its administration and one or more United States persons who have the authority to control all substantial decisions of the trust.

Unless otherwise specifically indicated, this summary does not consider United States tax consequences to a person that is not a U.S. holder and considers only U.S. holders that will own the ordinary shares as capital assets.

Underwriters	Principal Amount of Capital Securities

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, referred to as the Code, current and proposed Treasury regulations promulgated under the Code, and administrative and judicial interpretations of the Code, all as in effect today and all of which are subject to change, possibly with a retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances, like the tax treatment of U.S. holders who are broker-dealers or who own, directly, indirectly or constructively, 10% or more of our outstanding voting shares, U.S. holders holding the ordinary shares as part of a hedging, straddle or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, insurance companies, tax-exempt organizations, financial institutions and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. Additionally, the tax treatment of persons who hold the ordinary shares

Underwriters	Principal Amount of Capital Securities

through a partnership or other pass through entity is not considered, nor are the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

You are advised to consult your own tax advisor with respect to the specific tax consequences to you of purchasing, holding or disposing of the ordinary shares.

Distributions on the Ordinary Shares

Subject to the discussion below under "Passive Foreign Investment Company Status", a distribution paid by us with respect to the ordinary shares to a U.S. holder will be treated as ordinary income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of any distribution which exceeds these earnings and profits will be treated first as a non-taxable return of capital reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the

Underwriters	Principal Amount of Capital Securities
	deemed disposition of the ordinary shares. Dividends paid by us in NIS will be included in the income of U.S. holders at the dollar amount of the dividend, based upon the spot rate of exchange in effect on the date of the distributions. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that U.S. dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will be taxable as ordinary income or loss and will be U.S. source income or loss. Subject to the limitations set forth in the Code, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the Israeli income tax withheld from dividends received in respect of the ordinary shares. The limitations on claiming a foreign tax credit include among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income payable with respect each such class. In this regard, dividends paid by

Underwriters	Principal Amount of Capital Securities

us will generally be foreign source "passive income" for U.S. foreign tax credit purposes or, in the case of a financial services entity, "financial services income." U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the Israeli income tax withheld. The rules relating to foreign tax credits are complex, and you should consult your own tax advisor to determine whether and to what extent you would be entitled to this credit.

Disposition of Ordinary Shares

Subject to the discussion below under "Passive Foreign Investment Company Status", upon the sale or exchange of the ordinary shares, a U.S. holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the U.S. holder's tax basis in the ordinary shares. The gain or loss recognized on the sale or exchange of the ordinary shares generally will be long-term capital gain or loss if the U.S. holder held the ordinary shares for more than one year at the time of the sale or exchange.

Underwriters	Principal Amount of Capital Securities

Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

Passive Foreign Investment Company Status

Generally, a foreign corporation is treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any tax year if, in such tax year, either (i) 75% or more of its gross income is passive in nature, referred to as the "Income Test", or (ii) the average percentage of its assets during such tax year which produce, or are held for the production of, passive income (determined by averaging the percentage of the fair market value of its total assets which are passive assets as of the end of each quarter of such year) is 50% or more, referred to as the "Asset Test".

There is no definitive method prescribed in the Code, U.S. Treasury Regulations or administrative or judicial interpretations thereof for determining the value of a foreign corporation's

Underwriters	Principal Amount of Capital Securities
	assets for purposes of the Asset Test. However, the legislative history of the U.S. Taxpayer Relief Act of 1997, referred to as the 1997 Act, indicates that for purposes of the Asset Test, "the total value of a publicly-traded foreign corporation's assets generally will be treated as equal to the sum of the aggregate value of its outstanding stock plus its liabilities." It is unclear under current interpretations of the 1997 Act whether other approaches could be employed to determine the value of our assets. Under the approach set forth in the legislative history to the 1997 Act, we believe that we would be deemed a PFIC for 2001 and for 2002, principally because a significant portion of our assets continued to consist of cash, cash equivalents and short-term investments from the proceeds of our initial public offering, coupled with the decline in the public market value of our ordinary shares during 2001 and 2002. Based on application of the approach of the 1997 Act, there is a reasonable likelihood that we may not be deemed a PFIC in 2003, 2004 and 2005. A separate determination

Underwriters	Principal Amount of Capital Securities

must be made each year as to whether we are a PFIC. As a result, our PFIC status may change.

Because less than 75% of our gross income in 2002 and in prior years constituted passive income, as defined for purposes of the Income Test, we do not believe that application of the Income Test would have resulted in our classification as a PFIC for any of such years. In addition, we do not believe that application of the Asset Test would have resulted in our classification as a PFIC for any tax year prior to 2001.

If we are treated as a PFIC for U.S. federal income tax purposes for any year during a U.S. holder's holding period of ordinary shares and the U.S. holder does not make a QEF election or a "mark-to-market" election (both as described below), any gain recognized by the U.S. holder upon the sale of ordinary shares (or the receipt of certain distributions) would be treated as ordinary income. This income generally would be allocated over a U.S. holder's holding period with respect to our ordinary shares. The

Underwriters	Principal Amount of Capital Securities
	amount allocated to prior years will be subject to tax at the highest tax rate in effect for that year and an interest charge would be imposed on the amount of deferred tax on the income allocated to prior taxable years. Although we generally will be treated as a PFIC as to any U.S. holder if we are a PFIC for any year during the U.S. holder's holding period, if we cease to satisfy the requirements for PFIC classification, the U.S. holder may avoid the consequences of PFIC classification for subsequent years if he elects to recognize gain based on the unrealized appreciation in the ordinary shares through the close of the tax year in which we cease to be a PFIC. Additionally, if we are treated as a PFIC, a U.S. holder who acquires ordinary shares from a decedent would be denied the normally available step-up in tax basis for these ordinary shares to fair market value at the date of death and instead would have a tax basis equal to the decedent's tax basis in these ordinary shares. A U.S. holder who beneficially owns shares of a PFIC must file Form 8621 (Return by a

Underwriters	Principal Amount of Capital Securities
	Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with the U.S. Internal Revenue Service for each tax year in which he holds shares in a PFIC. This form describes any distributions received with respect to these shares and any gain realized upon the disposition of these shares. For any tax year in which we are treated as a PFIC, a U.S. holder may elect to treat his, her or its ordinary shares as an interest in a qualified electing fund, referred to as a QEF election. In that case, the U.S. holder would be required to include in income currently his proportionate share of our earnings and profits in years in which we are a PFIC regardless of whether distributions of our earnings and profits are actually distributed to the U.S. holder. Any gain subsequently recognized upon the sale by the U.S. holder of his ordinary shares, however, generally would be taxed as capital gain and the denial of the basis step-up at death described above would not apply.

Underwriters	Principal Amount of Capital Securities
	A shareholder may make a QEF election with respect to a PFIC for any taxable year of the shareholder. A QEF election is effective for the year in which the election is made and all subsequent taxable years of the shareholder. Procedures exist for both retroactive elections and the filing of protective statements. A U.S. holder making the QEF election must make the election on or before the due date, as extended, for the filing of the shareholder's income tax return for the first taxable year to which the election will apply. A U.S. holder must make a QEF election by completing Form 8621 and attaching it to their U.S. federal income tax return, and must satisfy additional filing requirements each year the election remains in effect. We will provide to each shareholder, upon request, the tax information required to make a QEF election and to make subsequent annual filings. As an alternative to a QEF election, a U.S. holder generally may elect to mark his ordinary shares to market annually, recognizing ordinary income or loss

Underwriters	Principal Amount of Capital Securities

(subject to certain limitations) equal to the difference between the fair market value of his ordinary shares and the adjusted tax basis of his ordinary shares. Losses would be allowed only to the extent of net mark-to-market gain accrued under the election. If a mark-to-market election with respect to ordinary shares is in effect on the date of a U.S. holder's death, the normally available step-up in tax basis to fair market value will not be available. Rather, the tax basis of the ordinary shares in the hands of a U.S. holder who acquired them from a decedent will be the lesser of the decedent's tax basis or the fair market value of the ordinary shares.

The implementation of many aspects of the Code's PFIC rules requires the issuance of regulations which in many instances have yet to be promulgated and which may have retroactive effect. We cannot be sure that any of these regulations will be promulgated or, if so, what form they will take or what effect they will have on the foregoing discussion.

Underwriters	Principal Amount of Capital Securities

Accordingly, and due to the complexity of the PFIC rules, U.S. holders should consult their own tax advisors regarding our status as a PFIC for 2001 and 2002 and any subsequent years and the eligibility, manner and advisability of making a QEF election or a mark-to-market election, and the effect of these elections on the calculation of the amount of foreign tax credit that may be available to a U.S. holder.

Backup Withholding

A U.S. holder may be subject to backup withholding at rate of 31% with respect to dividend payments and receipt of the proceeds from the disposition of the ordinary shares. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations, or if a U.S. holder provides a tax payer identification number (or certifies that he has applied for a taxpayer identification number), certifies that such holder is not subject to backup withholding or otherwise establishes an exemption. Backup withholding is not an additional tax and may

Underwriters	Principal Amount of Capital Securities

be claimed as a credit against the U.S. federal income tax liability of a U.S. holder, or alternatively, the U.S. holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the Internal Revenue Service.

Non-U.S. Holders of Ordinary Shares

Except as provided below, a non-U.S. holder of ordinary shares except certain former U.S. citizens and long-term residents of the United States generally will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, and the proceeds from the disposition of, an ordinary share, unless such item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States or, in the case of a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business

Underwriters	Principal Amount of Capital Securities
	in the United States. In addition, gain recognized by an individual non-U.S. holder will be subject to tax in the United States if the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met. Non-U.S. holders will not be subject to information reporting or backup withholding with respect to the payment of dividends on ordinary shares unless the payment is made through a paying agent, or an office of a paying agent, in the United States. Non-U.S. holders generally will be subject to information reporting and, under regulations generally effective January 1, 2001, to backup withholding at a rate of 31% with respect to the payment within the United States of dividends on the ordinary shares unless the holder provides its taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. Non-U.S. holders generally will be subject to information reporting and backup withholding at a rate of 31% on the receipt of the proceeds

Underwriters	Principal Amount of Capital Securities
	from the disposition of the ordinary shares to, or through, the United States office of a broker, whether domestic or foreign, unless the holder provides a taxpayer identification number, certifies to its foreign status or otherwise establishes an exemption. Non-U.S. holders will not be subject to information reporting or backup withholding with respect to the receipt of proceeds from the disposition of the ordinary shares by a foreign office of a broker; provided, however, that if the broker is a U.S. person or a "U.S. related person," information reporting (but not backup withholding) will apply unless the broker has documentary evidence in its records of the non-U.S. holder's foreign status or the non-U.S. holder certifies to its foreign status under penalties of perjury or otherwise establishes an exemption. For this purpose, a "U.S. related person" is a broker or other intermediary that maintains one or more enumerated U.S. relationships. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a

Underwriters	Principal Amount of Capital Securities

U.S. holder, or alternatively, the U.S. holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the Internal Revenue Service.

F. Dividends and paying agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the Securities and Exchange Commission, or SEC. You may read and copy any document we file, including any exhibits, with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail

Underwriters	Principal Amount of Capital Securities

from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Certain of our SEC filings are also available to the public at the SEC's website at http://www.sec.gov.

You may request a copy of our SEC filings, at no cost, by writing or calling us at MIND C.T.I. Ltd., Industrial Park, Building 7, Yoqneam, 20692, Israel, Attention: Shalom Bronstein, Chief Financial Officer, telephone 972-4-993-6666. A copy of each report submitted in accordance with applicable United States law is available for review at our principal executive offices.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of changes in the value of our financial instruments as a result of fluctuations in foreign currency exchange rates.

Underwriters	Principal Amount of Capital Securities

We endeavor to limit our balance sheet exposure to the changes between the U.S. dollar and other currencies by attempting to maintain a similar level of assets and liabilities in any given currency, to the extent possible. However, this method of matching levels of assets and liabilities of the same currency is not always possible to achieve.

The following table sets forth our consolidated balance sheet exposure with respect to change in foreign currency exchange rates as of December 31, 2005.

Currency	Current Monetary Assets (Liabilities) - net
	(In US $ thousands)
NIS	(138)
Euro	2,540
Romanian Ron	(163)
Other non-dollar currencies	4
	2,243

Our annual expenses paid in NIS are approximately $6.6 million. Accordingly, we estimate that a hypothetical increase of the value of the NIS against the U.S. dollar by 1% would result in an

Underwriters	Principal Amount of Capital Securities

increase in our operating expenses by approximately $66,000 for the year ended December 31 2006.

During the last quarter of 2004, we deposited an amount of $30 million with several banks for periods between seven and ten years. The arrangements with the banks are described above in Item 5.B.

As of December 31, 2005, we did not hold any instruments that are subject to risk arising from changes in equity prices. Also, we did not hold any derivative financial instruments for either trading or non-trading purposes.

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Underwriters	Principal Amount of Capital Securities

The effective date of our first registration statement, filed on Form F-1 under the Securities Act of 1933 (No. 333-12266) relating to the initial public offering of our ordinary shares, was August 7, 2000. Net proceeds to us were $29.9 million. From the time of receipt through December 31, 2005, all proceeds have been invested in bank deposits.

Item 15. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be included in our periodic reports to the Securities and Exchange Commission is recorded, processed, summarized and reported in a timely manner.

Underwriters	Principal Amount of Capital Securities

In addition, there were no changes in our internal control over financial reporting that occurred during 2005 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has designated Mr. Amnon Neubach as our "audit committee financial expert" as defined by the SEC rules.

Item 16B. Code of Ethics

In April 2004, our board of directors adopted our Code of Ethics, a code that applies to all of our directors and employees.

Item 16C. Principal Accountant Fees and Services

In the annual meeting held in April 2005, our shareholders re-appointed Kesselman & Kesselman, certified public accountants in Israel and a member of PricewaterhouseCoopers International Limited, to serve as our independent auditors. These accountants billed the

Underwriters	Principal Amount of Capital Securities

following fees to us for professional services in each of the last two fiscal years:

	Years Ended December 31,	
	2004	2005
Audit Fees	$ 35,000	$ 55,000
Audit-Related Fees	0	0
Tax Fees	5,000	5,000
All Other Fees	0	0
Total	$40,000	$60,000

Tax Fees. Services comprising fees disclosed under this category includes: preparation of original and amended tax returns; claims for refund; tax advice and assistance related to: dividend distribution, approved enterprise and tax audits and appeals.

Our audit committee's policy is to approve each audit and non-audit service to be performed by our independent accountant before the accountant is engaged.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Underwriters	Principal Amount of Capital Securities

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Our consolidated financial statements for the year ended December 31, 2005 are hereby incorporated into this Annual Report by reference to our Report on Form 6-K furnished to the Securities and Exchange Commission on June 6, 2006.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

Exhibit No.	Exhibit
1.1**	Memorandum of Association, as amended
1.2	Articles of Association, as amended
4.1***	MIND 1998 Share Option Plan
4.2***	MIND 2000 Share Option Plan
8	List of Subsidiaries
10.2*	Registration Rights Agreement by and among MIND C.T.I.

Underwriters		Principal Amount of Capital Securities
	Ltd., Lior Salansky, Monica Eisinger, ADC Teledata Communications Ltd. and the Investors listed therein, dated as of March 30, 2000	
10.3*	Shareholders Agreement by and among MIND C.T.I. Ltd., Lior Salansky, Monica Eisinger, ADC Teledata Communications Ltd. and the Purchasers listed therein, as amended by an amendment agreement dated July 10, 2000	
10.6*	Waiver between Summit, ADC Teledata Communications Ltd., Monica Eisinger and Lior Salansky dated August 1, 2000	
11***	Code of Ethics and Business Conduct	
12.1	Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to &sect302 of the Sarbanes-Oxley Act	
12.2	Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to &sect302 of the Sarbanes-Oxley Act	

Underwriters		Principal Amount of Capital Securities
13.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. &sect 1350, as adopted pursuant to &sect 906 of the Sarbanes-Oxley Act	
13.2	Certification of Principal Executive Officer pursuant to 18 U.S.C. &sect 1350, as adopted pursuant to &sect 906 of the Sarbanes-Oxley Act	

* Incorporated by reference to MIND C.T.I. Ltd.'s Registration Statement (File 333-12266) on Form F-1.

** Incorporated by reference to MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2002 (Commission file number 000-31215).

*** Incorporated by reference to MIND C.T.I. Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (Commission file number 000-31215).

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

MIND CTI LTD.

/s/ Monica Eisinger
==========
By: Monica Eisinger
Title: President & CEO
Date: 06/29/06

EXHIBIT 1.2

THE COMPANIES LAW, 5759 - 1999

A COMPANY LIMITED BY SHARES

FOURTH AMENDED AND RESTATED ARTICLES OF ASSOCIATION OF

MIND C.T.I. LTD.

GENERAL PROVISIONS

1. Object and Purpose of the Company

The object and purpose of the Company shall be as set forth in the Company's Memorandum of Association, as the same shall be amended from time to time in accordance with applicable law.

2. Limitation of Liability

The liability of the shareholders is limited to the payment of the nominal value of the shares in the Company allotted to them and which remains unpaid, and only to that amount. If the Company's share capital shall include at any time shares without a nominal value, the shareholders' liability in respect of such shares shall be limited to the payment of up to NIS 0.01 for each such share allotted to them and which remains unpaid, and only to that amount.

3. Interpretation

a. Unless the subject or the context otherwise requires: words and expressions defined in the Companies Law, 5759-1999 (the "Companies Law"), and in those sections of the Companies Ordinance [New Version], 5743-1983 that are still in force (with respect to such sections), in force on the date when these Articles or any amendment thereto, as the case may be, first became effective shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

b. The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

SHARE CAPITAL

4. Share Capital

a. The share capital of the Company shall be eight hundred eighty thousand New Israeli Shekels (NIS 880,000) divided into eighty-eight million (88,000,000) ordinary shares of a nominal value of one Agora (NIS 0.01) each, which shall be designated as "Ordinary Shares".

b. Rights of Ordinary Shares. The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, as provided in these Articles, including, *inter alia*, the right to receive notices of, and to attend, meetings of the shareholders; for each share held - the right to one vote at all shareholders' meetings for all purposes, and to share equally, on a per share basis, in such dividends as may be declared by the Board of Directors in accordance with the terms of these Articles and the Companies Law, and upon liquidation or dissolution - in the assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company, in accordance with the terms of these Articles and applicable law. All Ordinary Shares rank *pari passu* in all respects with each other.

5. Increase of Share Capital

a. The Company may, from time to time, by resolution of the shareholders ("Shareholders Resolution"), whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

b. Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares of the original capital.

6. Special Rights; Modifications of Rights

a. Without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by Shareholders Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

b. (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by Shareholders Resolution, subject to the sanction of a resolution passed by the holders of a majority of the shares of such class by written consent or at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 6(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

7. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

a. The Company may, from time to time, by Shareholders Resolution (subject, however, to the provisions of Article 6(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles of Association (subject, however, to the provisions of the Companies Law), and the Shareholders Resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

(iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled, or

(iv) reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.

b. With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, *inter alia*, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 7(b)(iv).

SHARES

8. Issuance of Share Certificates; Replacement of Lost Certificates

   a. Share certificates shall be issued under the seal or stamp of the Company and shall bear the signatures of the Company's chief executive officer and chief financial officer, or of any other person or persons authorized thereto by the Board of Directors.

   b. Each shareholder shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if reasonably requested by such shareholder, to several certificates, each for one or more of such shares.

   c. A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Registrar of Shareholders in respect of such co-ownership.

   d. If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board of Directors may think fit.

   e. The Company may issue bearer shares.

9. Registered Holder

   Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any equitable or other claim to, or interest in such share on the part of any other person.

10. Allotment of Shares

    The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including inter alia terms relating to calls as set forth in Article 12(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit.

11. Payment in Installments

If by the terms of allotment of any share, the whole or any part of the price thereof shall be payable in installments, every such installment shall, when due, be paid to the Company by the then registered holder(s) of the share of the person(s) entitled thereto.

12. Calls on Shares

    a. The Board of Directors may, from time to time, make such calls as it may think fit upon shareholders in respect of any sum unpaid in respect of shares held by such shareholders which is not, by the terms of allotment thereof or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

    b. Notice of any call shall be given in writing to the shareholder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such shareholder(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

    c. If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

    d. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

    e. Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

    f. Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

13. Prepayment

    With the approval of the Board of Directors, any shareholder may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 13 shall derogate from the right of the Board of Directors to make any call before or after receipt by the Company of any such advance.

14. Forfeiture and Surrender

    a. If any shareholder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid,

forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

b. Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

c. Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

d. The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

e. Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

f. Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 12(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

g. The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 14.

15. Lien

a. Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements arising from any cause whatsoever, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

b. The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within seven (7) days after written notice of the intention to sell shall have been served on such shareholder, his executors or administrators.

c. The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such shareholder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the shareholder, his executors, administrators or assigns.

16. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Shareholders in respect of such shares, and the purchaser shall not be bound to see to the regularity of the proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Shareholders in respect of such shares, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

17. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same.

18. [reserved]

TRANSFER OF SHARES

19. Effectiveness and Registration

a. No transfer of shares shall be registered unless a proper instrument of transfer (in form and substance satisfactory to the Board of Directors) has been submitted to the Company or its agent, together with any share certificate(s) and such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Shareholders in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof. The Board of Directors, may, from time to time, prescribe a fee for the registration of a transfer.

b. The Board of Directors may, in its discretion and to the extent that it deems necessary, close the Register of Shareholders for the registration of transfer of shares for such periods as may be determined by the Board of Directors, and no transfers of shares shall be registered during any period in which the Register of Shareholders is so closed.

20. Record Date for General Meetings

Notwithstanding any provision to the contrary in these Articles, for the determination of the shareholders entitled to receive notice of and to participate in and vote at a General Meeting, or to express consent to or dissent from any corporate action in writing, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of shares of the Company, the Board of Directors may fix, in advance, a record date, which, subject to applicable law, shall not be earlier than ninety (90) days prior to the General Meeting or other action, as the case may be. No persons other than holders of record of shares as of such record date shall be entitled to notice of and to participate in and vote at such General Meeting, or to exercise such other right or receive such other benefit, as the case may be. A determination of

shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting, provided that the Board of Directors may fix a new record date for an adjourned meeting.

TRANSMISSION OF SHARES

21. Decedents' Shares

    a. In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 21(b) have been effectively invoked.

    b. Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

22. Receivers and Liquidators

    a. The Company may recognize the receiver or liquidator of any corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, as being entitled to the shares registered in the name of such shareholder.

    b. The receiver or liquidator of a corporate shareholder in winding-up or dissolution, or the receiver or trustee in bankruptcy of any shareholder, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares, or may, subject to the regulations as to transfer herein contained, transfer such shares.

GENERAL MEETINGS

23. Annual General Meeting

    An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

24. Extraordinary General Meetings

    All General Meetings other than Annual General Meetings shall be called "Extraordinary General Meetings." The Board of Directors may, whenever it thinks fit, convene an Extraordinary General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a requisition in writing in accordance with Sections 63(b)(1) or (2) of the Companies Law.

25. Notice of General Meetings

    The Company is not required to give notice under Section 69(b) of the Companies Law.

PROCEEDINGS AT GENERAL MEETINGS

26. Quorum

a. Two or more shareholders (not in default in payment of any sum referred to in Article 32(a) hereof), present in person or by proxy and holding shares conferring in the aggregate at least twenty-five percent (25%) of the voting power of the Company (subject to rules and regulations, if any, applicable to the Company), shall constitute a quorum at General Meetings. No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

b. If within an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition under Sections 63(b)(1) or (2), 64 or 65 of the Companies Law, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, any two (2) shareholders (not in default as aforesaid) present in person or by proxy, shall constitute a quorum (subject to rules and regulations, if any, applicable to the Company).

c. The Board of Directors may determine, in its discretion, the matters that may be voted upon at the meeting by proxy in addition to the matters listed in Section 87(a) to the Companies Law.

27. Chairman

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the shareholders present shall choose someone of their number to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

28. Adoption of Resolutions at General Meetings

a. Unless other provided herein, a Shareholders Resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

b. A Shareholders Resolution approving a merger (as defined in the Companies Law) of the Company shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

c. Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by any shareholder present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another shareholder may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

d. A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

29. Resolutions in Writing

A resolution in writing signed by all shareholders of the Company then entitled to attend and vote at General Meetings or to which all such shareholders have given their written consent (by letter, facsimile [telecopier], telegram, telex or otherwise), or their oral consent by telephone (provided that a written summary thereof has been approved and signed by the Chairman of the Board of Directors of the Company) shall be deemed to have been unanimously adopted by a General Meeting duly convened and held.

30. Power to Adjourn

a. The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

b. It shall not be necessary to give any notice of an adjournment, whether pursuant to Article 26(b) or Article 30(a), unless the meeting is adjourned for thirty (30) days or more in which event notice thereof shall be given in the manner required for the meeting as originally called.

31. Voting Power

Subject to the provisions of Article 32(a) and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every shareholder shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote hereon is conducted by a show of hands, by written ballot or by any other means.

32. Voting Rights

a. No shareholder shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid, but this Article shall not apply to separate General Meetings of the holders of a particular class of shares pursuant to Article 6(b).

b. A company or other corporate body being a shareholder of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him prior to the conclusion of the meeting.

c. Any shareholder entitled to vote may vote either personally or by proxy (who need not be a shareholder of the Company), or, if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 32(b).

d. If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in

the Register of Shareholders.

PROXIES

33. Instrument of Appointment

a. The instrument appointing a proxy shall be in writing and shall be substantially in the following form:
"I _____ of _____
(Name of Shareholder) (Address of Shareholder)
being a shareholder of _____ hereby appoint
(Name of the Company)
_____ of _____
(Name of Proxy) (Address of Proxy)
as my proxy to vote for me and on my behalf at the General Meeting of the Company to be held on the _____ day of _____, 19__ and at any adjournment(s) thereof.
Signed this _____ day of _____, 19__.

_____
(Signature of Appointer)"
or in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s). Upon the request of the Company, written evidence of such authorization (in form acceptable to the Company) shall be delivered to the Company prior to the conclusion of the meeting.

b. The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than seventy two (72) hours (or such shorter period as determined by the Board of Directors) before the time fixed for the meeting at which the person named in the instrument proposes to vote.

c. For as long as any of the Company's securities are publicly traded on a U.S. market or exchange, all proxy solicitations by persons other than the Board of Directors shall be undertaken pursuant to the U.S. Proxy Rules, whether or not applicable to the Company under U.S. law.

34. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written intimation of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing shareholder, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

35. Powers of Board of Directors

a. In General

The management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in General Meeting. The authority conferred on the Board of Directors by this Article 35 shall be subject to the provisions of the Companies Law, of these Articles and any regulation or resolution consistent with these Articles adopted from time to time by the Company in General Meeting, provided, however, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such regulation or resolution had not been adopted.

b. Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

c. Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

d. Protective Measures

The Board of Directors may, at any time in its sole discretion, adopt protective measures to prevent or delay a coercive takeover of the Company, including without limitation the adoption of a "Shareholder Rights Plan."

36. Exercise of Powers of Directors

a. A meeting of the Board of Directors at which a quorum is present (whether in person, by conference call or by any other device allowing the participating Directors to hear each other simultaneously) shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors,

b. A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a majority of the Directors present when such resolution is put to a vote and voting thereon.

c. A resolution may be adopted by the Board of Directors without convening a meeting if all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee or, in the absence of such determination, by the Chairman of the Board of

Directors) have given their consent (in any manner whatsoever) not to convene a meeting. Such a resolution shall be adopted if approved by a majority of the Directors entitled to vote thereon (as determined as aforesaid). The Chairman of the Board shall sign any resolutions so adopted, including the decision to adopt said resolutions without a meeting.

37. Delegation of Powers

a. The Board of Directors may, subject to the provisions of the Companies Law, delegate any or all of its powers to committees, each consisting of two or more persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

b. Without derogating from the provisions of Article 50, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board of Directors may think fit, and may terminate the service of any such person. The Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

c. The Board of Directors may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

38. Number of Directors

Until otherwise determined by Shareholders Resolution of the Company, the Board of Directors shall consist of not less than three (3) nor more than nine (9) Directors, at least two (2) of which shall be External Directors in accordance with the Companies Law (the "External Directors").

39. Election and Removal of Directors

a. The Board of Directors of the Company shall be divided into three (3) classes of Directors, designated as Class I, Class II, and Class III, which shall be differentiated by the dates of commencement and expiration of the terms of office of their respective Directors. The number of Directors in each class shall be divided equally, so far as practicable, among the classes. The initial terms of office of the Directors of the respective classes shall be as follows:

A. Class I Directors shall serve until the Annual General Meeting to be convened in 2001;

B. Class II Directors shall serve until the Annual General Meeting to be convened in 2002; and

C. Class III Directors shall serve until the Annual General Meeting to be convened in 2003,

until their respective successors shall be duly elected. At each Annual General Meeting, beginning with the Annual General Meeting to be convened in 2001, the Directors elected or re-elected to the

class whose term expires at such meeting shall serve until the Annual General Meeting to be convened in the third year following such election or re-election.

b. Directors shall be elected at General Meetings by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors.

c. Notwithstanding anything to the contrary in these Articles of Association, the affirmative vote of at least 75% of the shares present, in person or by proxy, and voting on the matter shall be required to amend or repeal this Article 39 or to remove any Director prior to the expiration of his or her term.

d. Notwithstanding anything to the contrary in the foregoing provisions of Article 39, the foregoing provisions of this Article 39 shall not apply to the Company's External Directors, who shall not be members of any class and shall serve pursuant to the provisions of the Companies Law.

e. Notwithstanding anything to the contrary herein, the term of a Director may commence as of a date later than the date of the Shareholder Resolution electing said Director, if so specified in said Shareholder Resolution.

40. Qualification of Directors

No person shall be disqualified to serve as a Director by reason of his not holding shares in the Company or by reason of his having served as a Director in the past.

41. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in any class of Directors, the continuing Directors may continue to act in every matter and may temporarily fill any such vacancy in such class, provided, however, that if the continuing Directors number less than a majority of the number provided for pursuant to Article 38 hereof, they may only act in an emergency, and may call a General Meeting of the Company for the purpose of electing Directors to fill any or all vacancies, so that at least a majority of the number of Directors provided for pursuant to Article 38 hereof are in office as a result of said meeting.

42. Vacation of Office

a. The office of a Director shall be vacated, ipso facto, upon his death, or if he be found lunatic or become of unsound mind, or if he become bankrupt, or, if the Director is a company, upon its winding-up.

b. The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved by a Shareholders Resolution, except for reimbursement of expenses incurred in connection with fulfilling his duties as a Director.

44. Conflict of Interests

Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Director in which contract or business such Director has a personal interest, directly or indirectly; and may enter into any contract of otherwise transact any business with any third party in which contract or business a Director has a personal interest, directly or indirectly. Any Director who has such a personal interest shall notify the other Directors with respect thereto prior to any discussion or vote on the matter by the Board of Directors.

45. [reserved]

PROCEEDINGS OF THE BOARD OF DIRECTORS

46. Meetings

The Board of Directors may meet and adjourn its meetings and otherwise regulate such meetings and proceedings as the Board of Directors think fit. Notice of the meetings of the Board of Directors shall be sent to each Director at the last address that the Director provided to the Company.

47. Quorum

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence of a majority of the Directors then in office who are lawfully entitled to participate in the meeting (as conclusively determined by the Chairman of the Audit Committee and in the absence of such determination - by the Chairman of the Board of Directors), but shall not be less than two.

48. Chairman of the Board of Directors

The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting. The Chairman shall not have a casting vote.

49. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

50. General Manager

The Board of Directors may from time to time appoint one or more persons, whether or not Directors, as General Manager(s) of the Company and may confer upon such person(s), and from time to time modify or revoke, such title(s) (including Managing Director, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such person and the Company) fix his or their salaries and emoluments, remove or dismiss him or them from office and appoint another or others in his or their place or places.

MINUTES

51. Minutes

a. Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

b. Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facia evidence of the matters recorded therein.

DIVIDENDS

52. Declaration and Payment of Dividends

The Board of Directors may from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be justified. The Board of Directors shall determine the time for payment of such dividends, and the record date for determining the shareholders entitled thereto.

53. [reserved]

54. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends and without derogating from the provisions of Article 35(d) above, any dividend paid by the Company shall be allocated among the shareholders entitled thereto in proportion to their respective holdings of the shares in respect of which such dividend is being paid.

55. Interest

No dividend shall carry interest as against the Company.

56. Payment in Specie

Upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of specific assets of the Company or by distribution of paid up shares, debentures or debenture stock of the Company or of any other companies, or in any one or more of such ways.

57. Capitalization of Profits, Reserves etc.

Upon the resolution of the Board of Directors, the Company -

a. may cause any moneys, investments, or other assets forming part of the undivided profits of the Company, standing to the credit of a reserve fund, or to the credit of a reserve fund for the redemption of capital, or in the hands of the Company and available for dividends, or representing premiums received on the issuance of shares and standing to the credit of the share premium account, to be capitalized and distributed among such of the shareholders as would be entitled to receive the same if distributed by way of dividend and in the same proportion, on the footing that they become entitled thereto as capital, or may cause any part of such capitalized fund to be applied on behalf of such shareholders in paying up in full, either at par or at such premium as the resolution may provide, any unissued shares or debentures or debenture stock of the Company which shall be distributed accordingly, in payment, in full or in part, of the uncalled liability on any issued shares or debentures or debenture stock;and

b. may cause such distribution or payment to be accepted by such shareholders in full satisfaction of their interest in the said capitalized sum.

58. Implementation of Powers under Articles 56 and 57

For the purpose of giving full effect to any resolution under Articles 56 or 57, and without derogating from the provisions of Article 7(b) hereof, and subject to applicable law, the Board of Directors may settle any difficulty which may arise in regard to the distribution as it thinks expedient, and, in particular, may issue fractional certificates, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any shareholders upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board of Directors.

59. Deductions from Dividends

The Board of Directors may deduct from any dividend or other moneys payable to any shareholder in respect of a share any and all sums of money then payable by him to the Company on account of calls or otherwise in respect of shares of the Company and/or on account of any other matter of transaction whatsoever.

60. Retention of Dividends

a. The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

b. The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any person is, under Articles 21 or 22, entitled to become a shareholder, or which any person is, under said Articles, entitled to transfer, until such person shall become a shareholder in respect of such share or shall transfer the same.

61. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

62. Mechanics of Payment

Any dividend or other moneys payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may by writing direct. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check or warrant shall be sent at the risk of the person entitled to the money represented thereby.

63. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give effectual

receipts for any dividend or other moneys payable or property distributable in respect of such share.

ACCOUNTS

64. Books of Account

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of the Companies Law and of any other applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No shareholder, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by a Shareholders Resolution. The Company shall make copies of its annual financial statements available for inspection by the shareholders at the principal offices of the Company. The Company shall not be required to send copies of its annual financial statements to shareholders, except upon specific request and upon said request the Company shall send copies by e-mail.

65. Audit

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

66. Auditors

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law. The Audit Committee of the Company shall have the authority to fix, in its discretion, the remuneration of the auditor(s) for the auditing services.

BRANCH REGISTERS

67. Branch Registers

Subject to and in accordance with the provisions of the Companies Law and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board of Directors may think fit, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RIGHTS OF SIGNATURE, STAMP AND SEAL

68. Rights of Signature, Stamp and Seal

a. The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

b. The Company shall have at least one official stamp.

c. The Board of Directors may provide for a seal. If the Board of Directors so provides, it shall also provide for the safe custody thereof. Such seal shall not be used except by the authority of the Board of Directors and in the presence of the person(s) authorized to sign on behalf of the Company, who shall sign every instrument to which such seal is affixed.

NOTICES

69. Notices

a. Any written notice or other document may be served by the Company upon any shareholder either personally or by sending it by prepaid mail addressed to such shareholder at his address as described in the Register of Shareholders or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any shareholder upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served (i) in the case of mailing, two (2) business days after it has been posted (seven (7) business days if sent internationally), or when actually received by the addressee if sooner than two (2) days or seven (7) days, as the case may be, after it has been posted; (ii) in the case of overnight air courier, on the third (3rd) business day following the day sent, with receipt confirmed by the courier, or when actually received by the addressee if sooner than three (3) business days after it has been sent; (iii) in the case of personal delivery, on the date such notice was actually tendered in person to such shareholder (or to the Secretary or the General Manager); (iv) in the case of facsimile transmission, on the date on which the sender receives automatic electronic confirmation by the recipient's facsimile machine that such notice was received by the addressee. The mailing date or publication date and the date of the meeting shall be counted as part of the days comprising any notice period. Notice may be sent by cablegram, telex, telecopier (facsimile) or other electronic means and confirmed by registered mail as aforesaid. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 69(a).

b. All notices to be given to the shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Shareholders, and any notice so given shall be sufficient notice to the holders of such share.

c. Any shareholder whose address is not described in the Register of Shareholders, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

d. Notwithstanding anything to the contrary herein: notice by the Company of a General Meeting which is published in two daily newspapers in Israel, if at all, shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel, and notice by the Company of a General Meeting which is published in one daily newspaper in New York, New York, U.S.A. or in one international wire service shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located outside Israel.

INSURANCE AND INDEMNITY

70. Exculpation, Indemnity and Insurance

a. For purposes of these Articles, the term "Office Holder" shall mean every Director and every officer of the Company, including, without limitation, each of the persons defined as "Nosei Misra" in the Companies Law.

b. Subject to the provisions of the Companies Law, the Company may prospectively exculpate an Office Holder from all or some of the Office Holder's responsibility for damage resulting from the Office

Holder's breach of the Office Holder's duty of care to the Company.

c. Subject to the provisions of the Companies Law, the Company may indemnify an Office Holder in respect of an obligation or expense specified below imposed on or incurred by the Office Holder in respect of an act performed in his capacity as an Office Holder, as follows:

   i. a financial obligation imposed on him in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by court;

   ii. reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and,

   iii. reasonable litigation expenses, including attorney's fees, expended by an Office Holder or charged to the office Holder by a court, in proceeding instituted against the Office Holder by the Company or on its behalf or by another person, or in a criminal charge from which the Office Holder was acquitted, or in a criminal proceeding in which the Office Holder was convicted of an offense that does not require proof of criminal intent.

   The Company may undertake to indemnify an Office Holder as aforesaid, (aa) prospectively, provided that, in respect of Article 70 (c)(i), the undertaking is limited to events which in the opinion of the Board of Directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the Board of Directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify, and (bb) retroactively.

d. Subject to the provisions of the Companies Law, the Company may enter into a contract for the insurance of all or part of the liability of any Office Holder imposed on the Office Holder in respect of an act performed in his capacity as an Office Holder, in respect of each of the following:

   i. a breach of his duty of care to the Company or to another person;

   ii. a breach of his duty of loyalty to the Company, provided that the Office Holder acted in good faith and had reasonable cause to assume that such act would not prejudice the interests of the Company;>

   iii. a financial obligation imposed on him in favor of another person.

e. The provisions of Articles 70(a), 70(b) and 70(c) above are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance and/or in respect of indemnification (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, and/or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; provided that the procurement of any such insurance and/or the provision of any such indemnification shall be approved by the Audit Committee of the Company.

f. Any amendment to the Companies Law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 70 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law.

WINDING UP

71. Winding Up

If the Company be wound up, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, the assets of the Company available for distribution among the shareholders shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

EXHIBIT 8

List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation
MIND C.T.I. Inc.	New Jersey
MIND Software SRL	Romania
DIROT COMP SRL	Romania
Sentori, Inc.	Delaware

EXHIBIT 12.1

Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act

I, Monica Eisinger, President and Chief Executive Officer of MIND C.T.I. Ltd., certify that :

1. I have reviewed this annual report on Form 20-F of MIND C.T.I. Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over fina

/s/ Monica Eisinger

_____

Dated: 06/29/2006

Monica Eisinger
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 12.2

Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act

I, Shalom Bronstein, Chief Financial Officer of MIND C.T.I. Ltd., certify that:

1. I have reviewed this annual report on Form 20-F of MIND C.T.I. Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    c. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

/s/ Shalom Bronstein

_____

Dated: 06/29/2006

Shalom Bronstein
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 13.1

Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350,
as adopted pursuant to § 906 of the Sarbanes-Oxley Act

In connection with the annual report on Form 20-F for the fiscal year ended December 31, 2005 of MIND C.T.I. Ltd. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "Commission") on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Monica Eisinger, President and Chief Executive Officer of the Company, certify that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Monica Eisinger

_____

Dated: 06/29/2006

Monica Eisinger
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 13.2

Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350,
as adopted pursuant to § 906 of the Sarbanes-Oxley Act

In connection with the annual report on Form 20-F for the fiscal year ended December 31, 2005 of MIND C.T.I. Ltd. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "Commission") on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Shalom Bronstein, Chief Financial Officer of the Company, certify that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Shalom Bronstein

_____

Dated: 06/29/2006

Shalom Bronstein
Chief Financial Officer
(Principal Financial Officer)