PRUDENTIAL PLC
Form 6-K
March 14, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of March,2008

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

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

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

Form 20-F X   Form 40-F

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

Yes   No X

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

Enclosures: Full Years Results 2007

Embargo: 7.00am Friday 14 March 2008

PRUDENTIAL PLC DELIVERS OUTSTANDING 2007 FULL YEAR RESULTS

EEV operating profit up 25%, doubled over past three years

- New business APE of GBP2,874 million, up 21%
- EEV operating profit of GBP2,542 million, up 25%
- New business profit of GBP1,215 million, up 22%, with Group margin of 42%(2006: 42%)

- Asia new business profit up 34% at GBP653m
- Asia is expected to deliver doubling of 2005 EEV new business profit a year early
- Jackson new business profit up 19% at GBP285m
- UK retail new business profit up 17%, with total new business profit up 4% at GBP277m
- Asset management operating profit GBP334m up 28% on last year
- IFRS statutory operating profit of GBP1,213 million, up 20%
- EEV shareholders' funds up 24% to GBP14.8 billion
- 2007 dividend increased by 5% to 18 pence per share

All figures compared to 2006 at constant exchange rates

Commenting, Mark Tucker, Group Chief Executive said:

"These outstanding results, with new business profit up 22 per cent to GBP1,215 million, demonstrate excellent and continued momentum in the successful delivery of the Group's retirement led strategy. Group EEV operating profit has doubled over the past three years.

"Each of our businesses is performing strongly representing a powerful geographic spread to our growth platform. Spectacular growth in Asia has been accompanied by a very strong performance by the US and clear profit growth in the UK. Combined with our excellent performance in asset management across the Group, these results demonstrate the benefits of Prudential's diversified, international strategy.

"That strategy is focused on continued and profitable growth. Our market presence and product capability, coupled with strong management teams, puts us in a great position for continued value creation. Overall, the prospects for the Group in 2008 remain positive. Over the longer-term the demographic, economic and social factors driving our business will continue and we are well positioned to capture a greater share of that growth."

Group Chief Executive's Review

In 2007, the Group's operating performance was outstanding building on the very strong momentum established in 2005 and 2006.

The combination of our retirement-led strategy, a clear focus on generating profitable growth and excellence in the delivery of our plans are driving shorter-term performance and also placing the Group in a strong position from which to outperform in the longer-term.

The retirement market offers significant long-term sustainable growth opportunities as the biggest demographic wave in history transitions out of the work-force and into retirement. The Prudential Group has a strong presence in this sector based on our financial strength, our investment and risk management skills, our brands and our product and distribution expertise.

The Group has the flexibility to optimise its capture of the retirement opportunity as it develops in each of our chosen markets and our business model

creates significant financial and operational synergies. Within each market our focus is to operate in areas where we see sustainable competitive advantage and in products and distribution channels that have sound and sustainable economics.

Group performance

Group operating profit before tax from continuing operations, on the European Embedded Value (EEV) basis increased by 25 per cent in the year to GBP2,542 million and has doubled over a three year period. The Group's return on embedded value was 15.4 per cent (2006: 14.5 per cent).

On the statutory IFRS basis, operating profit before tax from continuing operations was up 20 per cent to GBP1,213 million, almost doubling over a three year period.

Across the Group's insurance operations new business increased by 21 per cent to GBP2,874 million, on an APE basis and profit on new business was GBP1,215 million, up 22 per cent. Average margin across the Group was maintained at 42 per cent (2006: 42 per cent).

Operating profit in the Group's asset management operations increased by 28 per cent, to GBP334 million in what was an excellent year for these businesses in increasingly challenging conditions.

The cash flow position continued to improve and we are progressing well towards our target of being operating cash flow positive at the Group level in 2008. The Group's operating cash flow in 2007 was negative GBP82 million. During the year the Group received GBP527 million from the sale of Egg, the UK internet banking operation, this resulted in an overall Group cash inflow of GBP445 million.

The Group's balance sheet and regulatory capital position remain robust. In particular, across the Group we have been cautious on credit for some time and we have been increasingly moving the portfolio to a more defensive position. Outside the normal market value movements across the Group related to interest rates and widening credit spreads net credit losses on debt securities in the US were GBP78 million.

The Board has recommended a final dividend of 12.3 pence per share, bringing the full year dividend to 18 pence per share, an increase of 5 per cent. The dividend was covered 1.9 times by post-tax IFRS operating profit from continuing operations.

The Board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium-term a dividend cover of around two-times is appropriate.

Insurance operations

In Asia we continue to power ahead with the region accounting for 54 per cent of new business profits. New business on an APE basis, increased by 44 per cent to GBP1,306 million and all businesses across the region grew by 15 per cent or more.

New business profit was GBP653 million, up 34 per cent. Having achieved compound growth of 26 per cent since 2005 we expect to deliver, one year earlier than previously stated, on our target of at least doubling 2005 new business profit by 2009. EEV operating profit in Asia exceeded GBP1 billion for the first time this year as the business goes from strength to strength.

Growth in our proprietary agency force, greater agency productivity and the

continuing development of non-agency distribution, in particular bancassurance, remain central to our success.

The agency force across the region increased by 125,000 to 410,000 during the year and there was significant expansion in India where average agent numbers more than doubled to 238,000. Throughout the rest of the region the average number of agents increased by 10 per cent 112,000. Agency productivity has also moved ahead strongly in a number of markets including Singapore, Hong Kong and Vietnam. The continuing success of our multi-distribution approach led to sales through non-agency channels increasing by 44 per cent and we added a number of important new distribution relationships.

The retirement opportunity in the region is emerging rapidly and we are developing innovative integrated savings and protection solutions to meet consumers' increasingly sophisticated needs. Our retirement campaigns under the banner "What's your number?" have had considerable success in Korea, Taiwan and Hong Kong and we are now rolling this concept out into other markets.

There is also significant scope to develop our positioning in the health insurance market across the region and, with the launch of a number of new products, notably in Singapore and India, sales of health products in the year have increased by 45 per cent.

The US is the largest retirement market in the world and our long-term strategy has been to position Jackson to meet the pre and post-retirement needs of the baby boomer generation. In 2007, variable annuity new business increased by 29 per cent to GBP455 million, on an APE basis. Jackson has been the fastest growing variable annuity provider in the US over the past six years, clearly demonstrating the success of our strategy and our advice based approach.

The variable annuity product in the US is increasingly being used by the consumer to provide an income in retirement. In 2007, almost two-thirds of Jackson's customers were over 55 and two-thirds of all variable annuity sales included a guaranteed minimum withdrawal benefit. Jackson continues to innovate and develop its market leading Perspective II product, which has been the top-selling variable annuity contract in the fast growing Independent Broker channel for each of the last 5 years.

Overall new business in the US increased by 19 per cent to GBP671 million, on an APE basis, new business profit also increased by 19 per cent with margins maintained at 42 per cent and an internal rate of return of 19 per cent.

In 2007 we set out our strategy in the UK to focus primarily on the retirement income market based in particular on our strengths in the annuity market but also the developing lifetime mortgage and income drawdown markets. In the retirement savings market we have exited those product areas that are structurally unprofitable and launched a new range of factory gate priced savings products.

Retail new business increased by 4 per cent in a market where the competitive pressures increased still further during the year. In 2007 we also completed the transfer of Equitable Life's GBP1.7 billion in-force portfolio of with-profits annuities: however in general pricing across the bulk market was not adequate to meet our return on capital requirements and we chose not to write business at uneconomic levels.

The margin at 31 per cent (2006: 30 per cent) remained high in comparison to the overall UK market as did the internal rate of return which was 18 per cent including the Equitable Life transaction and 14 per cent excluding it. Our target internal rate of return in the UK is 14%.

By the end of 2007, GBP115 million of the cost saving target of GBP195 million

had been delivered and plans are in place to deliver the additional GBP80 million. A key milestone this year in the UK was the signing of a major contract to outsource a large proportion of its back book and new business policy administration. The outsource agreement will allow us to remove fixed costs from our operations and to achieve significant operating efficiencies with an expected positive effect on embedded value estimated at GBP60 million by 2011.

The in-force profit for the UK business includes a charge in respect of a mortality assumption change on the annuity business of GBP312 million which is fully offset by a release of excess margins previously held.

In 2007 we announced that the Group would consider a reattribution of the inherited estate held in the with-profits sub fund of The Prudential Assurance Company Limited. We are continuing to explore the possibility of a reattribution and we aim to be in a position in the first half of 2008 to determine whether this would be in the best interests of policyholders and shareholders.

Asset management

The Group's asset management businesses had another excellent year. Our international investment management expertise continues to add value to our insurance operations and also supported the growth in external funds under management to GBP69 billion at the end of 2007 (2006: GBP57 billion).

M&G's net inflows were the second highest on record at GBP5 billion and profit increased by 25 per cent to GBP254 million. Our business in Asia continued its excellent growth record with net inflows of GBP3 billion and operating profit growing to GBP72 million, up 53 per cent.

Our skills in risk management and our strength across all asset classes in the UK, the US and in Asia combined with our multi-asset allocation capabilities, position us well to meet the diverse needs of our customers for savings, retirement income and protection products.

This is clearly evidenced in the UK where the main with-profits fund, with assets of over GBP74 billion, was ranked first in 2006 in the WM Company's survey of with-profits funds, based on gross investment performance over 1, 3, 5 and 10 years. In the US, one of the key drivers of our success is our ability to provide customised and highly flexible benefit options within our main variable annuity product that are individually priced for the customer and, in Asia we continue to see success in our targeted unit-linked and protection products.

Priorities for the Group in 2008

Our overriding objective for 2008 remains that of continuing to create value for our shareholders by fully exploiting the power of our retirement-led strategy and continuing to expand the excellent businesses that we have in place today.

Life insurance

In Asia:

- Expand the agency force and continue to improve productivity
- Maximise the potential from non-agency distribution and add new partners
- Further develop direct marketing channels and up-sell and cross-sell
- Increased focus on retirement services and health products

In the US:

- Continue to innovate around our key variable annuity product
- Enhance further our already world-class operating platform

- Expand retail distribution
- Selectively participate in the institutional market

In the UK:

- Build on our strengths in the retirement market and risk products
- Migrate to factory-gate cautiously managed asset accumulation products
- Deliver on the cost reduction program including the outsource program

- Selectively participate in the wholesale market
- Determine whether it is in the best interest of policyholders and shareholders to pursue a reattribution of the inherited estate

Asset management:

- Maintain superior investment performance for both internal and external funds
- Extend third party retail and institutional businesses

Outlook

There is significant volatility and nervousness in markets and it seems clear that there will be a period of less attractive economic growth trends in the US and in the UK than we have seen in recent years. Notwithstanding this, we believe that our strategy and our business model are very robust and will continue to deliver sustainable value.

In Asia, the fundamentals underpinning economic growth remain powerful and our businesses are very well placed to benefit. We expect to deliver, one year earlier than previously stated, on our target of at least doubling 2005 new business profit by 2009.

In the US, our record of out performance is set to continue and our value driven strategy in the UK is on track. In the UK we have already de-emphasised those products which might have been more sensitive to market conditions.

Our asset management businesses, although more directly influenced by market movements, are well placed to capitalise on their strong market positions and investment performance to deliver net flows and profit growth.

Overall the prospects for the Group in 2008 remain positive. Over the longer-term the demographic, economic and social factors driving our business will continue and we are ideally positioned to capture a greater share of that growth.

ENDS

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Notes to Editors:

1. In addition to the financial statements provided with this press release, additional financial schedules, including full details of the Group's investments, are available on the Group's website at www.prudential.co.uk

2. The results in this announcement are prepared on two bases:

International Financial Reporting Standards ('IFRS') and European Embedded Value ('EEV'). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. Where appropriate the EEV basis results include the effects of IFRS.

Period on period percentage increases are stated on a constant exchange rate basis.

3. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.

4. Present value of new business premiums (PVNBP) are calculated as equalling single premiums plus the present value of expected new business premiums of regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

5. An interview with Mark Tucker, Group Chief Executive, (in video/audio/ text) will be available on www.cantos.com and www.prudential.co.uk from 7.00am today.

6. There will be a conference call today for wire services at 7.30am (GMT) hosted by Mark Tucker, Group Chief Executive and Philip Broadley, Group Finance Director. Dial in telephone number: 020 8609 0793. Passcode: 155439#.

7. A presentation to analysts will take place at 9.30am (GMT) at Governor's House, Laurence Pountney Hill, London, EC4R 0HH. An audio cast of the presentation and the presentation slides will be available on the Group's website, www.prudential.co.uk

8. A media conference will take place at 11.30am (GMT) at 12 Arthur Street, London, EC4R 9AQ. To attend please call Claire Glover on 020 7548 2007.

9. High resolution photographs are available to the media free of charge at www.newscast.co.uk on +44 (0) 207 608 1000 or by calling Claire Glover on 020 7548 2007.

10. Total number of Prudential plc shares in issue as at 31 December 2007 was 2,470,017,240.

11. Financial Calendar 2008:

First Quarter New Business Results	17 April 2008
Annual General Meeting	15 May 2008
Interim Results	31 July 2008
Third Quarter 2008 New Business Results	21 October 2008
2007 Final Dividend	
Ex-dividend date	9 April 2008
Record date	11 April 2008
Payment of dividend	20 May 2008
2008 Interim Dividend	
Ex-dividend date	13 August 2008
Record date	15 August 2008
Payment of dividend	23 September 2008

About Prudential

Prudential plc is a company incorporated and with its principal place of business in England, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services directly and through its subsidiaries and affiliates throughout the world. It has been in existence since 1848 and has GBP267 billion in assets under management as at 31 December 2007. Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

Forward-Looking Statements

This statement may contain certain "forward-looking statements" with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", " seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make.

PRUDENTIAL PLC 2007 PRELIMINARY ANNOUNCEMENT

RESULTS SUMMARY

European Embedded Value (EEV) Basis Results*

Asian operations
US operations
UK operations:
   UK insurance operations
   M&G

Other income and expenditure
Restructuring costs

Operating profit from continuing operations based on longer-term investment returns*
Short-term fluctuations in investment returns
Mark to market value movements on core borrowings

Shareholders' share of actuarial gains and losses on defined benefit pension schemes
Effect of changes in economic assumptions and time value of cost of options and guarantees

Profit from continuing operations before tax (including actual investment returns)

Operating earnings per share from continuing operations after related tax and minority interests*
Basic earnings per share
Shareholders' equity, excluding minority interests

International Financial Reporting Standards (IFRS) Basis Results*

Statutory IFRS basis results

Profit after tax attributable to equity holders of the Company
Basic earnings per share
Shareholders' equity, excluding minority interests

Supplementary IFRS basis information

Operating profit from continuing operations based on longer-term investment returns*
Operating earnings per share from continuing operations after related tax and minority interests*

Dividends per share declared and paid in reporting period

Dividends per share relating to reporting period

Funds under management

*Basis of preparation

Results bases

The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV disclosures published in October 2005. The basis of preparation of statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2006 results and financial statements.

Operating profit based on longer-term investment returns

Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits from continuing operations based on longer-term investment returns, after related tax and minority interests. These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes the mark to market value movements on core

borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. After adjusting for related tax and minority interests, the amounts for these items are included in the calculation of basic earnings per share.

Discontinued operations

The results for continuing operations shown above and throughout this preliminary announcement exclude those in respect of discontinued banking operations. On 1 May 2007, the Company sold Egg. Accordingly, the presentation of the comparative results for 2006 has been adjusted from those published in March 2007.

REVIEW OF OPERATING AND FINANCIAL RESULTS

Results highlights

	2007 GBPm	CER 2006 GBPm	Change %	RER (4)(5) 2006 GBPm
Annual premium equivalent (APE) sales	2,874	2,374	21%	2,470
Present value of new business premiums (PVNBP)	21,302	18,192	17%	18,947
Net investment flows	7,975	8,511	(6%)	8,633
External funds under management	68,669	57,497	19%	57,199
New business profit (NBP)	1,215	992	22%	1,039
NBP Margin (% APE)	42%	42%		42%
NBP Margin (% PVNBP)	5.7%	5.5%		5.5%
EEV basis operating profit from long-term business from continuing operations (1) (2)	2,517	2,103	20%	2,208
Total EEV basis operating profit from continuing operations (2)	2,542	2,030	25%	2,133
Total IFRS operating profit from continuing operations (3)	1,213	1,008	20%	1,050
EEV basis shareholders' funds (GBPbn)	14,779	11,910	24%	11,883
IFRS shareholders' funds (GBPbn)	6,201	5,483	13%	5,488
Holding company operating cash flow	(82)	(104)	21%	(104)
Holding company operating cash flow plus proceeds from the sale of Egg	445	(104)	528%	(104)
Return on Embedded Value (6)	15.4%			14.5%

(1)Long-term business profits after deducting Asia development expenses and before restructuring costs.

(2) Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.

(3) Based on longer-term investment returns from continuing operations. Operating profit is stated excluding the effect of short-term fluctuations in investment returns against the long-term assumptions, the effect of changes in economic assumptions, actuarial gains and losses on defined benefit schemes and the mark to market value movements on borrowings.

(4) Prior year restated excludes Egg, and shows continuing operations only.

(5) Reported exchange rate (RER).

(6) Return on Embedded value is based on EEV operating profit from continuing operations after tax and minority interests as a percentage of opening embedded value (shareholder's funds on a EEV basis)

In the Operating and Financial Review (OFR), year-on-year comparisons of financial performance are on a constant exchange rate (CER) basis, unless otherwise stated.

These results show the strong performance of the Group in 2007. The KPIs above show growth in sales and profits and an improvement in cashflow. The surplus capital position of Prudential plc, measured under the Insurance Group Directive basis, will be submitted to the FSA by 30 April 2008 but is currently estimated to be in the region of GBP 1.4 billion. This includes a benefit of around GBP0.3 billion that arose during 2007 from the sale of Egg Banking plc.

At 31 December 2007, total insurance and investment funds under management are GBP267 billion up from GBP251 billion at the end of 2006, at RER.

Basis of preparation of results

The European Union (EU) requires that all listed European groups prepare their financial statements in accordance with EU approved IFRS. Since 1 January 2005, Prudential has been reporting its primary results on an IFRS basis.

As a signatory to the European Chief Financial Officers' (CFO) Forum's EEV Principles, Prudential also reports supplementary results on an EEV basis for the Group's long-term business. These results are combined with the IFRS basis results of the non long-term businesses to provide a supplementary operating profit under EEV. Reference to operating profit relates to profit based on long-term investment returns. Under both EEV and IFRS, operating profits from continuing operations based on longer-term investment returns exclude short-term fluctuations in investment returns and shareholders' share of actuarial gains and losses on defined benefit pension schemes. Under EEV, where additional profit and loss effects arise, operating profits based on longer-term investment returns also exclude the mark to market value movement on core borrowings and the effect of changes in economic assumptions and changes in the time value of the cost of options and guarantees arising from changes in economic factors.

In broad terms, IFRS profits for long-term business contracts reflect the aggregate of statutory transfers from with-profits funds and profits on a traditional accounting basis for other long-term business. Although the statutory transfers from with-profits funds are closely aligned with cash flow generation, the pattern of IFRS profits over time from shareholder-backed long-term businesses will generally differ from the cash flow pattern. Over the life of a contract, however, aggregate IFRS profits will be the same as aggregate cash flow.

Life insurance products are, by their nature, long term and the profit on this business is generated over a significant number of years. Accounting under IFRS does not, in Prudential's opinion, properly reflect the inherent value of these future profit streams.

Prudential believes that embedded value reporting provides investors with a better measure of underlying profitability of the Group's long-term businesses and is a valuable supplement to statutory accounts.

EEV basis operating profit

EEV basis operating profit from continuing operations	2007 GBPm	CER 2006 GBPm	Change %	RER
Insurance business:				
Asia	1,046	779	34%	
US	627	652	(4%)	
UK	859	686	25%	
Development expenses	(15)	(14)	(7%)	
Long-term business profit	2,517	2,103	20%	
Asset management business:				
M&G	254	204	25%	
Asia asset management	72	47	53%	
Curian	(5)	(7)	29%	
US broker-dealer and asset management	13	16	(19%)	
	334	260	28%	
Other income and expenditure	(289)	(292)	1%	
Total EEV basis operating profit from continuing operations	2,562	2,071	24%	
Restructuring costs	(20)	(41)	51%	
Total EEV basis operating profit from continuing operations after restructuring costs	2,542	2,030	25%	

Total EEV basis operating profit from continuing operations based on longer-term investment returns was GBP2,542 million, up 25 per cent from 2006 at CER and up 19 per cent at RER. This result reflects the significant growth of new business profit of GBP1,215 million and in-force profit of GBP1,317 million by insurance businesses, up 17 per cent over 2006, and strong asset management profit growth.

Record new business profit from insurance business of GBP1,215 million, was 22 per cent higher than in 2006, driven by strong sales momentum in Asia and the US. At RER, new business profit was up 17 per cent. The average Group new business profit margin was 42 per cent (2006: 42 per cent) on an APE basis and 5.7 per cent (2006: 5.5 per cent) on a PVNBP basis. This reflects an increase in the average UK margin offset by a fall in the average Asia margin. In-force profit increased 17 per cent on 2006 to GBP1,317 million. At RER, in-force profit was up 11 per cent. In aggregate, net assumption changes were GBP97 million positive, and experience variances and other items were GBP48 million positive.

The in-force profit in 2007 for the UK business included a charge in respect of a mortality operating assumption change on annuity and deferred annuity pension business of GBP312 million, which is fully offset by a release of excess margins previously held.

Asia's development expenses (excluding the regional head office expenses) were GBP15 million, (2006: GBP14 million).

Operating profit from the asset management business was GBP334 million (2006: GBP260 million), up 28 per cent on 2006, driven by growth in M&G and Asia Asset Management.

Other income and expenditure totalled a net expense of GBP289 million compared with GBP298 million in 2006 at RER. This result primarily includes interest expense on central borrowings of GBP168 million (2006: GBP177 million); GBP117 million of Group head office costs (2006: GBP83 million) and GBP38 million of costs for the Asia head office (2006: GBP36 million). The increase in Group head

office costs reflects costs in respect of the process to consider a reattribution of the inherited estate.

New business capital usage

	2007 GBPm Free surplus	2007 GBPm Required capital	2007 GBPm Total net worth	2007 GBPm Value of in-force business
New business capital usage				
Asia	(194)	21	(173)	653
US	(200)	183	(17)	202
UK	(150)	104	(46)	246
	(544)	308	(236)	1,101

The Group wrote GBP2,874 million of sales on an APE basis. To support these sales, the Group invested GBP544 million of capital. This amount covers both new business acquisition expenses, including commission of GBP236 million and the required capital of GBP308 million. The total investment of capital for new business amounts to approximately GBP19 million per GBP100 million of APE sales. These sales provided a post-tax new business contribution to embedded value of GBP865 million.

In Asia, capital was invested to support sales at an average rate of GBP15 million per GBP100 million of APE sales.

In the US, capital was invested to support sales at an average rate of GBP30 million per GBP100 million of APE sales.

In the UK, capital was invested to support sales at an average rate of GBP17 million per GBP100 million of APE sales.

EEV basis profit after tax and minority interests

	2007 GBPm	RER(4)(5) 2006 GBPm
Total EEV basis operating profit from continuing operations after restructuring costs	2,542	2,133
Short term fluctuations in investment returns:	174	738
Asia	226	286
US	(8)	64
UK	(42)	378
Other	(2)	10
Actuarial gains and losses on defined benefit pension schemes:	116	207
Effect of change in economic assumptions:	748	(1)
Asia	201	(132)
US	81	(51)
UK	466	182
Effect of change in time value of cost		

of options and guarantees:	0	60
Asia	9	14
US	8	6
UK	(17)	40
Movement in mark to market value of core borrowings:	223	85
US	9	3
Other	214	82
Profit from continuing operations before tax	3,803	3,222
Tax	(961)	(904)
Profit from continuing operations after tax before minority interests	2,842	2,318
Discontinued operations (net of tax)	241	(105)
Minority interests	(21)	(1)
Profit for the period	3,062	2,212

The following year-on-year comparisons are presented on a RER basis.

In the calculation of EEV operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. Short-term fluctuations in investment returns are reported separately in the analysis of profit.

In Asia, long-term business short-term investment fluctuations were GBP226 million, compared to GBP286 million last year. This reflects favourable equity performance in most territories, principally Hong Kong, Vietnam and Singapore offset by an unfavourable valuation movement of GBP30 million on a Taiwan CDO.

The US business short-term fluctuations in investment returns of GBP(8) million primarily include: a negative GBP44 million in respect of the difference between actual investment returns and longer-term returns included in operating profit in respect of fixed income securities and related swap transactions; a negative GBP16 million in relation to changed expectations of future profitability on variable annuity business in force due to the actual variable investment account ("separate account") return being lower than the long-term return reported within operating profit, offset by the impact of the associated hedging position; and a positive GBP51 million in respect of the difference between actual investment returns and long-term returns included within operating profit in respect of equity-based investments and other items.

The UK business component of short-term fluctuations in investment returns of negative GBP42 million primarily reflects reduced asset values in PRIL, the shareholder-backed annuity business, from widened credit spreads and the difference between the actual investment return for the with-profits life fund of 7.2 per cent and the long-term assumed return of 7.85 per cent.

The actuarial gain of GBP116 million (2006: GBP207 million) included in total profit reflects the shareholders' share of actuarial gains and losses on the Group's defined benefit pension schemes. On the EEV basis, this gain includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits sub-fund for the Prudential Staff and Scottish Amicable Pension Schemes. The full year 2007 gains mainly reflect changes in economic assumptions, partly offset by the effect of strengthened mortality assumptions. The very high level of gains in 2006 reflected the excess market returns over the long-term assumption and the increase in discount rate applied in

determining the present value of projected pension payments from 4.8 per cent at 31 December 2005 to 5.2 per cent at December 2006.

In Asia positive economic assumption changes were GBP201 million, of which GBP110 million is due to Taiwan and GBP80 million is due to Hong Kong. The Taiwan credit primarily reflects a change of projected fund earned rate, offset by an increase in risk discount rate, whereas Hong Kong primarily reflects a decrease in the risk discount rate. Taiwan interest rates performed in line with the assumed EEV trended basis.

In the US, economic assumption changes of positive GBP81 million primarily reflect a reduction in the risk discount rates following a reduction in the US 10-year Treasury rate, partially offset by a reduction in the separate account return assumption.

In the UK, economic assumption changes of positive GBP466 million primarily reflect the impact of the increase in the investment return assumption and a decrease in the risk free rate.

The mark to market movement on core borrowings was a positive GBP223 million reflecting the reduction in fair value of core borrowings as the decrease in interest rates is more than offset by the widening of the credit spread, thereby increasing overall market yields on comparable debt securities.

The effective tax rate at an operating tax level was 27 per cent (2006: 30 per cent), generally reflecting expected tax rates. The effective tax rate at a total EEV level was 25 per cent (2006: 28 per cent) on a profit of GBP3,803 million.

On 1 May 2007, Prudential completed the sale of Egg Banking plc to Citi for a consideration, net of transaction expenses, of GBP527 million. The profit from discontinued operations is GBP241 million being the profit on disposal of GBP290 million, net of the post-tax loss of GBP49 million from 1 January 2007 to the date of sale.

IFRS basis operating profit

IFRS basis operating profit from longer term investment returns	2007 GBPm	CER 2006 GBPm	Change %	RER
Insurance business:				
Asia	189	177	7%	
US	444	367	21%	
UK	528	500	6%	
Development expenses	(15)	(14)	7%	
Long-term business profit	1,146	1,030	11%	
Asset management business:				
M&G	254	204	25%	
Asia asset management	72	47	53%	
Curian	(5)	(7)	29%	
US broker-dealer and asset management	13	16	(19%)	
	334	260	28%	
Other income and expenditure	(248)	(244)	(2%)	

Total IFRS basis operating profit based from longer term investment returns	1,232	1,046	18%
Restructuring costs	(19)	(38)	(50%)
Total IFRS basis operating profit based from longer term investment returns after restructuring costs	1,213	1,008	20%

The increase in Prudential Corporation Asia's operating profit of seven per cent for long-term business before development expenses reflects improved profitability in mature markets with significant contributions to operating profit from Singapore, Malaysia and Hong Kong, representing GBP153 million of the total operating profit in 2007, up 15 per cent on 2006. There were increased contributions from each of Indonesia, Taiwan and Vietnam as these operations continue to build scale. Five life operations made IFRS losses: GBP43 million in India which is a relatively new business, incurring costs in rapidly building scale through its expansion strategy and losses of GBP16 million in Japan. Korea's loss reflects new business growth. China and Thailand are marginally loss making.

In the US, IFRS operating profit of GBP444 million was up 21 per cent on 2006 at CER. The US operations' results are based on US GAAP, adjusted where necessary to comply with IFRS as the Group's basis of presenting operating profit is based on longer-term investment returns. Longer-term returns for the US operations' fixed income securities incorporate a risk margin reserve (RMR) charge for longer-term defaults and amortisation of interest-related realised gains and losses. The growth in the US operations' long-term IFRS operating profit mainly reflects increased fee income driven by a 34 per cent increase in separate account assets during the year and higher overall election of optional benefits. Profits from the annuities spread business were broadly in line with prior year and continue to represent the key contributor to overall IFRS operating profit. One-off items affecting the spread-based income were GBP26 million, net of DAC amortisation

In the UK, IFRS operating profit for the long-term business increased six per cent to GBP528 million in 2007. This reflected a seven per cent increase in profits attributable to the with-profits business to GBP394 million, representing the continued strong investment performance of the Life Fund and its impact on terminal bonuses. 2007 includes the net impact of the mortality strengthening and a release of excess margins previously held in other assumptions which was a positive GBP34 million.

M&G's operating profit for 2007 was GBP254 million, an increase of 25 per cent over 2006, due to strong net investment inflows and positive market conditions for the first three quarters of 2007.

The Asian asset management operations reported operating profits of GBP72 million, a growth of 53 per cent over 2006, driven by strong contributions from Vietnam, India and Taiwan.

The operating profit from the US broker-dealer and asset management businesses was GBP13 million, a 19 per cent decrease on 2006. Curian recorded losses of GBP5 million in 2007, up from losses of GBP7 million in 2006, as the business continues to build scale.

IFRS basis profit after tax

RER(4)(5

	2007 GBPm	200 GBP
Operating profit from continuing operations based on longer-term investment returns after restructuring costs	1,213	1,05
Short-term fluctuations in investment returns	(137)	15
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	90	16
Profit before tax from continuing operations attributable to shareholders	1,166	1,37
Tax	(382)	(392
Profit from continuing operations for the financial year after tax	784	98
Discontinued operations (net of tax)	241	(105
Minority interests	(3)	(1
Profit for the year attributable to equity holders of the company	1,022	87

The following year-on-year comparisons are presented on a RER basis.

Total IFRS basis profits before tax and minority interests were GBP1,166 million in 2007, compared with GBP1,372 million for 2006. The decrease reflects a reduction in short-term fluctuations in investment returns of GBP292 million and a reduced positive movement from the prior year in actuarial gains and losses attributable to shareholder-backed operations in respect of the Group's defined benefit pension schemes.

In the calculation of IFRS operating profit longer-term investment return assumptions are used rather than actual investment returns achieved. The actual movements in asset values beyond the longer-term assumptions appear in the profit and loss account as short-term fluctuations in investment returns, with the exception of Jackson where unrealised gains or losses on debt securities feature directly as movements to shareholder reserves.

The GBP137 million charge for short-term fluctuations in investment returns comprises GBP71 million, GBP18 million and GBP47 million in respect of Asian operations, US operations and UK operations respectively.

The fluctuations for the Asian operations primarily reflect reduced values for debt securities in Taiwan and a GBP30 million reduction in the value of an investment in a CDO fund, partially offset by strong equity movements in Vietnam.

In the US there was a GBP18 million charge for short-term fluctuations in investment returns. During 2007 the US life insurance operations recorded net credit losses of GBP78 million (2006: GBP25 million). This charge is reflected in two parts of the accounting presentation of the results. Included within the IFRS operating profit based on longer-term investment returns is a risk margin reserve (RMR) charge, representing long-term expected credit defaults, of GBP48 million (2006: GBP54 million). The difference between the credit related losses and the RMR charge in the year was, therefore, a charge of GBP30 million (2006: GBP29 million credit) which is recorded within short-term fluctuations in

investment returns, within the overall GBP18 million charge for US life insurance operations.

The fluctuations for the UK operations primarily reflect reduced asset values in PRIL, the shareholder-backed annuity business, from widened credit spreads on corporate bond securities.

Profit after tax and minority interests was GBP1,022 million compared with GBP874 million in 2006. The effective rate of tax on operating profits, based on longer-term investment returns, was 32 per cent (2006: 29 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 33 per cent (2006: 29 per cent). The effective tax rates in 2007 were broadly in line with those expected except for some Asian operations where there is a restriction on the ability to recognise deferred tax assets on regulatory basis losses.

Earnings per share

Earnings per Share (EPS)

		2007 GBPp	2006 GBP
EPS based on operating profit from continuing operations after tax and minority interest	EEV	74.9	62.1
	IFRS	33.8	30.9
Basic EPS based on total profit after minority interest	EEV	125.2	91.7
	IFRS	41.8	36.2

Dividend per share

The directors recommend a final dividend for 2007 of 12.30 pence per share payable on 20 May 2008 to shareholders on the register at the close of business on 11 April 2008. The interim dividend for 2007 was 5.70 pence per share. The total dividend for the year, including the interim dividend and the recommended final dividend, amounts to 18.00 pence per share compared with 17.14 pence per share for 2006, an increase of five per cent. The total cost of dividends in respect of 2007 was GBP444 million.

The full year dividend is covered 1.9 times by post-tax IFRS operating profit from continuing operations.

Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

The Board will focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and opportunities to invest in areas of the business offering attractive returns. The Board believes that in the medium term a dividend cover of around two times is appropriate.

Shareholders' funds

On the EEV basis, which recognises the shareholders' interest in long-term businesses, shareholders' funds at 31 December 2007 were GBP14.8 billion, an increase of GBP2.9 billion from the 2006 year-end level (2006: GBP11.9 billion at RER). This 24 per cent increase primarily reflects: total EEV basis operating

profit of GBP2,542 million; a GBP174 million favourable movement in short-term fluctuations in investment returns; a GBP748 million positive movement due to changes in economic assumptions and in time value of cost of options and guarantees; a positive movement on the mark to market of core debt of GBP223 million; the proceeds for the share capital issue of the parent company for GBP182 million; a positive movement in the actuarial gains on the defined benefit pension schemes of GBP116 million and the positive impact of GBP64 million for foreign exchange movements. These were offset by: a tax charge of GBP961 million and dividend payments of GBP426 million made to shareholders.

The shareholders' funds at 2007 of GBP14.8 billion comprise, GBP3.7 billion for the Asian long-term business operations, GBP3.6 billion for the US long-term business operations, GBP6.5 billion for the UK long-term business operations and GBP1 billion for other operations.

At the year end the embedded value for the Asian long-term business was GBP3.7 billion. The established markets of Hong Kong, Singapore and Malaysia contribute GBP2,704 million to the embedded value generated across the region with Korea (GBP304 million) and Vietnam (GBP234 million) making further substantial contributions. Prudential's other markets, excluding Taiwan in aggregate contribute GBP496 million in embedded value. Taiwan has a negative embedded value of GBP12 million, this positive movement against prior year (2006: negative GBP216 million) is a reflection of an increase in new business and a change in economic assumptions.

The current mix of new business in Taiwan is weighted heavily towards unit-linked and protection products, representing 75 per cent and 15 per cent of new business APE in 2007, respectively. As a result, interest rates have little effect on new business profitability and a one per cent reduction in assumed interest rates would reduce new business margins in Taiwan by less than one percentage point. However, the in-force book in Taiwan, predominantly made up of whole of life policies, has an embedded value that is sensitive to interest rate changes. A one per cent decrease in interest rates, along with consequential changes to assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates, would result in a GBP91 million decrease in Taiwan's embedded value. A similar one per cent positive shift in interest rates would increase embedded value by GBP67 million. On the assumption that bond yields remained flat during 2008 and then trended towards 5.5 per cent in December 2014, this would have reduced the 2007 Taiwan embedded value by GBP70 million. Sensitivity of the embedded value to interest rate changes varies considerably across the region. In aggregate, a one per cent decrease in interest rates, along with all consequential changes noted above, would result in a negligible percentage change to Asia's embedded value.

Statutory IFRS basis shareholders' funds at 31 December 2007 were GBP6.2 billion. This compares with GBP5.5 billion at 31 December 2006 at RER. The increase primarily reflects: profit after tax and minority interests of GBP1,022 million, the proceeds from the share capital issue of the Company for GBP182 million, offset by the impact of negative unrealised holding losses on available for sale investments of GBP231 million, and dividend payments to shareholders of GBP426 million.

Holding company cash flow

	2007	2
	GBPm	G
Cash remitted by business units:		

UK life fund transfer	261	
UK other	3	
US	122	
Asia	186	
M&G	139	
Total cash remitted to Group	711	
Net interest paid	(96)	(1
Dividends paid	(426)	(3
Scrip dividends and share options	183	
Cash remittances after interest and dividends	372	
Tax received	40	
Corporate activities	(200)	(
Cash flow before investment in businesses	212	
Capital invested in business units:		
Asia	(149)	(1
UK	(145)	(1
Total capital invested in business units	(294)	(3
Increase/(Decrease) in operating cash	(82)	(1
Egg sale net proceeds	527	
Total holding company cash flow	445	(1

The Group holding company received GBP711 million in cash remittances from business units in 2007 including the shareholders' statutory life fund transfer of GBP261 million from the UK business.

After dividends and net interest paid, there was a net cash inflow of GBP372 million (2006: GBP160 million). There was a high take up of scrip dividends in 2007.

During 2007, the Group holding company paid GBP200 million in respect of corporate activities, which included costs in respect of the process to consider a reattribution of the inherited estate together with a repayment to HMRC in respect of tax recoveries in previous years following a change in tax legislation. Tax received of GBP40 million (2006: GBP122 million) was lower than prior year as a result of foreign exchange gains reducing the level of taxable losses and a payment to HMRC. Asia contributed a net remittance of GBP37 million to the holding company cash flow.

In aggregate this gave rise to an improvement in operating cash outflow to GBP82 million from GBP104 million in 2006.

The Group received GBP527 million from the disposal of Egg (net of expenses), and the reduction in net interest paid in 2007 includes the investment income earned on these proceeds.

In 2008, the UK shareholders' statutory transfer relating to the bonus declarations is expected to be GBP279 million.

Depending on the mix of business written and the opportunities available, Prudential expects that the UK shareholder backed business will become cash positive in 2010.

Taking into account plans for future growth, our ability to surrender group tax

relief, a normalised level of scrip dividend, the reducing UK capital requirement and increased remittances from the other life and asset management operations it is expected that the operating cash flow of the Group holding company will be positive in 2008.

BUSINESS UNIT REVIEW

Insurance Operations

Asia

Asia	2007 GBPm	CER 2006 GBPm	Change %	RER(20 GB
APE sales	1,306	909	44%	9
NBP	653	487	34%	5
NBP margin (% APE)	50%	54%		5
NBP margin (% PVNBP)	9.3%	10.0%		10.
Total EEV basis operating profit*	1,046	779	34%	8
Total IFRS operating profit*	189	177	7%	1

*Based on longer-term investment returns excluding fund management operations, development and re office expenses.

Prudential's strategy in Asia is to build quality, multi-channel distribution that delivers customer centric and profitable products in segments with the potential for sustained growth. By necessity, the approach to each market varies, but all operations are unified under the Prudence icon and common brand values and Prudential has the proven ability to leverage learning and expertise from within the region and the wider Group to accelerate the development of unique opportunities as they arise in each market.

The ability to execute the strategy is highly dependent on the strength and depth of the management talent pool in the region and consequently Prudential invests in continually strengthening and developing its teams. The operating model empowers local management teams with a regional team overseeing control functions such as risk management and providing strategic guidance and technical support in areas such as distribution optimization and product design.

Prudential has a market leading platform with top five market share positions, in terms of new business APE, in seven of its twelve markets. Prudential has the leading private sector life insurance joint ventures in China and India.

Current year initiatives

The core business priorities were outlined as:

- Building on existing strengths in agency
- Improving and extending partnership distribution
- Continuing product innovation
- Strengthening and deepening customer relationships
- Developing retirement solutions
- Starting work on direct distribution
- Re-examining approach to health products

Agency is the predominant distribution channel in Asia and for Prudential, the

agency force again generated 70 per cent of new business volumes in 2007. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers whilst also providing the infrastructure to manage agent training and skills development to drive agency productivity. Prudential's agency priority depends on the stage of development of each individual market and Prudential's operation within it. For example in India, Prudential's joint venture with ICICI has been rapidly expanding, with the addition of 593 new branches during the year to give a total 1,065 and correspondingly average agent numbers in 2007 increased by 123 per cent and at 31 December there were 277,000 agents.

Similarly in China, although the rate of geographic expansion is slower as each new city requires separate regulatory approvals the emphasis is also on expanding the agency channel; average numbers were up 38 per cent and at 31 December there were 20,500 agents. In markets where we have sufficient agency scale, the emphasis is on helping those agents become more productive through intensified training and sales management support. Agent productivity, in terms of average APE per agent, increased by 67 per cent in Vietnam and 21 per cent in Singapore during 2007.

Prudential has a large partnership distribution network in Asia. During 2007, Prudential extended its agreements with Standard Chartered Bank to include Taiwan where it will exclusively provide bancassurance products in their newly acquired HsinChu International Bank with its 83 branches and 2.4 million customers. In Korea regulation states that a bank can only source a maximum of 25 per cent of its total insurance sales from any one insurer, and with Prudential's sales existing bank partners regularly reaching their maximum shares, adding new banks is a priority. In 2007 Prudential secured two major new banks, Industrial Bank of Korea and Kookmin Bank. Prudential's regional bancassurance relationship with Citibank also grew strongly with new business APE generated of GBP23 million being 12 per cent of total bank distribution for 2007.

In 2007 Prudential continued to broaden its range of linked products. These included the new Global Property Fund in Singapore and a new Takaful range in Indonesia, launched in September 2007. In Taiwan, a new variable annuity product and an agency incentive programme contributed to the growth in new business of 71 per cent for the year.

Good results were attained from systematic cross-sell campaigns across the region, contacting more than 2 million of our existing customers. These included the initiation of a regular up-sell in Hong Kong through the indexation of policy benefits and initiatives to capture maturity proceeds in Singapore and a targeted offer of guaranteed increases in protection benefits in Malaysia.

Although still small, new business from direct marketing grew by 65 per cent over 2006 with Thailand performing well and recording growth of 52 per cent. The regional Direct Marketing team has been strengthened and work is now underway on exploring further opportunities.

In Asia, there are very material opportunities arising in the provision of healthcare solutions. Prudential successfully piloted new supplemental health products in Singapore, India and Hong Kong during the year selling over 125,000 new policies.

Helping people address their financial needs for retirement is also a major growth opportunity and whilst Prudential already has a number of products designed to support the accumulation phase of a retirement fund, work is now underway on drawdown options and supporting related protection and health products. Prudential has already begun positioning itself as a provider of retirement solutions through the roll out of the successful 'What's your number?' campaigns in six countries that encourage people to think about what resources

they are likely to need to finance their retirement aspirations.

Prudential has a unique position in Vietnam with its market leading life insurance business and well respected brand. To further leverage this platform, Prudential launched a consumer finance company in September 2007.

Financial performance

In 2007 Prudential delivered new business APE of GBP1,306 million from Asia representing very strong growth that averaged 44 per cent over 2006 and with all operations delivering double digit growth including Taiwan, India and Indonesia, up 71 per cent, 67 per cent and 75 per cent respectively.

New business profit increased by 34 per cent as the average profit margin reduced from 54 per cent to 50 per cent mainly due to a change in the country mix of the sales. China, Hong Kong, Korea and Taiwan all reported increases in new business profit margins compared to 2006. In India, the branch expansion programme, has led to an increase in policy acquisition and maintenance costs and therefore a rebasing of the expense assumptions. The reduction in average margin for the other countries was due to a change in country mix.

In-force embedded value profits of GBP393 million are driven principally by the unwind of discount, with net assumption changes of GBP54 million and net experience variances of GBP(1) million. Assumption changes were principally due to favourable changes in corporation tax and positive mortality assumption changes. Negative persistency assumption changes are offset by positive expense assumption changes. Experience variances mainly reflected positive mortality across all operations partially offset by expense overruns in the newer operations of China, India and Vietnam.

IFRS Profits	2007 GBPm	CER 2006 GBPm
Established markets (Hong Kong,Singapore, Malaysia)	153	134
North Asia (Taiwan, Korea, Japan)	16	20
Joint Venture markets (China, India)	(49)	(20)
Other SE Asian markets (Indonesia, Vietnam, Thailand, Phillipines)	68	43
Total Life IFRS Profits	189	177

The total IFRS Operating profit of GBP189 million was up seven per cent on 2006. Within this, the Established markets (Singapore, Hong Kong and Malaysia) generated GBP153 million up 15 per cent from 2006. The North Asia markets (Taiwan, Japan, and Korea) generated GBP16 million, down 20 percent from last year reflecting increased losses in Japan. Excluding Japan, profits from North Asia almost doubled reflecting a strong increase in Taiwan of 47 per cent due to in-force profits, especially from long term health products and favourable other experience. Losses from the joint ventures in India increased to GBP43 million, reflecting the fast pace of new business growth and investment in growing the branch networks. Losses from the joint venture in China reduced to GBP6 million. In the other markets (Vietnam, Thailand, Indonesia and Philippines), profits grew by 58 per cent to GBP68 million reflecting the expected emergence of IFRS profits and a one off GBP16 million favourable item in Vietnam.

In 2007 the Asian Life operations were again net remitters of cash to the Group of GBP56 million. Remittances totalling GBP148 million were from Hong Kong,

Indonesia, Malaysia, Singapore and included the first remittance from Vietnam. The Life operations received injections of GBP92 million, of which GBP49 million was injected into India to support branch expansion with the balance primarily injected into China and Korea to support solvency requirements as a result of new business growth.

IRR for Asia was in excess of 20 per cent for 2007. In Asia, Prudential targets IRRs on new business to be at least 10 percentage points over the country risk discount rate, where these vary from five per cent to 17 per cent. During 2007 all markets except India and Japan met this target.

Having achieved compound growth of 26 per cent since 2005, Asia expects to deliver doubling of 2005 EEV NBP a year early by 2008.

United States

United States		CER		RER(5)	
	2007	2006	Change	2006	Chan
	GBPm	GBPm	%	GBPm	
APE sales	671	565	19%	614	
NBP	285	239	19%	259	1
NBP margin (% APE)	42%	42%		42%	
NBP margin (% PVNBP)	4.3%	4.2%		4.2%	
Total EEV basis operating profit*	627	652	(4%)	708	(11
Total IFRS operating profit*	444	367	21%	398	1

*Based on longer-term investment returns excludes broker dealer, fund management and Curian

The United States is the largest retirement savings market in the world and continues to grow rapidly. By mid-2007, total retirement assets in the US exceeded $17.4 trillion, up from $16.5 trillion at the end of 2006 (Source: Investment Company Institute). As 78 million baby boomers (Source: US Census Bureau) move into retirement age, these assets will shift from asset accumulation to income distribution. Currently, $1.6 trillion of assets are generating retirement income. This amount is estimated to grow to $7.3 trillion by 2017 (Source: Financial Research Corporation).

Despite these favourable demographics, US life insurers face challenges from both within and outside the industry. The industry remains highly fragmented, with the top 15 annuity companies sharing only 74 per cent of the total market share in 2007 (source: LIMRA). Competition is intensifying through aggressive price competition. Life insurers also find themselves competing with other financial services providers, particularly mutual fund companies and banks, for a share of US retirement savings assets.

During 2007, the S&P index increased 3.5 per cent (2006: 13.6 per cent), and the US equity markets experienced significant volatility during the second half of the year. The S&P index increased 6 per cent through June 2007, yet ended the year 2.5 per cent lower than in June and 5.7 per cent lower than at the end of October. This volatility and concerns about the US economy are expected to increase investors' interest in guarantees on products with equity-based returns.

In addition, for much of 2007, the yield curve was flat and credit spreads were relatively low, resulting in a difficult environment for the sale of properly priced fixed annuities. During the second half of 2007, the yield began to

normalise and credit spreads began to widen, ending closer to normalised historical levels. The market for fixed annuities was further complicated during the year by artificially high deposit rates offered by banks to attract assets.

Jackson's primary focus is manufacturing profitable, capital-efficient products, such as variable annuities, and marketing these products to advice-based channels through its relationship-based distribution model. In developing new product offerings, Jackson leverages a low-cost, flexible technology platform to manufacture innovative, customisable products that can be brought to the market quickly.

Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, banks and registered investment advisors. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the south-eastern United States.

Current year initiatives

During 2007 significant progress was made against the business priorities which included:

- continued enhancement and expansion of the existing product offering
- continue to take profitable share of variable annuities market
- increased penetration of existing distribution channels
- increase share of the US retail asset management market.

Jackson continues to base its success in the evolving US market on industry leading distribution and product innovation coupled with sound evaluation of product economics. Jackson's long-term goals include the continued expansion of its share of the US annuities and retail asset management markets, which it plans to achieve by leveraging its relationship-based distribution advantage in the advice-based channels. Growth in Jackson's share of the US annuities market will be largely contingent upon continued enhancement and expansion of the existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic acquisition activity.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. High quality, cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customised to meet the needs of individual customers. Products are offered on an unbundled basis, allowing customers to select those benefits that meet their unique financial needs and pay only for those benefits that they truly need. This advantage, coupled with distribution through advice-based channels, allows Jackson to effectively meet individuals' long-term retirement savings and income needs. Jackson believes that leveraging this advantage is a more sustainable long-term strategy than price competition and, as a result, will not sacrifice product economics for a short-term increase in market share.

Jackson supports its network of independent agents and advisors with award-winning customer service and marketing support. In 2007, the Service Quality Measurement Group rewarded Jackson with its third World Class Customer Satisfaction Award. Jackson's marketing campaigns continue to win awards for achievement in graphic design, editorial content and overall communications excellence.

Through organisational flexibility and excellence in execution, coupled with product innovation, a successful distribution model and a strong service offering, Jackson increased its share of the US variable annuity market to 5.1 per cent for full-year 2007 (source: Morningstar Annuity Research Center), up

from 4.6 per cent for the full-year 2006.

Jackson continues to expand its product portfolio, adding a variety of new features during 2007. The company enhanced its variable annuity portfolio by adding 20 new underlying investment options, four new guaranteed minimum withdrawal benefits (GMWBs), one new guaranteed minimum income benefit (GMIB) and its first guaranteed minimum accumulation benefit (GMAB).

In 2007, Jackson also introduced a line of retail mutual funds and launched two new fixed index annuity products that offer new index options and multiple crediting methods. These additions provide even more product choices to advisors and create more opportunities to capture a larger portion of the US retirement market.

Jackson continues to seek bolt-on acquisitions that will complement its long-term organic growth strategy. Transactions will need to meet or exceed Jackson's targeted rate of return and will likely be in the life insurance channel, which provides stable future cash flows. Depending on the opportunities that become available, Jackson may consider utilising securitisation financing for these bolt-on transactions.

Financial performance

Jackson achieved record APE sales of GBP671 million in 2007, representing a 19 per cent increase on 2006. This growth was led by a continued increase in variable annuity sales. On a PVNBP basis, new business sales were GBP6.7 billion. Retail APE sales in 2007 of GBP577 million were up 19 per cent over 2006.

Jackson delivered record variable annuity APE sales of GBP455 million in 2007, up 29 per cent over 2006. In 2007, Jackson maintained its ranking of 12th in gross variable annuity sales (Source: Morningstar Annuity Research Centre).

Fixed annuity APE sales of GBP57 million were 10 per cent down on 2006, while industry sales of traditional individual deferred fixed annuities were 13 per cent lower in 2007 compared to 2006 (Source: LIMRA).

Fixed index annuity sales continued to be affected by the uncertain regulatory environment in the US and the impact of low interest rates on caps and participation rates that are offered. As a result, industry sales were nearly 1 per cent lower in 2007 compared to 2006 (Source: Advantage Group Associate). Jackson's APE sales of GBP45 million were 12 per cent down on 2006. In the third quarter of 2007, Jackson ranked first in fixed index annuity sales through banks for the ninth consecutive quarter (Source: The Kehrer-LIMRA Report). Jackson continues to pursue profitable growth and hence has been unwilling to compromise target margins in this market.

Institutional APE sales of GBP94 million were up 15 per cent on 2006. Jackson continues to participate in this market on an opportunistic basis when margins are attractive.

EEV basis new business profits of GBP285 million were 19 per cent above the prior year, reflecting a 19 per cent increase in APE sales with a shift in the mix of business toward variable annuities as well as increased sales of institutional business with longer duration. Total new business margin was 42 per cent, in line with 2006.

The variable annuity new business margin decreased from 49 per cent in 2006 to 42 per cent in 2007, primarily due to a 70 basis point decrease in the risk-free rate from 2006 to 2007. The lower risk-free rate resulted in a decrease in the assumed separate account return that was partially offset by a decrease in the risk discount rate. In addition, Jackson reviewed its experience assumptions

during the year and revised certain partial withdrawal and expense assumptions, which also decreased the new business margin.

The fixed index annuity new business margin decreased from 31 per cent in 2006 to 26 per cent in 2007, primarily as a result of a change in expected future surrender charges.

The fixed annuity new business margin increased significantly from 16 per cent to 28 per cent, primarily as a result of a decrease in the risk discount rate for the year.

The new business margin on institutional business improved significantly, from 39 per cent in 2006 to 58 per cent in 2007 due to the much longer average duration contracts written during 2007 and a lower risk discount rate.

Total EEV basis operating profit for the long-term business for 2007 was GBP627 million compared to GBP652 million in the prior year at CER. In-force EEV profits of GBP342 million were 17 per cent below prior year profit of GBP413 million at CER. Experience variances were GBP58 million lower in 2007 due to lower spread income and the impact of persistency adjustments. Operating assumption changes were less favourable than the prior year by GBP17 million including the impact of updated persistency and lapse rates during 2007. One-off items favourably affected the spread income variance by GBP40 million during 2007.

IFRS operating profit for the long-term business was GBP444 million, up 21 per cent on the prior year of GBP367 million at CER, primarily reflecting an increase in fee income and continued low mortality rates during 2007. Higher fee income was driven primarily by higher separate account assets given the growth in variable annuity sales, and an improvement in the average fees generated from those assets given the increase in election of guaranteed optional benefits. In 2007, IFRS spread income included a number of non-recurring items, totalling GBP26 million net of DAC amortisation (2006: GBP31 million at CER).

At 31 December 2007, Jackson had more than GBP41 billion in US GAAP assets. Of this total, GBP15 billion were separate account assets, an increase of GBP4 billion from year-end 2006, further increasing Jackson's earnings from fee-based products.

During the second half of 2007, equity market volatility increased materially primarily due to liquidity concerns and valuation issues in the US sub-prime mortgage market. Much of the market movement was due to concerns regarding the risk in this market that resulted in a tightening in the level of credit available. While the financial services industry was hardest hit by these events, losses were generally limited to those companies with significant levels of sub-prime or Alt-A mortgage exposure. Jackson's exposure to the sub-prime mortgage market is limited at only GBP237 million at the end of 2007. Most of this exposure is in fixed rate, residential mortgage backed securities that are AAA rated and hold first liens on the underlying collateral. Exposure to Alt-A was GBP660 million and direct exposure to monoline insurers was GBP23 million.

The average IRR on new business was up slightly to 19 per cent, primarily due to a larger proportion of variable annuity sales in 2007.

United Kingdom

United Kingdom		CER		RER(
	2007	2006	Change	20
	GBPm	GBPm	%	GB

APE sales	897	900	(0%)	9
NBP	277	266	4%	2
NBP margin (% APE)	31%	30%		3
NBP margin (% PVNBP)	3.6%	3.4%		3.
Total EEV basis operating profit*	859	686	25%	6
Total IFRS operating profit*	528	500	6%	5

*Based on longer-term investment returns.

In 2007, Prudential UK continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns.

The UK business remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions. With an ageing population and the concentration of UK wealth in the mass affluent and high net worth sectors, the retirement and near-retirement population will represent the fastest growing segments of the market over the next 10 years. Low savings rates and high levels of consumer debt, combined with a shift in responsibility for providing income during retirement from Government and employers towards individuals, have resulted in individuals being inadequately provided for during increasingly long periods of retirement. These consumers will have a need for high quality financial advice and service and are increasingly seeking guarantees and longevity protection from their financial products.

Prudential UK has a unique combination of competitive advantages including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. These put it in a strong position to pursue its value driven strategy in its two principal businesses: Retail and Wholesale.

Prudential UK's Retail business is focusing on savings and income for those customers nearing or in retirement. Its retirement income business aims to continue to drive profitable growth in its core annuities operation and grow its presence in the equity release market. The significant 25-year pipeline of internal vestings annuity business from maturing individual and corporate pensions policies is enhanced by strategic partnerships with third parties, where Prudential UK is the recommended annuity provider for customers vesting their pension at retirement. This scale enables our selective value-based participation in the external vestings market. Annuities remain core drivers of the sales and profit derived by Prudential UK, which now has approximately 1.5 million annuities in payment.

Prudential UK remains a market leader in the with-profits market. These products offer a medium to long-term, medium risk investment with exposure to a diverse range of assets that is particularly important to many customers against the backdrop of market uncertainty.

In the Retail accumulation business, Prudential UK continues to be a market leader in the corporate pensions market where it is a provider of over 20 per cent of FTSE 350 companies and the largest provider of pension schemes to the UK public sector. Prudential now administers corporate pensions for over 600,000 members.

In addition, the Retail business has used its brand and strength with Discovery to build branded distribution in Health and Protection, further using the joint venture to access Discovery's Vitality concept and lifestyle protection capabilities.

Prudential UK's strategy in the Wholesale market is to participate selectively

in bulk annuity and back-book buy-outs, where Prudential UK is able to win business based on its financial strength, superior track record, market leading investment capability as well as its extensive annuitant mortality risk assessment capabilities. The Wholesale business, which has been in operation for over 10 years and has already written more than 400 bulk buy-outs, has a strong track record in the risk management of pension schemes for corporate clients and insurers wishing to reduce or eliminate their investment or longevity liabilities. Prudential UK will maintain a strict focus on value, only participating in transactions that generate an acceptable rate of return.

Current year initiatives

Prudential UK's key priorities in 2007 were:

- Maintaining leadership position in individual annuities
- Building share of the equity release market
- Growing the volume of products that utilise Prudential's multi-asset management expertise
- Deepening relationships with chosen distributors including the introduction of customer-agreed remuneration across some product lines
- Realigning cost base to the selective business strategy
- Delivering wholesale transactions with attractive rates of return

During 2007, Prudential UK maintained its market leadership in individual annuities, where it has continued to create value by maintaining high retention rates. This has been augmented by partnership deals with insurers such as Zurich, Royal London and Save and Prosper. We also announced a new partnership with Barclays, where Prudential will be the preferred supplier of conventional annuity products to their retail customers in the UK.

Capitalising on the need for inflation protection in retirement, Prudential remains the market leader in the growing with-profits annuity market with over 75 per cent market share. Early in 2007 Prudential made a number of product enhancements including the facility to accept Protected Rights monies, which was a first in the with-profit annuity market.

In the fourth quarter, Prudential UK launched an income drawdown product. This product helps customers manage their pension through the various stages of retirement, and offers flexibility whilst providing potential for growth through investment. Together with the Flexible Lifetime Annuity this gives Prudential a full range of retirement income solutions.

Investing in property has been an increasingly important component for many people saving for their retirement. However this has left many retirees income poor but asset rich. Prudential UK's lifetime mortgage business grew its share of the lifetime mortgage market to 14 per cent through its distinctive drawdown product and strong brand. In the third quarter a number of product enhancements were introduced, including an inheritance guarantee and a new lump sum product. Prudential expects both its market share and the overall market size to grow.

In a relatively volatile investment market there has been a marked increase in demand for cautious managed solutions providing enhanced returns. In February 2007, Prudential UK launched the Cautious Managed Growth Fund and the Managed Defensive Fund, using Prudential's strengths in investment expertise and in disciplined approach to asset allocation. These funds have the potential to offer a better longer-term return than a bank or building society account and allow the customer to access real returns with lower volatility. These funds are available across the full tax wrapper suite, including onshore and offshore bonds, individual pensions and mutual funds.

During 2007, Prudential UK introduced customer-agreed remuneration across some of its product lines. Under this model, financial advisors agree their

remuneration directly with the customer and not with the product provider and in doing so make commission structures far more transparent. This is in line with Prudential UK's focus on building strong long-term relationships with advisors as well as offering market-leading retirement solutions.

The agreement announced in 2007 with Capita to outsource a large proportion of its in-force and new business policy administration is another important milestone for the UK business. This agreement will deliver GBP60 million per annum of savings to Prudential UK, and is an important element in achieving its total cost savings target of GBP195 million. The contract will result in approximately 3,000 employees transferring to Capita and helps the UK deliver its long-term cost savings strategy by removing fixed costs from the business and achieving significant operating efficiencies. This provides a significant reduction in long-term expense risk by providing certainty on per-policy costs as the number of policies in the mature life and pensions book decreases over the coming years. Unit costs per policy are expected to reduce by over 30 per cent by 2011.

By the end of 2007 GBP115 million of the cost saving target had been delivered. The remaining GBP80 million, including the GBP60 million generated from the Capita contract, will be delivered by the end of 2010.

In December, Prudential completed the transfer of Equitable Life's portfolio of in-force with-profits annuities. This book covers approximately 62,000 policies with assets of approximately GBP1.74 billion. This deal grows Prudential's with-profits business and creates value for both Equitable policyholders and Prudential's shareholders and policyholders.

Financial performance

Total APE sales of GBP897 million were in line with 2006 and there was a four percent increase in new business profit to GBP277 million, reflecting an improved new business margin of 31 per cent in an increasingly competitive market. The 2006 comparator included credit life sales of GBP63 million and associated new business profit of GBP20 million written under a single contract that was not renewed in 2007.

A strong Retail performance saw a four per cent increase in sales and a 17 per cent increase in new business profit to GBP223 million demonstrating the continuing benefits of selectively participating in product lines that can deliver attractive returns. Retail sales growth was driven by strong performances in individual annuities, corporate pensions, with-profits bonds and lifetime mortgages.

In the wholesale bulk annuity and insurer back-book market, Prudential UK achieved a 26 per cent year-on-year increase with sales in 2007 of GBP180 million. In the fourth quarter Prudential completed the transfer of Equitable Life's portfolio of in-force with-profit annuities. In the previous year, Prudential UK completed two back-book insurer deals with a total volume of GBP143 million. New business profits relating to the Wholesale business were GBP54 million in 2007.

EEV basis operating profit based on longer-term investment returns of GBP859 million, before restructuring costs of GBP8 million, were up 25 per cent on 2006. The in-force operating profit of GBP582 million was up 39 per cent on 2006, due to the increase in profits arising from the unwind of the in-force book (reflecting an increased opening embedded value) and a GBP67 million positive operating assumption change in 2007 reflecting the change in the long term tax rate assumption from 30 per cent to 28 per cent. A charge in respect of a mortality operating assumption change on annuity and deferred annuity pension business of GBP312 million was fully offset by the release of excess margins previously held.

Other charges of GBP77 million include GBP36 million of costs associated with product and distribution development; GBP13 million for an annual fee paid by the shareholder business to the Prudential Assurance Company's (PAC) with-profits sub-fund for the use of the Prudential and Scottish Amicable trademarks; GBP14 million in respect of the tariff arrangement with Scottish Amicable Insurance Finance (SAIF), which terminates at the end of 2007 and GBP14 million in relation to other items.

Prudential continues to manage actively the retention of the in-force book. During 2007, experience at an aggregate level has been in line with our long-term assumptions as evidenced by the small positive experience variance.

IFRS operating profit increased six per cent to GBP528 million before restructuring costs of GBP7 million. This reflects a seven per cent increase in profits attributable to the with-profits business, which contributed GBP394 million reflecting strong investment performance and its impact on terminal bonuses. The net impact of the mortality strengthening and release of margins held in other assumptions under the IFRS basis was a positive net GBP34 million.

In 2007, Prudential received a GBP4 million net commission payment from Winterthur relating to general insurance sales under the Prudential brand in the UK. From early 2008, on settlement of an advance payment made by Winterthur in 2002, the business expects to receive approximately GBP30 million a year in commission payments, although this will depend on the new business volumes and persistency rates.

Prudential UK writes with-profit annuity, with-profits bond and with-profits corporate pension business in its life fund with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business growth in the UK was 14 per cent, excluding the Equitable Life deal (18 per cent including this business).

Asset Management

Global

The Prudential Group's asset management businesses provide value to the insurance businesses within the Group by delivering sustained superior performance. They are also important profit generators in their own right, having low capital requirements and generating significant cash flow for the Group.

The asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services (RFS) markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths, however they continue to work together by managing money for each other with clear regional specialism, distribute each others' products and share knowledge and expertise, such as credit research.

Each business and its performance in 2007 is summarised below.

M&G

M&G is comprised of the M&G asset management business and Prudential Capital.

M&G	2007 GBPm	CER 2006 GBPm	Change %	RER(20 GB
Net investment flows	4,958	6,101	(19%)	6,1
Revenue	482	429	12%	4
Other income	30	27	11%	
Staff Costs	(224)	(216)	(4%)	(21
Other Costs	(113)	(106)	(7%)	(10
Underlying profit before Performance-related Fees	175	134	31%	1
Performance-related fees	28	27	4%	
Operating profit from asset management operations	203	161	26%	1
Operating profit from Prudential Capital	51	43	19%	
Total IFRS operating profit	254	204	25%	2

M&G Asset Management

M&G is an investment-led business with a demonstrable focus on performance delivery and aims to offer attractive products in a variety of macro-economic environments. M&G aims to deliver superior investment performance and maximise risk-adjusted returns for our retail, wholesale and internal clients. External funds under management account for nearly a third of M&G's total funds under management and it is this higher-margin external business that drives profitability and cash generation for the Group.

M&G's retail strategy is based on obtaining maximum value from a single manufacturing function through a multi-channel, multi-geography distribution approach. Over the last five years, M&G's retail business has expanded beyond the UK into the major European markets, the Middle East, South America and Asia. By operating through multiple channels, M&G's retail business is well placed to profit from current trends away from direct selling towards intermediation, and the growth of on-line fund platforms and third-party product wrappers.

M&G's wholesale strategy centres on leveraging the skills developed primarily for internal funds to create higher margin products for external clients. In recent years, this strategy has consolidated M&G's position at the forefront of the leveraged finance, structured credit and infrastructure investment markets. The same strategy is now being applied to develop the more traditional pooled and segregated fixed income areas of M&G's wholesale business.

M&G has significant scale in all major asset classes: it is believed to be one of the largest active managers in the UK stock market, one of the largest bond investors in the UK and one of the UK's largest property investors. In addition, M&G has profitable businesses in a number of specialist areas such as leveraged loans, structured credit, infrastructure finance and macro investment.

Current year initiatives

Delivering fund performance remains critical and is the key determinant of success for an asset management business. M&G has continued to deliver market-leading investment performance in 2007 with impressive results. M&G's retail funds have performed exceptionally well, with 45 per cent delivering top-quartile performance(1). In addition, 86 per cent of M&G's segregated institutional funds have met or exceeded their benchmark performance1.

Returns1 on Prudential's Life Fund assets were 66 basis points ahead of benchmark and 143 basis points better than peer group.

Overall, the demand for asset management products in M&G's distribution markets continued to grow strongly in 2007 driven, in part, by the same retirement-related demographic trends that are creating opportunities for the Group as a whole.

With a diversified business across different asset classes and across retail and wholesale markets, both in the UK and internationally, M&G remains well positioned for a variety of macro-economic and market conditions.

The way that clients purchase asset management products continued to evolve during 2007. The retail asset management sector benefited from the increasing shift by retail investors towards more transparent investment products, such as unit trusts, and M&G's range of market leading funds has positioned it well to benefit from this trend. M&G extended its range of innovative new funds during 2007 with the launch of the M&G Cautious Multi Asset Fund and M&G Global Convertibles Fund.

European cross-border distribution of retail funds has accelerated and the trend in favour of 'Open Architecture' in both the UK and Europe continues to open up significant bank and life company distribution opportunities. Parallel to this, distribution of mutual funds has become increasingly intermediated and has been accompanied by the rise of professional buyers who demand higher levels of service and investment information, areas in which M&G has considerable expertise. M&G has continued to expand its geographic coverage in Europe with the first full year of operations in Spain and the launch of M&G's funds in France in October 2007 which has given M&G access to Europe's largest mutual fund market.

Wholesale markets are demanding increasingly sophisticated and tailored products and there is a continued shift from balanced to specialist mandates. These trends, plus the increased role of fixed income within portfolios, continue to play to the strength and scale of M&G's wholesale business. In 2007, M&G launched three new funds aimed at the institutional and pensions markets - the M &G Alpha Opportunities Fund, M&G Secured Property Income Fund and the M&G Secured Debt Fund. All of these funds offer innovative alternatives to traditional fixed income assets and leverage off M&G's expertise and scale in both property and private finance.

M&G's infrastructure investment business has grown from inception in 2005 to manage GBP471 million (2007 year end fair value) in its principal fund, Infracapital. The business contributed GBP7.1 million to M&G profits in 2007.

M&G's global macro investment business was established in 2005 and has grown to GBP1.5 billion in external funds under management as at the end of 2007. It contributed GBP11.2 million in profits to M&G in 2007, including performance related fees.

In order to support its retail and wholesale strategy, M&G places a high priority on the recruitment, development and retention of top-quality staff. In a highly competitive market for the best talent, this entails providing an inclusive and supportive environment as well as offering appropriate levels of compensation. At the same time, M&G has a policy of prudent cost control, ensuring that top-line growth is translated into enhanced operational gearing. During 2007 turnover of staff remained in line with industry averages at 10 per cent and the company spent GBP2.1 million on training and development programmes.

Financial performance

M&G recorded another year of record profits in 2007 with an operating result of GBP203 million (2006: GBP161 million), representing profit CAGR of 34 per cent since 2003. Underlying profit growth, which excludes volatile performance related fees (PRFs) and carried interest earned on private equity investments, has grown at 36 per cent CAGR over the same period to GBP175 million (2006: GBP134 million).

M&G continues to target increased diversity in profit generating activities. In 2007, 80 per cent of underlying profits were generated as a result of managing external funds, compared to 23 per cent in 2003. Profit growth is driven by four key factors: appreciation of underlying assets, positive net sales, increasing mix of higher-margin business and decreasing cost/income ratio.

The underlying growth in M&G's principal investment markets over recent years has been strongly supportive of its performance. While this growth is beyond the company's control, M&G has been successful at increasing diversity in terms of both asset class and distribution channel in order to reduce exposure to cyclical downturns in individual markets.

M&G has performed strongly against the other three measures. Net sales for 2007 of GBP5.0 billion (2006: GBP6.1 billion) were driven by both the retail GBP2.7 billion, (2006: GBP3.1 billion) and wholesale GBP2.3 billion, (2006: GBP3.0 billion) businesses. Gross inflows of GBP14.7 billion were the highest on record, offset to some extent by higher gross redemptions, particularly in the more volatile international retail marketplace.

The continued strong growth in external funds under management, coupled with a small decline in the value of funds managed for Prudential, has resulted in an increasing mix of higher-yielding business for M&G. This has supported an increase in gross margin (revenue as a proportion of FUM) from 28.0 basis points in 2003 to 30.8 in 2007.

During 2007, M&G has exercised continued cost discipline to ensure that top-line growth feeds through to profitability and cash generation. M&G's cost/income ratio for 2007 was 66 per cent (2006: 71 per cent) having fallen from 83 per cent in 2003.

M&G continues to provide capital efficient profits and cash generation for the Prudential group, as well as strong investment returns on its long-term business funds. Cash remittances were GBP99 million in 2007.

Prudential Capital

Prudential Capital (re-branded from Prudential Finance in 2007) manages Prudential's balance sheet for profit through leveraging Prudential's market position. The business has three strategic objectives: to operate a first class wholesale and capital markets interface; to realise profitable proprietary opportunities within a tightly controlled risk framework; and to provide professional treasury services to Prudential. Prudential Capital generates revenue by structuring transactions, providing bridging finance, and operating a securities lending and cash management business for Prudential and its clients.

The business has continued to grow in terms of investment, infrastructure and personnel in a controlled way while maintaining the dynamism and flexibility that it requires to identify and realise opportunities for profit. Prudential Capital is committed to working closer with other Group business units to deliver opportunities and to improve value creation for the Group. Prudential Capital is also taking a more holistic view on hedging strategy, liquidity and capital management for the Group.

Prudential Capital has a diversified earnings base derived from bridging,

structured finance and wholesale markets. Prudential Capital delivered a good financial result in 2007, driven by increased investment activity and strong securities lending performance. As a result of increased revenue and maintaining a low cost/income ratio, operating profits increased by 19 per cent to GBP51 million, resulting in a cash remittance to the holding company of GBP40 million.

Asia

Asia	2007 GBPm	CER 2006 GBPm	Change %	RER(5 200 GBP
Net investment flows	2,961	2,410	23%	2,53
Total IFRS operating profit*	72	47	53%	5

*Based on longer-term investment returns.

Prudential's asset management business in Asia supports the Life Business, and has established itself as an increasingly material retail business in its own right. Today it has retail operations in ten markets and, is the only foreign fund manager with a top five market share position in more than one Asian country.

The mutual fund industry continues to diversify its investments, expectations are for a significant increase in net flows over the coming years. Bank distribution continues to dominate in most markets in Asia, and Prudential has established strong relationships with both regional and local banks and places great emphasis on providing good service.

Current Initiatives

Fund innovation is essential in maintaining sales levels and distribution agreements and during 2007 Prudential's operations launched 71 new funds. The largest of which include two India funds for Japan; the India Equity Fund and the India Infrastructure Fund. The China Dragon A Share Equity Fund in Korea reached its regulatory cap in two weeks and the Asia Pacific REIT in Taiwan also reached its regulatory cap.

A key achievement in 2007 was the expansion of regional distribution relationships with Citi and HSBC. The Asian asset management business also signed a global partnership agreement with HSBC Private Banking and is now part of the Credit Suisse Fundslab platform.

Greater deregulation and higher allocations by sovereign wealth and other institutional investors in foreign investments is driving the growth of offshore funds in the market and Prudential is also developing its institutional asset management business in Asia winning mandates of GBP0.5 billion during 2007.

Prudential launched a retail mutual fund business in Hong Kong in October 2007. Since launch six distribution relationships have been signed, including banks, financial advisers and an on-line portal.

The United Arab Emirates operation also made good progress with 13 distribution agreements signed since launch a year ago and with funds under management of GBP397 million.

In August 2007, Prudential increased its stake in CITIC Prudential Fund Management, its joint venture with CITIC Group in China from 33 per cent to 49 per cent, following approval from regulators. This joint venture launched its

first Qualified Foreign Institutional Investor fund in Korea in May 2007 and hit its GBP100 million quota.

Financial Performance

Prudential's asset management business achieved record net inflows for 2007 of GBP3 billion, up 23 per cent on 2006. The growth in net flows was primarily driven by strong performance in India, Taiwan and Japan. Funds under management in these three countries increased by 65 per cent, 49 per cent and 46 per cent respectively. In total during 2007, retail funds under management grew by 39 per cent to GBP17.4 billion.

IFRS profits from asset management operations were GBP72 million, up 53 per cent on 2006. Operating profits in terms of basis points on funds under management increased from 18 basis points in 2006 to 21 in 2007. The asset management business requires very little capital to support its growth and in 2007 it remitted a net GBP31 million to the Group.

United States

US Asset Management

PPM America		CER		RER(5
	2007	2006	Change	200
	GBPm	GBPm	%	GBP
Total IFRS operating profit*	4	10	(60%)	1

*Based on longer-term investment returns.

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides investment services to other affiliated and unaffiliated institutional clients including collateralised debt obligations (CDOs), private equity funds, institutional accounts and mutual funds. PPMA's strategy is focused on effectively managing existing assets, maximising synergies with international asset management affiliates and leveraging investment management capabilities across the Prudential Group. PPMA also opportunistically pursues third-party mandates.

Current year initiatives

During 2007, PPMA successfully leveraged its investment management capabilities as evidenced by:

- Obtaining over GBP329 million of funds under management in the Jackson variable annuity programme.
- Assuming management of over GBP194 million of funds under management from Curian.
- Assuming additional responsibilities for the UK life fund, growing assets by GBP2 billion.
- Launching three new products offered by Prudential Corporation Asia.
- Raising over GBP638 million of third-party funds under management.

Financial performance

IFRS operating profit in 2007 was GBP4 million, down from GBP10 million in 2006, primarily due to lower investment income and performance-related fees, partially offset by asset-driven fee growth.

Year-end 2007 funds under management of GBP39 billion were as follows:

PPMA funds under management (GBP billions)	Asia	US	UK	Tot
Insurance	0	23	10	
Unitised	3	0	1	
Institutional	0	0	0	
CDOs	0	2	0	
Total	3	25	11	

US Broker dealer

Broker dealer	2007 GBPm	CER 2006 GBPm	Change %	RER(5 200 GBP
Revenue	300	246	22%	26
Costs	(291)	(240)	21%	(261
Total IFRS operating profit*	9	6	50%	

*Based on longer-term investment returns.

National Planning Holdings (NPH), Jackson's affiliated independent broker-dealer network, is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation and SII Investments.

NPH continues to grow through significant recruiting efforts. By leveraging its high-quality, state-of-the-art technology, NPH provides its advisors with the tools they need to operate their practices more efficiently. Through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, in addition to receiving valuable insight into the needs of financial advisors and their clients.

Current year initiatives

NPH increased sales of Jackson's enhanced product offering and the overall distribution of the network during the year. NPH also introduced several operational enhancements, which increased the efficiency of its production processes. In addition, NPH executed a focused recruitment initiative to expand the total assets under management and the representative base of INVEST Financial Corporation.

Financial performance

NPH had a very successful year in 2007, generating record revenues of GBP300 million versus GBP246 million in 2006 on gross product sales of GBP7.1 billion. The network continues to generate profitable growth with 2007 IFRS operating

profit of GBP9 million, a 50 per cent increase at CER from GBP6 million in 2006.
NPH also increased the number of registered advisors in its network to 3,000 at
year-end.

Curian

Curian		CER		R
	2007	2006	Change	

ff;padding-left:2px;padding-top:2px;padding-bottom:2px;">6,663
5,341
119,865
94,289
225,922
186,166
Operating income100,525
90,167
210,307
182,189
Non-operating income (expense)
Interest income1,278
881
2,310
1,559
Interest expense(49,276) (44,818) (98,506) (89,454)
Other non-operating expenses(3,205) (1,178) (5,389) (1,312)
(51,203) (45,115) (101,585) (89,207)
Income before income taxes49,322
45,052
108,722
92,982
Provision for income taxes(1,263) (1,177) (2,494) (2,415)
Net income48,059
43,875
106,228
90,567
Less: Net (income) attributable to noncontrolling interest(34,913) (33,195) (77,252) (68,539)
Net income attributable to Class A shareholders$13,146
$10,680
$28,976
$22,028

Weighted average Class A shares outstanding:
Basic 70,993,091
57,687,558
70,982,243
57,596,223
Diluted71,184,996
57,854,088
71,158,585
57,818,511

Net income per Class A share (basic)$0.19
$0.19
$0.41
$0.38
Net income per Class A share (diluted)$0.18
$0.18
$0.41
$0.38

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Dividends declared per Class A share$0.4300
 $0.3950
 $0.8500
 $0.7825
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The accompanying notes are an integral part of these condensed consolidated financial statements.

2

MGM GROWTH PROPERTIES LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$48,059	$43,875	$106,228	$90,567
Other comprehensive income (loss)				
Unrealized gain (loss) on cash flow hedges, net	6,281	(4,112)	22,636	(4,746)
Other comprehensive income (loss)	6,281	(4,112)	22,636	(4,746)
Comprehensive income	54,340	39,763	128,864	85,821
Less: Comprehensive (income) attributable to noncontrolling interests	(39,519)	(30,058)	(93,855)	(64,918)
Comprehensive income attributable to Class A shareholders	$14,821	$9,705	$35,009	$20,903

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

MGM GROWTH PROPERTIES LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	$106,228	$90,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	136,465	121,911
Property transactions, net	18,512	17,442
Amortization of deferred financing costs and debt discount	6,056	5,623
Loss on retirement of debt	2,736	798
Amortization related to above market lease, net	343	343
Provision for income taxes	2,494	2,415
Straight-line rental revenues	8,635	1,571
Amortization of deferred revenue	(1,836)	(872)
Share-based compensation	940	550
Changes in operating assets and liabilities:		
Tenant and other receivables, net	2,188	5,337
Prepaid expenses and other assets	(83)	(5,229)
Due to MGM Resorts International and affiliates	(815)	67
Accounts payable, accrued expenses and other liabilities	(84)	(1,248)
Accrued interest	2,554	(8,557)
Net cash provided by operating activities	284,333	230,718
Cash flows from investing activities		
Capital expenditures for property and equipment	(190)	—
Net cash used in investing activities	(190)	—
Cash flows from financing activities		
Deferred financing costs	(17,490)	(1,024)
Repayment of debt	(13,000)	(25,125)
Dividends and distributions paid	(223,466)	(188,219)
Net cash used in financing activities	(253,956)	(214,368)
Cash and cash equivalents		
Net increase for the period	30,187	16,350
Balance, beginning of period	259,722	360,492
Balance, end of period	$289,909	$376,842
Supplemental cash flow disclosures		
Interest paid	$89,627	$92,301
Non-cash investing and financing activities		
Non-Normal Tenant Improvements by Tenant	$13,507	$17,297
Accrual of dividend and distribution payable to Class A shareholders and Operating Partnership unit holders	$114,399	$95,995

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MGM GROWTH PROPERTIES OPERATING PARTNERSHIP LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except unit amounts)
(unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Real estate investments, net	$9,880,658	$10,021,938
Cash and cash equivalents	289,909	259,722
Tenant and other receivables, net	4,197	6,385
Prepaid expenses and other assets	51,500	18,487
Above market lease, asset	43,801	44,588
Total assets	$10,270,065	$10,351,120
LIABILITIES AND PARTNERS' CAPITAL		
Liabilities		
Debt, net	$3,923,224	$3,934,628
Due to MGM Resorts International and affiliates	147	962
Accounts payable, accrued expenses and other liabilities	9,758	10,240
Above market lease, liability	46,625	47,069
Accrued interest	25,119	22,565
Distribution payable	114,399	111,733
Deferred revenue	147,946	127,640
Deferred income taxes, net	28,544	28,544
Total liabilities	4,295,762	4,283,381
Commitments and contingencies (Note 11)		
Partners' capital		
General partner	—	—
Limited partners: 266,045,289 and 266,030,918 Operating Partnership units issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	5,974,303	6,067,739
Total partners' capital	5,974,303	6,067,739
Total liabilities and partners’ capital	$10,270,065	$10,351,120

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

MGM GROWTH PROPERTIES OPERATING PARTNERSHIP LP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except unit and per unit amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Rental revenue	$186,563	$163,177	$373,126	$326,354
Tenant reimbursements and other	33,827	21,279	63,103	42,001
	220,390	184,456	436,229	368,355
Expenses				
Depreciation	67,474	60,227	136,465	121,911
Property transactions, net	14,426	10,587	18,512	17,442
Reimbursable expenses	32,907	20,642	61,267	41,129
Amortization of above market lease, net	172	172	343	343
Acquisition-related expenses	2,131	—	2,672	—
General and administrative	2,755	2,661	6,663	5,341
	119,865	94,289	225,922	186,166
Operating income	100,525	90,167	210,307	182,189
Non-operating income (expense)				
Interest income	1,278	881	2,310	1,559
Interest expense	(49,276)	(44,818)	(98,506)	(89,454)
Other non-operating expenses	(3,205)	(1,178)	(5,389)	(1,312)
	(51,203)	(45,115)	(101,585)	(89,207)
Income before income taxes	49,322	45,052	108,722	92,982
Provision for income taxes	(1,263)	(1,177)	(2,494)	(2,415)
Net income	48,059	43,875	106,228	90,567
Weighted average Operating Partnership units outstanding:				
Basic	266,127,214	243,049,694	266,116,366	242,958,359
Diluted	266,319,119	243,216,224	266,292,708	243,180,647
Net income per Operating Partnership unit (basic)	$0.18	$0.18	$0.40	$0.37
Net income per Operating Partnership unit (diluted)	$0.18	$0.18	$0.40	$0.37
Distributions declared per Operating Partnership unit	$0.4300	$0.3950	$0.8500	$0.7825

The accompanying notes are an integral part of these condensed consolidated financial statements.

MGM GROWTH PROPERTIES OPERATING PARTNERSHIP LP
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$48,059	$43,875	$106,228	$90,567
Unrealized gain (loss) on cash flow hedges, net	6,281	(4,112)	22,636	(4,746)
Comprehensive income	$54,340	$39,763	$128,864	$85,821

The accompanying notes are an integral part of these condensed consolidated financial statements.

MGM GROWTH PROPERTIES OPERATING PARTNERSHIP LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	$106,228	$90,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	136,465	121,911
Property transactions, net	18,512	17,442
Amortization of deferred financing costs and debt discount	6,056	5,623
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Amortization of deferred revenue	(1,836)	(872)
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Changes in operating assets and liabilities:		
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Due to MGM Resorts International and affiliates	(815)	67
Accounts payable, accrued expenses and other liabilities	(84)	(1,248)
Accrued interest	2,554	(8,557)
Net cash provided by operating activities	284,333	230,718
Cash flows from investing activities		
Capital expenditures for property and equipment	(190)	—
Net cash used in investing activities	(190)	—
Cash flows from financing activities		
Deferred financing costs	(17,490)	(1,024)
Repayment of debt	(13,000)	(25,125)
Distributions paid	(223,466)	(188,219)
Net cash used in financing activities	(253,956)	(214,368)
Cash and cash equivalents		
Net increase for the period	30,187	16,350
Balance, beginning of period	259,722	360,492
Balance, end of period	$289,909	$376,842
Supplemental cash flow disclosures		
Interest paid	$89,627	$92,301
Non-cash investing and financing activities		
Non-Normal Tenant Improvements by Tenant	$13,507	$17,297
Accrual of distribution payable to Operating Partnership unit holders	$114,399	$95,995

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MGM GROWTH PROPERTIES LLC AND MGM GROWTH PROPERTIES OPERATING PARTNERSHIP LP
CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
NOTE 1 — BUSINESS

Organization. MGM Growth Properties LLC (“MGP” or the “Company”) is a limited liability company that was organized in Delaware on October 23, 2015. MGP conducts its operations through MGM Growth Properties Operating Partnership LP (the “Operating Partnership”), a Delaware limited partnership that was formed on January 6, 2016 and acquired by MGP on April 25, 2016. The Company has elected to be treated as a real estate investment trust ("REIT") commencing with its taxable year ended December 31, 2016.

MGP is a publicly traded REIT engaged through its investment in the Operating Partnership in the real property business, which primarily consists of owning, acquiring and leasing large-scale destination entertainment and leisure resorts, whose tenants generally offer casino gaming, hotel, convention, dining, entertainment and retail. MGM Resorts International (“MGM” or the “Parent”) is a Delaware corporation that acts largely as a holding company and, through its subsidiaries, owns and operates large-scale destination entertainment and leisure resorts. Pursuant to a master lease agreement (the “Master Lease”), a subsidiary of the Operating Partnership (the “Landlord”) leases the real estate assets of The Mirage, Mandalay Bay, Luxor, New York-New York, Park MGM (which had previously been branded as Monte Carlo prior to May 2018), Excalibur, The Park, Gold Strike Tunica, MGM Grand Detroit, Beau Rivage, Borgata, and MGM National Harbor back to a subsidiary of MGM (the “Tenant”).

As of June 30, 2018, there were 266,045,289 Operating Partnership units outstanding in the Operating Partnership of which MGM owned 195,134,123 or 73.3% and MGP owns the remaining 26.7%. MGM’s Operating Partnership units are exchangeable into Class A shares of MGP on a one-to-one basis, or cash at the fair value of a Class A share. The determination of settlement method is at the option of MGP’s independent conflicts committee. MGM’s indirect ownership of these Operating Partnership units is recognized as a noncontrolling interest in MGP’s financial statements. A wholly owned subsidiary of MGP is the general partner of the Operating Partnership and operates and controls all of its business affairs. As a result, MGP consolidates the Operating Partnership and its subsidiaries. MGM also has ownership of MGP’s outstanding Class B share. The Class B share is a non-economic interest in MGP which does not provide its holder any rights to profits or losses or any rights to receive distributions from the operations of MGP or upon liquidation or winding up of MGP but which represents a majority of the voting power of MGP’s shares. As a result, MGP continues to be controlled by MGM through its majority voting rights, and is consolidated by MGM.

On May 28, 2018, the Company entered into an agreement to acquire the real property associated with the Empire City Casino's race track and casino (“Empire City”) from MGM upon its acquisition of Empire City for total consideration of $625 million, which will include the assumption of approximately $245 million of debt by the Operating Partnership with the balance through the issuance of operating partnership units to MGM. Empire City will be added to the existing Master Lease between MGM and MGP. As a result, the annual rent payment to MGP will increase by $50 million. Consistent with the Master Lease terms, 90% of this rent will be fixed and contractually grow at 2% per year until 2022. In addition, pursuant to the Master Lease, MGP will have a right of first offer with respect to certain undeveloped land adjacent to the property to the extent MGM develops additional gaming facilities and chooses to sell or transfer the property in the future. The transactions are expected to close in the first quarter of 2019, subject to regulatory approvals and other customary closing conditions.

On April 4, 2018, the Company entered into an agreement with Milstein Entertainment LLC to acquire the membership interests of Northfield Park Associates, LLC, an Ohio limited liability company that owns the real estate assets and operations of the Hard Rock Northfield Park ("Rocksino") for approximately $1.06 billion and on July 6, 2018, one of the Company's taxable REIT subsidiaries (“TRS”) completed the acquisition of the Rocksino. The Company funded the acquisition through a $200 million draw on the delayed draw Term Loan A and a $655 million draw under the revolving credit facility, with the remainder of the purchase price paid with cash on

hand. Simultaneously with the close, the Company entered into a new agreement with Hard Rock to continue to serve as the manager of the property. The TRS was formed to engage in activities resulting in income that is not qualifying income for the REIT and will accordingly pay U.S. federal, state and local income tax at regular corporate rates on its taxable income.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information set forth in the Accounting Standards Codification ("ASC"), as published by the Financial Accounting Standards Board ("FASB"), and with the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information

and footnotes required by U.S. GAAP for complete financial statements. All adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the interim period have been included. Certain reclassifications have been made to conform the prior period presentation. Property tax expense was separately classified in prior periods and is now classified within “reimbursable expenses” in the accompanying condensed consolidated statements of operations.

The accompanying condensed consolidated financial statements and related notes should be read in conjunction with the audited financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K.

Variable Interest Entities. The condensed consolidated financial statements of MGP include the accounts of the Operating Partnership, a VIE of which the Company is the primary beneficiary, as well as its wholly owned and majority-owned subsidiaries. MGP’s maximum exposure to loss is the carrying value of the assets and liabilities of the Operating Partnership, which represents all of MGP’s assets and liabilities. As MGP holds what is deemed a majority voting interest in the Operating Partnership through its ownership of the Operating Partnership’s sole general partner, it qualifies for the exemption from providing certain of the required disclosures associated with investments in VIEs. The condensed consolidated financial statements of the Operating Partnership include the accounts of its wholly owned subsidiary, the Landlord, which owns the real estate, a VIE of which the Operating Partnership is the primary beneficiary. As of June 30, 2018, on a consolidated basis the Landlord had total assets of $9.9 billion primarily related to its real estate assets, and total liabilities of $227 million primarily related to its deferred revenue and above market lease liability.

Noncontrolling interest. The Company presents noncontrolling interest and classifies such interest as a component of consolidated shareholders’ equity, separate from the Company’s Class A shareholders’ equity. Noncontrolling interest in the Company represents Operating Partnership units currently held by subsidiaries of MGM. Net income or loss of the Operating Partnership is allocated to its noncontrolling interest based on the noncontrolling interest’s ownership percentage in the Operating Partnership except for income tax expenses. Ownership percentage is calculated by dividing the number of Operating Partnership units held by the noncontrolling interest by the total Operating Partnership units held by the noncontrolling interest and the Company. Issuance of additional Class A shares and Operating Partnership units changes the ownership interests of both the noncontrolling interest and the Company. Such transactions and the related proceeds are treated as capital transactions.

MGM may tender its Operating Partnership units for redemption by the Operating Partnership in exchange for cash equal to the market price of MGP’s Class A shares at the time of redemption or for unregistered Class A shares on a one-for-one basis. Such selection to pay cash or issue Class A shares to satisfy an Operating Partnership unitholder’s redemption request is solely within the control of MGP’s independent conflicts committee.

Real estate investments. Real estate investments consist of land, buildings, improvements and integral equipment. The contribution or acquisition of the real property by the Operating Partnership from MGM represent transactions between entities under common control, and as a result, such real estate was initially recorded by the Company at MGM’s historical cost basis, less accumulated depreciation (i.e., there was no change in the basis of the contributed assets), as of the contribution or acquisition dates. Costs of maintenance and repairs to real estate investments are the responsibility of the Tenant under the Master Lease.

Although the Tenant is responsible for all capital expenditures during the term of the Master Lease, if, in the future, a deconsolidation event occurs, the Company will be required to pay the Tenant, should the Tenant so elect, for certain capital improvements that would not constitute “normal tenant improvements” in accordance with U.S. GAAP (“Non-Normal Tenant Improvements”), subject to an initial cap of $100 million in the first year of the Master Lease increasing annually by $75 million each year thereafter. The Company will be entitled to receive additional rent based on the 10-year Treasury yield plus 600 basis points multiplied by the value of the new capital improvements the Company is required to pay for in connection with a deconsolidation event and such capital improvements will be subject to the terms of the Master Lease. Examples of Non-Normal Tenant Improvements include the costs of structural elements at the properties, including capital improvements that expand the footprint or square footage of any of the properties or extend the useful life of the properties, as well as equipment that would be a necessary

improvement at any of the properties, including initial installation of elevators, air conditioning systems or electrical wiring. Such Non-Normal Tenant Improvements are capitalized and depreciated over the asset's remaining life. Inception-to-date Non-Normal Tenant Improvements were $138.9 million through June 30, 2018.

Deferred revenue. The Company receives nonmonetary consideration related to Non-Normal Tenant Improvements as they become MGP's property pursuant to the Master Lease, and recognizes the cost basis of Non-Normal Tenant Improvements as real estate investments and deferred revenue. The Company depreciates the real estate investments over their estimated useful lives and amortizes the deferred revenue as additional rental revenue over the remaining term of the Master Lease once the related real estate assets are placed in service.

Income tax provision. For interim income tax reporting the Company estimates its annual effective tax rate and applies it to its year-to-date ordinary income. The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, are reported in the interim period in which they occur. The Company's effective income tax rate was 2.6% and 2.3% for the three and six months ended June 30, 2018, respectively. The provision for current taxes and the deferred tax liability in the accompanying financial statements are attributable to noncontrolling interest since the payment of such taxes are the responsibility of MGM.

Recently issued accounting standards. In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. ASU 2017-12 amends the hedge accounting recognition and presentation requirements in order to improve the transparency and understandability of information about an entity's risk management activities, and simplifies the application of hedge accounting. The Company is currently assessing the impact that adoption of this guidance will have on its consolidated financial statements and footnote disclosures.

In 2016 and 2018, the FASB issued ASC 842 "Leases (Topic 842)," which replaces the existing guidance in ASC 840, "Leases." ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASC 842 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The Company is currently assessing the impact the adoption of ASC 842 will have on its consolidated financial statements and footnote disclosures.

In May 2014, the FASB issued ASC 606, Revenue from Contracts with Customers (Topic 606) which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods and services. The Company adopted ASC 606 on January 1, 2018 and it did not have a material impact on the Company's financial statements and footnote disclosures.

NOTE 3 — REAL ESTATE INVESTMENTS

The carrying value of real estate investments is as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Land	$4,143,513	$4,143,513
Buildings, building improvements, land improvements and integral equipment	8,440,785	8,512,334
	12,584,298	12,655,847
Less: Accumulated depreciation	(2,703,640)	(2,633,909)
	$9,880,658	$10,021,938

4 — MASTER LEASE

Pursuant to the Master Lease, the Tenant has leased the Company's real estate properties (other than the real estate associated with the TRS). The Master Lease is accounted for as an operating lease and has an initial lease term of ten years with the potential to extend the term for four additional five-year terms thereafter at the option of the Tenant.

On April 1, 2018, the second 2.0% fixed annual rent escalator went into effect. Rent payments under the Master Lease for the third lease year of April 1, 2018 through March 31, 2019 are $770.3 million.

Rental revenues from the Master Lease for the three and six months ended June 30, 2018 were $186.6 million and $373.1 million, respectively. The Company also recognized revenue related to tenant reimbursements and other of $33.8 million and $63.1 million for the three and six months ended June 30, 2018, respectively.

NOTE 5 — DEBT

Debt consists of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Senior secured credit facility:		
Senior secured term loan A facility	$270,000	$273,750
Senior secured term loan B facility	1,808,375	1,817,625
Senior secured revolving credit facility	—	—
$1,050 million 5.625% senior notes, due 2024	1,050,000	1,050,000
$500 million 4.50% senior notes, due 2026	500,000	500,000
$350 million 4.50% senior notes, due 2028	350,000	350,000
	3,978,375	3,991,375
Less: Unamortized discount and debt issuance costs	(55,151)	(56,747)
	$3,923,224	$3,934,628

Operating Partnership credit agreement. At June 30, 2018, the Operating Partnership senior credit facility consisted of a $470 million term loan A facility, a $1.8 billion term loan B facility, and a $1.4 billion revolving credit facility. On March 23, 2018, the Operating Partnership repriced its term loan B interest rate to LIBOR plus 2.00% and extended the maturity of the term loan B facility to March 2025, effective June 14, 2018. In addition, the Operating Partnership will receive a further reduction in pricing to LIBOR plus 1.75% upon a corporate rating upgrade by either S&P or Moody's.

On June 14, 2018, the Operating Partnership amended its credit agreement to provide for a $750 million increase of the revolving facility to $1.35 billion, provide for a new $200 million delayed draw on the term loan A facility (which was drawn in full, subsequent to June 30, 2018, in connection with the Rocksino closing), and extend the maturity of the revolving facility and the term loan A facility to June 2023. Additionally, the revolving and term loan A facilities were repriced to LIBOR plus 1.75% to 2.25% determined by reference to the total net leverage ratio pricing grid. In addition, amortization payments under the term loan A facility's will start on the last business day of each calendar quarter beginning September 30, 2019, for an amount equal to 0.625% of the aggregate principal amount of the term loan A outstanding as of the amendment effective date.

The Operating Partnership permanently repaid $5 million and $13 million of the term loan A and term loan B facility in the three and six months ended June 30, 2018, respectively, in accordance with the scheduled amortization. At June 30, 2018, the interest rate on the term loan A facility was 4.34% and the interest rate on the term loan B facility was 4.09%. At June 30, 2018, no amounts were drawn on the revolving credit facility or on the delayed draw on the term loan A facility. The Operating Partnership was in compliance with its financial covenants at June 30, 2018.

See Note 6 for further discussion of the Company's interest rate swap agreements related to the term loan B facility.

Fair value of long-term debt. The estimated fair value of the Company's long-term debt was $3.9 billion and $4.1 billion at June 30, 2018 and December 31, 2017, respectively. Fair value was estimated using quoted prices for identical or similar liabilities in markets that are not active (level 2 inputs).

Deferred financing costs. The Company recognized non-cash interest expense related to the amortization of deferred financing costs of $3.1 million and $6.1 million and during the three and six months ended June 30, 2018, respectively. The Company recognized non-cash interest expense related to the amortization of deferred financing costs of $2.8 million and $5.6 million and during the three and six months ended June 30, 2017, respectively.

NOTE 6 — DERIVATIVES AND HEDGING ACTIVITIES

The Company uses derivative instruments to mitigate the effects of interest rate volatility inherent in its variable rate debt, which could unfavorably impact our future earnings and forecasted cash flows. The Company does not use derivative instruments for speculative or trading purposes.

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The Operating Partnership is party to interest rate swaps to mitigate the interest rate risk inherent in its senior secured term loan B facility. In May 2017 in connection with the term loan B re-pricing, the Company amended its outstanding interest rate swap agreements. As of June 30, 2018 and December 31, 2017, the Company pays a weighted average fixed rate of 1.844% on total notional amount of $1.2 billion and the variable rate received will reset monthly to the one-month LIBOR, with no minimum floor. As of June 30, 2018 and December 31, 2017, all of the Company's derivative financial instruments have been designated as cash flow hedges and qualify for hedge accounting.

The fair values of the Company's interest rate swaps are $33.7 million and $11.3 million as of June 30, 2018 and December 31, 2017, respectively, based upon the present value of expected future cash flows using observable, quoted LIBOR swap rates for the full term of the swap (level 2 inputs). Interest rate swaps valued in net unrealized gain positions are recognized as asset balances within the prepaid expenses and other assets. Interest rate swaps valued in net unrealized loss positions are recognized as liability balances within accounts payable, accrued expenses and other liabilities. For the three and six months ended June 30, 2018, the amount recorded in other comprehensive income related to the derivative instruments was a net unrealized gain of $6.3 million and a net unrealized gain of $22.6 million, respectively. For the three and six months ended June 30, 2017, the amount recorded in other comprehensive income related to the derivative instruments was a net unrealized loss of $4.1 million and $4.7 million, respectively. There was no material ineffective portion of the change in fair value derivatives. For the three and six months ended June 30, 2018, the Company recorded an offset to interest expense of $0.1 million and interest expense of $0.8 million, respectively, related to the swap agreements. For the three and six months ended June 30, 2017, the Company recorded interest expense of $2.6 million and $5.3 million, respectively, related to the swap agreements.

NOTE 7 — SHAREHOLDERS’ EQUITY AND PARTNERS' CAPITAL

MGP dividends and Operating Partnership distributions. The following table presents the distributions declared and paid by the Operating Partnership and the dividends declared and paid by MGP for the six months ended June 30, 2018 and June 30, 2017. MGP pays its dividends with the receipt of its share of the Operating Partnership's distributions.

Declaration Date	Record Date	Distribution/ Dividend Per Unit/ Share	Payment Date	Operating Partnership Distribution	MGP Class A Dividend
(in thousands, except per unit and per share amount)					
2018					
March 15, 2018	March 30, 2018	$ 0.4200	April 15, 2018	$ 111,733	$ 29,777
June 15, 2018	June 29, 2018	$ 0.4300	July 16, 2018	$ 114,399	$ 30,492
2017					
March 15, 2017	March 31, 2017	$ 0.3875	April 13, 2017	$ 94,109	$ 22,281
June 15, 2017	June 30, 2017	$ 0.3950	July 14, 2017	$ 95,995	$ 22,777

Dividends with respect to MGP’s Class A shares are characterized for federal income tax purposes as taxable ordinary dividends, capital gains dividends, non-dividend distributions or a combination thereof.

The following table presents MGP's changes in shareholders' equity for the six months ended June 30, 2018:

	Total Class A Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
	(in thousands)		
Balance at December 31, 2017	$1,624,650	$4,443,089	$6,067,739
Net income - January 1, 2018 to June 30, 2018	28,976	77,252	106,228
Other comprehensive income - cash flow hedges	6,033	16,603	22,636
Share-based compensation	251	689	940
Deemed contribution - tax sharing agreement	—	2,494	2,494
Dividends and distributions declared	(60,269)	(165,864)	(226,133)
Other	345	54	399
Balance at June 30, 2018	$1,599,986	$4,374,317	$5,974,303

The following table presents the Operating Partnership's changes in partners' capital for the six months ended June 30, 2018:

	General Partner	Limited Partners	Total Partners' Capital
	(in thousands)		
Balance at December 31, 2017	$—	$6,067,739	$6,067,739
Net income - January 1, 2018 to June 30, 2018	—	106,228	106,228
Other comprehensive income - cash flow hedges	—	22,636	22,636
Share-based compensation	—	940	940
Deemed contribution - tax sharing agreement	—	2,494	2,494
Distributions declared	—	(226,133)	(226,133)
Other	—	399	399
Balance at June 30, 2018	$—	$5,974,303	$5,974,303

NOTE 8 — ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income includes net income and all other non-shareholder changes in equity, or other comprehensive income. The following table summarizes the changes in accumulated other comprehensive income by component for the six months ended June 30, 2018:

	Cash Flow Hedges
	(in thousands)
Balance at December 31, 2017	$ 11,661
Other comprehensive income before reclassifications	21,802
Amounts reclassified from accumulated other comprehensive income to interest expense	834
Net current period other comprehensive income	22,636
Balance at June 30, 2018	34,297
Accumulated other comprehensive income attributable to noncontrolling interest	(25,156)
Accumulated other comprehensive income attributable to Class A shareholders	$ 9,141

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NOTE 9 — NET INCOME PER CLASS A SHARE

The table below provides basic net income and per Class A share, which utilizes the weighted-average number of Class A shares outstanding without regard to dilutive potential Class A shares, and “diluted” net income per share, which includes all such shares. Net income attributable to Class A shares, weighted average Class A shares outstanding and the effect of dilutive securities outstanding are presented for the six months ended June 30, 2018 and June 30, 2017. Net income per share has not been presented for the Class B shareholder as the Class B share is not entitled to any economic rights.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share amounts)			
Basic net income per share				
Numerator:				
Net income attributable to Class A shares	$13,146	$ 10,680	$28,976	$ 22,028
Denominator:				
Basic weighted average Class A shares outstanding (1)	70,993,091	57,687,558	70,982,243	57,596,223
Basic net income per Class A share	$0.19	$ 0.19	$0.41	$ 0.38

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share amounts)			
Diluted net income per share				
Numerator:				
Net income attributable to Class A shares	$13,146	$ 10,680	$28,976	$ 22,028
Denominator:				
Basic weighted average Class A shares outstanding (1)	70,993,091	57,687,558	70,982,243	57,596,223
Effect of dilutive shares for diluted net income per Class A share (2)	191,905	166,530	176,342	222,288
Weighted average shares for diluted net income per Class A share	71,184,996	57,854,088	71,158,585	57,818,511
Diluted net income per Class A share (3)	$0.18	$ 0.18	$0.41	$ 0.38

(1) Includes weighted average deferred share units granted to certain members of the board of directors.
(2) No shares related to outstanding share-based compensation awards were excluded due to being antidilutive.
(3) Diluted net income per Class A share does not assume conversion of the Operating Partnership units held by MGM as such conversion would be antidilutive.

NOTE 10 — NET INCOME PER OPERATING PARTNERSHIP UNIT

The table below provides basic net income per Operating Partnership unit, which utilizes the weighted-average number of Operating Partnership units outstanding without regard to dilutive potential Operating Partnership units, and “diluted” net income per Operating Partnership units, which includes all such Operating Partnership units. Net income attributable to Operating Partnership units, weighted average Operating Partnership units outstanding and the effect of dilutive securities outstanding are presented for the three and six months ended June 30, 2018 and June 30, 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share amounts)			
Basic net income per Operating Partnership unit				
Numerator:				
Net income	$48,059	$ 43,875	$106,228	$ 90,567
Denominator:				
Basic weighted average Operating Partnership units outstanding [(1)]	266,127,214	243,049,694	266,116,366	242,958,359
Basis net income per Operating Partnership unit	$0.18	$ 0.18	$0.40	$ 0.37

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share amounts)			
Diluted net income per Operating Partnership unit				
Numerator:				
Net income	$48,059	$ 43,875	$106,228	90,567
Denominator:				
Basic weighted average Operating Partnership units outstanding [(1)]	266,127,214	243,049,694	266,116,366	242,958,359
Effect of dilutive shares for diluted net income per Operating Partnership unit [(2)]	191,905	166,530	176,342	222,288
Weighted average shares for diluted net income per Operating Partnership unit	266,319,119	243,216,224	266,292,708	243,180,647
Diluted net income per Operating Partnership unit	$0.18	$ 0.18	$0.40	$ 0.37

(1) Includes weighted average deferred share units granted to certain members of the Board of Directors.
(2) No shares related to outstanding share-based compensation awards were excluded due to being antidilutive.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Litigation. In the ordinary course of business, from time to time, the Company expects to be subject to legal claims and administrative proceedings, none of which are currently outstanding, which the Company believes could have, individually or in the aggregate, a material adverse effect on its business, financial condition or results of operations, liquidity or cash flows.

NOTE 12 — CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Operating Partnership's senior notes were co-issued by MGP Finance Co-Issuer, Inc., a 100% owned finance subsidiary of the Operating Partnership. Obligations to pay principal and interest on the senior notes are currently guaranteed by all of the Operating Partnership's subsidiaries, other than MGP Finance Co-Issuer, Inc., each of which is directly or indirectly 100% owned by the Operating Partnership. Such guarantees are full and unconditional, and joint and several and are subject to release in accordance with the events described below. Separate condensed financial information for the subsidiary guarantors as of June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and June 30, 2017 are presented below.

The guarantee of a subsidiary guarantor will be automatically released upon (i) a sale or other disposition (including by way of consolidation or merger) of the subsidiary guarantor, or the capital stock of the subsidiary guarantor; (ii) the sale or

disposition of all or substantially all of the assets of the subsidiary guarantor; (iii) the designation in accordance with the indenture of a subsidiary guarantor as an unrestricted subsidiary; (iv) at such time as such subsidiary guarantor is no longer a subsidiary guarantor or other obligor with respect to any credit facilities or capital markets indebtedness of the Operating Partnership; or (v) defeasance or discharge of the notes.

CONSOLIDATING BALANCE SHEET INFORMATION

	June 30, 2018				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Real estate investments, net	$636	$ —	$9,880,022	$—	$9,880,658
Cash and cash equivalents	289,909	—	—	—	289,909
Tenant and other receivables, net	376	—	3,821	—	4,197
Intercompany	1,001,634	—	—	(1,001,634)	—
Prepaid expenses and other assets	51,500	—	—	—	51,500
Investments in subsidiaries	8,699,073	—	—	(8,699,073)	—
Above market lease, asset	—	—	43,801	—	43,801
Total assets	$10,043,128	$ —	$9,927,644	$(9,700,707)	$10,270,065
Debt, net	3,923,224	—	—	—	3,923,224
Due to MGM Resorts International and affiliates	147	—	—	—	147
Intercompany	—	—	1,001,634	(1,001,634)	—
Accounts payable, accrued expenses and other liabilities	5,936	—	3,822	—	9,758
Above market lease, liability	—	—	46,625	—	46,625
Accrued interest	25,119	—	—	—	25,119
Dividend and distribution payable	114,399	—	—	—	114,399
Deferred revenue	—	—	147,946	—	147,946
Deferred income taxes, net	—	—	28,544	—	28,544
Total liabilities	4,068,825	—	1,228,571	(1,001,634)	4,295,762
General partner	—	—	—	—	—
Limited partners	5,974,303	—	8,699,073	(8,699,073)	5,974,303
Total partners' capital	5,974,303	—	8,699,073	(8,699,073)	5,974,303
Total liabilities and partners’ capital	$10,043,128	$ —	$9,927,644	$(9,700,707)	$10,270,065

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CONSOLIDATING BALANCE SHEET INFORMATION

	December 31, 2017				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Real estate investments, net	$488	$ —	$10,021,450	$—	$10,021,938
Cash and cash equivalents	259,722	—	—	—	259,722
Tenant and other receivables, net	299	—	6,086	—	6,385
Intercompany	1,383,397	—	—	(1,383,397)	—
Prepaid expenses and other assets	18,487	—	—	—	18,487
Investments in subsidiaries	8,479,388	—	—	(8,479,388)	—
Above market lease, asset	—	—	44,588	—	44,588
Total assets	$10,141,781	$ —	$10,072,124	$(9,862,785)	$10,351,120
Debt, net	3,934,628	—	—	—	3,934,628
Due to MGM Resorts International and affiliates	962	—	—	—	962
Intercompany	—	—	1,383,397	(1,383,397)	—
Accounts payable, accrued expenses and other liabilities	4,154	—	6,086	—	10,240
Above market lease, liability	—	—	47,069	—	47,069
Accrued interest	22,565	—	—	—	22,565
Dividend and distribution payable	111,733	—	—	—	111,733
Deferred revenue	—	—	127,640	—	127,640
Deferred income taxes, net	—	—	28,544	—	28,544
Total liabilities	4,074,042	—	1,592,736	(1,383,397)	4,283,381
General partner	—	—	—	—	—
Limited partners	6,067,739	—	8,479,388	(8,479,388)	6,067,739
Total partners' capital	6,067,739	—	8,479,388	(8,479,388)	6,067,739
Total liabilities and partners’ capital	$10,141,781	$ —	$10,072,124	$(9,862,785)	$10,351,120

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME INFORMATION

	Three Months Ended June 30, 2018				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenues					
Rental revenue	$—	$ —	$ 186,563	$—	$ 186,563
Tenant reimbursements and other	—	—	33,827	—	33,827
	—	—	220,390	—	220,390
Expenses					
Depreciation	15	—	67,459	—	67,474
Property transactions, net	—	—	14,426	—	14,426
Reimbursable expenses	—	—	32,907	—	32,907
Amortization of above market lease, net	—	—	172	—	172
Acquisition-related expenses	2,131	—	—	—	2,131
General and administrative	2,755	—	—	—	2,755
	4,901	—	114,964	—	119,865
Operating income (loss)	(4,901)	—	105,426	—	100,525
Equity in earnings of subsidiaries	104,163	—	—	(104,163)	—
Non-operating income (expense)					
Interest income	1,278	—	—	—	1,278
Interest expense	(49,276)	—	—	—	(49,276)
Other non-operating expenses	(3,205)	—	—	—	(3,205)
	(51,203)	—	—	—	(51,203)
Income before income taxes	48,059	—	105,426	(104,163)	49,322
Provision for income taxes	—	—	(1,263)	—	(1,263)
Net income	$48,059	$ —	$ 104,163	$(104,163)	$ 48,059
Other comprehensive income					
Net income	48,059	—	104,163	(104,163)	48,059
Unrealized gain on cash flow hedges, net	6,281	—	—	—	6,281
Comprehensive income	$54,340	$ —	$ 104,163	$(104,163)	$ 54,340

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME INFORMATION

	Six Months Ended June 30, 2018				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenues					
Rental revenue	$—	$ —	$ 373,126	$—	$ 373,126
Tenant reimbursements and other	—	—	63,103	—	63,103
	—	—	436,229	—	436,229
Expenses					
Depreciation	42	—	136,423	—	136,465
Property transactions, net	—	—	18,512	—	18,512
Reimbursable expenses	—	—	61,267	—	61,267
Amortization of above market lease, net	—	—	343	—	343
Acquisition-related expenses	2,672	—	—	—	2,672
General and administrative	6,663	—	—	—	6,663
	9,377	—	216,545	—	225,922
Operating income (loss)	(9,377)	—	219,684	—	210,307
Equity in earnings of subsidiaries	217,190	—	—	(217,190)	—
Non-operating income (expense)					
Interest income	2,310	—	—	—	2,310
Interest expense	(98,506)	—	—	—	(98,506)
Other non-operating expenses	(5,389)	—	—	—	(5,389)
	(101,585)	—	—	—	(101,585)
Income before income taxes	106,228	—	219,684	(217,190)	108,722
Provision for income taxes	—	—	(2,494)	—	(2,494)
Net income	$106,228	$ —	$ 217,190	$ (217,190)	$ 106,228
Other comprehensive income					
Net income	106,228	—	217,190	(217,190)	106,228
Unrealized gain on cash flow hedges, net	22,636	—	—	—	22,636
Comprehensive income	$128,864	$ —	$ 217,190	$ (217,190)	$ 128,864

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME INFORMATION

	Three Months Ended June 30, 2017				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenues					
Rental revenue	$—	$ —	$ 163,177	$ —	$ 163,177
Tenant reimbursements and other	—	—	21,279	—	21,279
	—	—	184,456	—	184,456
Expenses					
Depreciation	—	—	60,227	—	60,227
Property transactions, net	—	—	10,587	—	10,587
Reimbursable expenses	—	—	20,642	—	20,642
Amortization of above market lease, net	—	—	172	—	172
General and administrative	2,661	—	—	—	2,661
	2,661	—	91,628	—	94,289
Operating income (loss)	(2,661)	—	92,828	—	90,167
Equity in earnings of subsidiaries	91,651	—	—	(91,651)	—
Non-operating income (expense)					
Interest income	881	—	—	—	881
Interest expense	(44,818)	—	—	—	(44,818)
Other non-operating expenses	(1,178)	—	—	—	(1,178)
	(45,115)	—	—	—	(45,115)
Income before income taxes	43,875	—	92,828	(91,651)	45,052
Provision for income taxes	—	—	(1,177)	—	(1,177)
Net income	$43,875	$ —	$ 91,651	$ (91,651)	$ 43,875
Other comprehensive income					
Net income	43,875	—	91,651	(91,651)	43,875
Unrealized loss on cash flow hedges, net	(4,112)	—	—	—	(4,112)
Comprehensive income	$39,763	$ —	$ 91,651	$ (91,651)	$ 39,763

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME INFORMATION

	Six Months Ended June 30, 2017				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenues					
Rental revenue	$—	$ —	$ 326,354	$—	$ 326,354
Tenant reimbursements and other	—	—	42,001	—	42,001
	—	—	368,355	—	368,355
Expenses					
Depreciation	—	—	121,911	—	121,911
Property transactions, net	—	—	17,442	—	17,442
Reimbursable expenses	—	—	41,129	—	41,129
Amortization of above market lease, net	—	—	343	—	343
General and administrative	5,341	—	—	—	5,341
	5,341	—	180,825	—	186,166
Operating income (loss)	(5,341)	—	187,530	—	182,189
Equity in earnings of subsidiaries	185,115	—	—	(185,115)	—
Non-operating income (expense)					
Interest income	1,559	—	—	—	1,559
Interest expense	(89,454)	—	—	—	(89,454)
Other non-operating expenses	(1,312)	—	—	—	(1,312)
	(89,207)	—	—	—	(89,207)
Income before income taxes	90,567	—	187,530	(185,115)	92,982
Provision for income taxes	—	—	(2,415)	—	(2,415)
Net income	$90,567	$ —	$ 185,115	$ (185,115)	$ 90,567
Other comprehensive income					
Net income	90,567	—	185,115	(185,115)	90,567
Unrealized loss on cash flow hedges, net	(4,746)	—	—	—	(4,746)
Comprehensive income	$85,821	$ —	$ 185,115	$ (185,115)	$ 85,821

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CONSOLIDATING STATEMENT OF CASH FLOWS INFORMATION

	Six Months Ended June 30, 2018				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Cash flows from operating activities					
Net cash provided by (used in) operating activities	$(97,428)	$ —	$ 381,761	$ —	$ 284,333
Cash flows from investing activities					
Capital expenditures for property and equipment	(190)	—	—	—	(190)
Net cash used in investing activities	(190)	—	—	—	(190)
Cash flows from financing activities					
Deferred financing costs	(17,490)	—	—	—	(17,490)
Repayment of debt	(13,000)	—	—	—	(13,000)
Distributions paid	(223,466)	—	—	—	(223,466)
Cash received by Parent on behalf of Guarantor Subsidiaries	381,761	—	(381,761)	—	—
Net cash provided by (used in) financing activities	127,805	—	(381,761)	—	(253,956)
Cash and cash equivalents					
Net increase for the period	30,187	—	—	—	30,187
Balance, beginning of period	259,722	—	—	—	259,722
Balance, end of period	$289,909	$ —	$ —	$ —	$ 289,909

CONSOLIDATING STATEMENT OF CASH FLOWS INFORMATION

	Six Months Ended June 30, 2017				
	Operating Partnership	Co-Issuer	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Cash flows from operating activities					
Net cash provided by (used in) operating activities	$(97,207)	$ —	$ 327,925	$ —	$ 230,718
Cash flows from investing activities					
Capital expenditures for property and equipment	—	—	—	—	—
Net cash used in investing activities	—	—	—	—	—
Cash flows from financing activities					
Deferred financing costs	(1,024)	—	—	—	(1,024)
Repayment of debt principal	(25,125)	—	—	—	(25,125)
Distributions paid	(188,219)	—	—	—	(188,219)
Cash received by Parent on behalf of Guarantor Subsidiaries	327,925	—	(327,925)	—	—
Net cash provided by (used in) financing activities	113,557	—	(327,925)	—	(214,368)
Cash and cash equivalents					
Net increase for the period	16,350	—	—	—	16,350
Balance, beginning of period	360,492	—	—	—	360,492
Balance, end of period	$376,842	$ —	$ —	$ —	$ 376,842

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" for a discussion of the uncertainties, risks, and assumptions that may cause our actual results to differ materially from those discussed in the forward-looking statements.

This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this quarterly report on Form 10-Q, and the audited consolidated financial statements and notes for the fiscal year ended December 31, 2017, which were included in our annual report on Form 10-K, filed with the SEC on March 1, 2018.

Executive Overview

MGP is a limited liability company that was formed in Delaware on October 23, 2015. MGP conducts its operations through the Operating Partnership, a Delaware limited partnership formed by MGM on January 6, 2016, which became a subsidiary of MGP on April 25, 2016. The Company has elected to be treated as a real estate investment trust ("REIT") commencing with its taxable year ended December 31, 2016.

Following the completion of MGP's initial public offering, it became a publicly traded REIT engaged in the real property business which primarily consists of owning, acquiring and leasing large-scale destination entertainment and leisure resort properties, whose tenants generally offer casino gaming, hotel, convention, dining, entertainment and retail. MGM continued to hold a controlling interest in MGP following the completion of its initial public offering through its ownership of MGP's single Class B share. The Class B share is a non-economic interest in MGP which does not provide its holder any rights to profits or losses or any rights to receive distributions from operations of MGP or upon liquidation or winding up of MGP but which represents a majority of the voting power of MGP's shares. In addition, MGM continues to hold a majority economic interest in the Operating Partnership through its ownership of Operating Partnership units. One of MGP's subsidiaries is the sole general partner of the Operating Partnership.

We generate a substantial portion of our revenues by leasing our real estate properties through the Landlord, a wholly owned subsidiary of the Operating Partnership, to the Tenant, a subsidiary of MGM, in a "triple-net" lease arrangement, which requires the Tenant to pay substantially all costs associated with each property, including real estate taxes, insurance, utilities and routine maintenance, in addition to the base rent and the percentage rent, each as described below. The Master Lease has an initial lease term of ten years with the potential to extend the term for four additional five-year terms thereafter at the option of the Tenant. Additionally, the Master Lease provides us with a right of first offer to purchase the real estate assets with respect to MGM's development property in Springfield, Massachusetts (the "ROFO Property") in the event that MGM elects to sell it. In addition, in connection with the Empire City transaction, we will be granted a right of first offer with respect to certain undeveloped land adjacent to the property to the extent MGM develops additional gaming facilities and chooses to sell or transfer the property in the future. On April 1, 2018, the second 2.0% fixed annual rent escalator went into effect. Rent payments under the Master Lease for the third lease year of April 1, 2018 to March 31, 2019 are $770.3 million. Payments under the Master Lease are guaranteed by MGM.

As of June 30, 2018, our portfolio consisted of eleven premier destination resorts operated by MGM, including properties that we believe are among the world's finest casino resorts, and The Park in Las Vegas. On April 4, 2018, we entered into an agreement with Milstein Entertainment LLC to acquire the Hard Rock Rocksino Northfield Park ("Rocksino") for approximately $1.06 billion and on July 6, 2018, we completed the acquisition of the Rocksino. Simultaneously with the close, we entered into a new agreement with Hard Rock to continue to serve as the manager of the property.

On May 28, 2018, we entered into an agreement to acquire the real property associated with the Empire City Casino's race track and casino ("Empire City") from MGM upon its acquisition of Empire City for total consideration of $625 million. Empire City will be added to the existing Master Lease between MGM and MGP. The transactions are expected to close in the first quarter of 2019, subject to regulatory approvals and other customary closing conditions.

Combined Results of Operations for MGP and the Operating Partnership

Overview

The following table summarizes our financial results for the three and six months ended June 30, 2018 and June 30, 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Total revenues	$220,390	$184,456	$436,229	$368,355
Operating income	100,525	90,167	210,307	182,189
Net income	48,059	43,875	106,228	90,567
Net income attributable to Class A shareholders	13,146	10,680	28,976	22,028

Revenues

Revenues, including tenant reimbursements and other, for the three and six months ended June 30, 2018 were $220.4 million and $436.2 million, respectively. Revenues, including tenant reimbursements and other, for the three and six months ended June 30, 2017 were $184.5 million and $368.4 million, respectively. The increase is primarily due to an increase in rental revenues of $23.4 million and $46.8 million for the three and six months ended June 30, 2018, respectively, as a result of the acquisition of MGM National Harbor in October 2017.

Operating Expenses

Depreciation. Depreciation expense for the three and six months ended June 30, 2018 was $67.5 million and $136.5 million, respectively. Depreciation expense for the three and six months ended June 30, 2017 was $60.2 million and $121.9 million, respectively. Depreciation expense for the three and six months ended June 30, 2018 increased due to assets placed in service and depreciation related to the MGM National Harbor assets acquired.

Property transactions, net. Property transactions, net for the three and six months ended June 30, 2018 were $14.4 million and $18.5 million, respectively, and relate to normal losses on the disposition of assets. Property transactions, net for the three and six months ended June 30, 2017 were $10.6 million and $17.4 million, respectively, and relate to normal losses on the disposition of assets.

Reimbursable expenses. Reimbursable expenses include costs reimbursed or paid directly by Tenant pursuant to the Master Lease, including property taxes and ground lease rent for which we are the primary obligor. Reimbursable expenses for three and six months ended June 30, 2018 were $32.9 million and $61.3 million. Reimbursable expenses for three and six months ended June 30, 2017 were $20.6 million and $41.1 million. The increase is primarily due to the acquisition of MGM National Harbor in October 2017.

Acquisition-related expenses. Acquisition-related expenses for the three and six months ended June 30, 2018 were $2.1 million and $2.7 million, respectively, which related to expenses incurred in connection with the acquisitions of the Rocksino and the Empire City Casino's race track and casino ("Empire City") (see Note 1 to the accompanying financial statements). There were no acquisition-related expenses for the three and six months ended June 30, 2017.

General and administrative expenses. General and administrative expenses for the three and six months ended June 30, 2018 were $2.8 million and $6.7 million, respectively. General and administrative expenses for the three and six months ended June 30, 2017 were $2.7 million and $5.3 million, respectively. The increase for the six months ended June 30, 2018 when compared to the six months ended June 30, 2017 is primarily due to an increase in costs incurred for transactions that did not close.

Non-Operating Expenses

Total non-operating expenses for the three and six months ended June 30, 2018 were $51.2 million and $101.6 million and primarily related to interest expense on the senior secured credit facility, senior notes and interest rate swaps, which included amortization of debt issuance costs of $3.1 million and $6.1 million for the three and six months ended June 30, 2018 as well as a $1.7 million loss on retirement of debt incurred for the senior secured facility amendment in

the three months ended June 30, 2018 and a $2.7 million loss on retirement of debt incurred for the senior secured facility amendments in the six months ended June 30, 2018. Total non-operating expenses for the three and six months ended June 30, 2017 were $45.1 million and $89.2

million, respectively, and primarily related to interest expense on the senior secured credit facility, senior notes and interest rate swaps, which included amortization of debt issuance costs of $2.8 million and $5.6 million for the three and six months ended June 30, 2017.

Non-GAAP Measures

Funds From Operations ("FFO") is net income (computed in accordance with U.S. GAAP), excluding gains and losses from sales or disposals of property (presented as property transactions, net), plus real estate depreciation, as defined by the National Association of Real Estate Investment Trusts ("NAREIT").

Adjusted Funds From Operations ("AFFO") is FFO as adjusted for amortization of financing costs and cash flow hedges, amortization of the above market lease, net, non-cash compensation expense, acquisition related expenses, other non-operating expenses, provision for income taxes and the net effect of straight-line rents and amortization of deferred revenue.

Adjusted EBITDA is net income (computed in accordance with U.S. GAAP) as adjusted for gains and losses from sales or disposals of property (presented as property transactions, net), real estate depreciation, interest income, interest expense (including amortization of financing costs and cash flow hedges), amortization of the above market lease, net, non-cash compensation expense, acquisition related expenses, other non-operating expenses, provision for income taxes and the net effect of straight-line rents and amortization of deferred revenue.

FFO, FFO per unit, AFFO, AFFO per unit and Adjusted EBITDA are supplemental performance measures that have not been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") that management believes are useful to investors in comparing operating and financial results between periods. Management believes that this is especially true since these measures exclude real estate depreciation and amortization expense and management believes that real estate values fluctuate based on market conditions rather than depreciating in value ratably on a straight-line basis over time. The Company believes such a presentation also provides investors with a meaningful measure of the Company's operating results in comparison to the operating results of other REITs. Adjusted EBITDA is useful to investors to further supplement AFFO and FFO and to provide investors a performance metric which excludes interest expense. In addition to non-cash items, the Company adjusts AFFO and Adjusted EBITDA for acquisition-related expenses. While we do not label these expenses as non-recurring, infrequent or unusual, management believes that it is helpful to adjust for these expenses when they do occur to allow for comparability of results between periods because each acquisition is (and will be) of varying size and complexity and may involve different types of expenses depending on the type of property being acquired and from whom.

FFO, FFO per unit, AFFO, AFFO per unit and Adjusted EBITDA do not represent cash flow from operations as defined by U.S. GAAP, should not be considered as an alternative to net income as defined by U.S. GAAP and are not indicative of cash available to fund all cash flow needs. Investors are also cautioned that FFO, FFO per unit, AFFO, AFFO per unit and Adjusted EBITDA as presented, may not be comparable to similarly titled measures reported by other REITs due to the fact that not all real estate companies use the same definitions.

The following table presents a reconciliation of net income to FFO, AFFO and Adjusted EBITDA:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Net income	$48,059	$43,875	$106,228	$90,567
Depreciation	67,474	60,227	136,465	121,911
Property transactions, net	14,426	10,587	18,512	17,442
Funds From Operations	129,959	114,689	261,205	229,920
Amortization of financing costs and cash flow hedges	3,216	3,702	6,325	6,508
Non-cash compensation expense	556	362	940	550
Net effect of straight-line rent and amortization of deferred revenue	5,103	1,611	6,799	699
Acquisition-related expenses	2,131	—	2,672	—
Amortization of above market lease, net	172	172	343	343
Other non-operating expenses	3,205	1,178	5,389	1,312
Provision for income taxes	1,263	1,177	2,494	2,415
Adjusted Funds From Operations	145,605	122,891	286,167	241,747
Interest income	(1,278)	(881)	(2,310)	(1,559)
Interest expense	49,276	44,818	98,506	89,454
Amortization of financing costs and cash flow hedges	(3,216)	(2,904)	(6,325)	(5,710)
Adjusted EBITDA	$190,387	$163,924	$376,038	$323,932

Liquidity and Capital Resources

Property rental revenue is our primary source of cash from operations and is dependent on the Tenant’s ability to pay rent. All of our indebtedness is held by the Operating Partnership and MGP does not guarantee any of the Operating Partnership's indebtedness. MGP's principal funding requirement is the payment of distributions on its Class A shares, and its principal source of funding for these distributions is the distributions it receives from the Operating Partnership. MGP's liquidity is therefore dependent upon the Operating Partnership's ability to make sufficient distributions to it. The Operating Partnership's primary uses of cash include payment of operating expenses, debt service and distributions to MGP. We believe that the Operating Partnership currently has sufficient liquidity to satisfy all of its commitments, including its distributions to MGP, and in turn, that we currently have sufficient liquidity to satisfy all our commitments in the form of $289.9 million in cash and cash equivalents held by the Operating Partnership as of June 30, 2018, expected cash flows from operations, and $1.6 billion of borrowing capacity under the Operating Partnership's revolving credit facility and delayed draw capacity under the term loan A as of June 30, 2018. See Note 5 to the accompanying financial statements for a description of our principal debt arrangements. In addition, we expect to incur additional indebtedness to finance acquisitions or for general corporate or other purposes.

On July 6, 2018, the Company completed the acquisition of the Rocksino for approximately $1.06 billion from Milstein Entertainment LLC. The Company funded the acquisition through a $200 million draw on the delayed draw Term Loan A, a $655 million draw under the revolving credit facility with the remainder of the purchase price paid with cash on hand.

Summary of Cash Flows

Net cash provided by operating activities for the six months ended June 30, 2018 and June 30, 2017 were $284.3 million and $230.7 million, respectively. The increase in cash provided by operating activities was primarily due to an increase in rental payments of $46.8 million as a result of the MGM National Harbor transaction as well as the impact of the 2.0% fixed annual rent escalators of $6.3 million.

Net cash used in investing activities for the six months ended June 30, 2018 was $0.2 million, attributable to capital expenditures. There were no cash flows from investing activities for the six months ended June 30, 2017.

Net cash used in financing activities for the six months ended June 30, 2018 and June 30, 2017 were $254.0 million, and $214.4 million, respectively, were primarily attributable to distributions and dividends, and costs related to amending our senior credit facilities.

Dividends and Distributions

The following table presents the distributions declared and paid by the Operating Partnership and the dividends declared by MGP for the six months ended June 30, 2018 and June 30, 2017. MGP pays its dividends with the receipt of its share of the Operating Partnership's distributions.

Declaration Date	Record Date	Distribution/ Dividend Per Unit/ Share	Payment Date	Operating Partnership Distribution	MGP Class A Dividend
(in thousands, except per unit and per share amount)					
2018					
March 15, 2018	March 30, 2018	$ 0.4200	April 15, 2018	$ 111,733	$ 29,777
June 15, 2018	June 29, 2018	$ 0.4300	July 16, 2018	$ 114,399	$ 30,492
2017					
March 15, 2017	March 31, 2017	$ 0.3875	April 13, 2017	$ 94,109	$ 22,281
June 15, 2017	June 30, 2017	$ 0.3950	July 14, 2017	$ 95,995	$ 22,777

The Company filed its initial federal income tax return for its taxable year ended December 31, 2016 in 2017, and has elected to be treated as a REIT. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay taxes at regular corporate income tax rates to the extent that it annually distributes less than 100% of its taxable income. Commencing with our taxable year ended on December 31, 2016, our annual distribution will not be less than 90% of our REIT taxable income on an annual basis, determined without regard to the dividends paid deduction and excluding any net capital gains.

Inflation

The Master Lease provides for certain increases in rent as a result of the fixed annual rent escalator or changes in the variable percentage rent. We expect that inflation will cause the variable percentage rent provisions to result in rent increases over time. However, we could be negatively affected if increases in rent are not sufficient to cover increases in our operating expenses due to inflation. In addition, inflation and increased cost may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue due to inflation.

Application of Critical Accounting Policies and Estimates

A complete discussion of our critical accounting policies and estimates is included in our Form 10-K for the fiscal year ended December 31, 2017. There have been no significant changes in our critical accounting policies and estimates since year end.

Market Risk

Our primary market risk exposure is interest rate risk with respect to our existing variable-rate long-term indebtedness. As of June 30, 2018, we have incurred indebtedness in principal amount of $4.0 billion. An increase in interest rates could make the financing of any acquisition by us more costly as well as increase the costs of our variable rate debt obligations. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness.

As of June 30, 2018, the Operating Partnership's term loan B facility bears interest at LIBOR plus 2.00%, with a LIBOR floor of 0%. To manage our exposure to changes in LIBOR rates, we have interest rate swap agreements where the Company pays a weighted average 1.844% on a total notional amount of $1.2 billion and the variable rate received will reset monthly to the one-month LIBOR, with no minimum floor. We also expect to manage our exposure to interest rate risk by maintaining a mix of fixed and variable rates for our indebtedness.

We do not hold or issue financial instruments for trading purposes and do not enter into derivative transactions that would be considered speculative positions. As of June 30, 2018, long-term variable rate borrowings including impact from our swap agreements, represented approximately 22.1% of our total borrowings. Assuming a 100 basis-point increase in LIBOR, our annual interest cost would increase by approximately $9 million based on gross amounts outstanding at June 30, 2018 and taking into account the interest rate swap agreements in place. The following table provides information about the maturities of our long-term debt subject to changes in interest rates excluding the effect of the Operating Partnership interest rate swaps discussed above. Average interest rates presented relate to the interest rate of the debt maturity in the period:

	Debt maturing in							Fair Value June 30, 2018
	2018	2019	2020	2021	2022	Thereafter	Total	
	(in millions)							
Fixed-rate	$—	$—	$—	$—	$—	$1,900.0	$1,900.0	$1,847.3
Average interest rate						5.122 %	5.122 %	
Variable rate	$9.3	$21.9	$25.3	$25.3	$25.3	$1,971.5	$2,078.6	$2,066.4
Average interest rate	4.092 %	4.131 %	4.159 %	4.159 %	4.159 %	4.123 %	4.125 %	

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Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. In particular, statements pertaining to our capital resources and the amount and frequency of future distributions contain forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "could," "may," "will," "should," "seeks," "likely," "intends," "plans," "pro forma," "projects," "estimates" or "anticipates" or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Examples of forward-looking statements include, but are not limited to, statements we make regarding the timing and amount of any future dividend, our expectations regarding our ability to meet our financial and strategic goals and our ability to further grow our portfolio.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- We are dependent on MGM (including its subsidiaries) unless and until we substantially diversify our portfolio, and an event that has a material adverse effect on MGM's business, financial position or results of operations could have a material adverse effect on our business, financial position or results of operations.
- We depend on our properties leased to MGM for substantially all of our anticipated cash flows.
- We may not be able to re-lease our properties following the expiration or termination of the Master Lease.
- MGP's sole material assets are Operating Partnership units representing 26.7% of the ownership interests in the Operating Partnership, over which we have operating control through our ownership of its general partner.
- The Master Lease restricts our ability to sell our properties.
- We will have future capital needs and may not be able to obtain additional financing on acceptable terms.
- Covenants in our debt agreements may limit our operational flexibility, and a covenant breach or default could materially adversely affect our business, financial position or results of operations.
- Rising expenses could reduce cash flow and funds available for future acquisitions and distributions.
- We are dependent on the gaming industry and may be susceptible to the risks associated with it, which could materially adversely affect our business, financial position or results of operations.
- Because a significant number of our major gaming resorts are concentrated on the Las Vegas Strip (the "Strip"), we are subject to greater risks than a company that is more geographically diversified.
- Our pursuit of investments in, and acquisitions or development of, additional properties (including our acquisitions of the Rocksino, Empire City, the Empire City ROFO, or the remaining ROFO Property) may be unsuccessful or fail to meet our expectations.
- We may face extensive regulation from gaming and other regulatory authorities, and our operating agreement provides that any of our shares held by investors who are found to be unsuitable by state gaming regulatory authorities are subject to redemption.
- Required regulatory approvals can delay or prohibit future leases or transfers of our gaming properties, which could result in periods in which we are unable to receive rent for such properties.
- Net leases may not result in fair market lease rates over time, which could negatively impact our income and reduce the amount of funds available to make distributions to shareholders.
- Our dividend yield could be reduced if we were to sell any of our properties in the future.
- There can be no assurance that we will be able to make distributions to our Operating Partnership unitholders and Class A shareholders or maintain our anticipated level of distributions over time.
- An increase in market interest rates could increase our interest costs on existing and future debt and could adversely affect the price of our Class A shares.

- MGP is controlled by MGM, whose interests in our business may conflict with ours or yours.
- We are dependent on MGM for the provision of administration services to our operations and assets.
- MGM’s historical results may not be a reliable indicator of its future results.
- Our operating agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our directors, officers and others.
- If MGM engages in the same type of business we conduct, our ability to successfully operate and expand our business may be hampered.
- The Master Lease and other agreements governing our relationship with MGM were not negotiated on an arm’s-length basis and the terms of those agreements may be less favorable to us than they might otherwise have been in an arm’s-length transaction.

- In the event of a bankruptcy of the Tenant, a bankruptcy court may determine that the Master Lease is not a single lease but rather multiple severable leases, each of which can be assumed or rejected independently, in which case underperforming leases related to properties we own that are subject to the Master Lease could be rejected by the Tenant while tenant-favorable leases are allowed to remain in place.
- MGM may undergo a change of control without the consent of us or of our shareholders.
- If MGP fails to remain qualified to be taxed as a REIT, it will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would have an adverse effect on our business, financial condition and results of operations.
- Legislative or other actions affecting REITs could have a negative effect on us.
- The anticipated benefits of the Rocksino acquisition may not be realized fully and may take longer to realize than expected.
- Our ownership of the taxable REIT subsidiary ("TRS"), which we formed in connection with the Rocksino acquisition, will be subject to limitations, and a failure to comply with the limits could jeopardize our REIT qualification.

While forward-looking statements reflect our good-faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled "Risk Factors."

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law. If we update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

You should also be aware that while we from time to time communicate with securities analysts, we do not disclose to them any material non-public information, internal forecasts or other confidential business information. Therefore, you should not assume that we agree with any statement or report issued by any analyst, irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain projections, forecasts or opinions, those reports are not our responsibility and are not endorsed by us.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We incorporate by reference the information appearing under "Market Risk" in Part I, Item 2 of this Form 10-Q.

Item 4. Controls and Procedures

Controls and Procedures with respect to MGP

Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that our disclosure controls and procedures (as such term is defined in Rules 13(a)-15(e) and 15d-15(e) under the Exchange Act) were effective as of June 30, 2018 to provide reasonable assurance that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and regulations and to provide that such information is accumulated and communicated to management to allow timely decisions regarding required disclosures. This conclusion is based on an evaluation as required by Rule 13a-15(b) under the Exchange Act conducted under the supervision and participation of the principal executive officer and principal financial officer along with company management.

During the quarter ended June 30, 2018, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Controls and Procedures with respect to the Operating Partnership

In this "Controls and Procedures with respect to the Operating Partnership" section, the terms "we," "our" and "us" refer to the Operating Partnership together with its consolidated subsidiaries, and "management," "principal executive officer" and "principal financial officer" refers to the management, principal executive officer and principal financial officer of the

Operating Partnership and of the Operating Partnership's general partner.
Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that our disclosure controls and procedures (as such term is defined in Rules 13(a)-15(e) and 15d-15(e) under the

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Exchange Act) were effective as of June 30, 2018 to provide reasonable assurance that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and regulations and to provide that such information is accumulated and communicated to management to allow timely decisions regarding required disclosures. This conclusion is based on an evaluation as required by Rule 13a-15(b) under the Exchange Act conducted under the supervision and participation of the principal executive officer and principal financial officer along with company management. During the quarter ended June 30, 2018, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Pursuant to the Master Contribution Agreement (the "MCA"), any liability arising from or relating to legal proceedings involving the businesses and operations located at MGM's real property holdings prior to April 25, 2016 have been retained by MGM and MGM will indemnify us (and our subsidiaries, directors, officers, employees and agents and certain other related parties) against any losses we may incur arising from or relating to such legal proceedings.

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. As of June 30, 2018, we do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position, results of operations or cash flows.

Item 1A. Risk Factors

A description of certain factors that may affect our future results and risk factors is set forth in our Annual Report on Form 10-K for the year ended December 31, 2017. Except as discussed below, there have been no material changes from the risk factors previously disclosed in our 2017 Annual Report on Form 10-K.

The anticipated benefits of the Rocksino acquisition may not be realized fully and may take longer to realize than expected. On July 6, 2018, we completed the acquisition of the operations and real estate assets associated with the Rocksino. Although we intend to sell the operating assets, we have not yet done so and it may take longer than we anticipate to identify a purchaser and negotiate the sale of the operating assets. Any such sale would also be conditioned on the purchaser obtaining any required regulatory approvals among other conditions. In addition, there can be no assurances that we will sell the operating assets at a favorable price or at all, or that we will be able to generate the expected benefits in connection with such sale. A delay or failure to sell the operating assets or to sell them at an attractive price could have a material adverse effect on our business, financial position or results of operations.

Our ownership of the TRS, which we formed in connection with the Rocksino acquisition, will be subject to limitations, and a failure to comply with the limits could jeopardize our REIT qualification. We acquired the Rocksino using a TRS. This TRS will earn income that would not be qualifying income if earned directly by us. No more than 20% of the value of a REIT's assets may consist of stock and securities of one or more TRSs. In addition, the TRS rules impose a 100% excise tax on certain transactions between a TRS and us that are not conducted on an arm's-length basis.

Our TRS will pay U.S. federal, state and local income tax at regular corporate rates on its taxable income, including any gains that may result from selling the operating assets, and its after-tax net income would be available for distribution to us but will not be required to be distributed to us by such TRS. We will monitor the value of our interests in the TRSs (and any other TRSs that we may form in the future) to ensure compliance with the rule that no more than 20% of the value of our assets may consist of TRS stock and securities (which is applied at the end of each

calendar quarter). In addition, we will scrutinize all of our transactions with our TRSs (and any other TRSs that we may form in the future) to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitations or to avoid application of the 100% excise tax discussed above.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

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Item 6. Exhibits

2.1	Membership Interest Purchase Agreement, dated as of April 4, 2018, among MGP OH, Inc., Milstein Entertainment LLC, and Brock Milstein (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on April 5, 2018)†
4.1	Supplemental Indenture to the Indentures, dated as of June 15, 2018, among MGP OH, Inc., MGP Finance Co-Issuer, Inc. and MGM Growth Properties Operating Partnership LP, the Subsidiary Guarantors named therein, and U.S. Bank National Association, as Trustee
10.1	Fourth Amendment to Credit Agreement, dated June 14, 2018, among MGM Growth Properties Operating Partnership LP, the other loan parties and lenders named therein and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 18, 2018)
31.1	Certification of Chief Executive Officer of MGM Growth Properties LLC pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Executive Officer of MGM Growth Properties Operating Partnership LP pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Chief Financial Officer of MGM Growth Properties LLC pursuant to Rule 13a-14(a) and15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	Certification of Chief Financial Officer of MGM Growth Properties Operating Partnership LP pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer of MGM Growth Properties LLC pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Executive Officer of MGM Growth Properties Operating Partnership LP pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.3	Certification of Chief Financial Officer of MGM Growth Properties LLC pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.4	Certification of Chief Financial Officer of MGM Growth Properties Operating Partnership LP pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

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The following information from each of the MGM Growth Properties LLC and MGM Growth Properties Operating Partnership LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets at June 30, 2018 (unaudited) and December 31, 2017 (audited); (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six-months ended June 30, 2018 and 2017; (iii) Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six-months ended June 30, 2018 and 2017; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the six-months ended June 30, 2018 and 2017; and (v) Condensed Notes to Unaudited Condensed Consolidated Financial Statements.

*	Exhibits 32.1, 32.2, 32.3 and 32.4 shall not be deemed filed with the SEC, nor shall they be deemed incorporated by reference in any filing with the SEC under the Exchange Act or the Securities Act of 1933, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.
†	Schedules and exhibits have been omitted pursuant to Item 601(b)(2)of Regulation S-K. The Company hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the U.S. Securities and Exchange Commission.

SIGNATURES

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

		MGM Growth Properties LLC
Date: August 7, 2018	By:	/s/ JAMES C. STEWART James C. Stewart Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2018		/s/ ANDY H. CHIEN Andy H. Chien Chief Financial Officer and Treasurer (Principal Financial Officer)

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SIGNATURES

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

MGM Growth Properties Operating Partnership LP
By: MGM Growth Properties OP GP LLC, its general partner

Date: August 7, 2018 By: /s/ JAMES C. STEWART
James C. Stewart
Chief Executive Officer (Principal Executive Officer)

Date: August 7, 2018 /s/ ANDY H. CHIEN
Andy H. Chien
Chief Financial Officer and Treasurer (Principal Financial Officer)

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