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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 14, 2017

PRUDENTIAL FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction
of incorporation)

001-16707
(Commission
File Number)

22-3703799
(I.R.S. Employer
Identification No.)

751 Broad Street
Newark, New Jersey 07102
(Address of principal executive offices and zip code)

(973) 802-6000
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Earnings Guidance

On its 2018 financial outlook conference call today, Prudential Financial, Inc. (the “Company”) is announcing its expectation that the Company will achieve Common Stock earnings per share in the range of \$11.20 to \$11.70 for 2018, based on after-tax adjusted operating income. The earnings per share expectation excludes potential market unlocking adjustments for deferred policy acquisition and other costs which would be regarded as “market driven and discrete items” and assumes:

- (1) S&P 500 ending 2017 at 2,600 and growing 3% to 2,675 at the end of 2018,
- (2) the translation of Japanese yen earnings at a rate of 111 yen per U.S. dollar and Korean won earnings at a rate of 1,150 won per U.S. dollar,
- (3) interest rates based on the averaging of forward yield curves, with the interest rate on ten-year U.S. Treasury securities of 2.40% at the end of 2018,
- (4) non-coupon investments expected to produce returns within our long-term expected average of 5% to 6%,
- (5) an effective tax rate of approximately 26%; which does not reflect the potential impact from U.S. federal tax reform,
- (6) adjusted book value positively impacted by an accounting change for equity investments, (ASU 2016-01) and, to a lesser extent, the elimination of the one month reporting lag in the Company’s Gibraltar Life Insurance Company, Ltd. consolidated operations,
- (7) the assumed impact of the share repurchase authorization of \$1.5 billion described below under “Item 8.01 Other Events,” and,
- (8) continuing to operate at “AA” financial strength standards including a financial leverage ratio within our 25% target and a total leverage ratio within our 40% target.

Management does not expect to provide updates during 2018 for its earnings per share guidance.

Adjusted operating income, which is not measured in accordance with U.S. generally accepted accounting principles (“GAAP”), should not be viewed as a substitute for income determined in accordance with GAAP, and our definition of adjusted operating income, which can be found below under “Non-GAAP Measures,” may differ from that used by other companies. Due to the inherent difficulty in reliably quantifying future realized investment gains/losses and changes in asset and liability values given their unknown timing and potential significance, we cannot, without unreasonable effort, provide a measure of our Common Stock earnings per share expectation based on income from continuing operations, which is the GAAP measure most comparable to adjusted operating income.

The Company's financial leverage ratio represents capital debt divided by the sum of capital debt and equity. Junior subordinated debt is treated as 25% equity and 75% capital debt for purposes of this calculation. The Company's total leverage ratio represents total debt excluding non-recourse debt divided by the sum of total such debt and equity. Equity in each calculation excludes non-controlling interest, accumulated other comprehensive income (except for pension and postretirement unrecognized costs), and the impact of foreign currency exchange rate remeasurement.

Item 8.01 Other Events

Share Repurchase Authorization

Today, the Company is announcing that its Board of Directors has authorized the repurchase of up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2018 through December 31, 2018.

The timing and amount of any share repurchases under the Company's share repurchase authorization will be determined by management based on market conditions and other considerations, and such repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended.

NON-GAAP MEASURES

Consolidated adjusted operating income and adjusted book value are non-GAAP measures. Adjusted operating income excludes "Realized investment gains (losses), net," as adjusted, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities as well as our tax and capital profile.

Realized investment gains (losses) within certain of our businesses for which such gains (losses) are a principal source of earnings, and those associated with terminating hedges of foreign currency earnings and current period yield adjustments are included in adjusted operating income. Adjusted operating income generally excludes realized investment gains and losses from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset- liability management program related to the risk of those products. However, the effectiveness of our hedging program will ultimately be reflected in adjusted operating income over time. Adjusted operating income also excludes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged or considered part of our capital funding strategies for our international subsidiaries, as well as gains and losses on certain investments that are classified as other trading account assets.

Adjusted operating income also excludes investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes, because these recorded changes in asset and liability values are expected to ultimately accrue to contractholders. In addition, adjusted operating income excludes the results of divested businesses, which are not relevant to our ongoing operations. Discontinued operations and earnings attributable to noncontrolling interests, each of which is presented as a separate component of net income under GAAP, are also excluded from adjusted operating income. The tax effect associated with pre-tax adjusted operating income is based on applicable IRS and foreign tax regulations inclusive of pertinent adjustments.

Adjusted book value is calculated as total equity (GAAP book value) excluding both accumulated other comprehensive income (loss) and the cumulative effect of foreign currency exchange rate remeasurements and currency translation adjustments corresponding to realized investment gains and losses. These items are excluded in order to highlight the book value attributable to our core business operations separate from the portion attributable to external and potentially volatile capital and currency market conditions.

We believe that our use of these non-GAAP measures helps investors understand and evaluate the Company's performance and financial position. The presentation of adjusted operating income as we measure it for management purposes enhances the understanding of the results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of the items described above. Adjusted book value augments the understanding of our financial position by providing a measure of net worth that is primarily attributable to our business operations separate from the portion that is affected by capital and currency market conditions and by isolating the accounting impact associated with insurance liabilities that are generally not marked to market and the supporting investments that are marked to market through accumulated other comprehensive income under GAAP. However, adjusted operating income and adjusted book value are not substitutes for income and equity determined in accordance with GAAP, and the adjustments made to derive these measures are important to an understanding of our overall results of operations and financial position.

A reconciliation of adjusted operating income to income from continuing operations in accordance with GAAP and a reconciliation of adjusted book value to GAAP book value are included in Exhibit 99.1 to this Current Report. Additional historic information relating to our financial performance is located on our Web site at www.investor.prudential.com.

FORWARD-LOOKING STATEMENTS

Certain of the statements included in this report constitute forward-looking statements within the meaning of the U. S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall,” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other postretirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX, Guideline AXXX and principles-based reserving requirements; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law including the developing U.S. federal tax reform proposals; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor’s fiduciary rules; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by the Company; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; (26) Prudential Financial, Inc.’s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (27) the possibility that our dividend level will not increase as expected due to changes in our financial condition, economic conditions or otherwise.

Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See “Risk Factors” included in Prudential Financial, Inc.’s Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	<u>Slide presentation of Prudential Financial, Inc. on its 2018 financial outlook conference call on December 14, 2017 (furnished and not filed).</u>

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 hereunto duly authorized.

Date: December 14, 2017

PRUDENTIAL FINANCIAL, INC.

By: /s/ Andrew Hughes

Name: Andrew Hughes

Title: Vice President and Assistant Secretary



PRUDENTIAL FINANCIAL, INC.

2018 FINANCIAL OUTLOOK
CONFERENCE CALL PRESENTATION

DECEMBER 14, 2017



BUILDING PRUDENTIAL'S INVESTOR VALUE PROPOSITION



Achieve Key Financial Objectives

- Maintain differentiated return on equity (ROE)
- Solid earnings and book value growth
- Maintain strong capital position; manage to "AA" financial strength standards
- Free cash flow ratio of ~65% of after-tax adjusted operating income (AOI) on average over time
- Strong financial profile supports balanced capital deployment between business growth opportunities and returns to shareholders including dividends and share repurchases

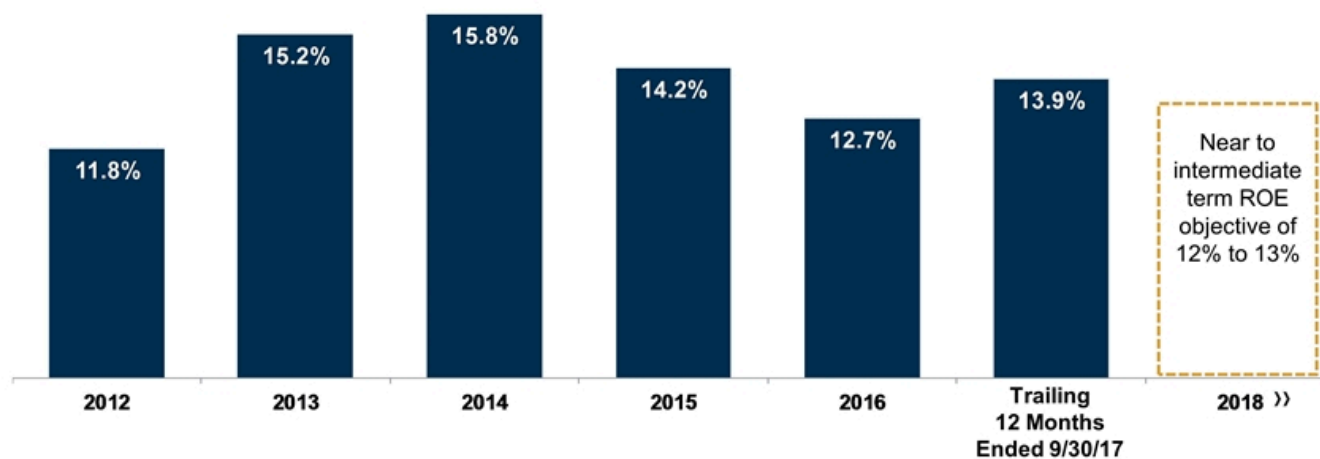
Maintain Leadership Position

- Focus on complementary mix of Protection, Retirement and Investment Management businesses with competitive advantages
- Execute on U.S. businesses' strategy to deepen customer relationships and become the leading provider of integrated financial wellness solutions
- Continue to execute on Life Planner and Life Consultant models in differentiated international businesses and expand presence in existing markets
- Drive superior execution through talent, culture and collaboration

Challenges and Considerations

- Sustained low interest rate environment across geographies
- Evolving regulatory and tax environment

SUPERIOR RETURN ON EQUITY ⁽¹⁾



1) ROE based on AOI excluding market driven and discrete items and adjusted book value; see reconciliations on pages 13 through 15. Represents results of Financial Services Businesses for periods prior to 2015.

KEY CONSIDERATIONS BY BUSINESS



U.S. Workplace Solutions

Retirement

- Differentiated capabilities drive account value growth in attractive markets including Pension Risk Transfer (PRT) and Full Service
 - Approximately \$3 billion of new funded PRT business and \$1 billion of longevity reinsurance required to offset anticipated net annual runoff ⁽¹⁾
- Earnings impacted by ongoing spread and fee compression, mainly in Full Service
- Expand and deepen relationships with workplace consumers
- A one standard deviation change from expected case experience impacts annual pre-tax AOI by \$35 million to \$55 million ⁽²⁾

Group Insurance

- Benefiting from strengthened underwriting, continued pricing discipline and improved claims management practices
- Deepening customer relationships through Financial Wellness platforms; focus on maintaining strong National segment market share while growing Premier segment
- Combined life and disability target benefits ratio of 86% - 90%
- A 100 bps change to the combined life and disability benefits ratio impacts annual pre-tax AOI by \$45 million to \$50 million ⁽²⁾

U.S. Individual Solutions

Individual Annuities

- Continue to execute product diversification strategy and offer a broad range of solutions to address customer needs, while improving the risk profile
- Modest decline in account values given industry-wide sales pressures
- Long-term expected return on assets of approximately 115 basis points with near-term upside
- Free cash flow expected to be high due to strong capital position, stable and mature in force and moderated sales

Individual Life

- Continue to emphasize a diversified sales mix, expand distribution capabilities and deepen customer relationships
- Earnings impacted by ongoing spread compression
- A one standard deviation change from expected mortality experience impacts annual pre-tax AOI by \$55 million to \$80 million ⁽²⁾

1) Based on business in force as of September 30, 2017.

2) Based on business in force as of June 30, 2017.

KEY CONSIDERATIONS BY BUSINESS



Investment Management

Investment Management

- Earnings driven primarily by "core" asset management fees ⁽¹⁾
- Positive net flows and stable fee yield on AUM driven by benefits from multi-manager platform and business investments including product, distribution and branding
- Continue to expand global footprint and broaden investment solution capabilities

International Insurance

International Insurance

- Product repositioning to adapt to current environment including currency and interest rate considerations
 - Focus on protection products with returns driven by mortality and expense margins
 - Greater emphasis on U.S. dollar denominated products in Japan
- Life Planner force growth in Japan and other key markets
 - Target low single digit percentage growth in Japan Life Planner count
- Increasing quality and productivity standards lead to lower Life Consultant count
- Focus on achieving scale in select growth markets
- Annualized pre-tax AOI impact of change in Yen-U.S. dollar exchange rate from 112 to 111, approximately \$10 million ⁽²⁾
- A one standard deviation change from expected mortality experience impacts annual pre-tax AOI by \$25 million to \$40 million ⁽³⁾

1) AOI excluding other related revenue & market driven and discrete items.

2) Annualized; Yen based earnings for nine months ended September 30, 2017.

3) Based on business in force as of June 30, 2017.

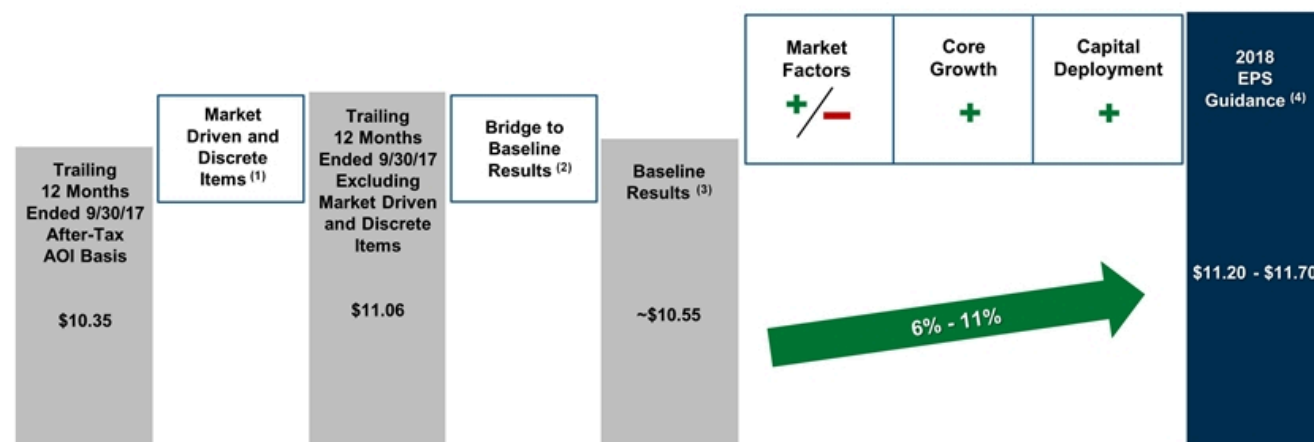


Key Assumptions & Considerations

- S&P 500 ending 2017 at 2,600 and growing 3% to 2,675 at the end of 2018
- U.S. Dollar @ 111 Yen and 1,150 Won
- Interest rates based on averaging of forward yield curves
 - 10-Year Treasury of 2.40% at end of 2018
- Non-coupon investments expected to produce returns within our long-term expected average of 5% to 6%
- Effective Tax Rate ~26%; does not reflect the potential impact from U.S. federal tax reform
- Adjusted book value positively impacted by accounting change for equity investments (ASU 2016-01) and, to a lesser extent, the elimination of Gibraltar's one month reporting lag
- Share repurchase authorization of \$1.5 billion
- Continue to operate at "AA" financial strength standards including financial leverage ratio within 25% target; total leverage ratio within 40% target ⁽¹⁾

1) Financial leverage ratio represents capital debt divided by sum of capital debt and equity. Junior subordinated debt treated as 25% equity, 75% capital debt for purposes of calculation. Total leverage ratio represents total debt excluding non-recourse debt divided by sum of total such debt and equity. Equity in each calculation excludes non-controlling interest, accumulated other comprehensive income (except for pension and postretirement unrecognized costs), and impact of foreign currency exchange rate remeasurement.

2018 EARNINGS PER SHARE GUIDANCE



- 1) As disclosed in the reconciliation on page 17.
- 2) Adjustments for difference between fourth quarter 2016 and 2017 foreign currency exchange rates and for pertinent run rate adjustments.
- 3) Not a projection of full year 2017 results.
- 4) Excludes impact of market unlockings which would be regarded as "market driven and discrete items."

EQUITY MARKET AND INTEREST RATE SENSITIVITY



	Equity Market Impact	Interest Rate Impact
	+/-10%	+/-100 bps
Estimated Impact to Earnings Per Share ⁽¹⁾	~\$0.30	~\$0.25

- 1) Equity market impact represents the impact on results from assumed change in market value of equity investments underlying account values, and interest rate impact represents the impact on results from assumed parallel shift of yield curve, in each case occurring at the beginning of the year. For equities, we assume progression of values over the course of the year along a path parallel to that of our assumptions as indicated under "2018 Outlook." For interest rates, we assume progression along a yield curve over the course of the year parallel to that of our assumptions as indicated under "2018 Outlook." AOI basis, excluding impact of market unlockings and potential impact on returns from general account non-coupon investments. Impact on results may not be linear and may vary from indicated sensitivities at thresholds greater than those indicated.

KEY TAKEAWAYS



- Business mix and solid fundamentals continue to produce an attractive financial profile
- EPS growth despite interest rate headwinds and moderating equity market growth
- ROEs expected to be within our near to intermediate term target of 12%-13%, including the increase in book value from implementing the required accounting change for equity investments
- Greater financial flexibility resulting from:
 - Strong capital position and reduced financial leverage
 - Expected free cash flow ratio increasing from 60% to 65% of after-tax adjusted operating income on average over time
- Maintain a balanced philosophy for shareholder distributions:
 - Share repurchases of \$1.5 billion in 2018; a 20% increase from \$1.25 billion in 2017
 - Dividend level also expected to reflect the higher expected free cash flow as a ratio to operating income



PRUDENTIAL FINANCIAL, INC.

2018 FINANCIAL OUTLOOK
CONFERENCE CALL PRESENTATION

QUESTIONS AND ANSWERS

DECEMBER 14, 2017



FORWARD-LOOKING STATEMENTS



Certain of the statements included in this presentation constitute forward-looking statements within the meaning of the U. S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall,” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other postretirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX, Guideline AXXX and principles-based reserving requirements; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law including the developing U.S. federal tax reform proposals; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor’s fiduciary rules; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by the Company; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; (26) Prudential Financial, Inc.’s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (27) the possibility that our dividend level will not increase as expected due to changes in our financial condition, economic conditions or otherwise.

Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See “Risk Factors” included in Prudential Financial, Inc.’s Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

Prudential Financial, Inc. of the United States is not affiliated with Prudential plc which is headquartered in the United Kingdom.



Non-GAAP Measures



Consolidated adjusted operating income and adjusted book value are non-GAAP measures. Adjusted operating income excludes "Realized investment gains (losses), net," as adjusted, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities as well as our tax and capital profile.

Realized investment gains (losses) within certain of our businesses for which such gains (losses) are a principal source of earnings, and those associated with terminating hedges of foreign currency earnings and current period yield adjustments are included in adjusted operating income. Adjusted operating income generally excludes realized investment gains and losses from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset-liability management program related to the risk of those products. However, the effectiveness of our hedging program will ultimately be reflected in adjusted operating income over time. Adjusted operating income also excludes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged or considered part of our capital funding strategies for our international subsidiaries, as well as gains and losses on certain investments that are classified as other trading account assets.

Adjusted operating income also excludes investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes, because these recorded changes in asset and liability values are expected to ultimately accrue to contractholders. In addition, adjusted operating income excludes the results of divested businesses, which are not relevant to our ongoing operations. Discontinued operations and earnings attributable to noncontrolling interests, each of which is presented as a separate component of net income under GAAP, are also excluded from adjusted operating income. The tax effect associated with pre-tax adjusted operating income is based on applicable IRS and foreign tax regulations inclusive of pertinent adjustments.

Adjusted book value is calculated as total equity (GAAP book value) excluding both accumulated other comprehensive income (loss) and the cumulative effect of foreign currency exchange rate remeasurements and currency translation adjustments corresponding to realized investment gains and losses. These items are excluded in order to highlight the book value attributable to our core business operations separate from the portion attributable to external and potentially volatile capital and currency market conditions.

We believe that our use of these non-GAAP measures helps investors understand and evaluate the Company's performance and financial position. The presentation of adjusted operating income as we measure it for management purposes enhances the understanding of the results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of the items described above. Adjusted book value augments the understanding of our financial position by providing a measure of net worth that is primarily attributable to our business operations separate from the portion that is affected by capital and currency market conditions and by isolating the accounting impact associated with insurance liabilities that are generally not marked to market and the supporting investments that are marked to market through accumulated other comprehensive income under GAAP. However, adjusted operating income and adjusted book value are not substitutes for income and equity determined in accordance with GAAP, and the adjustments made to derive these measures are important to an understanding of our overall results of operations and financial position.

Our expectation of Common Stock earnings per share is based on after-tax adjusted operating income. Due to the inherent difficulty in reliably quantifying future realized investment gains/losses and changes in asset and liability values given their unknown timing and potential significance, we cannot, without unreasonable effort, provide a measure of our Common Stock earnings per share expectation based on income from continuing operations, which is the GAAP measure most comparable to adjusted operating income.

A reconciliation of adjusted operating income to income from continuing operations in accordance with GAAP and a reconciliation of adjusted book value to GAAP book value are included as part of this presentation. Additional historic information relating to our financial performance is located on our Web site at www.investor.prudential.com.

RECONCILIATIONS BETWEEN ADJUSTED OPERATING INCOME AND THE COMPARABLE GAAP MEASURE ⁽¹⁾



(\$ millions)

	2012	2013	2014	2015	2016	Trailing 12 months ended September 30, 2017
Net income (loss) attributable to Prudential Financial, Inc.	\$ 479	\$ (713)	\$ 1,533	\$ 5,642	\$ 4,368	\$ 4,382
Income attributable to noncontrolling interests	50	107	57	70	51	20
Net income (loss)	529	(606)	1,590	5,712	4,419	4,402
Less: Income from discontinued operations, net of taxes	17	7	11	-	-	-
Income (loss) from continuing operations (after-tax)	512	(613)	1,579	5,712	4,419	4,402
Less: Income attributable to noncontrolling interests	50	107	57	70	51	20
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	462	(720)	1,522	5,642	4,368	4,382
Equity in earnings of operating joint ventures, net of taxes and earnings attributable to noncontrolling interests	10	(48)	(41)	(55)	(2)	49
Income (loss) from continuing operations (after-tax) before equity in earnings of operating joint ventures	452	(672)	1,563	5,697	4,370	4,333
Reconciling items:						
Realized investment gains (losses), net, and related charges and adjustments	(2,809)	(8,149)	(4,130)	1,579	523	(301)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	610	(250)	339	(524)	(17)	(48)
Change in experience-rated contractholder liabilities due to asset value changes	(540)	227	(294)	433	21	95
Divested businesses:						
Closed Block division	-	-	-	58	(132)	(9)
Other divested businesses	(615)	29	167	(66)	(84)	(109)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(29)	28	44	58	(5)	(71)
Total reconciling items, before income taxes	(3,383)	(8,115)	(3,874)	1,538	306	(443)
Income taxes, not applicable to adjusted operating income	(816)	(2,857)	(1,082)	490	43	(207)
Total reconciling items, after income taxes	(2,567)	(5,258)	(2,792)	1,048	263	(236)
After-tax adjusted operating income	3,019	4,586	4,355	4,649	4,107	4,569
Income taxes, applicable to adjusted operating income	1,008	1,783	1,537	1,582	1,292	1,562
Adjusted operating income before income taxes	\$ 4,027	\$ 6,369	\$ 5,892	\$ 6,231	\$ 5,399	\$ 6,131

1) Represents results of the Financial Services Businesses (FSB) for periods prior to 2015.

RECONCILIATIONS FOR PRE-TAX ADJUSTED OPERATING INCOME EXCLUDING MARKET DRIVEN AND DISCRETE ITEMS ⁽¹⁾



(\$ millions)

	2012	2013	2014	2015	2016	Trailing 12 months ended September 30, 2017
Pre-tax adjusted operating income	\$ 4,027	\$ 6,369	\$ 5,892	\$ 6,231	\$ 5,399	\$ 6,131
Reconciling items:						
Unlockings and experience true-ups ⁽²⁾	(10)	574	(420)	220	(310)	(501)
Integration costs for Hartford Life	(15)	(51)	(32)	(17)	-	-
Gains on sales of business/investments ⁽³⁾	26	66	-	-	-	-
Debt extinguishment costs	(31)	(27)	-	-	(36)	-
Integration costs for Star/Edison	(138)	(28)	-	-	-	-
Other ⁽⁴⁾	(43)	-	-	(80)	(14)	20
Sub-total	(211)	534	(452)	123	(360)	(481)
Pre-tax adjusted operating income excluding market driven and discrete items	\$ 4,238	\$ 5,835	\$ 6,344	\$ 6,108	\$ 5,759	\$ 6,612

- 1) As disclosed in company earnings conference call presentations and earnings releases available at www.investor.prudential.com. Represents results of FSB for periods prior to 2015.
- 2) Includes adjustments to reflect updated estimates of profitability based on market performance in relation to our assumptions in each period, as well as annual reviews of actuarial assumptions and refinements of reserves and amortization of deferred policy acquisition and other costs. Includes charge for potential contract cancellations in 2015.
- 3) Includes impairment and gains on certain investments.
- 4) Includes charges related to the administration of certain separate account investments, true-up of legal reserves and employee benefit accruals, and impairments and write-offs of intangible assets.

RECONCILIATIONS BETWEEN ADJUSTED BOOK VALUE AND COMPARABLE GAAP MEASURE ⁽¹⁾



(\$ millions, except per share data)

	December 31,					September 30,
	2012	2013	2014	2015	2016	2017
GAAP book value	\$ 37,006	\$ 33,885	\$ 40,981	\$ 41,890	\$ 45,863	\$ 50,373
Less: Accumulated other comprehensive income (AOCI)	9,990	8,586	15,882	12,285	14,621	16,598
GAAP book value excluding AOCI	27,016	25,299	25,099	29,605	31,242	33,775
Less: Cumulative effect of foreign exchange remeasurement and currency translation adjustments corresponding to realized gains/losses	(179)	(2,818)	(4,783)	(3,747)	(3,199)	(2,758)
Adjusted book value	27,195	28,117	29,882	33,352	34,441	36,533
Number of diluted shares	468.2	468.7	461.5	453.2	436.2	431.6
GAAP book value per common share - diluted ⁽¹⁾	79.04	72.30	88.80	92.39	104.91	116.32
GAAP book value excluding AOCI per share - diluted	57.70	53.98	54.39	65.32	71.62	78.26
Adjusted book value per common share - diluted	58.08	59.99	64.75	73.59	78.95	84.65

- 1) Represents results of FSB for periods prior to 2015. Book value per share of Common Stock including AOCI for periods as of December 31, 2014 and prior excludes the impact of exchangeable surplus notes due to the anti-dilutive impact of conversion. Book value per share of Common Stock including AOCI as of December 31, 2015 includes a \$500 million increase in equity and a 5.6 million increase in diluted shares reflecting the dilutive impact of exchangeable surplus notes when book value per share is greater than \$88.90. Book value per share of Common Stock including AOCI as of December 31, 2016 and September 30, 2017 includes a \$500 million increase in equity and a 5.75 million increase in diluted shares reflecting the dilutive impact of exchangeable surplus notes when book value per share is greater than \$86.92.

RECONCILIATION BETWEEN AOI EARNINGS PER SHARE AND THE COMPARABLE GAAP MEASURE



Earnings per share of Common Stock (diluted):

After-tax adjusted operating income

Reconciling items:

Realized investment gains, net, and related charges and adjustments

(0.65)

Investment gains on trading account assets supporting insurance liabilities, net

(0.10)

Change in experience-rated contractholder liabilities due to asset value changes

0.21

Divested businesses:

Closed Block division

(0.01)

Other divested businesses

(0.25)

Total reconciling items, before income taxes

(0.80)

Income taxes, not applicable to adjusted operating income

(0.40)

Total reconciling items, after income taxes

(0.40)

Net income attributable to Prudential Financial, Inc.

Trailing 12
months ended
September 30,
2017

\$ 10.35

\$ 9.95

RECONCILIATION FOR EARNINGS PER SHARE EXCLUDING MARKET DRIVEN AND DISCRETE ITEMS



Trailing 12 months
ended September
30, 2017

	Earnings Per Share ⁽¹⁾
Reported Results	\$10.35
Market driven and discrete items:	
Annual review of actuarial assumptions and reserve refinements ⁽²⁾	(0.92)
Individual Annuities - Primarily market unlockings and experience true-ups ⁽³⁾	0.18
Retirement - Costs relating to legal matters	0.03
Subtotal	(0.71)
Results excluding market driven and discrete items	\$11.06

1) Diluted; based on after-tax AOI; tax effect for market driven and discrete items at 35%.

2) For ongoing businesses; includes updates and refinements of reserves and amortization of deferred policy acquisition and other costs.

3) Includes adjustments to reflect updated estimates of profitability based on market performance in relation to our assumptions in each period.