Notes on the parent company financial statements

1. Nature of operations

Prudential plc (the Company) is a parent holding company. The Company together with its subsidiaries (collectively, the Group) is an international financial services group with its principal operations in the UK, US and Asia. The Group operates in the UK through its subsidiaries, primarily The Prudential Assurance Company Limited, Prudential Annuities Limited, Prudential Retirement Income Limited, M&G Group Limited and Egg plc. In the US, the Group's principal subsidiary is Jackson National Life Insurance Company. In Asia, the Group's main operations are in Hong Kong, Malaysia, Singapore and Taiwan.

The Company arranges the financing of each of its subsidiaries (except Egg, which is responsible for its own financing) primarily by raising external finance either at the Company level (including through finance subsidiaries whose obligations the Company guarantees) or at the operating company level.

2. Basis of preparation

The financial statements of the Company, which comprise the balance sheet and related notes, are prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985, which apply to companies generally. The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

The financial statements are prepared in accordance with applicable accounting standards under UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standards (FRS) and Statements of Standard Accounting Practice (SSAP).

The Company has not prepared a cash flow statement on the basis that its cash flow is included within the cash flow statement in the consolidated financial statements. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Group or investees of the Group.

In addition, the Company has taken advantage of the exemption within FRS 25, 'Financial Instruments: Disclosure and Presentation' from the disclosure requirements of this standard on the basis that the Company is included in the publicly available consolidated financial statements of the Group which include disclosures that comply with IAS 32, 'Financial Instruments: Disclosure and Presentation', which is equivalent to FRS 25.

3. Significant accounting policies

Changes in accounting policies

The Company has implemented the following UK GAAP accounting standards in preparing its results for the year ended 31 December 2005. All of these standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the implementation of IFRS in the UK.

FRS 17, 'Retirement Benefits'

The main effect of the adoption of FRS 17 in 2005 is the recognition of a surplus or deficit in respect of the defined benefit pension schemes on the balance sheet. The Company is assuming a portion of the pension deficit of the Group's largest pension scheme, the Prudential Staff Pension Scheme (PSPS). Please refer to note 8 for further details. The effect of this change in policy and attribution of the PSPS deficit to the Company is to decrease shareholders' funds at 1 January 2004 from the previously published amount by £77 million. This has resulted in an increase in the profit before tax of £35 million (2004: increase of £1 million) and an increase in the tax charge of £11 million (2004: nil impact). Including the impact of actuarial gains and losses charged to the statement of total recognised gains and losses, FRS 17 has the effect of increasing the total recognised gains and losses after tax of the Company for the year by £3 million (2004: decrease of £6 million).

FRS 21, 'Events after the Balance Sheet Date'

The main effect of FRS 21 on the Company is that dividends declared after the balance sheet date in respect of the previous reporting period are no longer to be considered as 'adjusting events'. Accordingly, an accrual is no longer made in the profit and loss account. Instead, appropriate disclosure is made in the notes to the financial statements. The effect of the change in policy is to increase shareholders' funds at 1 January 2005 from the previously published 31 December 2004 level by £252 million.

FRS 23, 'The Effects of Changes in Foreign Exchange Rates', FRS 24, 'Financial Reporting in Hyperinflationary Economies', FRS 25, 'Financial Instruments: Disclosures and Presentation' and FRS 26, 'Financial Instruments: Measurement'

The Accounting Standards Board (ASB) published FRS 23, FRS 24, FRS 25 and FRS 26 in December 2004. These accounting standards are, in effect, part of a package of UK standards comprising FRS 23, FRS 24, the disclosure requirements of FRS 25 and FRS 26.

Listed entities, such as the Company, preparing their financial statements in accordance with UK requirements, are required to comply with the entire package of standards for accounting periods beginning on or after 1 January 2005.

The main impacts of the adoption of these standards are described below:

FRS 23, 'The Effects of Changes in Foreign Exchange Rates'

The main requirements of this standard relate to fair value adjustments on acquisitions treated as assets of acquired foreign operations and the recycling of cumulative translation adjustment from 1 January 2004 on disposal of foreign operations. This standard applies prospectively to acquisitions and disposals occurring after the effective date of 1 January 2005. There is no impact on the balance sheet and profit and loss account in the year upon the adoption of this standard.

FRS 24, 'Financial Reporting in Hyperinflationary Economies'

The adoption of this standard has no impact on the results of the Company.

3. Significant accounting policies continued

FRS 25, 'Financial Instruments: Disclosures and Presentation'

FRS 25 is based on the text of IAS 32, 'Financial Instruments: Disclosures and Presentation' as at 31 March 2004, incorporating the revised version of IAS 32 issued by the International Accounting Standards Board (IASB) in December 2003 and includes amendments made by IFRS 4, 'Insurance Contracts'.

The presentation requirements of FRS 25 are applicable to the Company as at 1 January 2005. The Company has taken advantage of the provisions within FRS 25 that waive the requirement to restate comparatives. The main presentation adjustment resulting from FRS 25 relates to the Company's derivatives. Previously, under UK GAAP, the Company's carrying value of derivatives has been recorded on a basis that nets asset and liability amounts of individual derivatives. Under FRS 25, there is a requirement that assets and liabilities should not be netted in the balance sheet unless counterparty offset applies. Accordingly, under FRS 25, derivative assets and liabilities have been included gross in the balance sheet.

The Company has taken advantage of the exemption within FRS 25 from the disclosure requirements of this standard on the basis that the Company is included in the publicly available consolidated financial statements of the Group which include disclosures that comply with IAS 32, which is equivalent to FRS 25.

FRS 26, 'Financial Instruments: Measurement'

FRS 26 is based on the text of IAS 39, 'Financial Instruments: Recognition and Measurement' as at 31 March 2004, incorporating the revised version of IAS 39 issued by the IASB in December 2003 together with the amendments to IAS 39 on 'Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk' and those made by IFRS 4.

The significant adjustments for the Company resulting from FRS 26 arise primarily in respect of the valuation of derivative financial instruments and borrowings. Previously, derivative financial instruments held by the Company, depending on their nature and purpose, were either accounted for at fair value or treated as a hedge and accounted for on an accrual or deferral basis. Under FRS 26, derivative financial instruments are carried at fair value with value movements being recorded in the profit and loss account. Hedge accounting, whereby value movements on derivatives and hedged items are recorded together in the profit and loss account, is permissible only if certain criteria are met regarding the establishment of documentation and continued measurement of hedge effectiveness. In addition to the valuation of derivative financial instruments, FRS 26 has also resulted in a change in terms of the application of the effective interest rate method to amortise borrowings.

The adoption of FRS 26 has the impact of reducing the profit before tax for the year ended 31 December 2005 by £34 million and the shareholders' funds at 31 December 2005 by £35 million. This FRS is to be applied retrospectively. However, the Company has taken advantage of the provisions within FRS 26 that allows comparative information not to be restated to comply with this standard.

The effects of the changes in accounting policies on opening shareholders' funds and profit and loss account are as follows:

	Profit and loss account £m	Shareholders' funds £m
31 December 2004 as previously published	848	2,525
Effect of adoption of FRS 17 on pension liabilities	(83)	(83)
Effect of adoption of FRS 21 on dividends	252	252
31 December 2004 as restated	1,017	2,694
Effect of adoption of FRS 26:		
Fair valuation of derivatives	(12)	(12)
Use of effective interest rate method on borrowings	(1)	1
1 January 2005 (including adjustments for FRS 26)	1,004	2,683

Significant accounting policies

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19. The Company has chosen not to apply the option available of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Shares in subsidiary undertakings

Shares in subsidiary undertakings in the balance sheet of the Company are shown at the lower of cost and estimated realisable value.

3. Significant accounting policies continued

Loans to subsidiary undertakings

Loans to subsidiary undertakings in the balance sheet of the Company are shown at cost, less provisions.

Derivatives

Derivative financial instruments are used to reduce or manage interest rate and currency exposures. The Company's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. For 2005, these instruments are carried at fair value with changes in fair value included in the profit and loss account. Prior to this, derivative financial instruments held by the Company, depending on their nature and purpose, were either accounted for at fair value or treated as a hedge and accounted for on an accrual or deferral basis.

Under FRS 26, hedge accounting is permissible only if certain criteria are met regarding the establishment of documentation and continued measurement of hedge effectiveness. For derivative financial instruments designated as fair value hedges the movements in the fair value are recorded in the profit and loss account with the accompanying change in fair value of the hedged item attributable to the hedged risk.

Borrowings

Under FRS 26, borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the profit and loss account to the date of maturity.

Prior to the adoption of FRS 26, borrowings were recognised at fair value, net of transaction costs. Any premium or discount from the nominal value was shown net. Transaction costs and premiums or discounts were amortised on a straight-line basis.

Shareholders' dividends

Prior to the adoption of FRS 21, shareholders' dividends were accrued in the period to which they related regardless of when they were declared. Under FRS 21, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. Dividends are now recognised in the period in which they are declared.

Where scrip dividends are issued, the value of such shares, measured as the amount of the cash dividend alternative, is credited to reserves and the amount in excess of the nominal value of the shares issued is transferred from the share premium account to retained profit.

Share premium

The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Foreign currency borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Other assets and liabilities denominated in foreign currencies are also converted at year end exchange rates with the related foreign currency exchange gains or losses reflected in the profit and loss account for the year.

4. Investments of the Company

	Shares in subsidiary undertakings 2005 £m	Loans to subsidiary undertakings 2005 £m
At beginning of year	**5,629**	2,129
Transfer to a subsidiary undertaking	**(606)**	–
Cancellation of investment in subsidiary undertaking	**(1)**	–
Additional investment in subsidiary undertaking	**153**	–
Exchange rate movements	**–**	18
Net advance of loans	**–**	591
Provision against loans	**–**	(41)
At end of year	**5,175**	2,697

5. Subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2005, all wholly owned except Egg Banking plc and PCA Life Assurance Company Limited, were:

	Main activity	Country of incorporation
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Annuities Limited*	Insurance	England and Wales
Prudential Retirement Income Limited (PRIL)*	Insurance	Scotland
M&G Investment Management Limited*	Investment management	England and Wales
Egg Banking plc*	Banking	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PCA Life Assurance Company Limited*	Insurance	Taiwan

*Owned by a subsidiary undertaking of the Company.

Each subsidiary has one class of ordinary shares and operates mainly in its country of incorporation, except for Prudential Retirement Income Limited which operates mainly in England and Wales. In February 2005, the proportion of ordinary shares of PCA Life Assurance Company Limited owned by the Company was increased from 97 per cent to 99 per cent.

Egg Banking plc is a subsidiary of Egg plc. At 31 December 2005, the ordinary shares of Egg plc, were listed and there was only one class of shares which were 78 per cent owned by the Company, 1 per cent owned by other companies within the Prudential Group and 21 per cent owned by shareholders external to the Prudential Group. In December 2005, the Company announced its intention to acquire the whole of the issued and to be issued shares of Egg not already owned by the Prudential Group as set out in note 14.

6. Borrowings

	Long-term loans		Other borrowings		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Core structural borrowings:						
US$250m 7.125% Bonds 2005 (note i)	**–**	130			**–**	130
£250m 5.5% Bonds 2009	**249**	250			**249**	250
€500m 5.75% Subordinated Notes 2021 (note ii)	**341**	351			**341**	351
£300m 6.875% Bonds 2023	**300**	300			**300**	300
£250m 5.875% Bonds 2029	**249**	250			**249**	250
£435m 6.125% Subordinated Notes 2031	**426**	426			**426**	426
US$1,000m 6.5% Perpetual Subordinated Capital Securities (note iii)	**554**	512			**554**	512
US$250m 6.75% Perpetual Subordinated Capital Securities	**142**	126			**142**	126
US$300m 6.5% Perpetual Subordinated Capital Securities	**169**	–			**169**	–
€20m Medium Term Subordinated Notes 2023 (note iv)	**14**	14			**14**	14
Commercial paper			**–**	171	**–**	171
Total core structural borrowings	**2,444**	2,359	**–**	171	**2,444**	2,530
Other borrowings:						
Commercial paper 2006 (note v)			**1,461**	1,057	**1,461**	1,057
Medium Term Notes 2010 (note v)			**11**	9	**11**	9
Currency translation net liability on swap transactions			**–**	3	**–**	3
Total borrowings	**2,444**	2,359	**1,472**	1,240	**3,916**	3,599

6. Borrowings continued

	Long-term loans		Other borrowings		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Borrowings are repayable as follows:						
Within 1 year or on demand	**–**	130	**1,461**	1,231	**1,461**	1,361
Between 2 and 5 years	**249**	250	**11**	–	**260**	250
After 5 years	**2,195**	1,979	**–**	9	**2,195**	1,988
Total borrowings	**2,444**	2,359	**1,472**	1,240	**3,916**	3,599

	2005 £m	2004 £m
Recorded in the balance sheet as:		
Subordinated liabilities	**1,646**	1,429
Debenture loans	**798**	930
	2,444	2,359

Notes

(i) On 16 August 2005, the Company redeemed the US$250 million borrowings on maturity.

(ii) The €500 million borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962 per cent.

(iii) Interest on the US$1,000 million borrowings has been swapped into floating rate payments at three month US$ Libor plus 0.80 per cent. This derivative instrument has been hedge accounted for as a fair value hedge upon the adoption of FRS 26, 'Financial Instruments: Measurement' in 2005.

(iv) The €20 million Medium Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). At 31 December 2005, these had been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2 per cent.

(v) These borrowings support a short-term fixed income securities reinvestment programme.

(vi) Under the terms of the Group's arrangements with its main UK banker, the bank has a right of set off between credit balances (other than those of long-term funds) and all overdrawn balances of those Group undertakings with similar arrangements.

(vii) The interests of the holders of the Subordinated Notes and the Subordinated Capital Securities are subordinate to the entitlements of other creditors of the holding company.

7. Derivative financial instruments

The table below analyses the fair value of derivatives of the Company at 31 December 2005:

	Fair value assets £m	Fair value liabilities £m
Derivative financial instruments held to manage interest rate and currency profile:		
Interest rate swaps	29	22
Cross-currency swaps	12	2
Inflation-linked swap	–	82
Forward foreign currency contracts	–	38
Total at 31 December 2005	**41**	**144**

The change in fair value of the derivative financial instruments of the Company was a loss before tax of £85 million.

The fair value of the derivative financial instruments, except for £37 million of the £38 million fair value liabilities of forward foreign currency contracts, were included within amounts owed by or to subsidiary undertakings on the balance sheet as they were transactions with Prudential Finance (UK) plc, a subsidiary undertaking, which in turn transacted with external counterparties.

As permitted by the standard, the 2004 comparatives have not been restated to include certain derivative financial instruments at fair value in accordance with FRS 26. The nature and extent of the derivative financial instruments used by the Company in 2004 are similar to those used in 2005. The corresponding 2004 fair values for the derivative financial instruments of the Company would have been £27 million and the change in fair value which would have been included in the profit and loss account was a loss before tax of £9 million.

The Company has a US$1,000 million fair value hedge in place which hedges the interest exposure on the US$1,000 million, 6.5 per cent perpetual subordinated capital securities.

The derivative financial instruments were valued internally using standard market practices. In accordance with the Company's risk management framework, all internally generated valuations are subject to independent assessment against external counterparties' valuations. Changing any one of the underlying assumptions used in determining the fair value would not have a significant impact on the value of the derivative financial instruments.

8. Pension liabilities

The majority of UK Prudential staff are members of the Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (PSPS). This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the scheme. At 31 December 2005, on the FRS 17, 'Retirement Benefits' basis of valuation, PSPS accounts for 89 per cent of the liabilities of the Group's defined benefit schemes.

For the purposes of preparing consolidated financial statements, the Group has adopted IFRS basis accounting including IAS 19, 'Employee Benefits'. However, individual company accounts of the Company continue to apply UK GAAP. For 2005, this includes the application of FRS 17 in the Company's primary statements. During 2005, the allocation of pension schemes' deficits within the Group attaching to PSPS has been clarified and the Company is assuming a portion of the deficit of PSPS on behalf of the Group.

The deficit of PSPS has been apportioned between the Company and the unallocated surplus of the Prudential Assurance Company's (PAC) with-profits fund based on the weighted cumulative activity attaching to the contributions paid into the scheme in the past. For 2004 and prior, 20 per cent of the deficit has been attributed to the Company and 80 per cent to the PAC with-profits fund. For 2005, following further detailed consideration of the sourcing of previous contributions, the ratio for PSPS has been altered to 30/70 for the allocation of the deficit between the Company and the PAC with-profits fund.

Using external actuarial advice provided by the professionally qualified actuaries, Watson Wyatt Partners, for the valuation of PSPS, the most recent full valuations have been updated to 31 December 2005 applying the principles prescribed by FRS 17. The scheme has assets held in a separate trustee administered fund. PSPS was last subject to a full actuarial valuation as at 5 April 2005 by Watson Wyatt Partners, which is currently being finalised.

The key assumptions adopted for FRS 17 basis valuations in PSPS were:

	2005 %	2004 %	2003 %
Price inflation	**2.80**	2.80	2.70
Rate of increase in salaries	**4.80**	4.80	4.70
Rate of increase in pension payments for inflation:			
Guaranteed (maximum 5%)	**2.80**	2.80	2.70
Guaranteed (maximum 2.5%)	**2.50**	N/A	N/A
Discretionary	**2.50**	2.80	2.70
Rate used to discount scheme liabilities	**4.80**	5.30	5.40

The assets and liabilities of PSPS were:

	31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Value £m	**Long-term expected rate of return %**	Value £m	Long-term expected rate of return %	Value £m	Long-term expected rate of return %
Equities	**2,293**	**7.10**	2,366	7.50	2,433	7.75
Bonds	**1,490**	**4.50**	898	5.00	535	5.00
Properties	**539**	**6.40**	490	6.80	542	7.00
Other assets	**75**	**4.50**	56	4.75	106	4.00
Total value of assets	**4,397**	**6.09**	3,810	6.76	3,616	7.10
Present value of scheme liabilities	**4,776**		4,399		4,161	
Deficit in the scheme	**(379)**		(589)		(545)	
Allocated as:						
Attributable to the PAC with-profits fund	**(265)**		(470)		(435)	
Attributable to the Company	**(114)**		(119)		(110)	
	(379)		(589)		(545)	
After deduction of deferred tax attaching to the amounts attributable to the Company, the amounts reflected in the balance sheet are:	**(80)**		(83)		(77)	

The long-term expected rates of return have been determined after applying due consideration to the requirements of paragraph 54 of FRS 17, in particular, taking account of the values of the assets and equity market levels at the balance sheet dates.

8. Pension liabilities continued

Movements on the PSPS liability attributable to the Company that is recognised in the Company's financial statements as a result of the implementation of FRS 17 are as follows:

	Gross of tax liability £m	Related deferred tax £m	Net of tax liability £m
Net pension liability at 1 January 2004	(110)	33	(77)
Credit (charge) to profit and loss account:			
Pension charge	(3)	1	(2)
Contribution paid	4	(1)	3
Credit (charge) to statement of total recognised gains and losses:			
Actuarial losses	(10)	3	(7)
Net pension liability at 31 December 2004	(119)	36	(83)
Credit to profit and loss account:			
Pension credit	29	(9)	20
Contribution paid	6	(2)	4
Credit (charge) to statement of total recognised gains and losses:			
Actuarial gains	29	(9)	20
Additional losses on change of estimate of allocation of opening deficit between the Company and the PAC with-profits fund	(59)	18	(41)
Net pension liability at 31 December 2005	**(114)**	**34**	**(80)**

Pension charge and actuarial gains (losses) of PSPS

	2005 £m	2004 £m
Pension charge		
Operating charge:		
Current service cost	**(44)**	(47)
Past service cost	**115**	–
Finance income (expense):		
Interest on pension scheme liabilities	**(228)**	(220)
Expected return on pension scheme assets	**253**	251
	25	31
Total pension credit (charge)	**96**	(16)
Less: amount attributable to the PAC with-profits fund	**(67)**	13
Pension credit (charge) attributable to the Company	**29**	(3)

	2005 £m	2004 £m
Actuarial gains (losses)		
Actual less expected return on pension scheme assets (11% (2004: 3%) of pension scheme assets)	**500**	104
Experience losses on scheme liabilities (0% (2004: 1%) of present value of scheme liabilities)	**–**	(25)
Changes in assumptions underlying the present value of scheme liabilities	**(405)**	(128)
Total actuarial gains (losses) ((2)% (2004: 1%) of the present value of the scheme liabilities)	**95**	(49)
Less: amounts attributable to PAC with-profits fund	**(66)**	39
	29	(10)
Less: additional losses on change of estimate of allocation of opening PSPS deficit between the Company and the PAC with-profits fund	**(59)**	–
Actuarial losses attributable to the Company	**(30)**	(10)

9. Share capital and share premium

The authorised share capital of the Company is £170 million (divided into 3,000,000,000 ordinary shares of 5 pence each and 2,000,000,000 sterling preference shares of 1 pence each) and US$20 million (divided into 2,000,000,000 US dollar preference shares of 1 cent each) and €20 million (divided into 2,000,000,000 Euro preference shares of 1 cent each). None of the preference shares has been issued. A summary of the ordinary shares in issue is set out below:

Issued shares of 5 pence each fully paid	Number of shares	Share capital 2005 £m	Share premium 2005 £m
At beginning of year	2,375,393,020	119	1,558
Transitional adjustment on adoption of FRS 26		–	2
	2,375,393,020	119	1,560
Shares issued under share option schemes	745,478	–	4
Shares issued in lieu of cash dividends	10,645,768	–	51
Transfer to retained profit in respect of shares issued in lieu of cash dividends		–	(51)
At end of year	2,386,784,266	119	1,564

At 31 December 2005, there were options subsisting under share option schemes to subscribe for 12,503,956 (2004: 13,254,966) shares at prices ranging from 266 pence to 715 pence (2004: 266 pence to 723 pence) and exercisable by the year 2012 (2004: 2011). In addition, there were 4,668,534 (2004: 5,153,308) conditional options outstanding under the Restricted Share Plan exercisable at nil cost in the balance of a 10-year period. Further information on the Group's employee share options is given in note I2 'Share-based payments' of the notes on the financial statements of the Group.

10. Profit of the Company and reconciliation of movement in shareholders' funds

The profit of the Company for the year was £118 million (2004: £125 million as restated). After dividends of £378 million (2004: £323 million as restated), actuarial losses on pension scheme of £21 million (2004: £7 million) and a transfer from the share premium account of £51 million (2004: £116 million) in respect of shares issued in lieu of cash dividends and an FRS 26 adjustment in respect of prior years of negative £13 million, retained profit at 31 December 2005 amounted to £774 million (2004: £1,017 million as restated). The Company employs no staff.

Statutory audit fees in respect of the Company were £0.1 million (2004: £0.1 million). Fees payable to the auditors in respect of other work were £0.6 million (2004: £0.5 million).

A reconciliation of movement in the shareholders' funds of the Company for the years ended 31 December 2005 and 2004 is given below:

	2005 £m	Restated 2004 £m
Profit for the year	**118**	125
Dividends	**(378)**	(323)
	(260)	(198)
Actuarial losses recognised on pension scheme (net of related tax)	**(21)**	(7)
New share capital subscribed (note 9)	**55**	1,140
Net movement in shareholders' funds	**(226)**	935
Shareholders' funds at beginning of year as originally reported	**2,525**	1,622
Prior year adjustments on adoption of FRS 17 and FRS 21 (note 3)	**169**	137
Shareholders' funds at beginning of year as restated	**2,694**	1,759
Transitional adjustment from adoption of FRS 26 (note 3)	**(11)**	
Shareholders' funds at beginning of year as restated including FRS 26 adjustments	**2,683**	
Shareholders' funds at end of year 2004 as originally reported	**–**	2,525
Prior year adjustment on adoption of FRS 17 and FRS 21 (note 3)	**–**	169
Shareholders' funds at end of year (2004 as restated)	**2,457**	2,694

11. Directors' remuneration

Information on directors' remuneration is given in the remuneration report section within this Annual Report. Further information on the transactions of the directors with the Company and the Group is given in notes I3 'Key management remuneration' and I5 'Related party transactions' of the notes on the financial statements of the Group.

12. Dividends

A final dividend of 11.02 pence per share was proposed on 15 March 2006. The dividend will be paid on 26 May 2006 to shareholders on the register at the close of business on 24 March 2006. The dividend will absorb an estimated £267 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

13. Guarantees

The Company provides a guarantee for the £150 million principal amount of the 9.375 per cent bonds due 2007, which have been issued by one of its finance subsidiaries. In certain instances the Company has also guaranteed that other subsidiaries will meet their obligations when they fall due for payment.

14. Post-balance sheet events

In December 2005, the Company announced its intention to acquire the minority interest in Egg representing approximately 21.7 per cent of the existing issued share capital of Egg. Under the terms of the offer, Egg shareholders would receive 0.2237 new ordinary shares in the Company for each Egg share. In January 2006, the Company announced that it had received acceptances in respect of 80.3 per cent of the shares that it did not already own and that it would extend the offer until further notice. In February 2006, the Board of Egg announced the delisting of Egg shares. Full acceptance of the offer would result in the issue of 41 million new ordinary shares in the Company representing 1.7 per cent of its issued ordinary share capital as enlarged by this acquisition.