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, the 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 and M&G Investment Management Limited. 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. On 20 February 2009, the Company announced that it had entered into an agreement subject to regulatory approval to transfer the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan. Further details are set out in note I10 'Post Balance Sheet Events' of the Group financial statements.

The Company is responsible for the financing of each of its subsidiaries.

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 29, 'Financial Instruments: Disclosures', from the requirements of this standard on the basis that the Company's results are included in the publicly available consolidated financial statements of the Group that include disclosures that comply with IFRS 7, 'Financial Instruments: Disclosures', which is equivalent to FRS 29.

UITF 44, 'Group and Treasury Share Transactions' which is an interpretation of FRS 20, 'Share-based Payment' became effective in 2008. Where a parent company grants the options or awards of its equity instruments to employees of its subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements, UITF 44 requires the subsidiary to record a compensation expense with a corresponding increase in equity as a capital contribution equal to the value of the share-based payment in accordance with FRS 20. Consequently, in the financial statements of the parent company, an increase in the investment in the subsidiary is recorded for the value of the share options and awards granted to the employees of the subsidiary. As a result of the adoption of UITF 44, the Company has recognised an addition to investment in subsidiary undertakings of the aggregate amount of the contributions for equity instruments it granted, primarily under the Save As You Earn (SAYE) plan, subsequent to 7 November 2002. As at 31 December 2008, the addition to investment in subsidiary undertakings of the Company was £28 million with a corresponding credit to equity for the same amount. The 2007 comparatives have also been adjusted accordingly for the adoption of UITF 44 with an addition to investment in subsidiary undertakings of £19 million and a corresponding credit to equity. There is no impact on the profit or loss of the Company.

In October 2008, the Accounting Standards Board (ASB) approved the 'Amendments to FRS 26 (IAS 39) and FRS 29 (IFRS 7): Reclassification of Financial Assets' that permit the reclassification of certain 'held for trading' and 'available-for-sale' financial assets into the 'loans and receivables' category carried at amortised cost if specific conditions are met and additional disclosures are made regarding any assets so reclassified. The adoption of these amendments to FRS 26 and FRS 29 did not have an impact on the balance sheet or profit and loss account of the Company as the Company has not made any such reclassification of financial assets as permitted by the amendments.

3 Significant accounting policies

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

Loans to subsidiary undertakings
Loans to subsidiary undertakings 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. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

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.

3 Significant accounting policies continued

Borrowings

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 transaction costs, is amortised through the profit and loss account to the date of maturity.

Dividends

Dividends are recognised in the period in which they are declared. Dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event.

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 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.

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.

Pensions

The Company assumes a portion of the pension surplus or deficit of the Group's largest pension scheme, the Prudential Staff Pension Scheme (PSPS) and applied the requirements of FRS 17 (as amended in December 2006) to its interest in the PSPS surplus or deficit. Further details are disclosed in note 8.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company was able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the unwind of the discount on liabilities at the start of the period, gains and losses on settlements and curtailments, less the expected investment return on the scheme assets at the start of the period, is recognised in the profit and loss account. To the extent that part or all of the Company's interest in the pension surplus is not recognised as an asset, the unrecognised surplus is initially applied to extinguish any past service costs, losses on settlements or curtailments that would otherwise be included in the profit and loss account. Next, the expected investment return on the scheme's assets is restricted so that it does not exceed the total of the current service cost, interest cost and any increase in the recoverable surplus. Any further adjustment for the unrecognised surplus is treated as an actuarial gain or loss.

Actuarial gains and losses as a result of the changes in assumptions, the difference between actual and expected investment return on scheme assets and experience variances are recorded in the statement of total recognised gains and losses. Actuarial gains and losses also include adjustment for unrecognised pension surplus as described above.

Share-based payments

The Group offers share award and option plans for certain key employees and a SAYE plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled plans with a few cash-settled plans.

Following the adoption of UITF 44, where the Company, as the parent company, grants the options or awards of its equity instruments to employees of its subsidiary, and such share-based payment is accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in the subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

4 Investments of the Company

	2008 £m	
	Shares in subsidiary undertakings	Loans to subsidiary undertakings
At beginning of year	7,170	2,809
Additional investment in subsidiary undertakings	35	–
Writedown of investment in subsidiary undertaking	(12)	–
Net advance of loans	–	403
At end of year	7,193	3,212

The investments of the Company in shares in subsidiary undertakings at the beginning of the year increased by £19 million from the previously published £7,151 million to £7,170 million following the adoption of UITF 44. This reflects the value of the share-based payments granted by the Company to employees of its subsidiary undertakings up to 31 December 2007. The additional investment in subsidiary undertakings during 2008 of £35 million as shown in the table above includes £9 million in respect of the further amount of share-based payments recognised in 2008.

5 Subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2008, all wholly-owned except 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*	Asset management	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PCA Life Assurance Company Limited* (99% owned)	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 PRIL which operates mainly in England and Wales.

On 20 February 2009, the Company announced that it had entered into an agreement to transfer the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan. The business being transferred represents 94 per cent of the in-force liabilities in Taiwan. Further details are set out in note I10 'Post Balance Sheet Events' of the Group financial statements.

6 Borrowings

	Core structural borrowings		Other borrowings		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Core structural borrowings:						
£249m 5.5% Bonds 2009	249	248	–	–	249	248
€500m 5.75% Subordinated Notes 2021[note i]	482	365	–	–	482	365
£300m 6.875% Bonds 2023	300	300	–	–	300	300
€20m Medium-Term Subordinated Notes 2023[note ii]	19	15	–	–	19	15
£250m 5.875% Bonds 2029	249	249	–	–	249	249
£435m 6.125% Subordinated Notes 2031	427	427	–	–	427	427
US$1,000m 6.5% Perpetual Subordinated Capital Securities[note iii]	696	485	–	–	696	485
US$250m 6.75% Perpetual Subordinated Capital Securities[note iv]	173	124	–	–	173	124
US$300m 6.5% Perpetual Subordinated Capital Securities[notes iv,v,vi]	186	150	–	–	186	150
Total core structural borrowings	2,781	2,363	–	–	2,781	2,363
Other borrowings:						
Commercial paper[note vii]	–	–	1,269	2,422	1,269	2,422
Medium-Term Notes 2008[note vii]	–	–	–	48	–	48
Floating Rate Notes 2009[note viii]	–	–	200	–	200	–
Medium-Term Notes 2010[note vii]	–	–	9	7	9	7
Total borrowings	2,781	2,363	1,478	2,477	4,259	4,840
Borrowings are repayable as follows:						
Within 1 year or on demand	249	–	1,469	2,470	1,718	2,470
Between 1 and 5 years	–	248	9	7	9	255
After 5 years	2,532	2,115	–	–	2,532	2,115
	2,781	2,363	1,478	2,477	4,259	4,840
Recorded in the balance sheet as:						
Subordinated liabilities[note ix]	1,983	1,566				
Debenture loans	798	797				
	2,781	2,363				

Notes

i The €500 million 5.75 per cent borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962 per cent.

ii The €20 million Medium-Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2 per cent.

iii Interest on the US$1,000 million 6.5 per cent borrowings was swapped into floating rate payments at three month US$Libor plus 0.80 per cent. In January 2009, this swap was cancelled.

iv The US$250 million 6.75 per cent borrowings and the US$300 million 6.5 per cent borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date falling on or after 23 March 2010 and 23 March 2011 respectively, into one or more series of Prudential preference shares.

v Interest on the US$300 million 6.5 per cent borrowings was swapped into floating rate payments at three month US$Libor plus 0.0225 per cent. In January 2008, this was swapped back into fixed rate payments at 6.5 per cent.

vi Hedge accounting is applied at both the Group consolidated level and Company level. Due to different dates for commencement of this accounting treatment, the hedge values differ between these two levels.

vii These borrowings support a short-term fixed income securities programme.

viii In October 2008, the Company issued £200 million Floating Rate Notes, maturing in April 2009. These were wholly subscribed to by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements.

ix The interests of the holders of the Subordinated Notes and the Subordinated Capital Securities are subordinate to the entitlements of other creditors of the Company.

7 Derivative financial instruments

	2008 £m		2007 £m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	19	17	8	17
Cross-currency swaps	182	–	2	1
Inflation-linked swap	–	162	–	82
Forward foreign currency contracts	66	56	–	44
Total	267	235	10	144

The change in fair value of the derivative financial instruments of the Company was a loss before tax of £343 million (2007: gain before tax of £13 million).

The Company has a US$1,000 million and a US$300 million fair value hedge in place which hedges the interest exposures on the US$1,000 million 6.5 per cent perpetual subordinated capital securities and the US$300 million 6.5 per cent perpetual subordinated capital securities, respectively. Subsequent to the year end, in January 2009, the interest rate swap to hedge the interest exposure on the US$1,000 million 6.5 per cent perpetual subordinated capital securities was cancelled. 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.

8 Pension scheme financial position

The majority of UK Prudential staff are members of the Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (PSPS) which is primarily a closed defined benefit scheme. At 31 December 2008, on the FRS 17, 'Retirement Benefits' basis of valuation, the underlying pension liabilities of PSPS accounted for 87 per cent (2007: 87 per cent) of the liabilities of the Group's defined benefit schemes.

For the purpose of preparing consolidated financial statements, the Group applies IFRS basis accounting including IAS 19, 'Employee Benefits'. However, the individual accounts of the Company continue to follow UK GAAP. In 2006, the Company early adopted the amendment to FRS 17 issued in December 2006 which aligned the FRS 17 disclosures with IAS 19. In 2008, the Group adopted IFRIC 14, an interpretation guidance to IAS 19 with the effect of derecognising the Group's interest in PSPS surplus and recognising an additional liability for the deficit funding for PSPS to 5 April 2010 in the Group financial statements. Further details are described in note I1 'Staff and pension plans' of the notes on the financial statements of the Group.

At 31 December 2005, the allocation of surpluses and deficits attaching to PSPS between the Company and the unallocated surplus of the Prudential Assurance Company's (PAC) with-profits funds was apportioned in the ratio 30/70 between the Company and the PAC with-profits fund following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2008. The FRS 17 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity.

Defined benefit schemes are generally required to be subject to full actuarial valuation every three years to assess the appropriate level of funding for schemes having regard to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. PSPS was last actuarially valued as at 5 April 2005 using the projected unit method. This valuation demonstrated the scheme to be 94 per cent funded, with a shortfall of actuarially determined assets to liabilities of six per cent, representing a deficit of £243 million. As a result, changes to the basis of funding for the scheme from 2006 onwards were made. Deficit funding amounts designed to eliminate the actuarial deficit over a 10-year period have been and are being made. Based on this valuation, total contributions to the scheme for deficit funding and employer contributions for ongoing service for current employees are expected to be of the order of £70 to £75 million per annum subject to a reassessment when the subsequent valuation is completed. In 2008, total contributions for the year, including expenses and augmentations, were £79 million (2007: £82 million). The PSPS valuation as at 5 April 2008 is currently being finalised.

8 Pension scheme financial position continued

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 2008 applying the principles prescribed by FRS 17.

The key assumptions adopted were:

	2008 %	2007 %
Rate of inflation	3.0	3.3
Rate of increase in salaries	5.0	5.3
Rate of increase in pension payments for inflation:		
Guaranteed (maximum 5%)	3.0	3.3
Guaranteed (maximum 2.5%)	2.5	2.5
Discretionary	2.5	2.5
Rate used to discount scheme liabilities	6.1	5.9

Long-term expected rate of return

	Prospectively for 2009 %	2008 %	2007 %
Equities	6.8	7.5	7.5
Bonds	4.8	5.5	4.9
Properties	6.05	6.75	6.8
Other assets	2.0	5.5	5.0
Weighted average long-term expected rate of return	4.5	6.2	5.9

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.

Further details on the PSPS scheme, including mortality assumptions, are shown in note I1 'Staff and pension plans' of the notes on the financial statements of the Group.

The assets and liabilities of PSPS were:

	31 Dec 2008		31 Dec 2007		31 Dec 2006	
	Value £m	%	Value £m	%	Value £m	%
Equities	823	17.1	1,278	26.1	1,346	28.3
Bonds	2,430	50.6	1,134	23.2	2,077	43.8
Properties	283	5.9	545	11.2	580	12.2
Cash-like investments	1,267	26.4	1,932	39.5	745	15.7
Total value of assets	4,803	100.0	4,889	100.0	4,748	100.0
Present value of scheme liabilities	4,075		4,361		4,607	
Underlying surplus in the scheme	728		528		141	
Surplus in the scheme recognised by the Company	50		163		48	
After deducting deferred tax, the amounts reflected in the balance sheet of the Company are	36		117		34	

The surplus in the scheme recognised in the balance sheet of the Company represents the element of the amount which is recoverable through reduced future contribution and is net of the apportionment to the PAC with-profits fund.

Underlying scheme assets and liabilities of PSPS

The change in the present value of the underlying scheme liabilities and the change in the fair value of the underlying assets of PSPS are as follows:

	2008 £m	2007 £m
Present value of scheme liabilities, beginning of year	4,361	4,607
Service costs	26	39
Interest costs	250	234
Curtailment credit	(30)	–
Employee contributions	1	2
Actuarial losses	(327)	(314)
Benefit payments	(206)	(207)
Present value of scheme liabilities, end of year	4,075	4,361

	2008 £m	2007 £m
Fair value of scheme assets, beginning of year	4,889	4,748
Expected return on scheme assets	299	276
Employee contributions	1	2
Employer contributions*	79	82
Actuarial losses	(259)	(12)
Benefit payments	(206)	(207)
Fair value of scheme assets, end of year	4,803	4,889

* The contributions include deficit funding and ongoing service contributions.

Pension credit (charge) and actuarial gains (losses) of PSPS

The pension charge recognised in the Company's profit and loss account is as follows:

	2008 £m	2007 £m
Pension credit (charge)		
Operating charge:		
Service costs	(26)	(39)
Finance income (expense):		
Interest on scheme liabilities	(250)	(234)
Expected return on scheme assets	299	276
	49	42
Curtailment credit	30	–
Total pension credit	53	3
Pension charge attributable to the Company	(4)	(12)

The pension charge attributable to the Company is net of the apportionment to the PAC with-profits funds and corresponds to the surplus recognised on the balance sheet of the Company. In 2008, an amount of £9 million was applied to extinguish the curtailment credit attributable to the Company from the unrecognised portion of the pension surplus at 31 December 2008.

8 Pension scheme financial position continued

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Actuarial gains (losses):					
Actual less expected return on scheme assets (5% (2007: 0%) (2006: 3%) (2005: 11%) (2004: 3%) of assets)	**(259)**	(12)	141	500	104
Experience gains (losses) on scheme liabilities (3% (2007: 0%) (2006: 0%) (2005: 0%) (2004: 1%) of liabilities)	**127**	(10)	17	–	(25)
Changes in assumptions underlying the present value of scheme liabilities	**200**	324	232	(405)	(128)
Total actuarial gains (2% (2007: 7%) (2006: 8%) (2005: 2%) (2004: (1)%) of the present value of the scheme liabilities)	**68**	302	390	95	(49)
Actuarial (losses) gains attributable to the Company	**(143)**	91	118	(30)	(10)

The total actual return on scheme assets for PSPS was a loss of £40 million (2007: a gain of £264 million).

The experience gains on scheme liabilities in 2008 of a gain of £127 million relate mainly to the 'true-up' reflecting improvements in data consequent upon the ongoing triennial valuation of PSPS.

The actuarial gains (losses) attributable to the Company are net of the apportionment to the PAC with-profits funds and correspond to the surplus (deficit) recognised on the balance sheet of the Company. In 2008, the actuarial losses attributable to the Company included an amount of £164 million for the unrecognised portion of surplus which has not been deducted from the pension credit (charge).

The actuarial losses before tax of £143 million (2007: gains of £91 million) attributable to the Company net of related tax are recorded in the statement of total recognised gains and losses. Cumulative actuarial gains as at 31 December 2008 amount to £91 million (2007: £234 million).

The 2005 actuarial losses attributable to the Company reflected the changed estimate of allocation in the deficit of PSPS from a ratio of 20/80 between the Company and the PAC with-profits fund prior to 2005 to a ratio of 30/70 from 2005 onwards.

Total employer contributions expected to be paid into the PSPS defined benefit scheme for the year ending 31 December 2009 amount to £78 million, subject to a reassessment when the valuation as at 5 April 2008 is completed.

9 Share capital and share premium

The authorised share capital of the Company at both 31 December 2008 and 31 December 2007 was £220 million (divided into 4,000,000,000 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:

	2008		
Issued shares of 5 pence each fully paid	**Number of shares**	**Share capital** £m	**Share premium** £m
At beginning of year	2,470,017,240	123	1,828
Shares issued under share option schemes	2,307,469	–	12
Shares issued in lieu of cash dividends	24,622,979	2	156
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	–	(156)
At end of year	2,496,947,688	125	1,840

At 31 December 2008, there were options subsisting under share option schemes to subscribe for 6,825,343 (2007: 9,017,442) shares at prices ranging from 266 pence to 617 pence (2007: 266 pence to 695 pence) and exercisable by the year 2015 (2007: 2014). In addition, there were 967,652 (2007: 2,037,220) conditional options outstanding under the Restricted Share Plan exercisable at nil cost within a 10-year period. No further options will be issued under the Restricted Share Plan which has been replaced by the Group Performance Share Plan. There were 4,906,234 (2007: 3,485,617) conditional options outstanding under the Group Performance Share Plan exercisable at nil cost within 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 after tax of the Company for the year was £486 million (2007: loss of £17 million). After dividends of £453 million (2007: £426 million), actuarial gains (losses) net of tax in respect of the pension scheme of £(103) million (2007: gain of £66 million), share based payment reserve movement of £9 million (2007: £5 million) and a transfer from the share premium account of £156 million (2007: £175 million) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 2008 amounted to £1,280 million (2007: £1,185 million).

A reconciliation of the movement in shareholders' funds of the Company for the years ended 31 December 2008 and 2007 is given below:

	2008 £m	2007 £m
Profit (loss) for the year	486	(17)
Dividends	(453)	(426)
	33	(443)
Actuarial (losses) gains recognised in respect of the pension scheme net of related tax note 8	(103)	66
New share capital subscribed note 9	170	182
Reserve movements in respect of share-based payments note 4	9	5
Net movement in shareholders' funds	109	(190)
Shareholders' funds at beginning of year, as previously published	3,117	3,312
Effect of the adoption of UITF 44 on share-based payments note 4	19	14
Shareholders' funds at beginning of year, after change of accounting policies	3,136	3,326
Shareholders' funds at end of year	3,245	3,136

Further information on the adoption of UITF 44 is provided in note 2.

11 Other information

a Information on directors' remuneration is given in the directors' remuneration report section of this Annual Report and note I3 'Key management remuneration' of the notes on the financial statements of the Group.

b Information on transactions of the directors with the Group is given in note I5 'Related party transactions' of the notes on the financial statements of the Group.

c The Company employs no staff.

d Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.1 million (2007: £0.1 million). In addition, the Company paid fees for other services of £0.2 million (2007: £0.2 million).

e In certain instances the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

12 Post balance sheet events

On 20 February 2009, the Company announced that it had entered into an agreement to transfer the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan. The business being transferred represents 94 per cent of the in-force liabilities in Taiwan. Further details are set out in note I10 of the Group financial statements.

A final dividend of 12.91 pence per share was proposed by the directors on 18 March 2009. Subject to shareholders' approval, the dividend will be paid on 22 May 2009 to shareholders on the register at the close of business on 14 April 2009. The dividend will absorb an estimated £322 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.