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, Indonesia, Malaysia and Singapore. 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 Part 15 of the Companies Act 2006, which applies to companies generally. The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 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 has also 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. This included exemption from the requirements for enhanced disclosures about fair value measurements and liquidity risk of the 'Amendments to FRS 29 – Improving disclosures about financial instruments' approved by the Accounting Standards Board (ASB) in May 2009 and effective from 1 January 2009. The enhanced disclosures as required by the equivalent Amendments to IFRS 7 have been included in note G 'Financial assets and liabilities' of the consolidated financial statements.

The amendments to FRS 8 'Related Party Transactions' became effective for the Company in 2009. The amendments made were to align the definition of related party with that in UK law and IAS 24 'Related Party Disclosures'. The main effect of this amendment is that there is no longer an exemption from disclosure of related party transactions in the Company's financial statements on the basis that these financial statements are presented with the consolidated financial statements. The Company is required under the amendment to disclose any transactions with subsidiaries which are not wholly-owned. The Company did not have any disclosable transactions under this amendment.

Additionally, in 2009, the Company adopted the following new accounting pronouncements. Their adoption had no material impact on the financial statements of the Company:

- Amendment on FRS 26 financial instruments – Eligible Hedged Items
- Amendments to UITF Abstract 42 and FRS 26 – Embedded Derivatives
- Amendments to FRS 20 'Share-based Payment – Vesting Conditions and Cancellations'
- Improvements to Financial Reporting Standards (2008)

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. 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.

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, or, for hybrid debt, over the expected life of the instrument.

3 Significant accounting policies continued

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 is 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.

Under the principles of UITF 44, where the Company, as the parent company, grants options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are 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

	2009 £m	
	Shares in subsidiary undertakings	Loans to subsidiary undertakings
At 1 January	7,193	3,212
Transfer of investment in subsidiary undertaking	(1,021)	889
Additional investment in subsidiary undertakings	3,899	(3,889)
Net advance of loans	–	687
At 31 December	10,071	899

The transfer of investment in subsidiary undertaking relates to the sale of shares in a central finance subsidiary to another such company. The consideration was the assignment of loans to a further central finance subsidiary with a value of £889 million and cash of £132 million.

The additional investment in subsidiary undertakings during the year of £3,899 million (2008: £35 million) includes £3,889 million in a central finance subsidiary following an internal restructuring, for which the consideration was the assignment of loans to other central finance subsidiaries, and £10 million (2008: £9 million) for share-based payments reflecting the value of payments granted by the Company to employees of its subsidiary undertakings in 2009.

5 Subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2009, all wholly-owned, 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

*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. In 2009, the Company transferred the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan.

6 Borrowings

	Core structural borrowings		Other borrowings		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Core structural borrowings:						
£249m 5.5% Bonds 2009[note i]	–	249	–	–	–	249
€500m 5.75% Subordinated Notes 2021[note ii]	443	482	–	–	443	482
£300m 6.875% Bonds 2023	300	300	–	–	300	300
€20m Medium-Term Subordinated Notes 2023[note iii]	18	19	–	–	18	19
£250m 5.875% Bonds 2029	249	249	–	–	249	249
£435m 6.125% Subordinated Notes 2031	428	427	–	–	428	427
£400m 11.375% Subordinated Notes 2039[note iv]	380	–	–	–	380	–
US$1,000m 6.5% Perpetual Subordinated Capital Securities[note v]	619	696	–	–	619	696
US$250m 6.75% Perpetual Subordinated Capital Securities[note vi]	155	173	–	–	155	173
US$300m 6.5% Perpetual Subordinated Capital Securities[notes vi, vii, viii]	188	186	–	–	188	186
US$750m 11.75% Perpetual Subordinated Capital Securities	456	–	–	–	456	–
Total core structural borrowings	3,236	2,781	–	–	3,236	2,781
Other borrowings:						
Commercial paper[note ix]	–	–	2,031	1,269	2,031	1,269
Medium-Term Notes 2010[note ix]	–	–	7	9	7	9
Floating Rate Notes 2010[note x]	–	–	200	200	200	200
Total borrowings	3,236	2,781	2,238	1,478	5,474	4,259
Borrowings are repayable as follows:						
Within 1 year or on demand	–	249	2,238	1,469	2,238	1,718
Between 1 and 5 years	–	–	–	9	–	9
After 5 years	3,236	2,532	–	–	3,236	2,532
	3,236	2,781	2,238	1,478	5,474	4,259
Recorded in the balance sheet as:						
Subordinated liabilities[note xi]	2,687	1,983				
Debenture loans	549	798				
	3,236	2,781				

Notes

i The £249 million 5.5 per cent borrowings were repaid on maturity in May 2009.

ii 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.

iii The €20 million borrowings 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.

iv The interest rate on the £400 million 11.375 per cent borrowings will change to three month £LIBOR plus 11.348 per cent on 29 May 2019.

v 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 March 2009, this swap was cancelled.

vi 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.

vii Interest on the US$300 million 6.5 per cent borrowings was swapped into floating rate payments but, in 2008, swapped back into fixed rate payments of 6.5 per cent.

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

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

x The Company originally issued £200 million Floating Rate Notes in October 2008 which matured in April 2009. New £200 million Notes were issued in April 2009, which matured in October 2009, and again in October 2009 which will mature in April 2010. All Notes have been wholly subscribed to by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements.

xi 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

	2009 £m		2008 £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	33	8	19	17
Cross-currency swaps	118	–	182	–
Inflation-linked swap	–	128	–	162
Forward foreign currency contracts	–	–	66	56
Total	151	136	267	235

The change in fair value of the derivative financial instruments of the Company was a gain before tax of £83 million (2008: loss before tax of £343 million).

The Company has a US$300 million fair value hedge in place which hedges the interest rate exposure on the US$300 million 6.5 per cent perpetual subordinated capital securities. In addition, the Company had a US$1,000 million fair value hedge which hedged the interest rate exposure on the US$1,000 million 6.5 per cent perpetual subordinated capital securities until this hedge was cancelled in March 2009. 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 2009, on the FRS 17, 'Retirement Benefits' basis of valuation, the underlying pension liabilities of PSPS accounted for 86 per cent (2008: 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 including FRS 17. The FRS 17 disclosures are aligned with IAS 19. In 2008, the Group adopted IFRIC 14, 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 obligation for PSPS in the Group financial statements. Further details are described in note I2 '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 2009. 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 2008 using the projected unit method.

This valuation demonstrated the Scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the Scheme's statutory funding objective. Accordingly, the total contributions to be made by the Group to the Scheme were reduced from the previous arrangement of £70-£75 million per annum to £50 million per annum effective from 1 July 2009. As PSPS was in a surplus position at the valuation date, no formal recovery plan was required. However, recognising that there had been a significant deterioration in the value of the Scheme's assets from 5 April 2008 to the date of the finalisation of the valuation, contributions to the Scheme for additional funding of £25 million per annum as well as a £25 million per annum employer's contribution for ongoing service of current employees, were agreed with the PSPS Trustees subject to a reassessment when the next valuation is completed. The additional funding is akin to deficit funding. In 2009, total contributions for the year, including expenses and augmentations, were £67 million (2008: £79 million).

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 2009 applying the principles prescribed by FRS 17.

8 Pension scheme financial position continued

The key assumptions adopted were:

	2009 %	2008 %
Rate of inflation	3.7	3.0
Rate of increase in salaries	5.7	5.0
Rate of increase in pension payments for inflation:		
Guaranteed (maximum 5%)	3.7	3.0
Guaranteed (maximum 2.5%)	2.5	2.5
Discretionary	2.5	2.5
Rate used to discount scheme liabilities	5.8	6.1

Long-term expected rate of return

	Prospectively for 2010 %	2009 %	2008 %
Equities	8.5	6.8	7.5
Bonds	5.3	4.8	5.5
Properties	6.75	6.05	6.75
Other assets	4.75	2.0	5.5
Weighted average long-term expected rate of return	5.9	4.5	6.2

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 I2 'Staff and pension plans' of the notes on the financial statements of the Group.

The assets and liabilities of PSPS were:

	31 Dec 2009		31 Dec 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Value £m	%	Value £m	%	Value £m	%	Value £m	%	Value £m	%
Equities	830	16.8	823	17.1	1,278	26.1	1,346	28.3	2,293	52.1
Bonds	3,406	68.8	2,430	50.6	1,134	23.2	2,077	43.8	1,490	33.9
Properties	272	5.5	283	5.9	545	11.2	580	12.2	539	12.3
Cash-like investments	441	8.9	1,267	26.4	1,932	39.5	745	15.7	75	1.7
Total value of assets	4,949	100.0	4,803	100.0	4,889	100.0	4,748	100.0	4,397	100.0
Present value of scheme liabilities	4,436		4,075		4,361		4,607		4,776	
Underlying surplus in the scheme	513		728		528		141		(379)	
Surplus in the scheme recognised by the Company	52		50		163		48		(114)	
After deducting deferred tax, the amounts reflected in the balance sheet of the Company are	37		36		117		34		(80)	

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 contributions 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:

	2009 £m	2008 £m
Present value of scheme liabilities, at 1 January	4,075	4,361
Service costs	23	26
Interest costs	242	250
Curtailment credit	–	(30)
Employee contributions	2	1
Actuarial losses (gains)	315	(327)
Benefit payments	(221)	(206)
Present value of scheme liabilities, at 31 December	4,436	4,075

	2009 £m	2008 £m
Fair value of scheme assets, at 1 January	4,803	4,889
Expected return on scheme assets	213	299
Employee contributions	2	1
Employer contributions*	67	79
Actuarial gains (losses)	85	(259)
Benefit payments	(221)	(206)
Fair value of scheme assets, at 31 December	4,949	4,803

*The contributions include deficit funding, ongoing service contributions, expenses and augmentations.

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

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

	2009 £m	2008 £m
Pension (charge) credit		
Operating charge:		
Service costs	(23)	(26)
Finance income (expense):		
Interest on scheme liabilities	(242)	(250)
Expected return on scheme assets	213	299
	(29)	49
Curtailment credit	–	30
Total pension (charge) credit	(52)	53
Pension charge attributable to the Company	(25)	(4)

The pension charge attributable to the Company is net of the apportionment to the PAC with-profits fund and is related 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. There was no such amount applied against the pension charge in 2009.

8 Pension scheme financial position continued

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Actuarial gains (losses):					
Actual less expected return on scheme assets (2% (2008: 5%) (2007: 0%) (2006: 3%) (2005: 11%) of assets)	**85**	(259)	(12)	141	500
Experience gains (losses) on scheme liabilities (1% (2008: 3%) (2007: 0%) (2006: 0%) (2005: 0%) of liabilities)	**59**	127	(10)	17	–
Changes in assumptions underlying the present value of scheme liabilities	**(374)**	200	324	232	(405)
Total actuarial (losses) gains (5% (2008: 2%) (2007: 7%) (2006: 8%) (2005: (2)%) of the present value of the scheme liabilities)	**(230)**	68	302	390	95
Actuarial (losses) gains attributable to the Company	**(3)**	(143)	91	118	(30)

The total actual return on scheme assets for PSPS was a gain of £298 million (2008: £40 million).

The experience gains on scheme liabilities in 2008 of £127 million related 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 fund and are related to the surplus recognised on the balance sheet of the Company. In 2009, the actuarial losses attributable to the Company included an amount of £66 million (2008: £164 million) for the unrecognised portion of surplus which has not been deducted from the pension charge.

The actuarial losses before tax of £3 million (2008: £143 million) attributable to the Company are recorded in the statement of total recognised gains and losses. Cumulative actuarial gains as at 31 December 2009 amount to £88 million (2008: £91 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 2010 amount to £54 million, reflecting the new funding arrangement agreed in 2009, following the completion of the 2008 actuarial valuation, and expenses.

9 Share capital and share premium

A summary of the ordinary shares in issue is set out below:

	2009		
Issued shares of 5 pence each fully paid	**Number of shares**	**Share capital** £m	**Share premium** £m
At 1 January	2,496,947,688	125	1,840
Shares issued under share option schemes	605,721	–	3
Shares issued in lieu of cash dividends	34,674,062	2	136
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	–	(136)
At 31 December	2,532,227,471	127	1,843

At 31 December 2009, there were options subsisting under share option schemes to subscribe for 12,230,833 (2008: 6,825,343) shares at prices ranging from 266 pence to 572 pence (2008: 266 pence to 617 pence) and exercisable by the year 2016 (2008: 2015). In addition, there were 17,292 (2008: 967,652) conditional options outstanding under the Restricted Share Plan and exercisable at nil cost by the year 2015. No further options have been issued under this Plan since it was replaced by the Group Performance Share Plan in March 2006. There were 6,644,203 (2008: 4,906,234) conditional options outstanding under the Group Performance Share Plan and exercisable at nil cost within a 10 year period. Further information on the Group's employee share options is given in note I3 'Share-based payments' of the notes on the financial statements of the Group.

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

The profit after tax of the Company for the year was £913 million (2008: £486 million). After dividends of £481 million (2008: £453 million), actuarial losses net of tax in respect of the pension scheme of £2 million (2008: £103 million), share-based payment reserve movement of £10 million (2008: £9 million) and a transfer from the share premium account of £136 million (2008: £156 million) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 2009 amounted to £1,856 million (2008: £1,280 million).

A reconciliation of the movement in shareholders' funds of the Company for the years ended 31 December 2009 and 2008 is given below:

	2009 £m	2008 £m
Profit for the year	913	486
Dividends	(481)	(453)
	432	33
Actuarial losses recognised in respect of the pension scheme net of related tax[note 8]	(2)	(103)
New share capital subscribed[note 9]	141	170
Reserve movements in respect of share-based payments[note 4]	10	9
Net movement in shareholders' funds	581	109
Shareholders' funds at beginning of year	3,245	3,136
Shareholders' funds at end of year	3,826	3,245

11 Other information

a Information on directors' remuneration is given in the directors' remuneration report section of this Annual Report and note I4 '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 I6 '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 (2008: £0.1 million). In addition, the Company paid fees for other services of £0.2 million (2008: £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

A final dividend of 13.56 pence per share was proposed by the directors on 8 March 2010. Subject to shareholders' approval, the dividend will be paid on 27 May 2010 to shareholders on the register at the close of business on 9 April 2010. The dividend will absorb an estimated £343 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

On 1 March 2010, Prudential plc announced that it had reached agreement with American International Group Inc. ('AIG'), on terms for the combination of Prudential and AIA Group Limited ('AIA'), a wholly-owned subsidiary of AIG (the 'Transaction'). AIA is a leading life insurance organisation in Asia which provides individuals and businesses with products and services for their insurance, protection, savings, investment and retirement needs in 15 geographical markets in the region. The combined group will be the leading life insurer in Hong Kong, Singapore, Malaysia, Indonesia, Vietnam, Thailand and the Philippines with the leading foreign life insurance business in China and India, a significantly enhanced presence in the high growth South East Asian life markets and strong operations in the US and UK.

The Transaction will be effected through the acquisition of both Prudential (by a scheme of arrangement, the 'Scheme') and AIA by a new company ('New Prudential'). The new company will assume the name Prudential plc, be headquartered and incorporated in the UK, and traded on the main market of the London Stock Exchange with ADRs traded on the New York Stock Exchange. The existing Board of Prudential will become the Board of New Prudential.

AIG will receive total consideration of US$35.5 billion, comprising US$25.0 billion in cash and US$10.5 billion in New Prudential shares and other securities. The cash component of the consideration will be financed through an underwritten rights issue, raising US$20.0 billion (net of fees and expenses) and through issuance of US$ 5.0 billion senior notes (net of fees and expenses). These issues have been agreed to be underwritten by certain banks. The terms of the rights issue will be set at the time of publication of Prudential and New Prudential prospectuses.

The rights issue and the Scheme will be subject to shareholder approval at a General meeting. The Transaction is also subject to certain regulatory and anti-trust approvals including various regulatory approvals required on a change of control of Prudential as a result of the Scheme.

On 8 March 2010, the Company confirmed that the Prudential Group had entered into foreign exchange hedging arrangements in respect of its requirement to convert the pounds sterling proceeds of the rights issue into US dollars, which is the currency in which Prudential must pay the cash element of the consideration.