# Consolidated statement of cash flows

| Year ended 31 December | Note | 2012 £m | 2011* £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax *(being tax attributable to shareholders' and policyholders' returns)* note (i) | | 3,188 | 1,811 |
| Non-cash movements in operating assets and liabilities reflected in profit before tax: | | | |
| Investments | | (27,126) | (8,854) |
| Other non-investment and non-cash assets | | (801) | (999) |
| Policyholder liabilities (including unallocated surplus) | | 26,710 | 10,874 |
| Other liabilities (including operational borrowings) | | (969) | (859) |
| Interest income and expense and dividend income included in result before tax | | (7,772) | (7,449) |
| Other non-cash items note (ii) | | 128 | 108 |
| Operating cash items: | | | |
| Interest receipts | | 6,483 | 6,365 |
| Dividend receipts | | 1,530 | 1,302 |
| Tax paid | | (925) | (561) |
| Net cash flows from operating activities | | 446 | 1,738 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | H6 | (139) | (124) |
| Proceeds from disposal of property, plant and equipment | | 14 | 10 |
| Acquisition of subsidiaries, net of cash balance note (iii) | I1 | (224) | (53) |
| Change to Group's holdings, net of cash balance | I2 | 23 | – |
| Net cash flows from investing activities | | (326) | (167) |
| **Cash flows from financing activities** | | | |
| Structural borrowings of the Group: | I10 | | |
| Shareholder-financed operations: note (iv) | | | |
| Issue of subordinated debt, net of costs | | – | 340 |
| Redemption of senior debt | | – | (333) |
| Bank loan | | 25 | – |
| Interest paid | | (270) | (286) |
| With-profits operations: note (v) | | | |
| Interest paid | | (9) | (9) |
| Equity capital: | | | |
| Issues of ordinary share capital | H11 | 17 | 17 |
| Dividends paid | B3 | (655) | (642) |
| Net cash flows from financing activities | | (892) | (913) |
| Net (decrease) increase in cash and cash equivalents | | (772) | 658 |
| Cash and cash equivalents at beginning of year | | 7,257 | 6,631 |
| Effect of exchange rate changes on cash and cash equivalents | | (101) | (32) |
| Cash and cash equivalents at end of year | H10 | 6,384 | 7,257 |

* The Group has adopted updated US GAAP requirements for deferred acquisition costs as an improvement to its accounting policy under IFRS4, for those operations of the Group which measure insurance assets and liabilities substantially by reference to US GAAP principles. Accordingly, the 2011 comparative results and related notes have been adjusted from those previously published for the retrospective application of the change as if the new accounting policy had always applied, as described in note A5.

**Notes**

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with other net items, net purchases of treasury shares and other net movements in equity.

(iii) The acquisition of REALIC in 2012, as explained further in note I1, resulted in a net cash outflow of £224 million. The acquisition of subsidiaries in 2011 related to the PAC with-profits fund's purchase of Earth & Wind and Alticom venture investments with an outflow of £53 million.

(iv) Structural borrowings of shareholder-financed operations comprise the core debt of the parent company, a PruCap bank loan and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(v) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.