Registered No: SC212640

PRUDENTIAL DISTRIBUTION LIMITED

Annual Report and Financial Statements for the year ended 31 December 2012

PRUDENTIAL DISTRIBUTION LIMITED

Incorporated and registered in Scotland. Registered No: SC212640
Registered office: Craigforth, Stirling, Scotland, FK9 4UE

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PRUDENTIAL DISTRIBUTION LIMITED

Directors

The Directors in office during the year were as follows

F A O'Dwyer (Chairman)
C Lewis
T R Naidu
K Nunn (Resigned as the director of the Company on 31 March 2012.)

Secretary

Prudential Group Secretarial Services Limited

Independent Auditor

KPMG Audit Plc, London

PRUDENTIAL DISTRIBUTION LIMITED

Incorporated and registered in Scotland. Registered No: SC212640
Registered office: Craigforth, Stirling, Scotland, FK9 4UE

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

Principal activity

The principal activity of Prudential Distribution Limited ("the Company") is to act as the single service company for the UK Insurance Operations (UKIO) of the Prudential Group. It is one of the principal employers for UKIO. It also provides product distribution services to group companies whose products are distributed through non-intermediated channels. The Company is regulated by the Financial Services Authority (FSA) for its distribution activities.

Business review

Key Performance Indicators	2012 £000	2011 £000
Turnover	521,350	505,956
Operating expenses	(516,971)	(499,615)
Profit before tax	4,628	6,413
Shareholders funds	60,085	25,359
Regulatory capital requirement (higher of IPRU INV and MIPRU requirements-see below	39,823	484

The Company being the service company for the UKIO incurs expenses on behalf of the statutory entities within the UKIO and recharges the expenses after charging a margin of 5%. The one exception is that no margins are charged to the With-profits funds. Accordingly, margins are not charged to the With-profits funds of The Prudential Assurance Company Limited and its subsidiary, Prudential Annuities Limited. The Company also earns commission from providing product distribution services to M&G Limited (M&G), another group company.

The Company generated a pre-tax profit of £4,628k during the year (2011: £6,413k).

The Company has remained solvent throughout the period under review and has adequate capital resources to meet its regulatory capital requirements. The Company continues to hold Professional Indemnity Insurance (PII) to meet the requirement for capital adequacy. The regulatory requirements in the Company are driven by Interim Prudential Sourcebook for Investment Business (IPRU (INV)) and Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU).

During 2013 the Company is expected to transfer one of its distribution channels - Prudential Financial Planning to another group company and subsequently release the surplus capital resources available for distribution.

Risks & uncertainties

The Company is a wholly owned subsidiary of the Prudential Group and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual and Group Risk

Framework. The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

The Group's risk governance framework requires all businesses and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The risk governance framework is based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

A number of factors (risk factors) have the potential to impact the Company's results and financial condition. The key risk factors of the Company are mentioned below.

Financial risk

Whilst the Company is exposed to financial risks these are largely mitigated as explained below :

a) Credit risk

Credit risk is the risk of loss for the Company or of adverse change in the financial position, resulting from fluctuations in the credit standing of counterparties and any debtors in the form of default or other significant credit event.

The debtors are predominantly intra group and therefore the risk of default is considered to be minimal.

b) Liquidity risk

Liquidity risk is the risk that the Company, although solvent on a balance sheet basis, does not have sufficient resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

This risk is managed through careful management of bank balances and cash-flow forecasting. The Company being the single service company for UKIO is covered by the Risk Procedure Manual within the Group and has a defined liquidity appetite.

Non-financial risk

The Company has a limited exposure to business environment, strategic, operational and group risk.

a) Business environment risk

Business environment risk is the exposure to forces in the external environment that could significantly change the fundamentals that drive the Company's overall strategy.

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services sector, which in some circumstances may be applied retrospectively, may adversely affect the Company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. Also, the regulator may change the level of capital required to be held by individual businesses thereby impacting the capital requirements of the Company.

Any further changes or modification to Financial Reporting Standards, or adoption of International Financial Reporting Standards (IFRS) may require a change in the reporting basis of future results, or a restatement of reported results.

b) Strategic risk

Strategic risk is the risk of ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Company's capabilities.

The Company is little exposed to this risk, however the changes in the regulatory and market environment, could play a role in forcing the senior management to take decisions which could affect the Company's performance.

c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

The Company outsources several operations, including a significant part of its back office and customer-facing functions as well as a number of IT functions. In turn, the Company is reliant upon the operational processing performance of its outsourcing partners, but their performance is monitored carefully.

The Company's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities as any weakness in the administration systems, finance systems and processes could have an impact on its results during the effective period.

The risk of non-performance is limited by contract and is covered by professional indemnity policy and comparable guarantees provided by other group companies. The risk of mis-selling is covered by a counter-guarantee provided by the product providers.

The Company is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business. These actions could involve a review of business sold in the past under acceptable market practices at the time, changes to the tax regime and regulatory reviews.

d) Group risk

Group risk is the risk of a direct or indirect loss arising from a connection with a related undertaking.

Group risk is present from the consequences of risks arising from other parts of the Group in addition to those risks arising from the Company's own activities. The independent capitalisation of the Company as well as the risk management processes and internal control mechanisms within the Company ensure Group risk is appropriately managed.

Corporate responsibility

The Company is a wholly owned subsidiary within the Prudential Group and Corporate Responsibility (CR) is integral to the way the Group does business.

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example, the Group Code of Business Conduct.

The Group aims to be sustainable in the broadest sense – financially, socially and environmentally.

The Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders. Underpinning this approach are the Group's four global CR themes:

1. Customers: Using the Group's financial strength, knowledge and skills to provide fair and transparent products, which meet customers' needs;

2. People: Recruiting, developing and retaining the best people for the best-performing business;

3. The environment: Increasing the efficiency of the Group's business by reducing the direct impact of the properties it occupies and the properties it manages as part of its investment portfolio;

4. Communities: Supporting its communities through donations, employee volunteering and long-term partnerships with charitable organisations that make a real difference.

These themes demonstrate the Group's CR commitments and principles to its stakeholders and provide clarity to its businesses, including the Company, on where they should focus their CR efforts and resources in the context of their individual markets.

The Prudential plc Board discusses Prudential's performance in the areas of social and environmental management at least once a year and also reviews and approves Prudential's corporate responsibility report and strategy on an annual basis.

Post Balance sheet events

There have been no significant events affecting the Company since the balance sheet date.

Accounts

The state of affairs of the Company at 31 December 2012 is shown in the balance sheet on page 11. The profit and loss account appears on page 10.

Share Capital

On the 3 January 2012 the company issued a further £30m of Ordinary Share Capital to meet increased regulatory capital requirements. The number of registered advisors employed by the Company increased above the FSA threshold of 26, requiring the company to hold a higher level of regulatory capital. The share issue was fully taken up by the immediate parent company, Prudential Financial Services Limited.

Changes in the Company's share capital during 2012 are shown on page 22 in note 14.

Dividends

No dividend is proposed for the year (2011: £6,119k on Ordinary shares and £781k on preference share).

Payment policy

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms.

Directors

The directors holding office during the year are shown on page 1.

Mr K Nunn resigned as the director of the Company on 31 March 2012.

There were no other changes during the year and up to the date of the report.

Political and Charitable Donations

During the year the Company made charitable donations of £1,231,512 (2011: £775,303).

No donations were made for political purposes.

Employees

The following information is given in respect of the employees of the Company in the United Kingdom:

Equal opportunity

The Company's policy is to recruit, develop and employ staff on the basis of suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees. The requirements of the Disability Discrimination Act 1996 have been put into effect.

Employee involvement

It is the Company's policy to communicate with employees on issues that concern them and to provide information to them through employee reports and regular manager briefings. Views of employees are sought through a number of channels including consultation through the medium of a staff consultative group. Since March 2009 employees have been invited to participate in the Prudential Savings-Related Share Option Scheme and can also participate in the Prudential Share Incentive Plan.

Financial risk management objectives, policies and exposure

The Company's objectives and policy in relation to the management of financial risk resulting from its financial assets and liabilities are to minimise any risk. The Company's exposure to financial risk through its financial assets and liabilities is not considered material to the assessment of the Company's assets, liabilities, financial position and the profit and loss of the Company.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

In accordance with Section 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to be re-appointed auditor of the Company for the current financial year.

Directors' and Officers' Protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

T Naidu

On behalf of the Board of Directors

P Howe

P Howe
On behalf of Prudential Group Secretarial Services Ltd.
Company Secretary

25 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors on 25 March 2013 and signed on its behalf by

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T Naidu

Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL DISTRIBUTION LIMITED FOR THE YEAR ENDED 31 DECEMBER 2012

We have audited the financial statements of Prudential Distribution Limited for the year ended 31 December 2012 set out on pages 10 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

M Williams

Marie Williams (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

25 March 2013

PRUDENTIAL DISTRIBUTION LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2011 £000
Turnover		**521,350**	505,956
Staff costs	2	**(172,072)**	(149,348)
Other operating charges		**(344,899)**	(350,267)
Operating expenses		**(516,971)**	(499,615)
Operating Profit		**4,379**	6,341
Interest income	3	**973**	646
Interest expense	4	**(724)**	(574)
Net Interest Receivable		**249**	72
Profit on ordinary activities before tax		**4,628**	6,413
Tax on profit on ordinary activities	7	**(2,581)**	(2,161)
Retained profit for the year		**2,047**	4,252

No statement of total recognised gains or losses has been included as there are no recognised gains or losses other than those reported in the profit and loss account.

A statement of historical cost profits and losses has not been prepared as the amounts are not materially different from the profit for the period.

Turnover and profit on ordinary activities before taxation for the year relate exclusively to continuing operations as defined under the terms of Financial Reporting Standard 3.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £000	2011 £000
Opening Shareholders' funds	**25,359**	26,833
Share capital injected during the year	**30,000**	-
Dividend appropriations	**-**	(6,900)
Profit for the year	**2,047**	4,252
Capital contribution for the year	**2,679**	1,174
Closing Shareholders' funds	**60,085**	25,359

Capital contribution represents the capital reserve in respect of share-based payment created during the year consequent to adoption of FRS 20 (Share-Based Payment).

The accounting policies and notes on pages 12 to 23 form an integral part of these financial statements.

PRUDENTIAL DISTRIBUTION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2012

	Note	2012 £000	2011 £000
Fixed Assets			
Tangible Fixed Assets	8	**9,175**	8,004
Current assets			
Debtors and prepayments	9	**151,269**	116,591
Cash at bank and in hand	10	**104,035**	72,379
Total current assets		**255,304**	188,970
Creditors: amounts falling due within one year	11	**(177,508)**	(148,533)
Net current assets		**77,796**	40,437
Total Assets Less Current Liabilities		**86,971**	48,441
Provision for liabilities and charges	12	**(26,886)**	(23,082)
Net assets		**60,085**	25,359
Capital and reserves			
Called-up share capital	14	**43,030**	13,030
Retained Earnings	15	**6,778**	4,731
Capital Reserve	16	**10,277**	7,598
Shareholders' funds		**60,085**	25,359

The accounting policies and notes on pages 12 to 23 form an integral part of these financial statements.

The accounts on pages 10 to 23 were approved by the board of directors on 25 March 2013.

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T Naidu

Director

1. Accounting Policies

a) Changes in Accounting Policies

The Company has implemented the following changes in preparing its results for the year ended 31 December 2011. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing convergence of UKGAAP to IFRS requirements in the UK.

In 2012, the Company adopted "Amendments to FRS29 (IFRS 7) - Financial Instruments: Disclosures - Disclosures - Transfers of Financial Assets", which had no impact on the financial statements of the Company.

b) Basis of preparation

The financial statements are prepared in accordance with Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a healthy capital adequacy, well in excess of the capital requirements stipulated by FSA. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Business Review on page 2.

c) Turnover

Turnover represents recharges including profit margin, commission and other income received from group companies and third parties. Turnover is accounted for on an accruals basis.

d) Fixed assets

Depreciation is provided at a rate calculated to write off the cost or value of the assets less their estimated residual value over their estimated useful lives as follows:

Leasehold improvements	Up to a maximum of 20 years
Fixtures and fittings	Up to a maximum of 10 years
Computer equipment	Up to a maximum of 5 years
Motor vehicles	Up to a maximum of 4 years
Plant and machinery	Up to a maximum of 4 years

e) Leased assets

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term. Tangible fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased asset at the inception of the lease. Finance charges are charged to the profit and loss account as they arise.

f) Taxation

Tax is charged on all profits in the period. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

g) Pension costs

The charge to revenue in respect of employer's contributions is calculated in accordance with applicable accounting standards.

h) Share-based Payments

The Company offers share award and option plans for certain key employees and a SAYE plan for all UK and certain overseas employees. The Company has both equity-settled plans and cash-settled plans.

Share options and awards of the parent company's equity instruments, for which the parent company (Prudential plc) has the obligation to settle, are valued using the share price at the date of grant and are accounted for as equity-settled i.e. recognised in equity as a capital contribution from Prudential plc. Share options and awards for which the Company has the obligation to settle are valued using the share price at the balance sheet date and are accounted for as cash-settled i.e. as an obligation to transfer the equity instruments of Prudential plc. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods.

i) Cash flow statement

The Company has taken advantage of the exemption under paragraph 8(c) of Financial Reporting Standard 1 (Revised) from disclosing a cash flow statement on the basis that a consolidated statement including the cash flows of the Company is prepared by the ultimate parent company.

2. Staff costs

	2012 £000	2011 £000
Wages and salaries	**135,357**	117,129
Other pension costs	**17,184**	18,865
Social security costs	**15,049**	12,238
Share based payment expenses	**4,482**	1,116
Total	**172,072**	149,348

	No.	No.
Average number of employees during the period	**1,950**	1,761

The directors, who are employed by Prudential Distribution Limited, did not receive any remuneration in respect of their services on behalf of the Company.

Details of the pension schemes operated by the Company are disclosed in the accounts of The Prudential Assurance Company Limited.

3. Interest income

	2012 £000	2011 £000
Bank interest received	**210**	90
Policyholder interest recharged	**152**	218
Company car interest recharged	**265**	267
Other interest income	**346**	71
Total	**973**	646

4. Interest expense

	2012 £000	2011 £000
Bank interest recharged	**173**	76
Policyholder interest paid	**152**	218
Company car interest paid	**282**	280
Other interest recharges	**117**	-
Total	**724**	574

5. Auditors' remuneration

The audit of the Company's accounts and the Company's reporting pack for the parent's consolidated accounts amounted to £36k (2011: £36k)

6. Operating Leases

Included within the other operating charges for the year are amounts paid as rental on operating leases for property:

	2012 £000	2011 £000
Buildings	**2,361**	2,358

7. Taxation

a) Analysis of charge in the period

	2012 £000	2011 £000
Analysis of taxation during the period		
Current tax:		
Current period corporation tax at effective rate of 24.5% (2011: 26.5%)	**(1,548)**	(1,429)
Adjustments in respect of prior years	**(220)**	165
Total current tax charge on ordinary activities	**(1,768)**	(1,264)
Deferred tax :		
Origination and reversal of timing differences	**(627)**	(1,084)
Adjustment in respect of prior periods	**(186)**	187
Total Deferred Tax	**(813)**	(897)
Total tax charge on ordinary activities	**(2,581)**	(2,161)

b) Factors affecting tax charge for the period

	2012 £000	2011 £000
Profit on ordinary activities before tax	**4,628**	6,413
Tax on Profit at effective rate of 24.5% (2011: 26.5%)	**(1,134)**	(1,699)
Depreciation on Non-Qualifying Asset	**(159)**	(173)
Permanent differences	**228**	(70)
Depreciation in excess of capital allowances	**613**	809
Adjustments to current tax in respect of previous years	**(220)**	165
Tax charge in relation to share based payments	**(1,098)**	(296)
Other timing difference	**2**	-
Current tax charge for the year	**(1,768)**	(1,264)

c) Factors that may affect future tax charges

From April 2012, the standard corporation tax rate for the UK changed from 26% to 24%. A further reduction in the standard corporation tax rate to 23% from April 2013 has also been enacted. The Chancellor has proposed a further reduction to the UK corporation tax rate to 20% by 2015 however this is not reflected in the financial statements for the year ended 31 December 2012 as it has not yet been substantively enacted. Deferred tax at the end of 2012 has been provided wholly at the rate of 23% on the basis that all of the temporary differences will reverse at the new rate. The effect of this change on the deferred tax liabilities at 31 December 2012 is £212k.

8. Tangible fixed assets

	Fixtures and Fittings £000	Plant and Machinery £000	Motor Vehicles £000	Computer Equipment £000	Buildings and Improvements £000	Total £000
Cost						
At 1 Jan 2012	**3,044**	**1,046**	**577**	**101,600**	**19,119**	**125,386**
Additions	-	**2,157**	-	-	**528**	**2,685**
Write- off	-	-	-	**(149)**	-	**(149)**
At 31 Dec 2012	**3,044**	**3,203**	**577**	**101,451**	**19,647**	**127,922**
Depreciation						
At 1 Jan 2012	**(2,977)**	**(531)**	**(577)**	**(101,451)**	**(11,846)**	**(117,382)**
Charge for year	**(35)**	**(237)**	-	-	**(1,093)**	**(1,365)**
At 31 Dec 2012	**(3,012)**	**(768)**	**(577)**	**(101,451)**	**(12,939)**	**(118,747)**
Net book value						
At 31 Dec 2012	**32**	**2,435**	-	-	**6,708**	**9,175**
At 31 Dec 2011	67	515	-	149	7,273	8,004

9. Debtors and prepayments

	2012 £000	2011 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	**62,951**	38,547
Other debtors and loan	**13,433**	1,441
Prepayments and accrued income	**72,442**	72,533
Deferred tax	**2,443**	3,256
Group relief recoverable	-	814
Total Debtors	**151,269**	116,591
Deferred tax asset explained by:		
Accelerated capital allowances	**2,332**	3,140
Short term timing differences	**111**	116
Total	**2,443**	3,256
Deferred tax asset at start of period	**3,256**	4,153
Deferred tax for the period	**(813)**	(897)
Deferred tax asset at end of period	**2,443**	3,256

10. Cash at bank and in hand

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

11. Creditors

	2012 £000	2011 £000
Amounts falling due within one year:		
Amounts owed to group undertakings	**68,806**	68,736
Taxation and social security	**11,502**	10,945
Other creditors	**16,421**	10,484
Accruals and deferred income	**80,012**	58,368
Group relief payable	**767**	-
Total	**177,508**	148,533

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms.

12. Provisions for liabilities and charges

	Balance as at 1 January 2012 £000	Utilised in the year £000	Released in the year £000	Provided in the year £000	Balance as at 31 December 2012 £000
Restructure costs	23,082	(5,731)	(3,959)	13,494	26,886
	23,082	**(5,731)**	**(3,959)**	**13,494**	**26,886**

Restructure costs have been provided for in response to changes in the structure and strategic direction of Prudential's UK insurance operations. These costs include property liabilities resulting from the closure of regional sales centres and branches and other property rationalisation. Property liabilities will be utilised over the period of leases outstanding, which in some cases is in excess of 4 years.

13. Share-based payments

The Group maintains a number of main share award and share option plans relating to Prudential plc shares, which are described below :-

(i) Group Performance Share Plan, previously Restricted Share Plan

The Group Performance Share Plan (GPSP) is the incentive plan in which all executive directors and other senior executives within the Group can participate. This scheme was established as a replacement for the Restricted Share Plan (RSP) under which no further awards could be made after March 2006. Awards are granted either in the form of a nil cost option, conditional right over shares, or such other form that shall confer to the participant an equivalent economic benefit, with a vesting period of three years. The performance measure for the awards is that Prudential's Total Shareholder Return (TSR) outperforms an index comprising of peer companies. Vesting of the awards between each performance point is on a straight-line sliding-scale basis. Participants are entitled to the value of reinvested dividends that would have accrued on the shares that vest. Beginning in 2010, newly issued shares have been used in settling the awards that vest and are released.

The RSP was, until March 2006, the Group's long-term incentive plan for executive directors and other senior executives designed to provide rewards linked to shareholder return. Each year participants were granted a conditional option to receive a number of shares. There was a deferment period of three years, at the end of which the award vested to an extent that depended on the performance of the Group's shares including notional reinvested dividends and on the Group's underlying financial performance. After vesting, the option may be exercised at zero cost at any time, subject to closed period rules, in the balance of a 10-year period. Shares are purchased in the open market by a trust for the benefit of qualifying employees.

(ii) Business Unit Performance Plan

The Business Unit Performance Plan (BUPP) is an incentive plan created to provide a common framework under which awards would be made to senior employees in the UK, Jackson and Asia, including the chief executive officers. Awards under this plan were based on growth in shareholder capital value on the European Embedded Value (EEV) basis with performance measured over three years. All awards made are settled in shares after vesting. Participants are entitled to receive the value of reinvested dividends over the performance period for those shares that vest. The growth parameters for the awards are relevant to each region, and vesting of the awards between each performance point is on a straight-line sliding-scale basis. Beginning in 2010, newly issued shares will be used in settling the awards that vest and are released. The BUPP awards for the UK business unit are based on the same relative TSR measure applied to GPSP awards. As a result, awards made under the UK BUPP reflect those TSR conditions applied to GPSP awards.

(iii) Savings related options

UK-based executive directors and eligible employees are eligible to participate in the Prudential HM Revenue & Customs (HMRC)-approved UK Savings Related Share Option Scheme (SAYE scheme).

The options are normally exercisable during the six month period following either the third or fifth anniversary of the start of the relevant savings contract. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and other share option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

(iv) Share Incentive Plan

UK-based executive directors and employees are also eligible to participate in the Company's HMRC-approved Share Incentive Plan, which allows all UK-based employees to purchase shares of Prudential plc (partnership shares) on a monthly basis out of gross salary. For every four partnership shares bought, an additional matching share is awarded, purchased on the open market. Dividend shares accumulate while the employee participates in the plan. Partnership shares may be withdrawn from the scheme at any time. If the employee withdraws from the plan within five years, the matching shares are forfeit, and if within three years, dividend shares are forfeit.

(v) Other Share awards

In addition, there are other share awards, such as deferred bonus plans. There are no performance conditions attaching to these deferred bonus plans, and awards vest in full subject to the individual being employed by Prudential at the end of the vesting period. The other arrangements relate to various awards that have been made without performance conditions to individual employees, typically in order to secure their appointment or ensure retention.

Movements in share options outstanding under the Company's share-based compensation plans relating to Prudential plc shares during 2012 and 2011 were as follows:

		2012		2011
Options outstanding (including conditional options)	**Number of options**	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Beginning of year:	**2,310,821**	**3.29**	2,427,733	3.20
Granted	**456,008**	**6.29**	249,719	4.66
Exercised	**(1,216,814)**	**3.01**	(202,877)	3.77
Forfeited	**(22,169)**	**3.53**	(25,177)	3.20
Expired	**(39,176)**	**4.18**	(138,577)	3.34
End of year	**1,488,670**	**4.42**	2,310,821	3.29
Options immediately exercisable, end of year	**22,291**	**4.15**	20,767	4.47

The weighted average share price of Prudential plc for the year ended 31 December 2012 was £7.69 compared to £6.86 for the year ended 31 December 2011.

Movements in share awards outstanding under the Group's share-based compensation plans relating to Prudential plc shares at 31 December 2012 were as follows:

	2012	2011
Awards outstanding	**Number of awards**	Number of awards
Beginning of year:	**1,104,017**	1,051,104
Granted	**396,927**	562,335
Exercised	**(296,685)**	(111,491)
Forfeited	**(6,983)**	-
Expired/transferred during the year	**(4,157)**	(397,931)
End of year	**1,193,119**	1,104,017

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2012:

	Outstanding			**Exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices £**	**Number exercisable**	**Weighted average exercise prices £**
Between £0 and £1	-	-	-	-	-
Between £1 and £2	-	-	-	-	-
Between £2 and £3	**602,383**	**1.99**	**2.88**	**2,537**	**2.88**
Between £3 and £4	-	-	-	-	-
Between £4 and £5	**427,186**	**2.25**	**4.59**	**18,295**	**4.21**
Between £5 and £6	**10,154**	**1.15**	**5.54**	**1,459**	**5.52**
Between £6 and £7	**448,947**	**2.50**	**6.29**	-	-
Total	**1,488,670**	**2.22**	**4.42**	**22,291**	**4.15**

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2011:

	Outstanding			Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £0 and £1	-	-	-	-	-
Between £1 and £2	-	-	-	-	-
Between £2 and £3	1,745,104	1.61	2.88	-	-
Between £3 and £4	5,287	0.76	3.81	727	3.43
Between £4 and £5	541,952	2.90	4.54	20,040	4.51
Between £5 and £6	18,478	1.66	5.57	-	-
Between £6 and £7	-	-	-	-	-
Total	2,310,821	1.91	3.29	20,767	4.47

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

The weighted average fair values of Prudential plc options and awards granted during the period are as follows:

2012 Weighted average fair value			2011 Weighted average fair value		
GPSP £	**SAYE Options £**	**Awards £**	GPSP £	SAYE Options £	Awards £
5.00	**2.28**	**5.80**	4.10	2.63	4.62

The fair value amounts relating to GPSP options and other options were determined using the Black-Scholes and the Monte Carlo option-pricing models using the following assumptions:

	2012		2011	
	GPSP	**Other options**	GPSP	Other options
Dividend yield (%)	**-**	**3.63**	-	3.33
Expected volatility (%)	**23.70**	**34.34**	36.20	62.69
Risk-free interest rate (%)	**0.36**	**0.39**	0.49	0.89
Expected option life (years)	**-**	**3.25**	3.00	3.48
Weighted average exercise price (£)	**-**	**6.29**	-	4.66
Weighted average share price (£)	**6.64**	**8.26**	6.39	6.06

Compensation costs for all share-based compensation plans are determined using the Black-Scholes model, Monte Carlo model or other market consistent valuation methods. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than the GPSP and UK BUPP, for which the Group uses a Monte Carlo model in order to allow for the impact of the TSR performance conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For the SAYE options, the expected volatility is based on the market implied volatilities for Prudential shares as quoted on Bloomberg. This change (from an estimate based on historic volatility) brings the methodology into line with the approach used to determine the volatility for the GPSP and UK BUPP awards. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different term and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are UK gilt rates with projections for three-year and five-year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over a period of 12 months up to and including the date of grant. For the GPSP, volatility and correlation between Prudential and an index constructed from a simple average of the TSR growth of 10 companies is required. For grants in 2012, an average index volatility and correlation of 32 per cent and 76 per cent respectively, were used. For the GPSP, market implied volatilities are used for both Prudential and the components of the index. Changes to the subjective input assumptions could materially affect the fair value estimate.

	2012 £000	2011 £000
Share-based compensation expense	**4,482**	1,116
Amount accounted for as equity-settled	**2,679**	1,174
Amount accounted for as cash-settled	**1,803**	(58)

14. Called-up share capital

	2012 £000	2011 £000
Ordinary shares		
Issued and fully paid:		
5,820,001 ordinary shares of £1 each	**5,820**	5,820
30,000,000 ordinary shares of £1 each	**30,000**	-
	35,820	5,820
Preference Shares		
Issued and fully paid:		
7,210,000 ordinary shares of £1 each	**7,210**	7,210
Total Issued and Paid Share Capital	**43,030**	13,030

During the year the Company issued 30,000,000 ordinary shares of £1 each to Prudential Financial Services Limited. The total consideration was £30,000,000, which has been received in cash.

The Preference Shares issued carry the right to receive a non-cumulative preferential dividend which shall accrue from the date of issue of such Preference Share to the first Dividend Date and from one Dividend Date to the next Dividend Date, but shall be reset to zero immediately following each Dividend Date whether or not any Preference Dividend is paid on such Dividend. The Preference Shares may not be redeemed otherwise than at the option of the Company at any time after the second anniversary of the date of issue of such Preference Share. The Preference Shares carry no voting rights except if a resolution is proposed in relation to (i) the winding up of the Company, a voluntary arrangement with creditors of the Company or proposed receivership, administrative receivership or administration of the Company; or (ii) an alteration of the rights of the Preference Shares or in relation to any other matter which will have detrimental effect upon the rights of the Preference Shares.

15. Movement in Retained Earnings

	2012 £000	2011 £000
Balance as at 1 January 2012	**4,731**	7,379
Dividend Appropriations	-	(6,900)
Profit for the year	**2,047**	4,252
Balance as at 31 December 2012	**6,778**	4,731

16. Capital Contribution

	2012 £000	2011 £000
Balance as at 1 January 2012	**7,598**	6,424
Contribution for the year	**2,679**	1,174
Balance as at 31 December 2012	**10,277**	7,598

17. Operating lease commitments

Operating lease commitments payable within one year (solely represent leases on land and building) are as follows on leases expiring:

	2012	2011
	£000	£000
Over five years	**2,361**	2,361

The Company is committed to the following expenditure as at 31 December 2012:

	2012	2011
	£000	£000
General building refurbishment	**1,846**	429

18. Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 relating to the disclosure of transactions with other wholly owned subsidiary undertakings of the Prudential Group.

19. Ultimate and immediate parent company

The Immediate parent company is Prudential Financial Services Limited. The ultimate parent company is Prudential plc which is the only parent company which prepares group accounts. Copies of which can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.