

Registered No: SC212640

PRUDENTIAL DISTRIBUTION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

PRUDENTIAL DISTRIBUTION LIMITED

Incorporated and registered in Scotland. Registered No: SC212640

Registered office: Craigforth, Stirling, Scotland, FK9 4UE

CONTENTS	Page
Directors and officers	1
Strategic report	2
Directors' report	5
Statement of directors' responsibilities	8
Independent auditor's report to the members of Prudential Distribution Limited	9
Statement of comprehensive income	11
Statement of financial position	12
Statement of changes in equity	13
Notes on the financial statements	14

PRUDENTIAL DISTRIBUTION LIMITED

Directors

J Warburton (resigned on 22 September 2017)
R Thomson (appointed on 22 September 2017)
S Moffatt (resigned on 31 January 2018)
C Bousfield

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG LLP, London

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Principal activity

The principal activity of the Company is to act as the service company for the Prudential UK business unit of the Prudential Group. It is one of the principal employers for Prudential UK. The Company also provides product distribution services to group companies whose products are distributed through non-intermediated channels and is regulated by the Financial Conduct Authority (FCA) for its distribution activities.

Business review

The Company incurs expenses on behalf of the statutory entities within the UK business unit, for which it provides services. It recharges these expenses after charging a margin of 5%, with the exception of the business in The Prudential Assurance Company Limited's (PAC) With-Profits funds on which no margin is charged. The Company also earns revenue from a contract entered into with International Financial Data Services Limited (IFDS) for providing various operational support services. The Company also earns fees on a collective investment fund arrangement with Capita Financial Managers Limited.

In August 2017, Prudential plc, the parent of the Group, brought together M&G, the investment management business, with Prudential's UK and European life insurance business, of which the Company forms a part, to create M&G Prudential.

In March 2018 Prudential plc announced its intention to demerge M&G Prudential from Prudential plc, resulting in two separately-listed companies, with different investment characteristics and opportunities. M&G Prudential is one of the leading retirement and savings businesses in the UK and Europe. M&G Prudential as a standalone group will continue to drive its transformation into a more capital-efficient and customer-focussed business, targeting growing customer demand for comprehensive financial solutions in these markets.

In support of this, M&G Prudential announced a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development, and widen customer choice. A substantial investment will be made over the next five years in transforming the business's operations, including building the digital distribution capability, the Company is well placed to meet the growing and evolving saving and investment needs to customers across retail, institutional and direct channels.

Key Performance Indicators	2017	2016	Change
	£000	£000	%
Turnover	686,801	615,434	12
Operating expenses	(684,056)	(613,710)	(11)
Profit before tax	2,527	3,332	(24)
Shareholders' funds	77,892	75,069	4
Regulatory capital requirement (higher of IPRU INV and MIPRU requirements- see below)	5,738	4,424	30

The Company generated a pre-tax profit of £2,527k during the year (2016: £3,332k). The Company reported a loss of £1,107k on the collectives arrangement in 2017 as compared to a profit of £58k in 2016 primarily on account of an increase in fund management expenses. The profit earned on provision of operational services to IFDS increased from £1,765k in 2016 to £2,513k in 2017. The increase in this profit relative to 2016 is due to changes incorporated in the most recent agreement whereby the Company is eligible to apply an uplift on the service charges and transformational services. The income earned from recharges of management expenses increased by £962k in proportion to the increases in expenses. The Company reported an unrealised loss of £1,075k on the valuation of derivatives as compared to an unrealised profit of £637k in 2016.

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

The regulatory requirements of the Company are governed by the Interim Prudential Sourcebook for Investment Business (IPRU(INV)) and the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU). The Company is a B3 firm for the purpose of the calculation of capital requirements as defined in IPRU(INV). The Company has remained solvent throughout the period under review and has adequate capital resources to meet its regulatory capital requirements. The Company relies on a Group Policy to meet the requirement for Professional Indemnity Insurance as per IPRU(INV). Due to the excess held on the Group cover, the Company is required to set aside additional capital of £3,440k to meet the professional indemnity requirement.

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 (GGM) and Group Risk Framework (GRF). 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 rather than absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward with the aim of achieving business objectives.

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

The Company's results and financial condition are exposed to both financial and non-financial risks. The key risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The financial risk factors affecting the Company are credit, liquidity and market risks. These financial risks and the management thereof are discussed in Note 24.

Non-financial risk

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

a) Business environment risk

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

Changes in government policy, legislation (including tax), regulation or regulatory interpretation applying to companies in the financial services sector, may adversely affect the Company's distribution channels, capital requirements and, consequently, reported results and financing requirements.

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 Group's capabilities.

While not directly impacted, the Company is exposed to risk associated with strategic decisions taken at the Group or Prudential UK level. The Prudential UK transformation strategy, along with the integration of the M&G and Prudential UK & Europe businesses, aims to deliver capital-light, digitally enabled, customer-focused solutions. This presents a significant opportunity to leverage scale, financial strength and complementary product and distribution capabilities but does carry an element of strategic risk for the Company in terms of overall availability of funding, resources and the wider impacts of an extensive change agenda.

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

c) Conduct risk

Conduct risks are risks that arise from the approach taken to customer relationships throughout the business model and is defined as the risk that Prudential's behaviours and decision making are inappropriate, leading to unfair or poor outcomes for customers.

Customer needs are central to all decisions the Company makes regarding the provision of financial services. In so doing, the Company aims to uphold its reputation, for acting responsibly and with integrity in supporting customers whilst respecting the laws and regulations, as well as meeting internationally accepted standards of responsible business conduct.

d) Operational risk

Operational risk is the risk of loss (or unintended gain/profit) arising from inadequate or failed internal processes, personnel and systems, or from external events. This includes employee error, system failures, fraud or some other event which disrupts business processes.

The Company's primary exposure to operational risk arises from business processes (e.g. customer administration, sales), people capabilities, operation of systems and financial reporting activity. Additional exposure is anticipated as the Company enacts its strategic transformation ambitions. The Company's exposure to operational risk is managed and mitigated using the following:

- operational risk policies including, outsourcing and third-party supply;
- a cyclical risk management framework, based on the policy standards, that delivers processes and tools to identify, assess, control and monitor the operational risk exposures;
- corporate insurance programmes to limit the impact of operational risks;
- internal and external review of cyber security; and
- regular testing of elements of the business continuity and disaster recovery plans.

e) Group risk

Group risk is the risk associated with being part of a group, particularly as a result of contagion.

Being a member of a Group can provide significant advantages for the Company in terms of diversification of risk, financial strength, technical expertise and management experience. It can also give rise to risks; if a guarantee of financial support given by the parent were removed, or from particular transactions arising from an impaired parent or affiliate within the Group. 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.

Signed for and on behalf of Board of Directors of the Company



R Webster
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
26 April 2018

PRUDENTIAL DISTRIBUTION LIMITED

Incorporated and registered in Scotland. Registered No: SC212640

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

Future developments

Likely future developments in the business of the Company are discussed in the strategic report in accordance with section 414C of the Companies Act 2006 (the Act).

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.

As a business that provides savings, income, investment and protection products and services, social value is created through the day-to-day operations. The Group provides customers with ways to help manage uncertainty and build a more secure future. In seeking to match the long-term liabilities the Group has towards its customers with similarly long-term financial assets, it provides capital that finances businesses, builds infrastructure and fosters growth in both developed and developing markets.

The Group's sustainable approach to business is reinforced by the Group-wide CR strategy. While the Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders, the Group approach is underpinned by four global CR themes:

- Serving its customers: The Group aims to provide fair and transparent products that meets the customers' needs.
- Valuing its people: The Group aspires to retain and develop highly engaged employees.
- Supporting local communities: The Group seeks to make a positive contribution to its communities through long-term partnerships with charitable organisation that make a real difference.
- Protecting the environment: The Group takes responsibility for the environment in which it operates.

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

Accounts

The state of affairs of the Company at 31 December 2017 is shown in the statement of financial position on page 12. The statement of comprehensive income appears on page 11.

Post Balance sheet events

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business ("M&G Prudential") from Prudential plc, resulting in two separately-listed companies. The Company forms part of M&G Prudential.

PRUDENTIAL DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

In April 2018, a fellow Group company novated a finance lease contract to the Company. This will result in the transfer of approximately £14m of company car assets onto the 2018 balance sheet, with a corresponding finance lease liability. The effect on profit will not be material, as costs are recharged onto the fellow Group company and the income will either match or be at a slight margin above the costs incurred.

As at the date of signing these financial statements, a fellow group company is on the point of novating a finance lease contract to the Company. This will result in the transfer of approximately £14m of company car assets onto the 2018 balance sheet, with a corresponding finance lease liability. The effect on profit will not be material, as costs are recharged onto the fellow group companies and the income will either match or be at a slight margin above the costs incurred.

Share Capital

There have been no changes to the Company's share capital during the year.

Directors

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

Mr Warburton resigned as a director and Mr Thomson was appointed as a director on 22 September 2017. Mr Moffatt resigned as a director on 31 January 2018. There were no further changes during the year and up to the date of this report being authorised for issue.

Political Donations

No donations were made for political purposes during the year (2016:Nil).

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 of 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 1995 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 is exposed to risk through its financial assets and liabilities. The financial risk factors affecting the Company include credit risk, liquidity risk and market risk. Further information on the financial risk management objectives and policies of the Company are given in Note 24.

PRUDENTIAL DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Disclosure 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 LLP 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.

Signed for and on behalf of Board of Directors of the Company



R Webster

On behalf of Prudential Group Secretarial Services Limited
Company Secretary
26 April 2018

PRUDENTIAL DISTRIBUTION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, 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), including FRS 101 *Reduced Disclosure Framework*.

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 unless it is inappropriate to presume that the Company will continue in business.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL DISTRIBUTION LIMITED

We have audited the financial statements of Prudential Distribution Limited ("the company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of changes in equity, Statement of Financial Position and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

Directors' responsibilities

As explained more fully in their 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. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL DISTRIBUTION LIMITED

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



William Greenfield (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
26 April 2018

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	2016	Note
	£000	£000	
Operating income	686,801	615,434	2
Staff costs	(221,850)	(198,618)	3
Other operating charges	(462,206)	(415,092)	4
Operating expenses	<u>(684,056)</u>	<u>(613,710)</u>	
Operating profit	2,745	1,724	
Interest income	1,380	1,612	5
Interest expense	(523)	(641)	6
Unrealised (loss)/gains on derivatives	(1,075)	637	7
Profit before tax	<u>2,527</u>	<u>3,332</u>	
Tax charge on profit	(678)	(6,081)	10
Profit/(loss) for the financial year	<u>1,849</u>	<u>(2,749)</u>	

All of the amounts above are in respect of continuing operations.

The accounting policies on pages 14 to 16 along with accompanying notes on pages 16 to 30 form an integral part of these financial statements.

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**

	2017	2016	Note
	£000	£000	
Fixed assets			
Tangible fixed assets	14,174	15,951	11
Current assets			
Derivative assets	67	1,142	
Trade and other debtors	197,983	198,275	12
Deferred tax asset	8,232	7,055	10
Cash at bank and in hand	85,239	75,626	13
	<u>291,521</u>	<u>282,098</u>	
Current liabilities			
Trade and other creditors: amounts falling due within one year	(224,443)	(209,288)	14
Corporation tax payable	(2,609)	(10,637)	
	<u>64,469</u>	<u>62,173</u>	
Net current assets	<u>64,469</u>	<u>62,173</u>	
Total assets less current liabilities	<u>78,643</u>	<u>78,124</u>	
Provision for liabilities and charges	(751)	(3,055)	15
Net assets	<u>77,892</u>	<u>75,069</u>	
Capital and reserves			
Ordinary share capital	35,820	35,820	17
Preference share capital	7,210	7,210	17
Retained earnings	11,707	9,858	18
Capital reserve	23,155	22,181	19
Shareholders' funds	<u>77,892</u>	<u>75,069</u>	

The financial statements on pages 11 to 30 were approved by the board of directors on 26 April 2018.

The accounting policies on pages 14 to 16 along with accompanying notes on pages 16 to 30 form an integral part of these financial statements.



C Bousfield
Director

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called Up Share Capital £000	Profit and Loss Account £000	Capital Reserves £000	Total Equity £000
Balance at 1 January 2016	43,030	12,607	14,982	70,619
Capital contribution for the year	—	—	7,199	7,199
Total comprehensive loss for the year				
Profit/(loss) for the financial year	—	(2,749)	—	(2,749)
Total comprehensive loss for the year	—	(2,749)	—	(2,749)
Balance at 31 December 2016	43,030	9,858	22,181	75,069
Balance at 1 January 2017	43,030	9,858	22,181	75,069
Capital contribution for the year	—	—	974	974
Total comprehensive income for the year				
Profit/(loss) for the financial year	—	1,849	—	1,849
Total comprehensive income for the year	—	1,849	—	1,849
Balance at 31 December 2017	43,030	11,707	23,155	77,892

Capital contribution represents the capital reserve in respect of share-based payment created during the year in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 14 to 16 along with accompanying notes on pages 16 to 30 form an integral part of these financial statements.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company Information

Prudential Distribution Limited is a company incorporated and domiciled in Scotland.

B. Basis of preparation

The financial statements have been prepared in accordance with FRS 101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("EU -adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Prudential plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Prudential plc are prepared in accordance with International Financial Reporting Standards and may be obtained from the Company Secretary, Laurence Pountney Hill, London EC4R 0HH.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- Comparative period reconciliations for share capital and tangible fixed assets;
- The effect of new but not effective IFRSs.

As the consolidated financial statements of Prudential plc include the equivalent disclosures, the Company has also taken advantage of the exemptions available under FRS 101 in respect of certain disclosures required by IFRS 2 *Share Based Payments*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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 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 the FCA. 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 Strategic Report on page 2.

C. Classification of instruments issued by the Company

Having adopted FRS 101, International Accounting Standard (IAS 32) is being applied to the financial instruments issued by the Company and are treated as equity only to the extent that they meet the following two conditions:

- (i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

D. Non-derivative financial instruments

Under IAS 39, upon initial recognition financial instruments are recognised at fair value. The Company is permitted, subject to specific criteria, to designate its instruments as either at fair value through profit and loss, held on an available-for-sale basis, held to maturity, or loans and receivables. The Company holds financial instruments on the following bases:

Loans and receivables - this comprises instruments that have fixed or determinable payments and are not designated as fair value through profit and loss. These instruments include deposits and other unsecured loans and receivables and trade and other creditors. These instruments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss, if any, by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

E. Derivatives

Transactions are undertaken in forward contracts. Forward contracts are entered into for the purpose of matching or eliminating risk from potential movements in exchange rates inherent in the Company's assets, liabilities and positions. The forward contracts are recognised at fair value through profit and loss with all changes to the fair value being recognised in the profit and loss account. Hedge accounting is not applied.

F. Revenue recognition

Operating income, comprising recharge of administration and distribution expenses to group companies and administration fees and other income received from third parties is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be measured reliably.

Interest receivable by the Company is accounted for on an accruals basis.

G. Expenses

Operating expenses, comprising of costs in relation to the Company's service and distribution activities are accounted for on an accruals basis.

Interest payable by the Company is accounted for on an accruals basis.

H. 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 (up to maximum of 10 years for building plants)

I. 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

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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.

J. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

K. Share-based payments

The Company offers share award and option plans for certain key employees and a Save As You Earn (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.

2. Operating income

	2017	2016
	£000	£000
Income earned from recharges to group undertakings	655,082	581,623
Income earned from third party contracts	31,719	33,811
	686,801	615,434

3. Staff costs

	2017	2016
	£000	£000
Wages and salaries	172,461	149,110
Other pension costs	25,470	23,099
Social security costs	21,067	17,472
Share based payment expenses	2,852	8,937
Total	221,850	198,618

	No.	No.
Average number of employees during the period	2,055	1,854

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

The majority of staff employed by the Prudential Group in the UK are members of the Prudential Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (PSPS). This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the Scheme. At 31 December 2017, the underlying PSPS liabilities account for 82% (2016: 82%) of the aggregate liabilities of the Prudential Group's defined benefit schemes. There is also a smaller defined benefit scheme, Scottish Amicable Staff Pension Scheme (SASPS).

The contributions into the schemes are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

Further details of the pension schemes operated by the Company are disclosed in the accounts of The Prudential Assurance Company Limited and Prudential Financial Services Limited.

4. Other operating charges

	2017	2016
	£000	£000
Management expenses	432,614	383,344
Expenses attributable to third party contracts	29,592	31,748
	462,206	415,092

5. Interest income

	2017	2016
	£000	£000
Bank interest recharged/received	26	63
Policyholder interest recharged	127	161
Company car interest recharged	110	119
Other interest income	1,117	1,269
	1,380	1,612

6. Interest expense

	2017	2016
	£000	£000
Bank interest expenses/recharges	21	53
Policyholder interest paid	127	161
Company car interest paid	115	125
Other interest recharges	260	302
	523	641

7. Unrealised (losses)/gains on derivatives

	2017	2016
	£000	£000
Unrealised (losses)/gains on valuation of forward contracts	(1,075)	637

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

8. Auditor's remuneration

Auditor's remuneration amounts to £37k (2016: £37k) in respect of the audit of the Company's financial statements. No non-audit services were provided by the auditor in 2017 or 2016.

9. Directors' emoluments and staff costs

During the year the directors of the Company received the following emoluments in respect of work performed on behalf of the Company:

	2017	2016
	£000	£000
Aggregate emoluments and benefits	3	2

The Company's directors perform services for other Group companies. These costs are not included in the amounts charged to the Company as shown in the table above.

10. Tax

a) Tax charged/(credited)

	2017	2016
	£000	£000
Current tax:		
Current period corporation tax at effective rate of 19.25% (2016: 20.00%)	(1,233)	(3,383)
Adjustments in respect of prior years	(622)	(7,555)
Total current tax charge on ordinary activities	(1,855)	(10,938)
Deferred tax :		
Origination and reversal of temporary differences	(716)	(1,960)
Adjustment in respect of prior periods	1,893	6,817
Total deferred tax (charge)/ credit	1,177	4,857
Total tax charge on ordinary activities	(678)	(6,081)

b) Factors affecting tax charge for the period

The tax charge/(credit) assessed in the year is calculated by applying the standard rate of corporation tax in the UK as shown below. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profit of the Company will be taxed.

Other than the effects of permanent differences and adjustments in respect of previous periods, it is not expected that the tax charge will deviate from that calculated by applying the standard rate of corporation tax to the profit before tax of the Company.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

	2017	2016
	£000	£000
Profit on ordinary activities before tax	2,527	3,332
Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(486)	(666)
Effects of		
Permanent differences	(2,583)	(3,069)
Adjustments to current tax in respect of previous years	(622)	(7,555)
Adjustments to deferred tax in respect of previous years	1,893	6,817
Tax charge in relation to share based payments	930	(1,424)
Change of tax rate of deferred tax	190	(184)
Total tax charge for the year	(678)	(6,081)

In July 2016, the UK Government announced additional reductions in the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. These additional reductions are reflected in the above figures as the changes were substantively enacted at the balance sheet date.

Deferred tax is provided at the rate applicable when the temporary differences are expected to reverse.

c) Balance Sheet

	2017	2016
	£000	£000
Deferred tax asset explained by:		
Accelerated capital allowances	6,552	6,114
Short term temporary differences	1,680	941
Total	8,232	7,055
Deferred tax asset at start of period	7,055	2,415
Deferred tax (charged)/credited to capital reserve	—	(217)
Deferred tax charged in profit and loss account for the period	1,177	4,857
Deferred tax asset at end of period	8,232	7,055

11. 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 January 2017	3,445	10,593	577	101,451	29,209	145,275
Additions	—	914	—	—	138	1,052
At 31 December 2017	3,445	11,507	577	101,451	29,347	146,327
Depreciation						
At 1 January 2017	(3,090)	(5,972)	(577)	(101,451)	(18,234)	(129,324)
Charge for year	(60)	(900)	—	—	(1,869)	(2,829)
At 31 December 2017	(3,150)	(6,872)	(577)	(101,451)	(20,103)	(132,153)
Net book value						
At 31 December 2017	295	4,635	—	—	9,244	14,174
At 31 December 2016	355	4,621	—	—	10,975	15,951

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****12. Trade and other debtors**

	2017	2016
		As restated
	£000	£000
Amounts falling due within one year:		
Amounts owed by group undertakings	116,817	113,407
Prepayments and accrued income	77,000	80,453
Other debtors	4,166	4,415
	197,983	198,275

Certain balances earlier reported under 'prepayments' have been reclassified to 'other debtors' on the basis of nature of the receivable. Accordingly, the comparative balances have also been restated.

13. 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.

14. Trade and other creditors

	2017	2016
	£000	£000
Amounts falling due within one year:		
Amounts owed to group undertakings	78,075	68,712
Taxation and social security	16,950	17,037
Other creditors	2,985	3,009
Accruals and deferred income	126,433	120,530
	224,443	209,288

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.

15. Provisions for liabilities and charges

	Balance as at 1 January 2017 £000	Utilised in the year £000	Released in the year £000	Provided in the year £000	Balance as at 31 December 2017 £000
Restructuring Costs	3,055	14	(2,512)	194	751

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Restructuring 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. The liabilities will be utilised over the period of leases outstanding, which in some cases is in excess of 2 years.

16. Share-based payments

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

(i) Prudential Long term Incentive Plan (PLTIP)

The PLTIP is a conditional share plan: the shares which are awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses and performance cannot be retested. The performance conditions attached to PLTIP awards are: Relative Total Shareholder Return (TSR) (50 per cent of award); and Group IFRS profit (50 per cent of award), or Business unit IFRS profit (50 per cent of award). The performance conditions attached to each award are dependent on the role of the participants. The Relative TSR is measured over three years. The TSR is measured against a peer group of international insurers (currently 18) which are similar to Prudential in size, geographic footprint and products. IFRS profit is the three year cumulative IFRS operating profit assessed at Group or business unit level. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three year business plan.

(ii) Savings related options

The Company participates in share option schemes satisfied by the issue of new shares: 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). These schemes allow all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Participants can elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. 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.

(iii) Share Incentive Plan

UK-based executive directors and employees are also eligible to participate in the Company's HMRC approved Share Incentive Plan (SIP). All UK-based employees are able to purchase shares of Prudential plc up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded, purchased by Prudential 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, or leaves the Group, matching shares are forfeited.

(iv) Annual Incentive Plan

Certain senior executives have Annual Incentive Plans (AIP) with awards paid in cash up to the target level of their plan. The portion of any award for above-target performance is made in the form of awards of shares deferred for three years, with the release of shares subject to close periods. The shares are held in the employee share trust and shares equivalent to dividends otherwise payable will accumulate for the benefit of award holders during the deferral period up to the release date.

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****(v) Group Performance Share Plan (GPSP) and Business Unit Performance Plan (BUPP)**

Prior to the approval of the PLTIP, the GPSP and the BUPP were the principal long-term incentive plans operated for executive directors and senior executives. The GPSP and BUPP are conditional share plans: the shares which were awarded will be released to participants to the extent that performance conditions have been met, over the three-year performance period. The performance measure for the awards is that Prudential's Total Shareholder Return (TSR) outperforms an index comprising of peer companies.

The weighted average share price of Prudential plc for the year ended 31 December 2017 was £17.49 compared to £13.56 for the year ended 31 December 2016.

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2017:

Range of exercise prices	Outstanding			Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £4 and £5	—	—	—	—	—
Between £6 and £7	7,347	0.41	6.29	7,347	6.29
Between £9 and £10	23,260	1.41	9.01	—	—
Between £11 and £12	944,555	2.19	11.16	38,749	11.55
Between £14 and £15	395,479	3.70	14.55	—	—
Total	1,370,641	2.61	12.07	46,096	10.71

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2016:

Range of exercise prices	Outstanding			Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £4 and £5	14,309	0.41	4.66	14,309	4.66
Between £6 and £7	51,092	1.41	6.29	—	—
Between £9 and £10	45,250	1.73	9.01	15,536	9.01
Between £11 and £12	1,346,746	2.89	11.22	—	—
Total	1,457,397	2.78	10.92	29,845	6.92

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

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****17. Share capital**

	2017 £000	2016 £000
Ordinary shares		
Issued and fully paid:		
35,820,001 ordinary shares of £1 each	35,820	35,820

There has been no change in the ordinary share capital during the year.

Preference shares

Issued and fully paid:		
7,210,000 preference shares of £1 each	7,210	7,210

There has been no change in the preference share capital during the year.

Total Issued and Paid Share Capital	43,030	43,030
--	---------------	---------------

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 trade and other creditors of the Company or proposed receivership, administrative receivership or administration of 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.

18. Profit and loss account

	2017 £000	2016 £000
Balance as at 1 January	9,858	12,607
Profit/(loss) for the year	1,849	(2,749)
Balance as at 31 December	11,707	9,858

19. Capital contribution

	2017 £000	2016 £000
Balance as at 1 January	22,181	14,982
Contribution for the year	974	7,199
Balance as at 31 December	23,155	22,181

Capital contribution represents the capital reserve in respect of share-based payment created during the year in accordance with IFRS 2 *Share-based Payment*.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

20. Operating lease commitments

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

The Company leases office and ancillary space at Craigforth under a non-cancellable operating lease. The lease is for 50 years, from 1997 to 2047, with tenant-only break options in 2022 and every 5 years thereafter, subject to notice being served 18 to 24 months beforehand. There is no renewal option.

	2017	2016
	£000	£000
Buildings	2,361	2,361

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

	2017	2016
	£000	£000
Over two to five years	2,361	2,361

The Company is committed to the following expenditure as at 31 December 2017:

	2017	2016
	£'000	£'000
General building refurbishment	325	—

21. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 relating to the disclosure of transactions with other wholly owned subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

22. 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.

23. Financial assets and liabilities

A. Financial assets and liabilities - Measurement and Classification

The classification of the Company's financial assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Company's application of IAS 39 *Financial Instruments: Recognition and Measurement* as described further below. Where financial assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Company has followed the principles under IFRS 13 *Fair Value Measurement*. The basis applied is summarised below.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

2017	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Derivative assets	67	—	67	67
Trade and other debtors	—	120,983	120,983	120,983
Cash at bank and in hand	—	85,239	85,239	85,239
Total financial assets	67	206,222	206,289	206,289

	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Trade and other creditors	—	207,493	207,493	207,493
Total financial liabilities	—	207,493	207,493	207,493

2016	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value
As restated	£000	£000	£000	£000
Derivative assets	1,142	—	1,142	1,142
Trade and other debtors	—	117,822	117,822	117,822
Cash at bank and in hand	—	75,626	75,626	75,626
Total financial assets	1,142	193,448	194,590	194,590

	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Trade and other creditors	—	192,251	192,251	192,251
Total financial liabilities	—	192,251	192,251	192,251

The numbers above have been restated to exclude prepayments and taxation liabilities as they are not financial instruments.

Determination of fair value

The fair values of the financial assets and liabilities as included in the table above have been determined on the following bases.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

The estimated fair value of the derivative financial instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The fair value is determined based on the estimated value if a contract of a similar nature was purchased on the reporting date.

Fair value measurement hierarchy of financial assets and liabilities

Financial assets and liabilities carried at fair value on the balance sheet:

The table below includes financial instruments carried at fair value analysed by level of the IFRS 13 *Fair Value Measurement* defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

The classification criteria and its application to the Company can be summarised as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 - inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 principally includes investments which are internally valued or subject to a significant number of unobservable assumptions.

2017

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Derivative assets	—	67	—	67
Total financial investments, net of derivative liabilities	—	67	—	67
Percentage of total (%)		100		100

2016

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Derivative assets	—	1,142	—	1,142
Total financial investments, net of derivative liabilities	—	1,142	—	1,142
Percentage of total (%)		100		100

A fair value hierarchy has not been produced for items held at amortised cost where a fair value is disclosed because the carrying value approximates to the fair value

Market Risk

The financial assets and liabilities attaching to the Company's business are, to varying degrees, subject to market risk that may have a material effect on the profit or loss and shareholders' funds.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)**

Market risk arises from:

- Interest rate risk: due to changes in market interest rates,
- Currency risk: due to changes in foreign exchange rates, and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's financial assets or liabilities are analysed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure.

2017	Fair value interest rate risk £000	Cash flow interest rate risk £000	Not directly exposed to interest rate risk £000	Total £000
Financial Assets				
Derivative assets	—	—	67	67
Trade and other debtors	—	82,590	38,393	120,983
Cash at bank and in hand	—	85,239	—	85,239
	—	167,829	38,460	206,289
Financial Liabilities				
Trade and other creditors	—	—	207,493	207,493
	—	—	207,493	207,493
2016	Fair value interest rate risk £000	Cash flow interest rate risk £000	Not directly exposed to interest rate risk £000	Total £000
As restated				
Financial Assets				
Derivative assets	—	—	1,142	1,142
Trade and other debtors	—	81,885	35,937	117,822
Cash at bank and in hand	—	75,626	—	75,626
	—	157,511	37,079	194,590
Financial Liabilities				
Trade and other creditors	—	—	192,251	192,251
	—	—	192,251	192,251

The numbers above have been restated to exclude prepayments and taxation liabilities as they are not financial instruments.

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****Sensitivity to interest rate movements**

The results of the Company are not materially sensitive to interest rate movements.

Currency risk

The Company has currency risk arising from payments to be made in other currencies. The risk is hedged by entering into forward contracts.

Other price risk

The Company is not exposed to any other price risk as it does not have any exposure to equity or investment property.

Liquidity Analysis**(i) Contractual maturities of financial liabilities**

The following tables set out the contractual maturities and repricing dates for applicable classes of financial liabilities, excluding derivative liabilities which are separately presented. The financial liabilities are included in the column relating to the contractual maturities and repricing dates at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

2017	1 year or less	After 1 year to 5 years	After 5 year to 10 years	Total undiscounted cashflows	Total carrying value
	£000	£000	£000	£000	£000
Financial Liabilities					
Trade and other creditors	207,493	—	—	207,493	207,493
	207,493	—	—	207,493	207,493

2016	1 year or less	After 1 year to 5 years	After 5 year to 10 years	Total undiscounted cashflows	Total carrying value
As restated	£000	£000	£000	£000	£000
Financial Liabilities					
Trade and other creditors	192,251	—	—	192,251	192,251
	192,251	—	—	192,251	192,251

The numbers above have been restated to exclude taxation liabilities as they are not financial instruments.

(ii) Maturity analysis of derivatives and investment contracts

The following table provides a maturity analysis of derivative assets and liabilities:

2017	Total carrying value	1 year or less	Total
	£000	£000	£000
Net derivative position	67	67	67

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

2016	Total carrying value	1 year or less	Total
	£000	£000	£000
Net derivative position	1,142	1,142	1,142

The net derivative positions as shown in the table above comprise the following derivative assets and liabilities:

	2017 £000	2016 £000
Derivative assets	67	1,142
Derivative liabilities	—	—
Net derivative position	67	1,142

The derivative assets and liabilities have been included at fair value within the "1 year" column representing the basis on which they are managed (i.e. to manage principally asset or liability value exposures).

24. Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk factors affecting the Company are described below together with details of the management of the risks.

(a) Credit risk

Credit risk is the risk of loss to the Company or of adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, 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.

The Company is covered by the GRF and the supporting policies for managing risk within the Group and, in accordance, has a defined liquidity appetite with associated triggers and limits. This risk is managed through careful management of bank balances and cash-flow forecasting.

(c) Market risk

Market risk is the risk of loss, or of adverse change in the financial situation, resulting directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.

The Company has limited exposure to market risk. The exposure arises from fluctuations in interest rates pertaining to the intra-group loans granted by the Company and currency risk arising from payments to be made in other currencies.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

25. Capital requirements and management

As stipulated in MIPRU rule 4.2.11R, the Company is required to maintain capital resources equivalent to the higher of £5k and an amount equivalent to 2.5% the annual income from its insurance mediation activity or home finance mediation activity (or both).

The Company is a B3 firm as defined under IPRU(INV). As stipulated under the rule 13.13.3, the Company is required to maintain capital resources equivalent to the higher of:

- i) £20k
- ii) 5% of the annual income from the firm's retail investment business, and
- iii) The capital resources calculated under MIPRU rule 4.2.

In addition to the above requirements the Company is also required to maintain additional capital of £3,440k to meet the Professional Indemnity Insurance (PII) requirements based on the IPRU (INV) rules. The Company relies on a Group Policy to meet the PII requirements. The additional capital requirement is based on the excess on the PII policy and the level of annual income.

As at 31 December 2017, the minimum regulatory capital requirement of the Company was £5,738k (2016: £4,424k) including the additional capital of £3,440k to meet the PII requirements. The Company had capital resources amounting to £77,892k (2016: £75,069k) to meet the capital requirement.

26. Post balance sheet note

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business ("M&G Prudential") from Prudential plc, resulting in two separately-listed companies. The Company forms part of M&G Prudential.

In April 2018, a fellow Group company novated a finance lease contract to the Company. This will result in the transfer of approximately £14m of company car assets onto the 2018 balance sheet, with a corresponding finance lease liability. The effect on profit will not be material, as costs are recharged onto the fellow Group company and the income will either match or be at a slight margin above the costs incurred.

As at the date of signing these financial statements, a fellow group company is on the point of novating a finance lease contract to the Company. This will result in the transfer of approximately £14m of company car assets onto the 2018 balance sheet, with a corresponding finance lease liability. The effect on profit will not be material, as costs are recharged onto the fellow group companies and the income will either match or be at a slight margin above the costs incurred.