

Registered No: SC212640

PRUDENTIAL DISTRIBUTION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

C Bousfield
R Thomson
S Moffatt (resigned on 31 January 2018)

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG LLP, London

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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. This activity is expected to continue in 2019.

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 DST Financial Services International Services Limited (previously known as International Financial Data Services Limited) for providing various operational support services. The Company also earns fees on a collective investment fund arrangement with Link Fund Solutions Limited (2017: Capita Financial Managers Limited).

In August 2017, Prudential plc, the Company's ultimate parent, brought together M&G, the investment management business, with Prudential's UK and European life insurance business ("Prudential UK"), of which the Company forms a part, to create M&GPrudential. The Company is part of M&GPrudential, the UK and European savings and investments business of Prudential plc.

In March 2018 Prudential plc announced its intention to demerge M&GPrudential from Prudential plc, resulting in two separately-listed companies, with different investment characteristics and opportunities. M&GPrudential is one of the savings and asset management businesses in the UK and Europe. M&GPrudential 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&GPrudential 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 has been made in a five-year business modernisation programme which is now well advanced. As this Company is the main service company for Prudential UK, the transformation programme will enhance operational efficiency.

On 26 November 2018 the legal ownership of the parent company, Prudential Financial Services Limited (PFSL), was transferred from its previous parent company Prudential plc to a new holding company M&G Prudential Limited. M&G Prudential Limited is a subsidiary of Prudential plc. The ultimate parent of the Company therefore remains Prudential plc, a public limited company, limited by shares, incorporated and registered in England and Wales and the parent company of the Prudential group ('the Prudential Group' or 'the Group').

Key Performance Indicators	2018	2017	Change
	£000	£000	%
Turnover	811,477	686,801	18
Operating expenses	(805,584)	(684,056)	(18)
Profit before tax	7,147	2,527	183
Shareholders' funds	85,635	77,892	10
Regulatory capital requirement (higher of IPRU INV and MIPRU requirements- see below)	5,385	5,738	(6)

The Company generated a pre-tax profit of £7,147k during the year (2017: £2,527k). The income earned from recharges of management expenses increased in line with an increase in the related expenses. The profit earned on provision of services to third parties increased from £2,513k in 2017 to £2,829k in 2018 following contract changes effective from July 2017. The Company reported a higher loss of £2,261k compared to £1,107k on the collectives arrangement in 2018

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

primarily on account of an increase in fund management expenses. Further, the profits for 2018 increased due to lower share-based compensation expenses retained by the Company and an unrealised gain of £353k on the valuation of forward currency derivative contracts (2017: unrealised loss of £1,075k).

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 hold additional capital of £3,440k to meet the professional indemnity requirement.

Risks & uncertainties

The Company, a wholly owned subsidiary of the Prudential Group, 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 the 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 22.

Non-financial risk

The Company has a limited exposure to business environment, strategic, reputational, 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, which in some circumstances may be applied retrospectively, 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 merger of M&G and Prudential UK and de-merger from Prudential plc, along with the

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

transformation strategy, will 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.

c) Reputational risk

Reputational risk is the risk of loss resulting from failure to proactively monitor stakeholder perceptions and effectively respond to events which may impact the Company's reputation.

A number of external events during 2018 provided a reminder of the potential for reputational damage, and the merger, demerger and transformation activities increase exposure to reputation risk for the Company. The anticipated Product Administration System (IT) migrations and increasing use of outsourcing and Cloud-based technologies pose a material threat to the Company's reputation if mishandled, due to the level of customer data potentially impacted and the visibility externally. Reputational risk considerations are also an important part of the Company's management of Environmental, Social and Governance issue.

d) Conduct risk

Conduct risk is risk that arises 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.

e) 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. operation of systems and financial reporting activity) and people. The strategic and transformational changes may change the operational risk profile of the business and additional exposure is anticipated as M&G Prudential rolls out its strategic merger and transformation ambitions and demerges from Prudential plc.

Specific examples of such potential additional operational risk exposures include:

- Control Environment: The strategic and transformational changes to products, systems and outsourcers will all change the operational risk profile of the business;
- Outsourcer/supplier risk: as part of transformation, there is an existing and growing dependency on third parties for critical activities such as customer engagement, and technology; and
- Technology risk: The business has a high dependency on technology to operate effectively and deliver its Business Plan, with the maintenance, integrity and resilience of IT infrastructure and applications being paramount to meeting business and customer needs.

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;
- scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events;

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

- internal and external review of cyber security;
- regular testing of elements of the business continuity and disaster recovery plans; and
- robust structural risk challenge, oversight and reporting of merger, transformation and demerger activity.

f) 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 financial strength, technical expertise and management experience. It can also give rise to risks; for example, 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. This is particularly important given the planned de-merger.

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



M Seebaluck
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
23 May 2019

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

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).

Ultimate parent company

On 26 November 2018 the legal ownership of the parent company, Prudential Financial Services Limited (PFSL), was transferred from its previous parent company Prudential Plc to a new holding company M&G Prudential Limited. M&G Prudential Limited is a subsidiary of Prudential Plc. The ultimate parent of the Company therefore remains Prudential plc, a public limited company, limited by shares, incorporated and registered in England and Wales and the parent company of the Prudential group ('the Prudential Group' or 'the Group').

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 organisations 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.

PRUDENTIAL DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

Accounts

The state of affairs of the Company at 31 December 2018 is shown in the statement of financial position on page 13. The statement of comprehensive income appears on page 12.

Post Balance sheet events

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

Dividends

No dividends were declared or paid during the year (2017: Nil).

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 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.

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 22.

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

PRUDENTIAL DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

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



M Seebaluck
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
23 May 2019

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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

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 are 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, and 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.

PRUDENTIAL DISTRIBUTION LIMITED

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

Opinion

We have audited the financial statements of Prudential Distribution Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity 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 2018 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.

Other matter

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the strategic report and the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

PRUDENTIAL DISTRIBUTION LIMITED

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

Our responsibility is to read the other information 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 other information;
- in our opinion the information given in the strategic report and the directors' report 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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.

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
23 May 2019

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	2017	Note
	£000	£000	
Operating income	811,477	686,801	3
Staff costs	(228,059)	(221,850)	4
Other operating charges	(577,525)	(462,206)	5
Operating expenses	(805,584)	(684,056)	
Operating profit	5,893	2,745	
Interest income	1,827	1,380	6
Interest expense	(926)	(523)	7
Unrealised gains/(loss) on derivatives	353	(1,075)	8
Profit before tax	7,147	2,527	
Tax charge on profit	(1,748)	(678)	11
Profit for the financial year	5,399	1,849	

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

The accounting policies on pages 15 to 19 along with accompanying notes on pages 19 to 34 form an integral part of these financial statements.

PRUDENTIAL DISTRIBUTION LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	2018	2017	Note
	£000	£000	
Fixed assets			
Tangible fixed assets	26,620	14,174	12
Non-current assets			
Deferred tax asset	8,458	8,232	11
Current assets			
Derivative assets	419	67	
Trade and other debtors	209,879	197,983	13
Corporation tax receivable	2,978	—	
Cash at bank and in hand	107,739	85,239	14
	<u>321,015</u>	<u>283,289</u>	
Current liabilities			
Trade and other creditors: amounts falling due within one year	(261,831)	(224,443)	15
Corporation tax payable	—	(2,609)	
Net current assets	<u>59,184</u>	<u>56,237</u>	
Total assets less current liabilities	<u>94,262</u>	<u>78,643</u>	
Trade and other creditors: amounts falling due after one year	(7,909)	—	16
Provision for liabilities and charges	(718)	(751)	17
	<u>(8,627)</u>	<u>(751)</u>	
Net assets	<u>85,635</u>	<u>77,892</u>	
Capital and reserves			
Ordinary share capital	35,820	35,820	19
Preference share capital	7,210	7,210	19
Retained earnings	17,106	11,707	
Capital reserve	25,499	23,155	
Shareholders' funds	<u>85,635</u>	<u>77,892</u>	

The accounting policies on pages 15 to 19 along with accompanying notes on pages 19 to 34 form an integral part of these financial statements.

The accounts were approved by the board of directors on 23 May 2019.



C Bousfield
Director

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called Up Share Capital £000	Profit and Loss Account £000	Capital Reserves £000	Total Equity £000
Balance at 1 January 2017	43,030	9,858	22,181	75,069
Increase in capital reserve during the year	—	—	974	974
Profit for the financial year	—	1,849	—	1,849
Total comprehensive income for the year	—	1,849	—	1,849
Balance at 31 December 2017	<u>43,030</u>	<u>11,707</u>	<u>23,155</u>	<u>77,892</u>
Balance at 1 January 2018	43,030	11,707	23,155	77,892
Increase in capital reserve during the year	—	—	1,143	1,143
Deferred tax credited to capital reserve	—	—	704	704
Current tax credited to capital reserve	—	—	497	497
Profit for the financial year	—	5,399	—	5,399
Total comprehensive income for the year	—	5,399	—	5,399
Balance at 31 December 2018	<u>43,030</u>	<u>17,106</u>	<u>25,499</u>	<u>85,635</u>

Capital reserve represents the reserve in respect of share-based payment in accordance with IFRS 2 *Share-based Payment*.

The accounting policies on pages 15 to 19 along with accompanying notes on pages 19 to 34 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. The address of its registered office is Craigforth, Stirling, FK9 4UE.

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.

IFRS 9 *Financial Instruments* (IFRS 9) sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard is effective from 1 January 2018 and replaces IAS 39 *Financial Instruments : Recognition and Measurement*. The adoption of IFRS 9 did not result in any material impact on the 1 January 2018 opening balance of retained earnings.

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) sets out the requirements for recognising and measuring revenue. This standard is effective from 1 January 2018 and replaces IAS 18 *Revenue*. The adoption of IFRS 15 did not result in any impact on the opening balance of retained earnings or affect accounting for revenue as from 1 January 2018.

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, 1 Angel Court, London EC2R 7AG.

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; and
- Disclosures in respect of revenue from contracts with customers.

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.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 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. Financial instruments - recognition and measurement

Financial assets - Policy applicable from 1 January 2018

Recognition and initial measurement

A financial asset is initially measured at fair value plus, for a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at either amortised cost or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not recognised as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that do not meet the criteria for being measured at amortised cost, as described above, are measured at FVTPL. This includes assets that are held for trading or are part of a portfolio that is managed on a fair value basis. Derivatives are included in this category.

Financial assets are not reclassified subsequent to their initial recognition unless the entity changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities - Policy applicable from 1 January 2018

Financial liabilities are classified as measured at amortised cost (using the effective interest method) or FVTPL. A financial liability is classified as at FVTPL if it is held-for-trading or a derivative. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Financial instruments - Policy applicable before 1 January 2018

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.

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.

E. Financial instruments - Impairment

Financial assets impairment - Policy applicable from 1 January 2018

Impairment is recognised on financial assets measured at amortised cost based on expected credit losses (ECL). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive).

The impact of any collateral and financial guarantees is taken into account when determining ECL.

ECLs are discounted at the effective interest rate of the financial asset.

A financial instrument is considered to have low credit risk where it has an external credit rating of 'investment grade'. The entity has determined that the cash balances and deposits with credit institutions are considered to have low credit risk and therefore impairment is based on a twelve month ECL for these assets.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs, where material.

Financial assets impairment - Policy applicable before 1 January 2018

Loans and receivables 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.

F. Revenue recognition

Revenue recognition - Policy applicable from 1 January 2018

Operating income, comprising recharge of administration and distribution expenses to group companies and administration fees and other income received from third parties is recognised when the Company satisfies the related performance obligation, in accordance with IFRS 15 *Revenue from contracts with customers*.

Interest receivable is recognised on an accruals basis.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Revenue recognition - Policy applicable before 1 January 2018

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 recognised on an accruals basis.

Interest payable by the Company is recognised 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 plant assets)

I. Leases

Rents payable under operating leases are charged to the profit or loss account as incurred over the lease term.

Leases of tangible fixed assets that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 fair value 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 comprehensive income over the plans' respective vesting periods.

2. Transition to IFRS 9

(i) Classification and measurement

Under IFRS 9, the Company classifies its financial assets at FVTPL and amortised cost. For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 1D.

The following table shows the original measurement category and carrying amount under IAS 39 and the new measurement category and carrying amount under IFRS 9 for each class of financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amounts under IFRS 9
			£'000	£'000
Derivative assets	FVTPL	FVTPL	67	67
Trade and other debtors	Loans and receivables	Amortised cost	197,983	197,983
Cash at bank and in hand	Loans and receivables	Amortised cost	85,239	85,239
Total financial assets			<u>283,289</u>	<u>283,289</u>
Trade and other creditors	Loans and receivables	Amortised cost	224,443	224,443
Total financial liabilities			<u>224,443</u>	<u>224,443</u>

Cash balances and trade and other debtors that were classified as loans and receivables under IAS 39 are now classified at amortised cost. There have been no reclassifications of financial assets out of FVTPL to the amortised cost category as a result of transition to IFRS 9.

The adoption of IFRS 9 did not result in any changes to the carrying value of financial assets.

(ii) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss (ECL) model. The new impairment

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The adoption of IFRS 9 did not result in a material change to the amount of impairment losses recognised.

3. Operating income

	2018	2017
	£000	£000
Income earned from recharges to group undertakings	776,863	655,082
Income earned from third party contracts	34,614	31,719
	811,477	686,801

4. Staff costs

	2018	2017
	£000	£000
Wages and salaries	174,049	172,461
Other pension costs	28,460	25,470
Social security costs	20,737	21,067
Share based payment expenses	4,813	2,852
Total	228,059	221,850

	Number	Number
Average number of employees during the period	1,859	2,055

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 (based on total numbers in the scheme), a defined benefit scheme. This scheme was closed to new employees on 31 July 2003. Employees after this date are enrolled in the defined contribution section of the scheme. At 31 December 2018, the underlying PSPS liabilities account for 83% (2017: 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).

Both schemes are group pension schemes, whereby the costs associated with them are shared across different entities under common control. The Company is the principal employer of SASPS. The contributions into both 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.

The surplus in PSPS and the deficit in SASPS are apportioned in accordance with IAS 19 *Employee benefits*, by way of stated policy:

70% of the surplus in PSPS is allocated to the with-profits fund of The Prudential Assurance Company Limited (PAC), a fellow group undertaking and 30% is allocated to Prudential plc, the ultimate parent company.

40% of the deficit and related costs of SASPS is allocated to the with-profits fund of PAC, a fellow group undertaking and 60% is allocated to Prudential Financial Services Limited, the immediate parent company.

PAC has provided a guarantee to SASPS, subject to a limit of £270m, on behalf of the principal employer and other participating employing entities, should the employing entities fail to meet their payment obligations in respect of the scheme.

Further details of the pension schemes operated by the Company are disclosed in the accounts of PAC and Prudential plc.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

5. Other operating charges

	2018	2017
	£000	£000
Management expenses	543,763	432,614
Expenses attributable to third party contracts	33,762	29,592
	<u>577,525</u>	<u>462,206</u>

6. Interest income

	2018	2017
	£000	£000
Bank interest recharged/received	85	26
Policyholder interest recharged	325	127
Company car interest recharged	238	110
Other interest income	1,179	1,117
	<u>1,827</u>	<u>1,380</u>

The income is not earned from financial assets, other than the bank interest income.

7. Interest expense

	2018	2017
	£000	£000
Bank interest expenses/recharges	61	21
Policyholder interest	325	127
Company car interest	244	115
Other interest recharges	296	260
	<u>926</u>	<u>523</u>

8. Unrealised gains/(losses) on derivatives

	2018	2017
	£000	£000
Unrealised gains/(losses) on valuation of forward contracts	353	(1,075)

Unrealised gains/(losses) are derived from the financial assets and financial liabilities at FVPTL. The Company enters into forward contracts to sell Sterling and buy Indian Rupees, to pay invoices denominated in Indian Rupees.

9. Auditor's remuneration

Auditor's remuneration amounts to £40k (2017: £37k) in respect of the audit of the Company's financial statements. No non-audit services were provided to the Company by the auditor in 2018 or 2017.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

10. Directors' emoluments

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

	2018	2017
	£000	£000
Aggregate emoluments and benefits	<u>3</u>	<u>3</u>

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.

11. Tax

a) Tax charged

	2018	2017
	£000	£000
Current tax:		
Current period corporation tax at effective rate of 19.00% (2017: 19.25%)	(1,825)	(1,233)
Adjustments in respect of prior years	555	(622)
Total current tax charge on ordinary activities	<u>(1,270)</u>	<u>(1,855)</u>
Deferred tax :		
Origination and reversal of temporary differences	(1,368)	(716)
Adjustment in respect of prior periods	890	1,893
Total deferred tax (charge)/ credit	<u>(478)</u>	<u>1,177</u>
Total tax charge on ordinary activities	<u>(1,748)</u>	<u>(678)</u>
	2018	2017
	£000	£000
Tax recorded in the Capital Reserve :		
Corporation tax in respect of current year	203	—
Deferred tax in respect of current year	(26)	—
Adjustment to corporation tax in respect of previous years	294	—
Adjustment to deferred tax in respect of previous years	730	—
Total tax credit recorded in the Capital Reserve	<u>1,201</u>	<u>—</u>

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)**

	2018	2017
	£000	£000
Profit on ordinary activities before tax	<u>7,147</u>	<u>2,527</u>
Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(1,358)	(486)
Effects of		
Permanent differences	(1,024)	(2,583)
Adjustments to current tax in respect of previous years	555	(622)
Adjustments to deferred tax in respect of previous years	890	1,893
Tax (charge)/credit in relation to share based payments	(823)	930
Change of tax rate of deferred tax	116	190
Transfer pricing	(104)	—
Total tax charge for the year	<u>(1,748)</u>	<u>(678)</u>

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce any future current tax charge for the company accordingly.

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

c) Balance Sheet

	2018	2017
	£000	£000
Deferred tax asset explained by:		
Accelerated capital allowances	5,708	6,552
Unrealised gains on derivatives	(175)	—
Staff remuneration	1,389	(268)
Share based expenses	1,536	1,948
Total	<u>8,458</u>	<u>8,232</u>
	2018	2017
	£000	£000
Deferred tax asset at start of period	8,232	7,055
Deferred tax credited to capital reserve	704	—
Deferred tax charged in profit and loss account for the period	(478)	1,177
Deferred tax asset at end of period	<u>8,458</u>	<u>8,232</u>

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

12. Fixed assets

	Fixtures and Fittings	Plant and Machinery	Motor Vehicles	Computer Equipment	Buildings and Improvements	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2018	3,445	11,507	577	101,451	29,347	146,327
Additions	—	1,269	21,818	—	—	23,087
Disposals	—	—	(5,804)	—	—	(5,804)
At 31 December 2018	3,445	12,776	16,591	101,451	29,347	163,610
Depreciation						
At 1 January 2018	(3,150)	(6,872)	(577)	(101,451)	(20,103)	(132,153)
Charge for year	(61)	(1,027)	(2,371)	—	(1,866)	(5,325)
Disposals	—	—	488	—	—	488
At 31 December 2018	(3,211)	(7,899)	(2,460)	(101,451)	(21,969)	(136,990)
Net book value						
At 31 December 2018	234	4,877	14,131	—	7,378	26,620
At 31 December 2017	295	4,635	—	—	9,244	14,174

During the year the Company entered into an agreement to lease motor vehicles. The lease arrangement is accounted for as a finance lease based on its terms and conditions. The leased cars secure lease obligations. At 31 December 2018, the net book value of leased cars was £13,020k (2017: Nil). This forms part of the motor vehicles balance in the above table.

13. Trade and other debtors

	2018	2017
	£000	£000
Amounts falling due within one year:		
Amounts owed by group undertakings	126,085	116,817
Prepayments and accrued income	79,334	77,000
Other debtors	4,460	4,166
	209,879	197,983

14. 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.

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****15. Trade and other creditors : amounts falling due within one year**

	2018	2017
	£000	£000
Amounts owed to group undertakings	72,171	78,075
Taxation and social security	14,163	16,950
Other creditors	4,005	2,985
Accruals and deferred income	166,085	126,433
Finance lease liability	5,407	—
	<u>261,831</u>	<u>224,443</u>

The Company's standard contractual payment terms for all qualifying contracts are payments within 30 days after the invoice date.

16. Trade and other creditors : amounts falling due after one year

	2018	2017
	£000	£000
Finance lease liability	<u>7,909</u>	—

During the year the Company entered into an agreement to lease motor vehicles. The lease arrangement is accounted for as a finance lease based on its terms and conditions. The leased cars secure lease obligations. The total finance lease liability of £13,316k is payable as follows:

2018	Future minimum payments	Future finance charges	Present value of future minimum payments
	£000	£000	£000
Less than one year	6,392	985	5,407
Between one to five years	8,806	897	7,909
Total	<u>15,198</u>	<u>1,882</u>	<u>13,316</u>

17. Provisions for liabilities and charges

	Balance as at 1 January 2018	Utilised in the year	Released in the year	Provided in the year	Balance as at 31 December 2018
	£000	£000	£000	£000	£000
Restructuring Costs	751	—	(33)	—	718

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 are expected to be paid within the next three years.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

18. Share-based payments

The Company participates in the following plans relating to Prudential plc shares:-

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. Restricted Share Plan (RSP)

The Company allots RSP to certain employees. The grant of awards are subject to performance targets measured for normally a minimum period of a year beginning either with the Grant Date or with the start of the financial year of the Company in which the Award is granted. All awards are made in Prudential shares. The share awards will vest four years from the point of the award.

iii. Share Incentive Plan (SIP)

UK-based executive directors and employees are also eligible to participate in the Company's HM Revenue & Customs (HMRC) approved 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 (AIP)

Certain senior executives have 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.

For share awards granted under PLTIP, RSP, SIP and AIP, the Company has the obligation to reimburse Prudential plc to settle the share awards to the employees, therefore these are accounted for as cash-settled awards.

v. Saving 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 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

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

granted in the preceding 10 years under the scheme and other share option schemes operated by Prudential plc, or which have been issued under any other share incentive scheme of Prudential plc, to exceed 10 per cent of the Prudential plc's ordinary share capital at the proposed date of grant.

For share options granted under SAYE scheme, the ultimate parent company (Prudential plc) has the obligation to settle and are accounted for as equity-settled.

Average share price of Prudential plc for the year ended 31 December 2018 was £16.78 compared to £17.49 for the year ended 31 December 2017.

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2018:

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 £9 and £10	9,265	0.41	9.01	9,265	9.01
Between £11 and £12	572,855	1.59	11.16	93,837	11.11
Between £14 and £15	334,247	2.71	14.55	—	—
Total	916,367	1.98	—	103,102	10.92

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 £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 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)

19. Share capital

	2018	2017
	£000	£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 are only redeemable at the option of the Company. The preference shares do not confer any further right of participation in the profits or assets of the Company. On the redemption of the preference shares the nominal amount of the preference shares will be redeemed to the members of the Company along with the amount of any preference dividend accrued on such shares. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares.

20. Operating lease commitments

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 at regular intervals, subject to notice being served 18 to 24 months beforehand. There is no renewal option.

During the year the Company leased offices in Edinburgh and Reading under non-cancellable operating leases. The Edinburgh lease runs for three years, from May 2018 to 2021 and the Reading lease runs for five years, from March 2018 to 2023.

Included within the other operating charges for the year are rental payments on operating leases for property as below:

	2018	2017
	£000	£000
Buildings	4,325	2,361

Operating lease commitments payable (solely representing leases on land and building) are as follows:

	2018	2017
	£000	£000
Less than one year	4,038	2,405
One to five years	7,253	8,470
	11,291	10,875

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

The Company is committed to the following expenditure as at 31 December 2018:

	2018	2017
	£000	£000
General building refurbishment	442	325

21. Financial assets and financial liabilities

A. Financial assets and financial liabilities - Measurement and Classification

For financial investments the basis of valuation reflects the Company's application of IFRS 9 *Financial Instruments* (2017: IAS 39 *Financial Instruments: Recognition and Measurement*).

Financial assets and financial liabilities are measured at either fair value through profit or loss or amortised cost.

Where financial assets and financial 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.

2018	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Derivative assets	419	—	419	419
Trade and other debtors	—	130,545	130,545	130,545
Cash at bank and in hand	—	107,739	107,739	107,739
Total financial assets	419	238,284	238,703	238,703
2018	Fair value through profit or loss	Amortised Cost	Total carrying value	Fair value
	£000	£000	£000	£000
Trade and other creditors	—	242,261	242,261	242,261
Total financial liabilities	—	242,261	242,261	242,261
2017	Fair value through profit or loss	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

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

2017	Fair value through profit or loss	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

Determination of fair value

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

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 financial liabilities

Financial assets and financial 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.

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative assets	—	419	—	419
Total financial investments	—	419	—	419
Percentage of total (%)	—	100	—	100
2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative assets	—	67	—	67
Total financial investments	—	67	—	67
Percentage of total (%)	—	100	—	100

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 financial 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.

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 financial liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's financial assets or financial 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.

2018	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
Financial Assets				
Derivative assets	—	—	419	419
Trade and other debtors	—	74,729	55,816	130,545
Cash at bank and in hand	—	107,739	—	107,739
	—	182,468	56,235	238,703
Financial Liabilities				
Trade and other creditors	—	—	242,261	242,261
	—	—	242,261	242,261
2017				
	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£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

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. The Company enters into forward contracts to sell Sterling and buy Indian Rupees, to pay invoices denominated in Indian Rupees.

Other price risk

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

Liquidity Analysis

(i) Contractual maturities of financial liabilities

The following tables set out the contractual maturities for applicable classes of financial liabilities.

2018	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	242,261	—	—	242,261	242,261
	242,261	—	—	242,261	242,261

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

(ii) Maturity analysis of derivatives

The following table provides a maturity analysis of derivative assets:

2018	Total carrying value	1 year or less	Total
	£000	£000	£000
Derivative assets	419	419	419

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

2017	Total carrying value	1 year or less	Total
	£000	£000	£000
Derivative assets	67	67	67

The derivative assets 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).

22. Financial risk management

The Company is exposed to financial risk through its financial assets and financial 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.

Impairment methodology

The impairment allowance calculation is based on Prudential Group's counterparty default risk calibration used for Solvency II. The counterparty default risk uses a default state model and a recovery rate model which is run through 1 million scenarios to generate a probability distribution of losses.

This produces a loss rate reflecting the default losses as a percentage of exposure for various stresses over a 12 month period. These rates have been applied to the balances as at 31 December 2018 to derive the ECL.

The impact of collateral and financial guarantees has been considered, where relevant, in the determination of ECL.

The entity held cash balances of £107,739k at 31 December 2018 (2017: £85,239k). These balances are held with bank and financial institution counterparties, and are considered to have low credit risk.

A 12-month ECL has been calculated in respect of these balances. This reflects the short maturities of the exposures. The entity considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The entity has an outstanding inter-company loan due from its parent company PFSL of £57,863k (2017: £57,052k) and from fellow subsidiary, Prudential UK Services Limited of £4,742k (2017: £4,678k). The loans are repayable on demand with no fixed maturity. For the purposes of calculating impairment losses under IFRS 9, it is assumed that the outstanding balances are called at the reporting date and a lifetime ECL has been calculated in respect of these balances. Reliance has been placed on a letter of support provided by Prudential Plc and the credit risk associated with the guarantor has been considered in the calculation of ECL.

The entity has an outstanding inter-company loan with fellow group undertaking, PGDS (UK One) Limited of £12,124k at 31 December 2018 (2017: £20,860k). The loan is repayable in May 2019. For the purposes of calculating impairment losses under IFRS 9, it is assumed that the outstanding balance is called on reporting date and a lifetime ECL has been calculated in respect of this balance. As the loan is guaranteed by The Prudential Assurance Company Limited, the credit risk associated with the guarantor has been considered in the calculation of ECL.

Other intercompany balances due in the course of trade have also been assessed based on the liquid assets available within the entities that owe amounts to PDL.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

The adoption of IFRS 9 did not result in any material change to the amount of impairment losses recognised.

(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 Group Risk Framework (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.

23. 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 the 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 2018, the minimum regulatory capital requirement of the Company was £5,385k (unaudited) (2017: £5,738k (unaudited)) including the additional capital of £3,440k to meet the PII requirements. The Company had capital resources amounting to £85,635k (2017: £77,892k) to meet the capital requirement.

24. Ultimate and immediate parent company

The immediate parent company is Prudential Financial Services Limited and copies of its accounts are available from the Company Secretary, 10 Fenchurch Avenue, London EC3M 5AG. The ultimate parent company is Prudential plc which is the only parent company which prepares group accounts. Copies of Prudential plc accounts can be obtained from the Company Secretary, 1 Angel Court, London EC2R 7AG.