Registered No. SC176097

PRUDENTIAL UK SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

PRUDENTIAL UK SERVICES LIMITED

Incorporated and registered in Scotland. Registered no. SC176097
Registered office: Craigforth, Stirling, FK9 4UE

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PRUDENTIAL UK SERVICES LIMITED

Directors

The Directors in office during the year were as follows :

Mr A M Crossley
Ms C Lewis
Mr F A O'Dwyer
Mr K Nunn
Mr D J Belsham
Mr J Betteridge
Ms T Naidu

Secretary

Prudential Group Secretarial Services Limited

Independent Auditor

KPMG Audit Plc., London
15 Canada Square
Canary Wharf
London
E14 5GL

PRUDENTIAL UK SERVICES LIMITED

Incorporated and registered in Scotland. Registered no. SC176097
Registered office: Craigforth, Stirling, FK9 4UE

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

Principal activity and business review

The principal activity of Prudential UK Services Limited (the Company) until 31 December 2006 was that of being the Single Service Company for UK Insurance Operations of the Prudential Group (UKIO). On 1 January 2007, the Company transferred its principal activity to Prudential Distribution Limited (PDL), another group company, along with the employment contracts of all UKIO Staff, which were transferred via a Transfer of Undertaking (Protection of Employment) (TUPE), with the exception of a proportion of the employees contributing to the Defined Benefit Pension Scheme. TUPE is an employment law in the UK which ensures that an employee whose employment transfers to another company, has (his/hers) employme nt rights respected.

The Company had entered into licence and loan agreements with Prudential Jersey Limited and Prudential Jersey No.2 Limited in 2003 and 2004 respectively for the purposes of IT development in relation to a currency conversion project. The only activities remaining in the Company are in relation to managing these licence and loan agreements. During the year the loan balance due was written off and these Companies are expected to be liquidated in 2012.

The Company reported a pre-tax profit of £7,460k (2010: pre-tax loss of £2,756k) on its activities during the year. The profit for the year results from adjustments in respect of share based compensation pertaining to share awards and option plans operated by Prudential Plc.

Risks & uncertainties

The Company is a wholly owned subsidiary of the Prudential Group and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual and Group Risk Framework. The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

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

Key risk factors affecting the Company's results and financial condition are mentioned below. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

1) Any business is inherently subject to market fluctuations and general economic conditions. Global financial markets have experienced, and continue to experience, significant volatility brought on, in particular, by concerns over European and US sovereign debt, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments. Given the nature of operations of the Company, it is perceived that the market fluctuations will not have a significant impact on the Company's financial condition.

2) The Company conducts its business subject to regulation and associated regulatory risks, including the effects of changes in laws, regulations, policies and interpretations and accounting standards in the markets in which it operates.

Changes in government policy and legislation (including tax), which in some circumstances may be applied retrospectively, may adversely affect the Company's reported results and financing requirements.

3) Adverse experience in the operational risks inherent in the Company's business could have a negative impact on its results of operations.

Operational risks are present including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events.

4) Changes in tax legislation may result in adverse tax consequences.

Tax rules and their interpretation, may change, possibly with retrospective effect. Significant tax disputes with tax authorities, and any change in the tax status of the Company or in taxation legislation or its scope or interpretation could affect the Company's financial condition and results of operations.

Solvency II

The European Union (EU) is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 and is expected to be transposed into local regulations and take effect for supervisors from 2013, with implementation for firms currently anticipated from 2014. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements. Although the Solvency II Directive does not apply to the Company, the Company would be expected to submit additional disclosures to Group as part of the Group Reporting requirements.

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 the Group creates social value through its day-to-day operations. First, the Group provides customers with ways to help manage uncertainty and build a more secure future. Second, by playing a key role in financial markets, the Group provides long-term capital that finances businesses, builds infrastructure and fosters growth in both developed and developing countries.

The Group aims to be sustainable in the broadest sense – financially, socially and environmentally. Sustainability is integral to the way it does business. Prudential has long-term liabilities and investments, and its commitments to its customers and its employees, as well as its support for communities and its responsibility towards the environment, are rooted in its aim of continuing to deliver strong financial performance sustainably.

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

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

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

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

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

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

The Prudential plc Board discusses the Group's CR performance at least once a year and also reviews and approves the Group CR Report and strategy on an annual basis. Below Board level, the Responsibility Committee comprises senior representatives from the relevant Group functions and each of its core businesses. This committee is responsible for monitoring the Group's CR activities and reviewing CR policies.

Post balance sheet events

The Finance Bill 2011 enacted the reduction in corporation tax rate to 26% with effect from April 2011 and 25% from April 2012. The UK Government announced at the Budget 2012 on 21 March 2012 that the corporation tax rate would instead reduce to 24% from April 2012 with two further annual 1% cuts to 22% by April 2014. Other than the enacted changes to 26% and 25%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2011 as they were not enacted at the balance sheet date.

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

Accounts

The state of affairs of the Company at 31 December 2011 is shown in the balance sheet on page 9. The profit and loss account appears on page 8.

Share Capital

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

Dividends

No dividend is proposed for the year (2010: Nil).

Payment policy

The Company does not have any trade creditors and therefore codes or standards on payment practice and disclosure of trade creditor days are not applicable.

Directors

The present directors are shown on page 1.

There were no changes during the year.

Employees

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

Equal opportunity

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

Employee involvement

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

Financial risk management objectives, policies and exposure

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

Disclosure of information to auditor

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

Auditor

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

Directors' and officers' protection

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

On behalf of the Board of directors

P. Howe

P Howe
On behalf of Prudential Group Secretarial Services Limited
Company Secretary

21st June 2012

PRUDENTIAL UK SERVICES LIMITED

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:
• select suitable accounting policies and then apply them consistently;
• make judgments and estimates that are reasonable and prudent;
• state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
• prepare the financial statements on the going concern basis 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 its 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.

Approved by the Board of Directors on 21st June 2012 and signed on its behalf by

D J Bell

D Belsham
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL UK SERVICES LIMITED

We have audited the financial statements of Prudential UK Services Limited for the year ended 31 December 2011 set out on pages 8 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical St andards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web -site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Robert Lewis

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

21 June 2012

PRUDENTIAL UK SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**2011** **£000**	2010 £000
Turnover		**46**	204
Staff costs	2	**7,764**	(2,964)
Other operating charges		**(351)**	-
Operating costs		**7,413**	(2,964)
Operating profit/(loss)	3	**7,459**	(2,760)
Interest receivable	4	**5**	9
Interest payable	5	**(4)**	(5)
Profit/(loss) on ordinary activities before tax		**7,460**	(2,756)
Tax (charge)/credit on profit/(loss)	6	**(12)**	4,026
Retained profit for the year		**7,448**	1,270

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

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

Profit/(loss) on ordinary activities before taxation for the period relate to continuing operations as defined under the terms of Financial Reporting Standard 3.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 **£000**	2010 £000
Opening shareholders funds	**24,137**	22,292
Profit and loss account	**7,448**	1,270
Capital contribution	**587**	575
Closing shareholders funds	**32,172**	24,137

Capital contribution represents the share based expense reserve created during the year.

The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements.

PRUDENTIAL UK SERVICES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Unpaid Called up share capital	12	**40,103**	40,103
Fixed assets			
Investments			
Shares in group undertaking	7	**1**	1
Other	7	**2,739**	2,739
		2,740	2,740
Current assets			
Debtors and prepayments	8	**4,342**	4,653
Cash at bank	9	**523**	545
		4,865	5,198
Creditors: amounts falling due within one year	10	**(15,536)**	(23,904)
Net current liabilities		**(10,671)**	(18,706)
Total assets less current liabilities		**32,172**	24,137
Net Assets		**32,172**	24,137
Capital and reserves			
Called-up share capital	12	**185,900**	185,900
Retained earnings	13	**(164,663)**	(172,111)
Capital Contribution	14	**10,935**	10,348
Shareholders' funds		**32,172**	24,137

The accounting policies and notes on pages 10 to 18 form an integral part of these financial state ments.

The financial statements on pages 8 to 18 were approved by the board of directors on 21st June 2012.

D J Bel
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D Belsham
Director

1. Accounting policies

a) Changes in Accounting Policies

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

In 2011, the Company adopted the Improvements to Financial Reporting Standards 2010. Their adoption had no material impact on the financial statements of the Company.

b) Basis of preparation

The financial statements are prepared in accordance with Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The financial statements have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation. 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 Directors' Report on page 2.

c) Turnover

Turnover represents income accounted for the year. Turnover is accounted for on an accruals basis.

d) Taxation

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

e) Cash flow statement

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

f) Investments

Investments including market investments are stated at the lower of cost or net realisable value of the undertaking. Changes in value are shown in the profit and loss account.

g) Share based payments

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

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

2. Staff costs

	2011	2010
	£000	£000
Share based payment (credit)/charge	**(7,764)**	2,964
	(7,764)	2,964
	No.	No.
Average number of employees during the period	**398**	395

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

The staff costs for 2011 and 2010 were borne by another Group Company, Prudential Distribution Limited. The credit in this year is on account of recharge of the share based payments on settlement of liabilities.

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

3. Operating profit/(loss)

The operating loss is stated before charging the following:

	2011	2010
	£000	£000
Auditor's remuneration	**16**	16

The auditor's remuneration for 2011 and 2010 was borne by another group company, Prudential Distribution Limited .

4. Interest receivable

	2011	2010
	£000	£000
Interest receivable from group undertakings	**2**	4
Pool Interest received	**3**	5
	5	9

5. Interest payable

	2011 £000	2010 £000
Interest payable to group undertakings	**4**	5

6. Taxation

a) Analysis of taxation in the period

	2011 £000	2010 £000
Current tax:		
Current period corporation tax at rate of 26.5% (2010:28%)	**(12)**	(58)
Adjustments in respect of previous years	-	4,015
	(12)	3,957
Deferred tax:		
Adjustments in respect of previous years	-	69
	-	69
Tax (charge)/ credit on ordinary activities	**(12)**	4,026

b) Factors affecting corporation tax credit for the period

	2011 £000	2010 £000
Profit/(loss) on ordinary activities before tax	**7,460**	(2,756)
Tax on profit/(loss) at rate of 26.5% (2010: 28%)	**(1,977)**	772
Adjustments to current tax in respect of previous years	-	4,015
Non –deductible expenses	**(93)**	-
FRS 20 credit/(charge)	**2,058**	(830)
Current tax (charge) /credit for the year	**(12)**	3,957

c) Factors that may affect future tax charges

From April 2011, the standard corporation tax rate for the UK changed from 28% to 26%. A further reduction in the standard corporation tax rate to 25% from April 2012 has also been enacted. Further reductions to the UK corporation tax rate to 23% by 2014 have been proposed but not yet enacted.

7. Investments

	2011 £000	2010 £000
Shares in group undertaking		
Cost at 1 January and 31 December	**1**	1
Others		
Investment in COFUNDS Holding Limited	**2,739**	2,739
Total	**2,740**	2,740

In 2003 the Company purchased 10,000 equity shares of 10 Rupees each in Prudential Process Management Services India Private Limited, a company incorporated in India.

In 2007 the Company purchased 10,980,760 shares of 1p each in COFUNDS Holding Limited representing an interest of 2.40%. COFUNDS Holding is a joint venture to promote and develop a fund market principally for the sale of retail mutual funds through independent intermediaries, initially in the United Kingdom. The joint venture in COFUNDS is considered a simple investment under FRS 9 and as such, is recorded at the lower of cost or net realisable value.

8. Debtors and prepayments

	2011 £000	2010 £000
Amounts falling due within one year:		
Amount owed by group undertakings	-	334
Corporation tax recoverable	**3,492**	3,469
	3,492	3,803
Amounts falling due after one year:		
Amount owed by group undertakings	**850**	850
Total debtors	**4,342**	4,653

The amounts falling due after one year are due from group undertakings. These do not have a fixed repayment schedule and are not expected to be repaid within at least one year.

9. Bank accounts

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.

10. Creditors

	2011 £000	2010 £000
Amounts falling due within one year:		
Amount owed to group undertakings	**8,586**	8,602
Accruals and deferred income	**6,950**	15,302
	15,536	23,904

11. Share-based payments

Employees of the Company participate in a number of share award and share option plans relating to Prudential plc shares, which are described below:

The Group Performance Share Plan (GPSP) is the incentive plan in which all executive directors and other senior executives within the Group can participate. This scheme was established as a replacement for the Restricted Share Plan (RSP) under which no further awards could be made after March 2006. Awards are granted either in the form of a nil cost option, conditional right over shares, or such other form that shall confer to the participant an equivalent economic benefit, with a vesting period of three years. The performance measure for the awards is that Prudential's Total Shareholder Return (TSR) outperforms an index comprising of peer companies. Vesting of the awards between each performance point is on a straight line sliding scale basis. Participants are entitled to t he value of reinvested dividends that would have accrued on the shares that vest. Beginning in 2010, newly issued shares have been used in settling the awards that vest and are released.

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

The Business Unit Performance Plan (BUPP) is an incentive plan created to provide a common framework under which awards would be made to senior employees including the Chief Executive Officers. Awards under this plan were based on growth in Shareholder Capital Value on the European Embedded Value (EEV) basis with performance measured over three years. Upon vesting of awards made up to 2008, half of the awards were released as shares and the other half released in cash. Since the year ended 31 December 2009 all awards made will be settled in shares after vesting. Participants are entitled to receive the value of reinvested dividends over the performance period for those shares that vest. The growth parameters for the awards are relevant to each region and vesting of the awards between each performance point is on a straight line sliding scale basis. Beginning in 2010, newly issued shares will be used in settling the awards that vest and are released. During 2009, the Remuneration Committee decided that future BUPP awards for the UK business unit would be based on the same relative TSR measure applied to GPSP awards. As a result, awards made under the UK BUPP reflect those TSR conditions applied to GPSP awards.

In 2011, the Remuneration Committee decided to cancel two-thirds of the number of shares comprising the 2008 share awards and one-third of the 2009 share awards to most UK BUPP participants with the vesting of the remaining one-third and two-thirds, respectively, of awards then being dependent on the achievement of the TSR condition. The change in awards was not applicable to executive directors. Upon the cancellation, Prudential recognised as expense the full amount of the one-third and two-thirds awards that would have been accrued for the remainder of the respective vesting periods in accordance with IFRS 2, 'Share -based Payment'.

UK-based executive directors and eligible employees are eligible to participate in the Prudential HM Revenue & Customs (HMRC) approved UK Savings Related Share Option Scheme (SAYE scheme). The schemes allow participants to save towards the exercise of options over Prudential plc shares, at an option price set at the beginning of the savings period as determined by reference to the average market value of the ordinary shares on the three business days immediately preceding the invitation at a discount of 20 per cent to the market price. Participants may save up to £250 per month for three or five years. On maturity at the end of the set term, participants may exercise their options within six months of the end of the savings period and purchase Prudential plc shares. If an option is not exercised within six months, participants are entitled to a refund of their cash contributions plus interest if applicable under the rules. The exercise period of the options granted may be advanced to an earlier date in certain circumstances, for example on retirement, and may be extended in certain circumstances, for example on the death of the participant the personal representative may exercise the options beyond the normal exercise period. Shares are issued to satisfy options that 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 capit al at the proposed date of grant.

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

Certain senior executives have annual incentive plans 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.

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

Movements in share options outstanding under the Company's share-based compensation plans relating to Prudential plc shares during 2011 and 2010 were as follows:

	2011		2010	
Options outstanding (including conditional options)	**Number of options**	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Beginning of year:	**784,955**	**3.20**	860,640	3.17
Granted	**66,545**	**4.66**	50,984	4.61
Exercised	**(43,006)**	**3.86**	(45,067)	3.47
Forfeited	**(30,150)**	**3.38**	(16,977)	3.82
Cancelled	**(14,864)**	**3.71**	(36,736)	3.47
Lapsed	**(16,567)**	**2.98**	(27,889)	3.61
End of year	**746,913**	**3.28**	784,955	3.20
Options immediately exercisable, end of year	**9,136**	**4.39**	5,298	4.65

The weighted average share price of Prudential plc for the year ended 31 December 2011 was £6.86 compared to £5.68 for the year ended 31 December 2010.

Movements in share awards outstanding under the Group's share-based compensation plans relating to Prudential plc shares during 2011 and 2010 were as follows:

	2011	2010
	Number of awards	Number of awards
Awards outstanding		
Beginning of year:	**1,743,817**	1,898,937
Granted	**353,925**	331,957
Exercised	**(125,217)**	(256,586)
Forfeited	**(5,863)**	(28,364)
Cancelled	**(220,807)**	-
Lapsed	**(256,012)**	(202,127)
End of year	**1,489,843**	1,743,817

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

		Outstanding		**Exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices £**	**Number exercisable**	**Weighted average exercise prices £**
Between £0 and £1	-	-	-	-	-
Between £1 and £2	-	-	-	-	-
Between £2 and £3	**569,344**	**1.63**	**2.88**	-	-
Between £3 and £4	**3,046**	**0.84**	**3.87**	-	-
Between £4 and £5	**166,195**	**2.94**	**4.53**	**9,136**	**4.39**
Between £5 and £6	**8,328**	**1.63**	**5.52**	-	-
	746,913	**1.92**	**3.28**	**9,136**	**4.39**

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2010.

		Outstanding		Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £0 and £1	-	-	-	-	-
Between £1 and £2	-	-	-	-	-
Between £2 and £3	629,133	2.57	2.88	-	-
Between £3 and £4	7,272	1.31	3.64	925	3.62
Between £4 and £5	133,731	2.99	4.42	1,977	4.07
Between £5 and £6	14,819	1.75	5.54	2,396	5.52
	784,955	2.62	3.20	5,298	4.65

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

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

2011 Weighted average fair value			2010 Weighted average fair value		
GPSP	**SAYE Options**	**Awards**	GPSP	SAYE Options	Awards
£	**£**	**£**	£	£	£
4.10	**2.63**	**6.39**	3.56	2.90	6.32

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

	2011		2010	
	GPSP	**SAYE Options**	GPSP	SAYE Options
Dividend yield (%)	**3.33**	**3.33**	3.43	3.43
Expected volatility (%)	**36.20**	**62.48**	42.26	64.09
Risk-free interest rate (%)	**0.49**	**0.90**	1.58	1.10
Expected option life (years)	**3.00**	**3.52**	3.00	3.58
Weighted average exercise price (£)	**-**	**4.66**	-	4.61
Weighted average share price (£)	**6.39**	**6.06**	5.73	6.38

Compensation costs for all share-based compensation plans are determined using either the Black-Scholes model or the Monte Carlo model. Share options and awards granted by the parent company are valued using the share price at the date of grant. Share options and awards granted by the Company are valued using the share price at the balance sheet date. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Black-Scholes model is used to value all options and awards other than GPSP, for which the Monte Carlo model is used in order to allow for the impact of the TSR performance conditions. The models are used to calculate fair values at the grant date or balance sheet date, as appropriate, based on the quoted market price of the stock at the measurement date, the amount, if any that the employees are required to pay, the dividend yield, expected volatility, risk -free interest rates and exercise prices.

For SAYE options, the expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of daily share prices over a period up to the grant date equal to the expected life of options. Risk-free interest rates are UK gilt rates with projections for three and five year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over the year of grant and expected dividends are not incorporated into the measurement of fair value. For the GPSP, volatility and correlation between Prudential and an index constructed from a simple average of the TSR growth of 10 companies is required. For grants in 2011, an average index volatility and correlation of 32 per cent and 78 per cent respectively, were used. For the GPSP, market implied volatilities are used for both Prudential and the components of the index. Changes to the subjective input assumptions could materially affect the fair value estimate.

When options are granted or awards made to employees, an estimate is made of what percentage is more than likely to vest, be forfeited, lapse or cancelled based on historical information. Based on these estimates, compensation expense to be accrued at that date is calculated and amortised over the vesting period. For early exercises of options or release of awards due to redundancy, death or resignation, the compensation expense is immediately recognised and for forfeitures due to employees leaving the Group, any previously recognised expense is reversed. However, if an employee loses their award because of the Group's failure to meet the performance criteria, previously recognised expense is not reversed.

The total share-based payment income recognised for 2011 is £7,764k (2010: expense of £2,964k) of which expense of £587k (2010: £575k) is accounted for as equity-settled and a reduction of £8,352k (2010: increase of £2,389k) is accounted for as cash-settled.

12. Called-up share capital

	2011 £000	2010 £000
Issued and fully paid:		
Ordinary shares of £1 each	**145,797**	145,797
Issued and not paid:		
Ordinary shares of £1 each	**40,103**	40,103
	185,900	185,900

13. Movement in Retained Earnings

	2011 £000	2010 £000
Balance at start of year	**(172,111)**	(173,381)
Profit for the year	**7,448**	1,270
Balance at end of year	**(164,663)**	(172,111)

14. Capital Contribution

	2011 £000	2010 £000
Balance as at 1 January	**10,348**	9,773
Contribution for the year	**587**	575
Balance as at 31 December	**10,935**	10,348

15. Related party transactions

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

16. Immediate and ultimate parent company

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