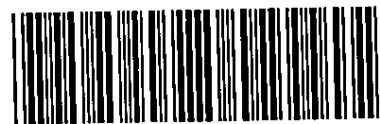


PRUDENTIAL UK SERVICES LIMITED

Annual Report and Financial Statements for the year ended 31 December 2010

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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

	Resigned on	Appointed on
Mr A M Crossley		
Mr C Lewis		
Mr F A O'Dwyer		
Mr K Nunn		
Mr D J Belsham		19 March 2010
Mr J Betteridge		19 March 2010
Ms T Naidu		19 March 2010
Mr I A Haasz	15 January 2010	

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Principal activity and business review

The principal activity of Prudential UK Services Limited ("the Company") until 31 December 2006 was 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) employment rights respected.

Until the end of 2007, the Company had in place tariff arrangements with Scottish Amicable Insurance Fund (SAIF) and Scottish Amicable Assurance (SAA) which covered the provision of services to those operations. The tariff has ceased and the ongoing servicing activity is now provided by another group company. In addition the Company formerly provided services to Prudential International Assurance (PIA). The PIA activities have also been transferred to another group company from 1 January 2008.

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. This activity is to continue during 2011.

The Company incurred a pre-tax loss of £2,756k (2009: £5,708k) on its activities during the year. The loss for the year is on account of expenses in respect of share based compensation pertaining to share awards and option plans operated by Prudential Plc.

Corporate responsibility

The Company is a wholly owned subsidiary within the Prudential Group and corporate responsibility (CR) is a philosophy that is firmly embedded in Prudential's operations around the world as an integral part of how the organisation does business. The organisation strives to minimise the social, ethical and environmental impact of its activities and to maximise the opportunities. The importance of engaging with stakeholders and responding to their concerns is recognised. To do this the organisation maintains a regular dialogue and conducts periodic research on the issues that matter most to them.

The approach to CR is underpinned by the organisation's founding values of integrity, security and prudence. Throughout its 160-year history the organisation has been committed to helping its customers safeguard their financial security and protect their families. This, together with the contribution to the well-being of the communities in which the organisation operates, is as strong today as it has always been.

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

The CR activities are framed around four core themes:

1. Fair and transparent products meeting customer needs
2. Best people for the best performing business
3. Protecting the environment
4. Supporting local communities

While the Group sets the overall strategy for CR, the framework gives the Company the flexibility to

PRUDENTIAL UK SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Implement programmes that best meet its markets. This recognises that the people on the ground are closest to their customers, and their communities, and know best how to meet their needs and expectations.

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 the Board, the Responsibility Committee comprises senior representatives from relevant Group functions and each of our core businesses. This committee is responsible for monitoring the Group's CR activities and for raising issues that need to be addressed.

Post balance sheet events

Finance (no. 2) Act 2010 enacted the reduction in corporation tax rate from 28% to 27% with effect from April 2011. In addition, the UK Government announced three further annual 1% cuts to reduce the rate to 24% from April 2014.

At Budget 2011 on 23rd March 2011 the UK Government announced that the corporation tax rate would instead reduce to 26% from April 2011 with three further annual 1% cuts to 23% by April 2014.

Other than the enacted change to 27%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2010 as they have not yet been enacted and the impact has not yet been estimated.

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 2010 is shown in the balance sheet on page 8. The profit and loss account appears on page 7.

Share Capital

There were no changes to the Company's share capital in 2010.

Dividends

No dividend is proposed for the year (2009: 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 directors serving office during the are shown on page 1.

Mr I A Haasz resigned as a director of the Company on 15 January 2010.

Messrs D J Belsham and J Betteridge and Ms T Naidu were appointed as directors of the Company on 19 March 2010.

There were no other changes during the year.

PRUDENTIAL UK SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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 were invited to participate in the Prudential Savings-Related Share Option Scheme in March 2009 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 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

For and on behalf of
Prudential Group Secretarial Services Limited
Secretary

16th June 2011

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.

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

Approved by the Board of Directors on 16th June 2011 and signed on its behalf by



.....
Kevin Nunn
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 2010 set out on pages 7 to 19. 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 5, 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 Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the 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 2010 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.



Chris Moulder (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

20 June 2011

PRUDENTIAL UK SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Other operating income		204	-
Staff costs	2	(2,964)	(6,027)
Other operating charges		-	312
Operating costs		(2,964)	(5,715)
Operating Loss	3	(2,760)	(5,715)
Interest receivable	4	9	19
Interest payable	5	(5)	(12)
Loss on ordinary activities before tax		(2,756)	(5,708)
Tax credit/ (charge) on loss	6	4,026	(333)
Retained profit/ (loss) for the year		1,270	(6,041)

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.

Turnover and 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 2010

	2010 £000	2009 £000
Opening shareholders funds	22,292	26,670
Profit and loss account	1,270	(6,041)
Capital contribution	575	1,663
Closing shareholders funds	24,137	22,292

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

The accounting policies and notes on pages 9 to 19 form an integral part of these financial statements.

PRUDENTIAL UK SERVICES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Unpaid Called up share capital	12	40,103	40,103
Fixed assets			
Investments	7		
Shares in group undertaking		1	1
Others		2,739	2,739
		<u>2,740</u>	<u>2,740</u>
Current assets			
Debtors and prepayments	8	4,653	1,183
Cash at bank	9	545	1,386
		<u>5,198</u>	<u>2,569</u>
Creditors: amounts falling due within one year	10	<u>(23,904)</u>	<u>(23,120)</u>
Net current assets		<u>(18,706)</u>	<u>(20,551)</u>
Total assets less current liabilities		<u>24,137</u>	<u>22,292</u>
Net Assets		<u>24,137</u>	<u>22,292</u>
Capital and reserves			
Called-up share capital	12	185,900	185,900
Retained earnings	13	(172,111)	(173,381)
Capital Contribution	14	10,348	9,773
Shareholders' funds		<u>24,137</u>	<u>22,292</u>

The accounting policies and notes on pages 9 to 19 form an integral part of these financial statements.

The financial statements on pages 7 to 19 were approved by the board of directors on 16th June 2011.



Kevin Nunn
Director

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 2010. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing convergence of IFRS in the UK.

Amendments to FRS 20 'Group cash settled share-based payment transactions'

The amendments to FRS 20 'Group cash settled share-based payment transactions' which expanded FRS 2 to bring into scope group cash-settled share-based payment transactions became effective for the Company in 2010. These amendments incorporated the guidance in UITF 41, 'Scope of FRS 20' and UITF 44, 'Group and Treasury Share Transactions' which were withdrawn as a result. In particular, the amendments specify that the entity which has the obligation to settle the share-based payment arrangement shall recognise it as an "equity-settled transaction" if it is settled in its own equity instruments and as "cash-settled transaction" otherwise, no matter which entity in the group receives the goods or service in the arrangement. The Company's share-based payment accounting treatment prior to 2010 was consistent with these amendments and accordingly, there was no impact on the Company's results and financial position upon the adoption of these amendments.

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 Business Review 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.

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Staff costs

	2010 £000	2009 £000
Share based payment expenses	<u>2,964</u>	<u>6,027</u>
	2,964	6,027
	No.	No.
Average number of employees during the period	395	427

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.

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

3. Operating loss

The operating loss is stated before charging the following:

	2010 £000	2009 £000
Auditor's remuneration	16	16

The auditor's remuneration for 2010 and 2009 was borne by another Group company.

4. Interest receivable

	2010 £000	2009 £000
Interest receivable from group undertakings	4	8
Pool Interest received	<u>5</u>	<u>11</u>
	<u>9</u>	<u>19</u>

5. Interest payable

	2010 £000	2009 £000
Interest payable to group undertakings	<u>5</u>	<u>12</u>

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Taxation

a) Analysis of taxation in the period

	2010	2009
	£000	£000
Current tax:		
Current period corporation tax at rate of 28% (2009:28%)	(58)	962
Adjustments in respect of previous years	4,015	(17)
	<u>3,957</u>	<u>945</u>
Deferred tax:		
Origination and reversal of timing differences	-	(1,052)
Adjustments in respect of previous years	69	(226)
	<u>69</u>	<u>(1,278)</u>
Tax credit/(charge) on ordinary activities	<u>4,026</u>	<u>(333)</u>

b) Factors affecting corporation tax credit for the period

	2010	2009
	£000	£000
Loss on ordinary activities before tax	(2,756)	(5,708)
Tax on loss at rate of 28% (2009: 28%)	772	1,598
Effect of short term timing difference	-	1,052
Adjustments to current tax in respect of previous years	4,015	(17)
FRS 20 Charge	(830)	(1,688)
Current tax credit for the year	<u>3,957</u>	<u>945</u>

c) Analysis of deferred tax (liability)/asset

	2010	2009
	£000	£000
Deferred tax liability explained by:		
Short term timing differences	-	(69)
	<u>-</u>	<u>(69)</u>
Deferred tax (liability)/asset at start of period	(69)	1,209
Deferred tax for the period	69	(1,278)
Deferred tax liability at end of period	<u>-</u>	<u>(69)</u>

PRUDENTIAL UK SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****7. Investments**

	2010 £000	2009 £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 market valuation.

8. Debtors and prepayments

	2010 £000	2009 £000
Amounts falling due within one year:		
Amount owed by group undertakings	334	333
Corporation tax recoverable	3,469	-
	3,803	333
Amounts falling due after one year:		
Amount owed by group undertakings	850	850
Total debtors	4,653	1,183

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.

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	2010 £000	2009 £000
Amounts falling due within one year:		
Amount owed to group undertakings	8,602	10,098
Accruals and deferred income	15,302	12,912
Obligations under finance leases	-	1
Corporation tax payable	-	40
Deferred Tax liability	-	69
	<u>23,904</u>	<u>23,120</u>

Payment policy

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

11. Share-based payments

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

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

The RSP was, until March 2006, the 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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. Awards under this plan are 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 will be 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 issue shares will be used in settling the awards that vest and are released. During 2009, the Group 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, 2010 awards made under the UK BUPP reflect those TSR conditions applied to 2010 GPSP awards.

UK-based executive directors are eligible to participate in the Prudential HM Revenue and Customs (HMRC) approved UK Savings Related Share Option Scheme (SAYE scheme) and the Asia-based executive directors can participate in the equivalent International SAYE scheme. The schemes allow employees 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. Employees 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 capital at the proposed date of grant.

UK-based executive directors are also eligible to participate in the Company's HMRC approved Share Incentive Plan (SIP) 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.

In addition, there are other share awards including the Group Deferred Bonus Plan (Group DBP) 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 to ensure their appointment or retention.

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Movements in share options outstanding under the Company's share-based compensation plans relating to Prudential plc shares during 2010 and 2009 were as follows:

	2010		2009 Restated	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Options outstanding (including conditional options)				
Beginning of year:	860,640	3.17	751,414	3.11
Granted	50,984	4.61	736,419	2.99
Exercised	(45,067)	3.47	(53,746)	3.84
Forfeited	(16,977)	3.82	(11,943)	4.89
Expired	(64,625)	3.53	(565,745)	2.76
Transferred during the year	-	-	4,241	3.19
End of year	784,955	3.20	860,640	3.17
Options immediately exercisable, end of year	5,298	4.65	28,144	3.82

The Group Performance Share Plan (GPSP) was reclassified from options to awards in 2010 and 2009 has been restated.

The weighted average share price of Prudential plc for the year ended 31 December 2010 was £5.68 compared to £4.17 for the year ended 31 December 2009.

Movements in share awards outstanding under the Group's share-based compensation plans relating to Prudential plc shares during 2010 and 2009 were as follows:

	2010	2009 Restated
Awards outstanding	Number of awards	Number of awards
Beginning of year:	1,898,937	538,707
Granted	331,957	1,179,125
Exercised	(256,586)	(326,332)
Forfeited	(28,364)	(51,678)
Expired	(202,127)	(111,037)
Transferred during the year	-	670,152
End of year	1,743,817	1,898,937

The Group Performance Share Plan (GPSP) was reclassified from options to awards in 2010 and 2009 has been restated.

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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 £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
Between £6 and £7	-	-	-	-	-
	784,955	2.62	3.20	5,298	4.65

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2009. The Group Performance Share Plan (GPSP) was reclassified from options to awards in 2010 and 2009 has been restated.

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 £0 and £1	-	-	-	-	-
Between £1 and £2	-	-	-	-	-
Between £2 and £3	692,982	3.47	2.88	-	-
Between £3 and £4	35,498	0.74	3.63	21,895	3.55
Between £4 and £5	105,477	3.16	4.32	6,249	4.75
Between £5 and £6	26,683	2.60	5.58	-	-
Between £6 and £7	-	-	-	-	-
	860,640	5.96	1.62	28,144	3.82

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:

2010 Weighted average fair value			2009 Weighted average fair value		
GPSP £	SAYE Options £	Awards £	GPSP £	SAYE Options £	Awards £
3.56	2.90	6.32	2.66	1.56	6.36

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

	2010		2009	
	GPSP	Other options	GPSP	Other options
Dividend yield (%)	3.43	3.43	4.41	4.41
Expected volatility (%)	34.30	64.09	53.48	60.45
Risk-free interest rate (%)	1.58	1.10	1.86	2.15
Expected option life (years)	3.00	3.58	3.00	3.69
Weighted average exercise price (£)	-	4.61	-	2.99
Weighted average share price (£)	5.73	6.38	5.12	3.86

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.

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, five and seven year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over the year of the grant and expected dividends are not incorporated into the measurement of fair value. For GPSP, volatility and correlation between Prudential and an index constructed from a simple average of TSR growth of 11 companies is used. For grants in 2010, an average index volatility and correlation of 35% and 82%, respectively were used. 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 expense recognised for 2010 is £2,964k (2009: £6,027k) of which £575k (2009: £1,663k) is accounted for as equity-settled and £2,389k (2009: £4,364k) is accounted for as cash-settled.

PRUDENTIAL UK SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****12. Called-up share capital**

	2010 £000	2009 £000
Issued and fully paid:		
Ordinary shares of £1 each	<u>145,797</u>	<u>145,797</u>
Issued and not paid:		
Ordinary shares of £1 each	<u>40,103</u>	<u>40,103</u>
	<u>185,900</u>	<u>185,900</u>

13. Movement in Retained Earnings

	2010 £000	2009 £000
Balance at start of year	(173,381)	(167,340)
Profit/(loss) for the year	<u>1,270</u>	<u>(6,041)</u>
Balance at end of year	<u>(172,111)</u>	<u>(173,381)</u>

14. Capital Contribution

	2010 £000	2009 £000
Balance as at 1 January	9,773	8,110
Contribution for the year	<u>575</u>	<u>1,663</u>
Balance as at 31 December	<u>10,348</u>	<u>9,773</u>

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.