

International Financial Reporting Standards (IFRS) basis results *continued*

Summary consolidated cash flow statement

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Net cash flows from operating activities			
Profit before tax (note i)	854	642	2,145
Changes in operating assets and liabilities (note ii)	73	(563)	(1,987)
Other items (note ii)	(241)	(138)	(357)
	686	(59)	(199)
Net cash flows from investing activities			
Net cash flows from purchases and disposals of property and equipment	(280)	(52)	(154)
Costs incurred on purchase of Egg minority interests (note J)	(6)	–	–
Acquisition of subsidiaries, net of cash balances (note iii)	15	(91)	(68)
Disposal of subsidiaries, net of cash balances (note iii)	80	–	252
	(191)	(143)	30
Net cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations (note iv):			
Redemption of borrowings	(1)	(171)	(308)
Issue of borrowings	–	–	168
Interest paid	(104)	(95)	(204)
With-profits operations (note v):			
Interest paid	(9)	(9)	(9)
Equity capital (note vi):			
Issues of ordinary share capital	1	–	3
Dividends paid to shareholders	(260)	(213)	(328)
	(373)	(488)	(678)
Net increase (decrease) in cash and cash equivalents	122	(690)	(847)
Cash and cash equivalents at beginning of period	3,586	4,341	4,341
Effect of exchange rate changes on cash and cash equivalents	(43)	57	92
Cash and cash equivalents at end of period (note vii)	3,665	3,708	3,586

Notes

(i) Profit before tax represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders' profits. It does not represent profit before tax attributable to shareholders.

(ii) The adjusting items to profit before tax include changes in operating assets and liabilities, and other items comprising adjustments in respect of non-cash items, operational interest receipts and payments, dividend receipts, income tax paid and cash flows in respect of assets categorised as available-for-sale investments. The most significant elements of the adjusting items within changes in operating assets and liabilities are as follows:

	Half year 2006 £m	Half year 2005 £m	Full year 2005 £m
Deferred acquisition costs (excluding changes taken directly to equity)	(462)	(21)	(401)
Other non-investment and non-cash assets	(883)	(1,333)	(569)
Investments	(2,618)	(7,794)	(21,462)
Banking customer accounts	(285)	(240)	(861)
Policyholder liabilities (including unallocated surplus)	4,115	8,582	21,126
Other liabilities (including operational borrowings)	206	243	180
Changes in operating assets and liabilities	73	(563)	(1,987)

(iii) Acquisitions and disposals of subsidiaries shown above include venture subsidiaries of the PAC with-profits fund as shown in note J. In 2005, this also includes the purchase of Life Insurance Company of Georgia.

(iv) Structural borrowings of shareholder-financed operations consist of the core debt of the parent company and related finance subsidiaries, Jackson National Life surplus notes and Egg debenture loans. Core debt excludes borrowings to support short-term fixed income securities reinvestment programmes and non-recourse borrowings of investment subsidiaries of shareholder-financed operations. Cash flows in respect of these borrowings are included within operating cash flows.

(v) Structural borrowings of with-profits operations relates solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows on other borrowings of with-profits funds, which principally relate to venture investment subsidiaries, are categorised as operating activities in the presentation above.

(vi) Cash movements in equity capital exclude scrip dividends and share capital issued in respect of the acquisition of Egg minority interests.

(vii) Of the cash and cash equivalents amounts reported above £388 million (half year 2005: £42 million; full year 2005: £263 million) represents cash and cash equivalents of the parent company and related finance subsidiaries.