

Consolidated statement of cash flows

Year ended 31 December 2011	Note	2011 £m	2010 £m
Cash flows from operating activities			
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note(i)}		1,926	2,072
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(8,854)	(24,594)
Other non-investment and non-cash assets		(1,038)	(1,161)
Policyholder liabilities (including unallocated surplus)		10,874	24,287
Other liabilities (including operational borrowings)		(845)	1,332
Interest income and expense and dividend income included in result before tax		(7,449)	(7,514)
Other non-cash items ^{note(ii)}		18	139
Operating cash items:			
Interest receipts		6,365	6,277
Dividend receipts		1,302	1,412
Tax paid		(561)	(302)
Net cash flows from operating activities		1,738	1,948
Cash flows from investing activities			
Purchases of property, plant and equipment		(124)	(93)
Proceeds from disposal of property, plant and equipment		10	4
Acquisition of subsidiaries, net of cash balance ^{note(iii)}	I1	(53)	(145)
Net cash flows from investing activities		(167)	(234)
Cash flows from financing activities			
Structural borrowings of the Group:	I10		
Shareholder-financed operations: ^{note(iv)}			
Issue of subordinated debt, net of costs		340	–
Redemption of senior debt		(333)	–
Bank loan		–	250
Interest paid		(286)	(251)
With-profits operations: ^{note(v)}			
Interest paid		(9)	(9)
Equity capital: ^{note(vi)}			
Issues of ordinary share capital	H11	17	13
Dividends paid	B3	(642)	(449)
Net cash flows from financing activities		(913)	(446)
Net increase in cash and cash equivalents		658	1,268
Cash and cash equivalents at beginning of year		6,631	5,307
Effect of exchange rate changes on cash and cash equivalents		(32)	56
Cash and cash equivalents at end of year	H10	7,257	6,631

Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
- (ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with other net items, net purchases of treasury shares and other net movements in equity.
- (iii) The acquisition of subsidiaries in 2011 related to the PAC with-profits fund's purchase of Earth & Wind and Alticom venture investments with an outflow of £53 million. In 2010 the acquisition of United Overseas Bank Life Assurance Limited (UOB) resulted in an outflow of cash from investing activities of £133 million with the remaining outflow of £12 million relating to the PAC with-profits fund purchase of Meterserve (see note I8(iii)).
- (iv) Structural borrowings of shareholder-financed operations comprise the core debt of the parent company, a PruCap bank loan and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- (v) Interest paid structural borrowings of with-profits operations relate 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 in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
- (vi) Cash movements in respect of equity capital in 2010 exclude scrip dividends. The scrip dividend alternative has been replaced by the Dividend Re-investment Plan (DRIP) from the 2010 final dividend.