

Notes on the IFRS basis results continued

W: Share capital, share premium and own shares continued

None of the shares were held by a qualifying employee share ownership trust at 30 June 2013 (30 June 2012: 0.1 million; 31 December 2012: none). The shares held by the trust at 30 June 2012 were subsequently fully distributed on maturity of savings-related share option schemes.

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2013 was 4.2 million (30 June 2012: 8.3 million; 31 December 2012: 4.5 million) and the cost of acquiring these shares of £26 million (30 June 2012: £50 million; 31 December 2012: £27 million) is included in the cost of own shares. The market value of these shares as at 30 June 2013 was £46 million (30 June 2012: £56 million; 31 December 2012: £39 million).

During half year 2013 these funds made net disposals of 268,411 Prudential shares (30 June 2012: 357,340; 31 December 2012: 4,143,340) for a net decrease of £1.6 million to book cost (30 June 2012: net decrease of £2.6 million; 31 December 2012: net decrease of £25.1 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during half year 2013 or 2012.

X: Business acquisitions

(a) Acquisition of Thanachart Life Assurance Company Limited and bancassurance partnership agreement with Thanachart Bank

On 3 May 2013, the agreement Prudential plc, through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited (Prudential Thailand), entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time, Prudential Thailand completed the acquisition of 100 per cent of the voting interest in Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

The consideration for the transaction is THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect the net asset value as at completion date, paid in July 2013. In addition a deferred payment of THB 0.535 billion (£12 million) is payable 12 months after completion. Included in the total consideration of THB 18.981 billion (£412 million) was the cost of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank.

The purchase consideration paid was equivalent to the fair value of the acquired assets and liabilities assumed. No goodwill has been recognised.

In addition to the purchase consideration, the Group incurred £4 million of acquisition related costs, of which £3 million was recognised as an expense in the consolidated income statement in the second half of 2012 and the remaining £1 million recognised in half year 2013.

Assets acquired and liabilities assumed at the date of acquisition

The fair value of the acquired assets and liabilities are shown in the table below.

	Fair value recognised at acquisition date £m
Assets	
Acquired value of in-force business	21
Investments (principally debt securities)	642
Cash and cash equivalents	4
Other assets (including distribution rights)	293
Total assets	960
Liabilities	
Insurance contract liabilities	487
Other non-insurance liabilities	61
Total liabilities	548
Net assets acquired and liabilities assumed	412
Purchase consideration (including £32 million of deferred consideration)	412

Insurance contract liabilities were valued consistent with Prudential's existing IFRS valuation basis for the Thailand Life business, determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. In accordance with IFRS 3 'Business Combinations', an acquired value of in-force business has been recognised.

Included within the identifiable assets as shown above are loans and other debtors acquired with fair values of £6 million. These values represent the gross contractual amounts all of which are expected to be collected.

The condensed consolidated statement of cash flows contains a £376 million net cash outflow in respect of the acquisition of Thanachart Life and the cost of the distribution rights representing cash consideration paid of £380 million less cash and cash equivalents acquired of £4 million.

Impact of the acquisition on the results of the Group

	Actual £m	Proforma £m
	Post-acquisition period from 3 May to 30 June 2013	Estimated Half year 2013 note (i)
Revenue	15	102
Operating profit based on longer-term investment returns	6	18
Short-term fluctuations in investment returns	(1)	(1)
Amortisation of acquisition accounting adjustments ^{note (ii)}	(1)	(2)
Profit before tax	4	15

Notes

- (i) The proforma shows the estimation of the Thanachart Life business' contribution to the Group's consolidated revenue and profit before tax for the period if the acquisition had occurred on 1 January 2013. In determining these amounts, it has been assumed that the fair value adjustments which arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2013. These amounts have been determined using actual results for the four-month period to 2 May 2013 and the post-acquisition results from 3 May to 30 June 2013.
- (ii) The amortisation of acquisition accounting adjustments represents the amortisation of the acquired value of in-force business.

(b) Acquisition of Reassure America Life Insurance Company in 2012

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. and its primary operating subsidiary, Reassure America Life Insurance Company (REALIC). REALIC is a US-based insurance company whose business model was to acquire, through purchase or reinsurance, closed blocks of insurance business, primarily life assurance risks. REALIC did not and does not write new business.

The purchase consideration, which remains subject to final agreement under the terms of the transaction with Swiss Re, is £370 million (US\$587 million). At the date these condensed financial statements were approved the fair value of the identifiable acquired assets and liabilities and the consideration were subject to finalisation. In accordance with accounting guidance for business combinations, the Company will continue to review the balance sheet and record required adjustments, for up to a 12-month period following the acquisition close date, in order to reflect updated information. Any measurement period adjustments determined to be material will be applied retrospectively to the acquisition date in the Company's consolidated financial statements and depending on the nature of the adjustment, the Company's results subsequent to the acquisition period could be affected.

The condensed consolidated statement of cash flows contained a £224 million net cash outflow in full year 2012 in respect of this acquisition representing cash consideration of £371 million less cash and cash equivalents acquired of £147 million.