

Consolidated statement of cash flows

Year ended 31 December	Note	2013 £m	2012* £m
Cash flows from operating activities			
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note(i)}		2,082	3,117
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(23,487)	(26,993)
Other non-investment and non-cash assets		(1,146)	(774)
Policyholder liabilities (including unallocated surplus)		21,951	26,362
Other liabilities (including operational borrowings)		1,907	(511)
Interest income and expense and dividend income included in result before tax		(8,345)	(7,772)
Other non-cash items ^{note(ii)}		81	188
Operating cash items:			
Interest receipts		6,961	6,483
Dividend receipts		1,738	1,530
Tax paid	B5	(418)	(925)
Net cash flows from operating activities		1,324	705
Cash flows from investing activities			
Purchases of property, plant and equipment	C13	(221)	(139)
Proceeds from disposal of property, plant and equipment		42	14
Acquisition of subsidiaries and distribution rights, net of cash balance ^{note(iii)}	D1	(405)	(224)
Change to Group's holdings, net of cash balance ^{note(iii)}		-	23
Net cash flows from investing activities		(584)	(326)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations: ^{note(iv)}	C6.1		
Issue of subordinated debt, net of costs		1,124	-
Bank loan		-	25
Interest paid		(291)	(270)
With-profits operations: ^{note(v)}	C6.2		
Interest paid		(9)	(9)
Equity capital:			
Issues of ordinary share capital		6	17
Dividends paid		(781)	(655)
Net cash flows from financing activities		49	(892)
Net increase (decrease) in cash and cash equivalents		789	(513)
Cash and cash equivalents at beginning of year		6,126	6,741
Effect of exchange rate changes on cash and cash equivalents		(130)	(102)
Cash and cash equivalents at end of year		6,785	6,126

* The Group has adopted new accounting standards on consolidated financial statements and joint arrangements, and amendments to the employee benefits accounting standard, from 1 January 2013, as described in note A2. Accordingly, the 2012 comparative results and related notes have been adjusted retrospectively from those previously published.

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 Thanachart Life and the related distribution agreements in 2013 resulted in a net cash outflow of £396 million. The acquisition of REALIC in 2012, resulted in a net cash outflow of £224 million and a further cash payment of £9 million in 2013. See note D1 for further details.
The net cash inflow of £23 million for change in Group's holdings in 2012 was in respect of the dilution of M&G's holdings in PPM South Africa resulting in a reclassification from a subsidiary to an associate.
- (iv) Structural borrowings of shareholder-financed operations exclude 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 on 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.