Prudential Distribution Trust

Manager's annual report for the year ended 7 January 2010 (audited)

PRUDENTIAL

Contents

\+ Collectively, these comprise the Manager's Report.

Trust objective and policy

This Trust aims to provide a rising income together with a steady capital growth over the longer term. The Trust aims to generate a yield greater than that of the FTSE All-Share Index.

Manager's comments

The early months of the review period were volatile for most stockmarkets but equities and corporate bonds enjoyed a strong rally from March 2009 due to increased optimism about prospects for the global economy. The improved mood was largely in response to initiatives to stabilise the financial system and kick-start economic activity, including quantitative easing programmes in the UK and the US. This scheme involves the purchase of government and corporate bonds to boost the supply of money in the economy. The repurchases supported government bonds, which simultaneously came under pressure from investors' concerns over the huge issuance needed to fund budget deficits.

During the 12 months under review, the trust's total return (capital performance with net income reinvested) was 18.3%*. This compares with a return of 25.1%** from its benchmark (a composite of 55% of the FTSE All-Share Index and 45% of the Merrill Lynch Sterling Corporate All Stocks Index) and a return of 17.4%* from its peer group, the (IMA) Cautious Managed Sector. The trust's yield of 4.33% at 8 January 2010 was above the 3.12% net yield on the FTSE All-Share Index. This trust provides a variable level of income.

The trust's underperformance relative to the benchmark was primarily due to the equity portion of the portfolio. Within equities, the trust's relatively light position in mining stocks was the main detractor to performance. Mining stocks were popular with investors for much of the review period, reflecting renewed optimism about prospects for economic recovery and higher commodity prices. However, the fund manager remains comfortable with the positioning, as the sector typically offers only a low yield.

Similarly, the trust's relatively small exposure to banking stocks, which provide only a modest yield following dividend cuts and suspensions, was disadvantageous for performance. Although banking shares were weak in the first few months of the review period, from March 2009 they made exceptional gains, reflecting their very low valuations, as well as improved investor confidence. In more recent months, nonetheless, the prospect of tighter regulatory requirements has dampened investors' sentiment in bank stocks.

Manager's comments (continued)

Meanwhile, a number of defensive companies were out of favour with more confident investors. More specifically, performance was held back by holdings in pharmaceutical companies GlaxoSmithKline and AstraZeneca and utilities United Utilities and Severn Trent over the 12-month review period.

The trust's fixed income portion performed well due to its exposure to lower rated bonds, including BBB rated investment grade bonds, which gained significantly as investors favoured risk. On the other hand, the trust's low weighting in financial bonds, in particular the subordinated 'Tier 1' bank bonds, detracted. These high-yielding, high-risk bonds gained the most during the year as investors believed that the worst of the financial crisis was over. Since before the credit crunch, the fund manager has avoided 'Tier 1 bonds', which have a low position in a bank's capital structure and resemble equities where losses are more difficult to recoup in case of a default or government takeover. While the fund manager found some good investment opportunities within the sector during the year, including bonds issued by JPMorgan Chase and HSBC, the trust continues to be underweight in financial bonds compared with its peers.

In terms of equity portfolio activity, the fund manager increased a position in beverage firm Diageo as the company is well placed to benefit from increasing demand for spirits in emerging markets. After considerable weakness, the fund manager also saw an opportunity to initiate a holding in RSA Insurance Group, which provides exposure to the US dollar. Another newcomer to the portfolio was Standard Life, which he feels is one of the most stable of the life companies thanks to its strong pension business. Other entrants to the portfolio included natural gas and oil company BG.

Conversely, the fund manager sold the holding in home improvement retailer Kingfisher. After a period of outperformance, prospects for the company are looking less favourable in the light of high taxes and the increased level of unemployment in the UK.

Within the fixed income portfolio, the fund manager took advantage of attractive yields within investment grade bonds as their spreads (that is, the excess yield over a government bond of similar maturity) widened to record levels in the early part of the year. He invested in bonds issued by cigarette maker Imperial Tobacco and food retailer Tesco, among others.

Manager's comments (continued)

Also, due to the attractive yields on offer, the fund manager increased the trust's exposure to UK government bonds in the early part of the year, including gilts maturing in 2025 and 2036. However, the portfolio's weighting in government bonds was reduced towards the end of 2009 on the back of oversupply fears.

Despite the recent rally in global stockmarkets, the economic recovery remains fragile and short-term volatility is likely. Indeed, financial market conditions have improved and there are signs of increased economic activity in a number of countries. However, it is likely that economic recovery in the UK will be drawn out, with a high level of indebtedness holding back consumption. Nonetheless, the fund manager believes that equities represent a solid long-term investment. In terms of fixed income, historically wide credit spreads suggest that there is more value left in corporate bonds while the continued issuance of government bonds is likely to put upward pressure on gilt yields.

* Source: Morningstar, Inc.
Basis: Bid to bid with net income reinvested to 8 January 2010 (the nearest measurable period).

** Source: Morningstar, Inc.
Basis: Capital performance with net income reinvested to 8 January 2010 (the nearest measurable period).

Please note that the views expressed in this Report should not be taken as a recommendation or advice as to how the Prudential Distribution Trust or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

Trust statistics

Sterling Class 'C' units are not generally available to all investors.

Distribution dates and trust facts

Distribution type	xd	payment
First interim	08.04.10	07.06.10
Second interim	08.07.10	07.09.10
Third interim	08.10.10	07.12.10
Final	10.01.11	07.03.11

	Final distribution		Total Expense Ratio [b]	
	Inc 07.03.10 [a]	Acc 08.01.10 [a]	07.01.10	07.01.09
Sterling	p	p	%	%
Class 'A'	1.3070	2.5694	1.59	1.59
Class 'C'	1.4000	n/a	0.02	0.04

The Portfolio Turnover Rate (PTR) for the 12 months ending 7 January 2010 was 129.43% compared with 65.65% for the year ending 7 January 2009. [c]

[a] The date on which the final distribution will be paid to Income unitholders and credited to Accumulation unitholders.

[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each unit class from the most recent reporting period as a single percentage of the average net asset value for that unit class over the same period.

[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the trust over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the trust's units and is expressed as a percentage of the trust's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

Trust performance

Performance of unit classes.

	Net asset value per unit as at 07.01.10		Net asset value per unit as at 07.01.09		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	123.11	244.57	109.82	207.69	+12.10	+17.76
Class 'C'	130.16	n/a	114.73	n/a	+13.45	n/a

Trust statistics

Prices [a]

Prior to conversion to multi-unit class.

	Calendar year	Income units Highest	Lowest	Accumulation units Highest	Lowest
Sterling		p	p	p	p
	2005 [b]	139.69	130.02	222.30	206.47

[a] Up until 28 May 2005 the trust was dual priced and the figures show the highest offer price and the lowest bid price. From 31 May 2005 this trust was single priced and from this date now shows both the highest price and lowest price.

[b] Up to 7 July 2005.

Post conversion to multi-unit class.

	Calendar year	Income units Highest	Lowest	Accumulation units Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2005 [a]	141.99	133.35	233.37	219.14
	2006	148.41	137.94	253.51	231.37
	2007	150.90	138.11	262.70	244.63
	2008	143.22	99.40	254.57	185.60
	2009	123.93	95.60	243.64	180.78
	2010 [b]	125.05	123.67	245.82	244.24
Class 'C'	2005 [a]	142.93	133.90	n/a	n/a
	2006	151.24	139.85	n/a	n/a
	2007	154.56	142.32	n/a	n/a
	2008	147.80	103.62	n/a	n/a
	2009	131.02	100.07	n/a	n/a
	2010 [b]	132.23	130.77	n/a	n/a

[a] From 8 July 2005 (the launch date of the unit class).

[b] Up to 8 January 2010.

Trust statistics

Income

Dividend income per unit

Prior to conversion to multi-unit class.

	Calendar year	Final	Distributed Interims	Total	Reinvested
Sterling (net)		p	p	p	p
	2005 [a]	1.0594	2.8594	3.9188	6.2482

[a] Up to interim: ex-distribution date 8 July 2005;
payment date 7 September 2005.

Post conversion to multi-unit class.

	Calendar year	Final	Distributed Interims	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2005	n/a	1.4551	1.4551	2.3721
	2006	0.9993	4.5383	5.5376	9.2849
	2007	1.1479	4.7130	5.8609	10.1702
	2008	1.2788	4.9180	6.1968	11.2067
	2009	1.4000	4.1340	5.5340	10.5386
	2010 [a]	1.3070	-	1.3070	2.5694
Class 'C'	2005	n/a	1.3858	1.3858	n/a
	2006	1.1073	4.6844	5.7917	n/a
	2007	1.1937	4.8956	6.0893	n/a
	2008	1.3348	5.1550	6.4898	n/a
	2009	1.4880	4.3960	5.8840	n/a
	2010 [a]	1.4000	-	1.4000	n/a

[a] Up to final: ex-distribution date 8 January 2010;
payment date 7 March 2010.

Past performance is not a guide to future performance.

The price of units and the income from them can go down as well as up, and you may get back less than you invested.

Trust statistics

Net assets

	Year ended	Value per unit Inc	Acc	Number of units Inc	Acc
Sterling		p	p		
Class 'A'	Jan 2008	140.28	251.60	43,152,780	28,692,929
	Jan 2009	109.82	207.69	41,193,480	25,765,429
	Jan 2010	123.11	244.57	39,424,880	23,054,279
Class 'C'	Jan 2008	144.76	n/a	80,105,600	n/a
	Jan 2009	114.73	n/a	83,021,600	n/a
	Jan 2010	130.16	n/a	83,292,600	n/a

Total net asset value of trust

Year ended	£
Jan 2008	248,691,000
Jan 2009	194,005,000
Jan 2010	213,335,000

Portfolio

Portfolio statement

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	Oil & gas producers		**10.42**	**11.44**
112,628	BG Group	1,331	0.62	
1,740,503	BP	10,814	5.07	
542,727	Royal Dutch Shell 'B'	10,084	4.73	
	Chemicals		**0.85**	**1.00**
78,594	Johnson Matthey	1,257	0.59	
335,326	Yule Catto	547	0.26	
	Mining		**2.05**	**1.19**
90,381	Anglo American	2,569	1.20	
86,987	Lonmin	1,805	0.85	
	Aerospace & defence		**0.35**	**0.00**
198,665	BAE Systems	739	0.35	
	Construction & materials		**0.37**	**0.14**
1,877,894	Low & Bonar	606	0.28	
57,009	Marshalls	50	0.02	
26,186	Morgan Sindall	152	0.07	
	Electronic & electrical equipment		**0.00**	**0.39**
	General industrials		**0.54**	**0.81**
591,250	Smith (D.S.)	759	0.36	
37,982	Smiths Group	381	0.18	
	Industrial engineering		**0.00**	**0.72**
	Support services		**3.00**	**2.50**
208,953	Bunzl	1,375	0.64	
272,273	Davis Service Group	1,087	0.51	
47,842	De La Rue	474	0.22	
369,910	Electrocomponents	617	0.29	
990,332	Filtrona	1,735	0.81	
858,451	Hays	925	0.43	
204,501	Smiths News	210	0.10	
	Automobiles & parts		**0.00**	**0.26**
	Beverages		**0.95**	**0.35**
188,301	Diageo	2,017	0.95	
	Food producers		**2.59**	**3.21**
289,991	Tate & Lyle	1,218	0.57	
223,478	Unilever	4,309	2.02	
	Leisure goods		**0.57**	**0.00**
306,423	Vitec Group	1,210	0.57	
	Personal goods		**0.37**	**0.45**
301,874	PZ Cussons	792	0.37	
	Tobacco		**2.79**	**2.87**
196,866	British American Tobacco	4,037	1.89	
98,729	Imperial Tobacco	1,924	0.90	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	Pharmaceuticals & biotechnology		**6.43**	**7.57**
169,828	AstraZeneca	4,936	2.31	
390,272	BTG	681	0.32	
624,819	GlaxoSmithKline	8,107	3.80	
	Food & drug retailers		**0.67**	**0.66**
1,172,462	Booker Group	536	0.25	
274,159	Sainsbury (J.)	891	0.42	
	General retailers		**1.29**	**2.36**
450,485	Halfords Group	1,840	0.86	
231,063	Home Retail Group	650	0.30	
39,750	Mothercare	270	0.13	
	Media		**1.68**	**2.56**
109,794	Daily Mail & General Trust 'A' (non-voting)	461	0.22	
137,428	Pearson	1,193	0.56	
379,029	Reed Elsevier	1,914	0.90	
	Travel & leisure		**0.77**	**1.22**
27,684	Compass Group	128	0.06	
446,580	Ladbrokes	634	0.30	
460,246	William Hill	876	0.41	
	Fixed line telecommunications		**1.52**	**0.75**
1,223,073	BT Group	1,738	0.81	
1,038,591	Cable & Wireless	1,517	0.71	
	Mobile telecommunications		**3.09**	**4.65**
4,734,228	Vodafone Group	6,588	3.09	
	Electricity		**0.18**	**0.09** [a]
33,461	Scottish & Southern Energy	388	0.18	
	Gas, water & multi-utilities		**2.98**	**3.26** [a]
694,029	Centrica	1,922	0.90	
259,772	National Grid	1,703	0.80	
127,928	Severn Trent	1,380	0.65	
272,925	United Utilities	1,344	0.63	
	Banks		**4.78**	**5.06**
1,391,411	HSBC Holdings	10,193	4.78	
2,547	Lloyds Banking Group	1	0.00	
	Financial services		**1.05**	**0.99**
181,206	Close Brothers Group	1,274	0.60	
285,401	IP Group	160	0.07	
18,910	London Stock Exchange	136	0.06	
73,871	Provident Financial	691	0.32	
	Life insurance		**1.89**	**3.53**
284,361	Aviva	1,142	0.54	
901,860	Legal & General Group	721	0.34	
120,166	Prudential	758	0.36	
659,090	Standard Life	1,396	0.65	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	Non-life insurance		**0.72**	**0.00**
69,132	Jardine Lloyd Thompson Group	331	0.16	
941,557	RSA Insurance Group	1,189	0.56	
	Real estate investment trusts		**2.00**	**0.54**
158,575	Great Portland Estates	452	0.21	
256,994	Land Securities Group	1,686	0.79	
110,268	Mucklow (A&J) Group	356	0.17	
513,497	Segro	1,760	0.83	
	Software & computer services		**1.13**	**0.94**
1,050,171	Sage Group	2,416	1.13	
	'AAA' credit rated bonds		**7.27**	**9.11**
£255,000	BL Superstores Finance 4.482% 2030	221	0.10	
£500,000	Broadgate Financing FRN 2032	374	0.18	
£910,000	Chester Asset Receivables 6% 2013	903	0.42	
£81,176	Cornerstone Titan FRN 2014	61	0.03	
£1,143,333	Cumbernauld Fund 4.55% 2014	1,105	0.52	
£550,000	Gracechurch Card Funding No.10 FRN 2012	541	0.25	
£474,885	Granite Master Issuer FRN 2054 'A6'	413	0.19	
£166,383	Granite Master Issuer FRN 2054 '4A2'	145	0.07	
£917,049	Granite Mortgages 03-2 FRN 2043	812	0.38	
£513,522	Granite Mortgages 04-3 FRN 2044	447	0.21	
£1,020,000	Holmes Financing No.1 Var. Rate Perp.	1,042	0.49	
£357,104	Housing Association Funding 8.25% 2027	429	0.20	
£1,000,000	KfW 5.5% 2025	1,083	0.51	
£1,000,000	Network Rail Infrastructure Finance 4.75% 2024	996	0.47	
£833,000	New York Life Global Funding 4.5% 2013	851	0.40	
£227,868	Opera Finance FRN 2017	182	0.09	
£1,060,000	Permanent Financing No.3 Var. Rate 2042	1,060	0.50	
£490,000	Permanent Financing No.6 FRN 2042	477	0.22	
£200,000	Permanent Master Issuer FRN 2020	190	0.09	
£200,000	Permanent Master Issuer FRN 2042	201	0.09	
£262,345	Rabobank Nederland 2.25% IL 2022	273	0.13	
£465,014	Sandwell Commercial Finance No.2 FRN 2037	289	0.14	
£950,000	Sherwood Castle Funding 5% 2012	934	0.44	
£300,000	Silverstone Master Issuer FRN 2055	302	0.14	
£1,850,000	Treasury 5% 2025	1,957	0.92	
£241,000	Unite (USAF) FRN 2017	183	0.09	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	'AA' credit rated bonds		**4.15**	**8.39**
£60,000	Barclays Bank Var. Rate 2023	60	0.03	
£850,000	BNP Paribas FRN 2015	833	0.39	
£900,000	BNP Paribas Var. Rate 2015	906	0.42	
£545,000	Broadgate Financing 4.999% 2033	434	0.20	
£800,000	Land Securities Capital Markets Var. Rate 2025	712	0.33	
£555,000	Land Securities Capital Markets Var. Rate 2032	511	0.24	
£322,000	Land Securities Capital Markets Var. Rate 2036	283	0.13	
£719,000	Massmutual Global Funding 6.125% 2013	761	0.36	
£473,018	Mitchells & Butlers Finance 5.574% 2030	460	0.22	
£600,000	Mitchells & Butlers Finance FRN 2030	456	0.21	
£197,000	Monumental Global Funding 6% 2014	202	0.09	
£250,000	National Australia Bank 5.125% 2021	245	0.11	
£150,000	Northern Trust 5.375% 2015	147	0.07	
£300,000	Places for People 5.09% 2043	280	0.13	
£185,000	RSL Finance No.1 6.625% 2038	202	0.09	
£400,000	Santander Issuances Var. Rate 2017	414	0.19	
£1,000,000	Santander Issuances Var. Rate 2019	1,068	0.50	
£800,000	UBS Jersey Var. Rate 2024	779	0.37	
£150,000	Westpac Banking Var. Rate 2018	156	0.07	
	'A' credit rated bonds		**15.90**	**13.06**
£300,000	Abbey National Sterling Capital 11.5% 2017	371	0.17	
£319,000	Aegon 6.625% 2039	318	0.15	
£880,000	ASIF III (Jersey) 5.375% 2016	761	0.36	
£700,000	AT&T 5.875% 2017	745	0.35	
£169,000	BAA Funding 6.75% 2028	172	0.08	
£690,000	BAA Funding Var. Rate 2023	834	0.39	
£1,800,000	BAA Funding Var. Rate 2025	1,587	0.74	
£795,000	Banca Intesa Var. Rate 2016	809	0.38	
£750,000	Bank of America 5.25% 2016	714	0.33	
£850,000	Bank of America 6.125% 2021	852	0.40	
£400,000	Bank of America FRN 2012	384	0.18	
£490,000	Bank of Tokyo Mitsubishi (Curacao) Var. Rate 2017	494	0.23	
£209,000	Barclays Bank 10% 2021	257	0.12	
£250,000	Cargill 5.375% 2037	223	0.10	
£350,000	Centrica 7% 2018	392	0.18	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	'A' credit rated bonds (continued)			
£800,000	Coca-Cola Enterprises 6.5% 2021	883	0.41	
£600,000	Crédit Agricole Var. Rate Perp. (7.589%)	606	0.28	
£100,000	Crédit Agricole Var. Rate Perp. (8.125%)	106	0.05	
£947,000	DnB NOR Bank Var. Rate 2017	1,000	0.47	
£400,000	E.ON International Finance 6% 2019	427	0.20	
£1,000,000	Enel 5.625% 2024	1,001	0.47	
£300,000	Fonterra Co-op Group 9.375% 2023	380	0.18	
£500,000	France Telecom 7.25% 2020	576	0.27	
£100,000	Goldman Sachs Group 5.5% 2021	93	0.04	
£400,000	Hartford Life Institutional Fund 5.375% 2012	395	0.19	
£600,000	HSBC Bank Var. Rate 2020	568	0.27	
£480,000	HSBC Capital Funding Var. Rate Perp.	506	0.24	
£1,300,000	HSBC Holdings Var. Rate 2022	1,325	0.62	
£500,000	Iberdrola Finanzas 7.375% 2024	582	0.27	
£1,600,000	JPMorgan Chase 5.375% 2016	1,617	0.76	
£400,000	JPMorgan Chase Var. Rate 2017	412	0.19	
£400,000	La Poste 5.625% 2016	420	0.20	
£200,000	Legal & General Group Var. Rate 2041	234	0.11	
£500,000	London Stock Exchange 9.125% 2019	592	0.28	
£133,000	Marston's Issuer Var. Rate 2027	118	0.06	
£480,000	MetLife 5.25% 2020	441	0.21	
£618,104	Mitchells & Butlers Finance 5.965% 2025	623	0.29	
£756,000	Nordea Bank Var. Rate 2015	758	0.36	
£164,998	PICTS 5.218% 2039	138	0.06	
£459,000	Principal Financial 5.625% 2013	466	0.22	
£400,000	Rolls-Royce 6.75% 2019	440	0.21	
£50,000	Royal Bank of Scotland 7.5% 2024	55	0.03	
£375,000	RWE Finance 5.625% 2023	379	0.18	
£175,000	Scottish & Southern 5.875% 2022	181	0.08	
£500,000	Scottish Power 6.75% 2023	548	0.26	
£300,000	Severn Trent Water 6% 2018	313	0.15	
£300,000	Severn Trent Water 6.25% 2029	325	0.15	
£369,000	Southern Electric Power 5.5% 2032	370	0.17	
£291,000	SPI Electricity & Gas 7.125% 2018	323	0.15	
£850,000	Standard Chartered Bank 7.75% 2018	941	0.44	
£188,000	Stockland Finance 5.625% 2013	186	0.09	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	'A' credit rated bonds (continued)			
£210,000	T.H.F.C. Funding No.2 6.35% 2041	226	0.11	
£650,000	Telefónica Emisiones 5.375% 2026	633	0.30	
£1,950,000	Tesco 5% 2023	1,848	0.87	
£152,000	Tesco 6.125% 2022	161	0.08	
£300,000	The Society of Lloyd's Var. Rate 2025	303	0.14	
£156,000	Vattenfall Treasury 6.125% 2019	168	0.08	
£600,000	Verizon Wireless Capital 8.875% 2018	749	0.35	
£900,000	Vodafone Group 5.625% 2025	898	0.42	
£622,000	Westfield Financial 5.5% 2017	603	0.28	
£140,000	Yorkshire Water Services 6.375% 2039	157	0.07	
£860,000	Yorkshire Water Services Odsal Finance 6.5876% 2023	928	0.43	
	'BBB' credit rated bonds		**12.94**	**5.57**
£500,000	Akzo Nobel 8% 2016	581	0.27	
£500,000	Anglian Water Services Finance Var. Rate 2040	468	0.22	
£923,000	Anglo American Capital 6.875% 2018	997	0.47	
£1,000,000	Anheuser-Busch InBev 9.75% 2024	1,366	0.64	
£173,000	Aviva Var. Rate 2058	172	0.08	
£200,000	AXA Var. Rate Perp.	168	0.08	
£120,000	Bank of Scotland 9.375% 2021	126	0.06	
£1,000,000	BAT International Finance 7.25% 2024	1,121	0.53	
£600,000	British Telecommunications Var. Rate 2016	693	0.32	
£815,000	BSkyB Finance UK 5.75% 2017	851	0.40	
£425,000	Cadbury Schweppes 7.25% 2018	471	0.22	
£250,000	Compagnie de St. Gobain 5.625% 2024	227	0.11	
£300,000	Compass Group 7% 2014	331	0.16	
£325,000	CRH 8.25% 2015	362	0.17	
£600,000	Deutsche Telekom 6.5% 2022	656	0.31	
£250,000	ENW Capital Finance 6.125% 2021	259	0.12	
£450,000	Finmeccanica 8.00% 2019	537	0.25	
£300,000	FirstGroup 6.125% 2019	305	0.14	
£450,000	FirstGroup 6.875% 2024	472	0.22	
£175,000	FirstGroup 8.125% 2018	204	0.10	
£507,000	G4S 7.75% 2019	572	0.27	
£1,650,000	Glencore Finance Europe 6.5% 2019	1,645	0.77	
£295,000	Goodman Australia 9.75% 2018	304	0.14	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	'BBB' credit rated bonds (continued)			
£2,250,000	Imperial Tobacco Finance 8.125% 2024	2,609	1.22	
£400,000	LaFarge 6.625% 2017	416	0.19	
£155,000	Lafarge 8.75% 2017	180	0.08	
£200,000	Lend Lease Europe 6.125% 2021	176	0.08	
£195,000	Lloyds TSB Bank 6.625% 2015	196	0.09	
£223,000	Lloyds TSB Bank 9.625% 2023	250	0.12	
£500,000	Lloyds TSB Bank Var. Rate 2020	483	0.23	
£300,000	Lothian Mortgages No.3 FRN 2039	258	0.12	
£271,000	Marks & Spencer 6.125% 2019	279	0.13	
£600,000	Nationwide Building Society Var. Rate 2018	594	0.28	
£450,000	Next 5.875% 2016	471	0.22	
£60,000	Northumbrian Water 6% 2017	63	0.03	
£250,000	Northumbrian Water 6.875% 2023	274	0.13	
£300,000	Pearson 7% 2014	331	0.16	
£200,000	Pearson Funding 6% 2015	212	0.10	
£735,000	Petroleos Mexicanos 8.25% 2022	779	0.37	
£400,000	Rentokil Initial 5.75% 2016	409	0.19	
£250,000	Royal Bank of Scotland 9.625% 2015	273	0.13	
£83,000	RSA Insurance Var. Rate 2039	99	0.05	
£334,000	Siemens Financier. Var. Rate 2066	326	0.15	
£450,000	Société Générale Var. Rate Perp.	450	0.21	
£110,000	South East Water 5.5834% 2029	104	0.05	
£205,000	Stagecoach 5.75% 2016	206	0.10	
£119,486	Sutton Bridge Financing 8.625% 2022	129	0.06	
£63,000	Tate & Lyle International Finance 6.75% 2019	65	0.03	
£157,000	Telereal Securitisation 6.1645% 2033	130	0.06	
£400,000	Thames Water Utilities Finance 6.5% 2032	437	0.20	
£300,000	Thames Water Utilities Finance 6.75% 2028	336	0.16	
£700,000	TNT 7.5% 2018	787	0.37	
£550,000	Tomkins Finance 6.125% 2015	559	0.27	
£299,000	United Business Media 6.5% 2016	304	0.14	
£330,000	Vector Group 7.625% 2019	334	0.16	
£1,100,000	WPP Group 6% 2017	1,112	0.52	
£973,000	Xstrata Canada Financial 7.375% 2020	1,049	0.49	
	'BB' credit rated bonds		**0.02**	**0.00**
£150,000	Granite Master Issuer FRN 2054 'C3'	38	0.02	

Portfolio

Portfolio statement (continued)

as at 7 January 2010

Holding		Value £'000	07.01.10 %	07.01.09 %
	Bonds with no credit rating		**3.70**	**3.04**
£420,000	Annington Repackaging No.1 5.3236% 2023	373	0.17	
£80,000	British Land 5.264% 2035	65	0.03	
£166,424	British Land 5.357% 2028	142	0.07	
£84,000	British Land 5.357% 2028 (Bearer)	71	0.03	
£75,000	British Land 6.75% 2011	77	0.04	
£300,000	British Land 6.75% 2020 (Bearer)	298	0.14	
£250,000	Brixton 6% 2019	243	0.11	
£400,000	BUPA Finance 7.5% 2016	432	0.20	
£148,329	Capital & Countries 5.562% 2027	119	0.06	
£240,000	Delamare Finance 6.067% 2029	224	0.10	
£214,000	Hammerson 6% 2026	202	0.09	
£748,000	Hammerson 7.25% 2028	816	0.38	
£950,000	Heineken 7.25% 2015	1,049	0.49	
£365,000	Housing Finance 8.625% 2023	462	0.22	
£828,000	John Lewis 8.375% 2019	973	0.46	
£300,000	Lehman Brothers Holdings 7.875% 2018	47	0.02	
£100,000	Linde Finance 12.25% 2017	123	0.06	
£150,000	National Express 6.25% 2017	151	0.07	
£450,000	Reed Elsevier Investments 5.625% 2016	457	0.21	
£250,000	Royal Bank of Scotland 10.5% 2013	277	0.13	
£357,000	Safeway 6.125% 2018	385	0.18	
£484,000	Segro 6.75% 2021	498	0.23	
£150,000	Segro 6.75% 2024	150	0.07	
£300,000	Segro 7.125% 2010	301	0.14	
£150,000	Washington Mutual Bank 5.5% 2019 [b]	0	0.00	
Portfolio of investments (notes 1b & 1d)		**211,219**	**99.01**	**98.68**
Net other assets		**2,116**	**0.99**	**1.32**
Net assets attributable to unitholders		**213,335**	**100.00**	**100.00**

[a] The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

[b] Unquoted / unlisted.

Asset class split	Value £'000	07.01.10 %	07.01.09 %
Equities	117,383	55.03	59.10
Bonds	93,836	43.98	39.58
Net other assets	2,116	0.99	1.32
Net assets attributable to unitholders	**213,335**	**100.00**	**100.00**

Financial statements

for the year ended 7 January 2010

Statement of total return

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Income					
Net capital gains / (losses)	3		25,130		(51,386)
Revenue	4	10,772		12,653	
Expenses	5	(1,549)		(1,842)	
Net revenue before taxation		9,223		10,811	
Taxation	6	(819)		(859)	
Net revenue after taxation			8,404		9,952
Total return before distributions			**33,534**		**(41,434)**
Finance costs: Distributions	12		(9,561)		(11,325)
Change in net assets attributable to unitholders from investment activities			**23,973**		**(52,759)**

Statement of change in unitholders' net assets

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Opening net assets attributable to unitholders		**194,005**		**248,691**
Amounts received on issue of units	7,743		12,500	
Amounts paid on cancellation of units	(14,889)		(17,510)	
		(7,146)		(5,010)
Stamp Duty Reserve Tax (SDRT)		(25)		(34)
Change in net assets attributable to unitholders from investment activities (see above)		23,973		(52,759)
Retained distributions on Accumulation units		2,516		3,109
Unclaimed distributions		12		8
Closing net assets attributable to unitholders		**213,335**		**194,005**

Financial statements

Balance sheet

	as at 7 January 2010 £'000	as at 7 January 2010 £'000	as at 7 January 2009 £'000	as at 7 January 2009 £'000
Assets				
Investment assets		211,219		191,447
Debtors				
Amounts receivable on issues	0		40	
Bank interest receivable	0		1	
Debt security interest receivable	2,495		2,158	
Dividends receivable	456		634	
Sales awaiting settlement	3,875		1,387	
Tax recoverable	17		5	
Cash and bank balances	4,496		1,793	
Total other assets		**11,339**		**6,018**
Total assets		**222,558**		**197,465**
Liabilities				
Creditors				
Amounts payable on cancellations	(237)		(116)	
Corporation tax payable	(433)		(426)	
Deferred taxation	0		(1)	
Expenses payable	(59)		(115)	
Net distributions payable on Income units	(1,682)		(1,812)	
Purchases awaiting settlement	(6,810)		(988)	
SDRT payable	(2)		(2)	
Total liabilities		**(9,223)**		**(3,460)**
Net assets attributable to unitholders		**213,335**		**194,005**

Financial statements

Notes to the financial statements

1 Accounting policies

a) **Basis of accounting**
The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in November 2008 (the IMA SORP 2008).

b) **Basis of valuation of investments**
All investments are valued at their fair value as at 12 noon on 7 January 2010, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest. Unquoted investments are shown at the Manager's valuation.

c) **Investment gains and losses**
Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) **Exchange rates**
Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 7 January 2010, being the last business day of the financial year.

e) **Dividend and interest income**
Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge. Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Bank interest is recognised on an accruals basis and treated as revenue.

Notes to the financial statements (continued)

1 Accounting policies (continued)

f) **Stock dividends**
The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the trust. Any enhancement above the cash dividend is treated as capital.

g) **Underwriting commission**
This is treated as revenue and recognised when the issue takes place, except where the trust is required to take up all or some of the shares underwritten, in which case the commission is deducted from the cost of these shares.

h) **Expenses**
For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

i) **Apportionment of income and expenses to multiple unit classes**
With the exception of the Manager's periodic charge and registration fees, which are directly attributable to individual unit classes, all income and expenses are apportioned to the trust's unit classes pro-rata to the value of the net assets of the relevant unit class on the day that the income or expenses are recognised.

j) **Taxation**
The rate of corporation tax for the trust is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) **Deferred taxation**
Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Notes to the financial statements (continued)

1 Accounting policies (continued)

l) **Distribution policy**

The policy of the trust is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue. In determining the distribution of the trust, the Manager's periodic charge is offset against capital. The effect of this is that the distribution is determined as if the Manager's periodic charge had been charged to capital. Stock dividends form part of the distributable income.

Income attributable to Accumulation unitholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by unitholders for more than six years are credited to the capital property of the trust.

2 Risk management policy

In pursuing the trust's investment objective, as set out on page 1, the Manager accepts market price risk, interest rate risk and credit risk in relation to the investment portfolio.

The capital value of equity investments within the trust depends on the performance of the stockmarkets the trust is invested in.

In the context of the trust's objective, the Manager may, on occasion, make an investment with a view to securing a particular dividend to enhance distributable income. This can act as a constraint on short-term capital performance.

The capital value of bond investments within the trust may be affected by interest rate fluctuations. When interest rates rise the capital value is likely to fall and vice versa. The effect is more apparent where portfolios are invested in long dated securities, such as this trust.

Notes to the financial statements (continued)

2 Risk management policy (continued)

The Manager considers the credit rating, yield and maturity of corporate bonds in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the trust will fall in the event of the default or perceived increased credit risk of an issuer.

Generally, the Manager will not seek to hedge exposure to market price risk since he believes that, in the long term, such hedging would be detrimental to total return. Accordingly, although permitted by the Prospectus, the trust has not used derivative instruments.

Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

All of the Manager's periodic charge, net of any tax relief available, is offset against capital in determining the distribution of the trust, thereby increasing the level of distributable income whilst restraining the trust's capital performance to an equivalent extent. This policy increases investment opportunities in lower yielding companies and the Manager believes that this should facilitate maximising the total return of the trust, consistent with the yield target.

The trust's assets comprise securities of which the majority can be readily realised to meet obligations that may arise on the redemption of units. It is the Manager's policy that the trust should normally be close to fully invested but this is subject to the need to retain liquidity for the purpose of effecting the redemption of units, and the efficient management of the trust in accordance with its objectives. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of units or the realisation of investments. Higher liquidity levels may also arise when the trust's asset allocation policy is changed.

These policies have been consistently applied since the beginning of the financial year (07.01.09: same).

Financial statements

Notes to the financial statements (continued)

3 Net capital gains / (losses)

	2010 £'000	2009 £'000
Non-derivative securities	25,139	(52,012)
Currency gains	0	1
Effective yield adjustments	(5)	0
Special dividends taken to capital	0	629
Transaction charges	(4)	(4)
Net capital gains / (losses)	**25,130**	**(51,386)**

4 Revenue

	2010 £'000	2009 £'000
Bank interest	7	220
Interest on debt securities	5,502	5,862
Overseas dividends	0	9
Property income dividends	78	23
Stock dividends	443	148
UK dividends	4,687	6,366
Underwriting commission	55	25
Total revenue	**10,772**	**12,653**

5 Expenses

	2010 £'000	2009 £'000
Payable to the Manager or associate		
Manager's periodic charge	1,446	1,715
Payable to the Trustee or associate		
Trustee's fee (including VAT)	15	18
Distribution fees	1	1
	16	19
Other expenses		
Audit fee (including VAT)	9	9
Registration fees	70	90
Safe custody charge	8	9
	87	108
Total expenses	**1,549**	**1,842**

Notes to the financial statements (continued)

6 Taxation

	2010 £'000	2009 £'000
a) **Analysis of charge in the year**		
Corporation tax	820	858
Overseas tax	0	1
Double taxation relief	0	(1)
Current tax charge (note 6b)	820	858
Deferred tax (note 6c)	(1)	1
Total taxation	**819**	**859**

	2010 £'000	2009 £'000
b) **Factors affecting taxation charge for the year**		
Net revenue before taxation	9,223	10,811
Corporation tax at 20%	1,845	2,162
Effects of:		
UK dividends [a]	(937)	(1,273)
Stock dividends not taxable	(89)	(30)
Income taxable in different periods	1	(1)
Overseas tax	0	1
Double taxation relief	0	(1)
Current tax charge (note 6a)	**820**	**858**

[a] As an authorised unit trust this item is not subject to corporation tax.

	2010 £'000	2009 £'000
c) **Provision for deferred taxation**		
Provision at the start of the year	1	0
Deferred tax in profit and loss account (note 6a)	(1)	1
Provision at the end of the year	**0**	**1**

The trust does not have an unrecognised deferred tax asset at the year end (07.01.09: same).

Notes to the financial statements (continued)

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (07.01.09: same).

8 Related parties

Prudential Unit Trusts Limited, as Manager and The Royal Bank of Scotland plc, as Trustee, are regarded as controlling parties by virtue of having the ability to act in concert in respect of the operations of the trust. Prudential Unit Trusts Limited acts as principal on all the transactions of units in the trust except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in unitholders' net assets and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of unit transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Manager's periodic charge and amounts paid to The Royal Bank of Scotland plc in respect of the Trustee's fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

At the balance sheet date, the trust held shares in related parties of Prudential Unit Trusts Limited with a value of £758,000 (07.01.09: £1,906,000) and shares in related parties of the Royal Bank of Scotland plc with a value of £605,000 (07.01.09: £748,000).

At the balance sheet date, material unitholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 57.14% (07.01.09: 55.35%) of the trust's units.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (07.01.09: same).

Currency exposure

There was no significant foreign currency exposure within the trust at the balance sheet date (07.01.09: same).

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 07.01.10 £'000	as at 07.01.09 £'000	as at 07.01.10 £'000	as at 07.01.09 £'000	as at 07.01.10 £'000	as at 07.01.09 £'000
UK government / corporate bonds	6,586	3,079	87,250	72,894	93,836	75,973
Bank balances	4,496	1,793	0	0	4,496	1,793
Total	**11,082**	**4,872**	**87,250**	**72,894**	**98,332**	**77,766**

The weighted average gross interest rate of these fixed interest-bearing assets at the balance sheet date was 5.48% (07.01.09: 8.17%) and the weighted average period for which the interest rates were fixed was 9.35 years (07.01.09: 11.85 years) assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR); and variable rate bonds (07.01.09: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (07.01.09: same).

Notes to the financial statements (continued)

10 Portfolio transaction costs

	2010 £'000	2009 £'000
a) **Purchases**		
Purchases excluding transaction costs	135,065	90,021
Commissions	23	37
Taxes	106	202
Total transaction costs	129	239
Total purchases including transaction costs	**135,194**	**90,260**

	2010 £'000	2009 £'000
b) **Sales**		
Sales excluding transaction costs	140,644	85,498
Commissions	(28)	(26)
Total sales net of transaction costs	**140,616**	**85,472**

Notes to the financial statements (continued)

11 Unitholder funds

The trust contains Sterling Class 'A' (Income and Accumulation) units and Sterling Class 'C' (Income) units.

The charging structure for each unit class, as at 7 January 2010, is set out in the following table (07.01.09: same):

	Class 'A' %	Class 'C' %
Initial charge:	3.00	n/a
Redemption charge: [a]	n/a	n/a
Manager's annual remuneration:	1.50	nil

[a] The Manager may, at not less than 60 days notice to unitholders in writing, make a charge on the redemption of units. At present no redemption charge is levied.

With the exception of the Manager's periodic charge and registration fees, which are directly attributable to individual unit classes, all income and expenses are apportioned to the trust's unit classes pro-rata to the value of the net assets of the relevant unit class on the day that the income or expenses are recognised.

The net asset values for each unit class are set out in the following table:

	07.01.10		07.01.09	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	48,535	56,384	45,240	53,511
Class 'C'	108,416	n/a	95,254	n/a

The net asset value per unit and the number of units are given in the comparative table on page 7. The distribution per unit is given in the distribution tables on pages 29 and 30. Each unit class has the same rights on winding-up.

Notes to the financial statements (continued)

12 Finance costs

	2010 £'000	2009 £'000
Income units (sterling)		
Class 'A' - First interim	541	713
- Second interim	677	763
- Third interim	451	597
- Final	515	577
Class 'C' - First interim	1,169	1,443
- Second interim	1,471	1,606
- Third interim	1,009	1,252
- Final	1,166	1,235
Accumulation units (sterling)		
Class 'A' - First interim	628	843
- Second interim	774	896
- Third interim	522	697
- Final	592	673
Finance costs: Dividend distributions	9,515	11,295
Income deducted on cancellation of units	96	100
Income received on issue of units	(50)	(70)
Finance costs: Distributions	**9,561**	**11,325**
Net revenue per statement of total return	8,404	9,952
Expenses offset against capital	1,446	1,715
Relief on expenses offset against capital	(289)	(343)
Undistributed income brought forward	8	9
Undistributed income carried forward	(8)	(8)
Finance costs: Distributions	**9,561**	**11,325**

Distribution tables

Dividend distributions on Income units		Net revenue	Equalisation	Distribution paid / payable 2009/10	Distribution paid / payable 2008/09
Sterling		**p**	**p**	**p**	**p**
Class 'A'	**- First interim**				
	Group 1:	1.3260	-	1.3260	1.6660
	Group 2:	0.5870	0.7390	1.3260	1.6660
	- Second interim				
	Group 1:	1.6760	-	1.6760	1.8080
	Group 2:	0.7922	0.8838	1.6760	1.8080
	- Third interim				
	Group 1:	1.1320	-	1.1320	1.4440
	Group 2:	0.5378	0.5942	1.1320	1.4440
	- Final				
	Group 1:	1.3070	-	1.3070	1.4000
	Group 2:	0.6172	0.6898	1.3070	1.4000
Class 'C'	**- First interim**				
	Group 1:	1.4090	-	1.4090	1.7430
	Group 2:	1.2389	0.1701	1.4090	1.7430
	- Second interim				
	Group 1:	1.7770	-	1.7770	1.8960
	Group 2:	0.6790	1.0980	1.7770	1.8960
	- Third interim				
	Group 1:	1.2100	-	1.2100	1.5160
	Group 2:	0.4562	0.7538	1.2100	1.5160
	- Final				
	Group 1:	1.4000	-	1.4000	1.4880
	Group 2:	0.6834	0.7166	1.4000	1.4880

Financial statements

Distribution tables (continued)

Dividend distributions on Accumulation units		Net revenue	Equal-isation	Amount reinvested 2009/10	Amount reinvested 2008/09
Sterling		**p**	**p**	**p**	**p**
Class 'A'	**- First interim**				
	Group 1:	2.5076	-	2.5076	2.9880
	Group 2:	1.1101	1.3975	2.5076	2.9880
	- Second interim				
	Group 1:	3.2124	-	3.2124	3.2840
	Group 2:	1.5184	1.6940	3.2124	3.2840
	- Third interim				
	Group 1:	2.2046	-	2.2046	2.6617
	Group 2:	1.0474	1.1572	2.2046	2.6617
	- Final				
	Group 1:	2.5694	-	2.5694	2.6140
	Group 2:	1.2133	1.3561	2.5694	2.6140

First interim period	08.01.09 – 07.04.09
Second interim period	08.04.09 – 07.07.09
First interim period	08.07.09 – 07.10.09
Final period	08.10.09 – 07.01.10

Group 1: Units purchased prior to a distribution period.
Group 2: Units purchased during a distribution period.

Equalisation applies only to units purchased during the distribution period (Group 2 units). It is the average amount of revenue included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of units for Capital Gains Tax purposes.

EU savings directive

as at 7 January 2010

The percentage of the Prudential Distribution Trust held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is 39.05%.

Statement of the Manager's responsibilities

The Collective Investment Schemes sourcebook (COLL), as issued (and amended) by the Financial Services Authority (FSA) requires the Manager to prepare the annual report and financial statements for each financial year which give a true and fair view of the financial affairs of the Scheme and of its net revenue and net gains for the year. In preparing the financial statements the Manager is required to:

a) Select suitable accounting policies and then apply them consistently.

b) Comply with requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in November 2008.

c) Follow generally accepted accounting principles and applicable accounting standards.

d) Keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

e) Make judgments and estimates that are reasonable and prudent.

f) Prepare the financial statements on the going concern basis unless it is inappropriate to presume that this Scheme will continue in operation.

The Manager is responsible for the management of the Scheme in accordance with its Trust Deed, Prospectus and COLL.

The Manager is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of the Trustee's responsibilities

In respect of the scheme and report of the trustee to the unitholders of the Prudential Distribution Trust for the year ended 7 January 2010

The Trustee is responsible for the safekeeping of all the property of the Scheme (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Scheme is managed in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Scheme's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the Scheme; the application of revenue of the Scheme; and the investment and borrowing powers of the Scheme.

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects, the Manager:

i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme's units and the application of the Scheme's revenue in accordance with the Trust Deed, Prospectus and COLL.

ii) has observed the investment and borrowing powers and restrictions applicable to the Scheme.

The Royal Bank of Scotland plc
Trustee
Edinburgh
15 February 2010

Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority.

G W MacDowall
J R Talbot
Directors
Prudential Unit Trusts Limited
15 February 2010

Independent auditors' report

To the unitholders of the Prudential Distribution Trust ('the trust')

We have audited the financial statements of the Prudential Distribution Trust for the year ended 7 January 2010 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the related notes and the distribution tables. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Manager and Auditors

The Manager's responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of the Manager's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the requirements of the Collective Investment Schemes sourcebook. This report, including the opinion has been prepared for and only for the unitholders of the trust as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008, the Collective Investment Schemes sourcebook and the Trust Deed. We also report to you whether, in our opinion, proper accounting records for the trust have not been kept or whether the financial statements are not in agreement with those records, and whether the information given in the Manager's Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Manager's Report and the other items set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the trust at 7 January 2010 and of the net revenue and the net gains of the property of the trust for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008, the Collective Investment Schemes sourcebook and the Trust Deed.

We have obtained all the information and explanations we consider necessary for the purposes of the audit.

In our opinion the information given in the Manager's Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
London
15 February 2010

The financial statements are published at www.pru.co.uk/managersreports, which is a website maintained by Prudential UK ('Prudential'). The maintenance and integrity of the website maintained by Prudential or any of its subsidiaries is, so far as it relates to the trust, the responsibility of Prudential. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Note to unitholders

The annual management charge is paid fortnightly in arrears from the Trust's Scheme Property. It was previously paid fortnightly in advance from the Trust's Scheme Property.

General information

If you would like further details about any aspects of your investment please contact Customer Relations.

Prudential Unit Trusts Limited,
PO Box 9022, Chelmsford, Essex CM99 2WA

Please remember to quote your name, customer number, and sign any written communication to Prudential. Failure to provide this may affect your ability to transact with us.

Alternatively, if you are unsure whether your investment remains suitable, you should seek financial advice.

Prudential Unit Trust prices can be obtained from our website at www.pru.co.uk or by telephoning Customer Relations on 0845 783 5500.

For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your customer number. Failure to provide this will affect your ability to transact with us.

Copies of the Prospectus are available on request free of charge.

Prudential Unit Trusts Limited is a member of the Investment Management Association.

You are classified as a 'Retail Client' as defined in the FSA Handbook unless we notify you in writing to the contrary.

Category of Trust
The Prudential Distribution Trust is an Authorised Unit Trust Scheme within the meaning of the Financial Services & Markets Act 2000 and has been established as a 'UCITS' Scheme (Undertakings for Collective Investment in Transferable Securities).

Manager
Prudential Unit Trusts Limited,
Laurence Pountney Hill, London EC4R 0HH
Telephone: 0845 783 5500
(Authorised and regulated by the Financial Services Authority)

Directors

T Cheal
C I Jackson
M Lewis
G W MacDowall
L U Midwinter
L J Mumford
W J Nott
L J Scrine
J R Talbot

Secretary

M&G Management Services Limited

Investment adviser

M&G Investment Management Limited,
Laurence Pountney Hill, London EC4R 0HH
(Authorised and regulated by the Financial Services Authority)

Registrar

International Financial Data Services (UK) Limited,
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS
(Authorised and regulated by the Financial Services Authority)

Trustee

The Royal Bank of Scotland plc,
Trustee & Depositary Services, The Broadstone,
50 South Gyle Crescent, Edinburgh EH12 9UZ
(Authorised and regulated by the Financial Services Authority)

Independent auditors

Each trust has its financial statements audited by an independent firm of auditors. The audited financial statements are published every year within the Manager's Annual Report.

PricewaterhouseCoopers LLP,
Hay's Galleria, 1 Hay's Lane, London SE1 2RD

PRUDENTIAL

www.pru.co.uk

26883_LR