

# Prudential Corporate Bond Trust

Manager's annual report for  
the year ended 31 May 2011  
(audited)

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<sup>+</sup> Collectively, these comprise the Manager's Report.

# Trust objective and policy

On 23 May 2011 the investment objective and policy of the Trust changed.

## **Investment Objective and Policy up to 23 May 2011:**

The objective of the Trust is to maximise the long term return in sterling from capital and net income combined by investment in a portfolio consisting wholly or mainly of bonds issued by UK companies.

## **Investment Objective and Policy from 23 May 2011:**

The Trust aims to achieve a higher total return (the combination of income and growth of capital) from investment than would be obtainable in UK government fixed interest securities (ie gilts) of similar maturities. The Trust invests mainly in sterling denominated corporate debt instruments. Any currency exposures within the Trust may be managed by currency hedges into sterling. The Trust may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash and near cash, deposits, warrants, and money market instruments.

# Manager's comments

During the 12-month review period, the trust increased 5.8%\* in terms of total return (capital performance with net income reinvested). This compares with a total return of 6.8%\* from the trust's peer group, the IMA £ UK Corporate Bond sector, over the same period.

The year under review was a favourable period for fixed income assets, but yields (the bond's rate of return) were volatile as investor sentiment swayed on the back of economic news. Above all, higher inflation in the UK and concerns over the ability of the weaker eurozone countries to repay their government debt led to fluctuating yields during the review period. Yields have an inverse relationship to price. If a bond's price goes down, its yield goes up, and vice versa.

In the first half of the review period, yields on UK government bonds (gilts), which is debt issued by the UK government, fell as investors became more risk averse due to the government debt crisis in the eurozone. From November 2010, however, investors moved to riskier assets, such as corporate bonds, on the back of more positive economic data and better-than-expected results from many companies. As a result, gilt yields rose. All in all, corporate bonds, that is debt issued by companies, returned more than government bonds over the review period as investor sentiment improved and

## Manager's comments (continued)

corporate bond spreads (the yield premium demanded by investors to hold corporate credit rather than UK government debt of a similar maturity) narrowed. The trust's significant exposure to corporate bonds therefore added value during the review period.

However, investors in particular preferred financial bonds during the review period, including higher yielding and riskier subordinated bank bonds. The portfolio's relatively small exposure to such assets therefore was the main driver of the trust's underperformance. The fund manager remains wary of many bank bonds due to the ongoing problems in the weaker eurozone economies and the large exposure that some financial institutions have to these countries. Consequently, the trust's weighting in financial bonds, which at the end of May 2011 was 15.0%, remains modest relative to the peer group.

The rise in gilt yields in the early part of 2011 was also precipitated by heightened concerns about inflation in the UK, which in turn increased expectations that the Bank of England (BoE) would raise interest rates. The UK Consumer Prices Index rose to 4.0% in January and stood at 4.5% in May, largely on the back of higher energy and food prices as well as an increase to value added tax (VAT) in January.

Even though price pressures have grown, the BoE maintained the key lending rate at 0.5% during the review period due to the weak economic recovery in the UK. For example, figures showed that the UK economy contracted in the last quarter of 2010 and grew only tepidly in the first three months of 2011. What is more, the housing market remains weak and the unemployment rate continues to hover around 8.0%. Against this uncertain backdrop, the fund manager increased the trust's exposure to government bonds by putting money into gilts maturing in 2019, 2022 and 2027.

At the same time, the fund manager believes that corporate bonds remain an appealing asset class. While credit spreads have fallen from the record highs reached in 2009, they are still pricing in a higher level of defaults than corporate bonds have experienced historically. Since the financial crisis, fewer companies have run into trouble and the default rate therefore has fallen sharply. This is because many businesses have reduced their borrowings and have emerged from the downturn in better financial health than before.

## Manager's comments (continued)

During the review period, the fund manager realised profits by reducing holdings in corporate bonds that had performed well, such as issues from telecommunications firm Vodafone, drugmaker GlaxoSmithKline and property company Land Securities as well as food retailer Tesco. Conversely, he invested in corporate bonds offering attractive yields, including real estate group Hammerson, cable company Virgin Media and credit rating firm Experian.

The fund manager also raised the portfolio's weighting in asset-backed securities and covered bonds, which he likes due to the security they offer. These good quality bonds are backed by a specific pool of underlying assets that investors have recourse to in the case of insolvency. In this sphere, he invested in secured bonds from Eversholt, which leases trains to UK rail operators.

The fund manager believes that while the inflation rate has been driven higher by the VAT hike and elevated commodity prices, price pressures should taper off in 2012. This is due to the substantial spare capacity in the economy, high unemployment and lack of pressure on wages. As a result, it is his view that the BoE is going to maintain interest rates at a low level longer than bond investors generally think. This environment should continue to support corporate bonds, which the fund manager believes still offer attractive value to long-term investors.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 May 2011.

Please note that the views expressed in this Report should not be taken as a recommendation or advice as to how the Prudential Corporate Bond 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
Interim	17.06.11	17.08.11

	Final distribution Inc 31.07.11 <sup>[a]</sup>	Total Expense Ratio <sup>[b]</sup>	
		31.05.11	31.05.10
Sterling	p	%	%
Class 'A'	0.4536	1.39	1.40
Class 'C'	0.6176	0.01	0.01

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

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 31.05.11 Inc	Net asset value per unit as at 31.05.10 Inc	Net asset value % change Inc
Sterling	p	p	%
Class 'A'	58.73	57.20	+2.67
Class 'C'	58.77	57.22	+2.71

# Trust statistics

## Prices

	Calendar year	Income units	
		Highest	Lowest
Sterling Class 'A'	2006	p 59.54	p 56.07
	2007	56.43	53.33
	2008	55.49	49.30
	2009	57.06	49.69
	2010	61.00	55.87
	2011 <sup>[a]</sup>	59.52	57.10
Class 'C'	2006	59.59	56.12
	2007	56.58	53.41
	2008	55.58	49.41
	2009	57.24	49.79
	2010	61.22	55.95
	2011 <sup>[a]</sup>	59.72	57.25

[a] Up to 1 June 2011.

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

## Income

### Interest income per unit

	Calendar year	Interims	Distributed Final	Interim	Total
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2006	0.9116	0.4532	0.4632	1.8280
	2007	0.9238	0.4794	0.4420	1.8452
	2008	0.9264	0.4476	0.4916	1.8656
	2009	0.9740	0.4792	0.4908	1.9440
	2010	0.9640	0.4844	0.4856	1.9340
	2011 <sup>[a]</sup>	0.9040	0.4536	-	1.3576
<b>Class 'C'</b>	2006	1.2360	0.6180	0.6256	2.4796
	2007	1.2394	0.6323	0.5940	2.4657
	2008	1.2352	0.6012	0.6408	2.4772
	2009	1.2660	0.6148	0.6412	2.5220
	2010	1.2776	0.6460	0.6536	2.5772
	2011 <sup>[a]</sup>	1.2272	0.6176	-	1.8448

[a] Up to final: ex-distribution date 1 June 2011;  
payment date 31 July 2011.

## Trust information

Following a unitholder vote on 20 May 2011, the Prudential Corporate Bond Trust merged with the M&G Corporate Bond Fund, a sub-fund of M&G Investment Funds (3), immediately after 17 June 2011.

On 23 May 2011 the investment objective and policy of the trust changed.

# Trust statistics

## Net assets

	Year ended	Value per unit Inc	Number of units Inc
<b>Sterling Class 'A'</b>		<b>p</b>	
	May 2009	51.03	51,169,714
	May 2010	57.20	47,927,714
	May 2011	58.73	45,394,714
<b>Class 'C'</b>	May 2009	51.04	1,647,072,732
	May 2010	57.22	1,403,401,732
	May 2011	58.77	1,268,748,832

## Total net asset value of trust

Year ended	£
May 2009	866,714,000
May 2010	830,492,000
May 2011	772,286,000

# Portfolio

## Portfolio statement

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'AAA' credit rated bonds</b>		<b>16.95</b>	<b>15.58</b>
£4,000,000	Abbey National Treasury Services 5.75% 2026	4,217	0.55
£2,000,000	Alba FRN 2051	1,966	0.25
£4,974,000	Arkle Master Issuer FRN 2060	4,924	0.64
£400,000	BL Superstores Finance 4.482% 2030	393	0.05
£1,030,000	Broadgate Financing 4.821% 2036	972	0.13
£2,700,000	Broadgate Financing FRN 2032	2,263	0.29
£1,180,000	Cumbernauld Fund 4.55% 2014	1,184	0.15
£1,000,000	Eddystone Finance FRN 2021	948	0.12
£9,000,000	Fosse Master Issuer Var. Rate 2054	9,246	1.20
£1,000,000	Gracechurch Mortgage Financing FRN 2056	975	0.13
£406,663	Granite Master Issuer 05-1 FRN 2054 'A6'	390	0.05
£502,053	Granite Master Issuer 05-2 FRN 2054 'A7'	481	0.06
£1,757,184	Granite Master Issuer 06-1 FRN 2054 'A8'	1,687	0.22
£4,518,472	Granite Master Issuer 07-1 FRN 2054 '6A1'	4,333	0.56
£233,454	Granite Master Issuer 07-2 FRN 2054 '4A2'	224	0.03
£750,927	Granite Mortgages 03-2 Var. Rate 2043	727	0.09
£6,535,957	Granite Mortgages 04-3 Var. Rate 2044	6,307	0.82
£151,010	Mansard Mortgages FRN 2048	134	0.02
£375,000	Permanent Financing No.6 FRN 2042	374	0.05
£2,000,000	Permanent Master Issuer FRN 2020	1,953	0.25
£4,418,000	Permanent Master Issuer Var. Rate 2042	4,565	0.59
£1,250,000	Trafford Centre Finance FRN 2038	985	0.13
£19,000,000	Treasury 3.75% 2019	19,850	2.57
£30,696,000	Treasury 4% 2022	31,948	4.14
£12,500,000	Treasury 4.25% 2027	12,927	1.67
£15,000,000	Treasury 4.5% 2019	16,545	2.14
£413,000	Unite (USAF) FRN 2017	390	0.05
<b>'AA' credit rated bonds</b>		<b>5.58</b>	<b>7.66</b>
£2,170,000	Australia & New Zealand Banking Group Var. Rate 2018	2,231	0.29
£3,000,000	HSBC Holdings 6.5% 2024	3,360	0.43
£1,177,250	Integrated Accommodation 6.48% 2029	1,344	0.17
£960,000	Investor 5.5% 2037	979	0.13
£437,000	JPMorgan Fleming Merchantile Investment Trust 6.125% 2030	460	0.06

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'AA' credit rated bonds (continued)</b>			
£6,175,000	Land Securities Capital Markets Var. Rate 2019	6,556	0.85
£1,000,000	Land Securities Capital Markets Var. Rate 2022	1,064	0.14
£1,850,000	Land Securities Capital Markets Var. Rate 2025	1,861	0.24
£3,000,000	Land Securities Capital Markets Var. Rate 2027	3,111	0.40
£1,080,000	Land Securities Capital Markets Var. Rate 2032	1,102	0.14
£1,122,000	Land Securities Capital Markets Var. Rate 2036	1,101	0.14
£2,600,000	Places for People 5.09% 2043	2,631	0.34
£1,600,000	Places for People 8.625% 2020	2,074	0.27
£415,000	RSL Finance No.1 6.625% 2038	488	0.06
£3,449,000	Sanctuary Capital 6.697% 2039	4,238	0.55
£567,997	Sandwell Commercial Finance No.2 FRN 2037	453	0.06
£300,000	Santander UK 6.5% 2015	330	0.04
£1,800,000	Scotland Gas Network 4.75% 2017	1,873	0.24
£1,000,000	Telereal Securitisation 5.5534% 2033	1,025	0.13
£1,893,000	Wal-Mart Stores 5.625% 2034	2,043	0.26
£5,000,000	Wells Fargo 5.25% 2023	4,907	0.64
		<b>27.21</b>	<b>29.99</b>
<b>'A' credit rated bonds</b>			
£1,000,000	Anglian Water Services Finance 5.837% 2022	1,077	0.14
£1,150,000	Anglian Water Services Finance Var. Rate 2014	1,407	0.18
£5,070,000	Anglian Water Services Finance Var. Rate 2023	5,985	0.77
£1,500,000	Anheuser-Busch InBev 9.75% 2024	2,129	0.28
£1,500,000	ASIF III (Jersey) 5% 2018	1,470	0.19
£3,000,000	BAA Funding 6.75% 2026	3,279	0.42
£4,500,000	BAA Funding Var. Rate 2018	6,067	0.79
£712,000	BAA Funding Var. Rate 2023	932	0.12
£5,292,000	BAA Funding Var. Rate 2025	5,162	0.67
£4,000,000	BAA Funding Var. Rate 2030	4,563	0.59
£1,000,000	Bank of America 5.25% 2016	1,002	0.13
£5,700,000	Bank of America 6.125% 2021	6,041	0.78
£1,000,000	Bank of America 7% 2028	1,100	0.14
£2,500,000	Barclays Bank 10% 2021	3,093	0.40
£1,500,000	Barclays Bank Var. Rate 2023	1,560	0.20
£6,000,000	BG Energy Capital 5.125% 2017	6,454	0.84
£3,846,000	BG Energy Capital 5.125% 2025	3,906	0.51

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'A' credit rated bonds (continued)</b>			
£815,000	Broadgate Financing 4.999% 2033	765	0.10
£3,000,000	Centrica 5.5% 2016	3,276	0.42
£3,100,000	Centrica 6.375% 2022	3,483	0.45
£500,000	Centrica 6.4% 2026	570	0.07
£3,950,000	Centrica 7% 2018	4,634	0.60
£874,000	DnB NOR Bank Var. Rate 2017	918	0.12
£2,000,000	DnB NOR Bank Var. Rate 2018	2,097	0.27
£500,000	DWR Cymru Financing 6.015% 2028	551	0.07
£4,763,000	DWR Cymru Financing 6.907% 2021	5,708	0.74
£1,500,000	Électricité de France 6.875% 2022	1,774	0.23
£2,000,000	France Telecom 5.25% 2025	2,020	0.26
£1,000,000	France Telecom 8% 2017	1,235	0.16
£1,932,000	GlaxoSmithKline Capital 5.25% 2033	1,960	0.25
£2,500,000	GlaxoSmithKline Capital 5.25% 2042	2,515	0.33
£1,500,000	Goldman Sachs Group 5.5% 2021	1,432	0.19
£1,370,000	Goldman Sachs Group 7.125% 2025	1,560	0.20
£700,000	Hartford Life Institutional Fund 5.375% 2012	708	0.09
£1,000,000	HSBC Bank Var. Rate 2017	1,025	0.13
£2,400,000	HSBC Bank Var. Rate 2023	2,383	0.31
£2,655,000	HSBC Bank Var. Rate 2030	2,515	0.33
£4,500,000	HSBC Holdings Var. Rate 2022	4,825	0.62
£1,500,000	JPMorgan Chase 5.375% 2016	1,578	0.20
£1,000,000	JPMorgan Chase Var. Rate 2017	1,019	0.13
£3,000,000	La Poste 5.625% 2016	3,253	0.42
£320,000	Legal & General Group 5.875% 2031	330	0.04
£675,000	London Merchant Securities 6.5% 2026	735	0.10
£185,000	Marston's Issuer Var. Rate 2027	187	0.02
£3,000,000	McDonalds 6.375% 2020	3,506	0.45
£1,000,000	Merrill Lynch 5.5% 2021	939	0.12
£500,000	Merrill Lynch 8.125% 2028	549	0.07
£1,480,263	Mitchells & Butlers Finance 5.965% 2025	1,595	0.21
£720,000	Morgan Stanley 5.75% 2017	764	0.10
£6,000,000	Motability Operations Group 6.625% 2019	6,994	0.91
£260,990	Opera Finance FRN 2017	244	0.03
£224,996	PICTS 5.218% 2039	195	0.03
£5,974,000	Rolls-Royce 6.75% 2019	6,914	0.90
£2,000,000	Royal Bank of Scotland 7.5% 2024	2,250	0.29
£1,000,000	RWE Finance 5.625% 2023	1,057	0.14

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'A' credit rated bonds (continued)</b>			
£1,040,000	Santander UK (formerly Abbey National Sterling Capital) 11.5% 2017	1,284	0.17
£3,090,000	Scottish & Southern 5% 2018	3,253	0.42
£1,610,000	Southern Electric Power 5.5% 2032	1,653	0.21
£5,000,000	Southern Water Services Finance 5% 2021	5,090	0.66
£3,409,000	Southern Water Services Finance 6.125% 2019	3,761	0.49
£3,600,000	Standard Chartered Bank 7.75% 2018	4,203	0.54
£3,024,000	T.H.F.C. Funding No.2 6.35% 2041	3,539	0.46
£2,000,000	Telefónica Emisiones 5.289% 2022	1,966	0.25
£10,500,000	Tesco 6.125% 2022	11,411	1.48
£3,037,568	Tesco Property Finance 3 5.744% 2040	3,124	0.40
£5,000,000	Thames Water Utilities Cayman 7.241% 2058	5,796	0.75
£878,000	Thames Water Utilities Finance 5.125% 2037	849	0.11
£600,000	Thames Water Utilities Finance 6.5% 2032	687	0.09
£3,000,000	Thames Water Utilities Finance 6.75% 2028	3,540	0.46
£2,750,000	The Society of Lloyd's Var. Rate 2025	2,880	0.37
£2,530,000	UBS Jersey Var. Rate 2024	2,702	0.35
£3,298,000	Vodafone Group 5.375% 2017	3,584	0.46
£8,500,000	Vodafone Group 8.125% 2018	10,558	1.37
£1,500,000	Yorkshire Water Services 6% 2019	1,682	0.22
£4,677,000	Yorkshire Water Services Odsal Finance 6.5876% 2023	5,394	0.70
<b>'BBB' credit rated bonds</b>		<b>36.28</b>	<b>32.69</b>
£5,000,000	Anglo American Capital 6.875% 2018	5,690	0.74
£2,000,000	Aspire Defence Finance 4.674% 2040 'A'	1,769	0.23
£2,500,000	Aspire Defence Finance 4.674% 2040 'B'	2,211	0.29
£4,950,000	Aviva Var. Rate 2036	4,543	0.59
£1,517,000	Aviva Var. Rate 2041	1,497	0.19
£3,000,000	Aviva Var. Rate 2058	2,898	0.38
£1,780,000	Aviva Var. Rate Perp.	1,506	0.20
£5,000,000	BAT Holdings 5.5% 2016	5,414	0.70
£1,000,000	BAT International Finance 6.375% 2019	1,132	0.15
£3,167,000	BAT International Finance 7.25% 2024	3,760	0.49
£700,000	Birmingham Airport Finance 6.25% 2021	726	0.09

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'BBB' credit rated bonds (continued)</b>			
£12,000,000	British Telecommunications Var. Rate 2016	14,467	1.87
£6,000,000	BSkyB Finance UK 5.75% 2017	6,546	0.85
£4,203,000	Carnival 7.125% 2012	4,388	0.57
£2,300,000	Compagnie de St. Gobain 5.625% 2016	2,471	0.32
£4,236,000	Compass Group 7% 2014	4,781	0.62
£7,000,000	Deutsche Telekom 6.5% 2022	7,796	1.01
£1,000,000	Deutsche Telekom 8.875% 2028	1,383	0.18
£7,228,000	Eversholt Funding 5.831% 2020	7,387	0.96
£1,628,000	Eversholt Funding 6.697% 2035	1,702	0.22
£5,000,000	Experian Finance 4.75% 2018	5,157	0.67
£4,000,000	Experian Finance 5.625% 2013	4,297	0.56
£962,000	FirstGroup 6.875% 2024	1,048	0.14
£5,000,000	FirstGroup 8.125% 2018	5,928	0.77
£1,000,000	FirstGroup 8.75% 2021	1,239	0.16
£4,000,000	G4S Var. Rate 2019	4,659	0.60
£3,500,000	Gatwick Funding 6.125% 2028	3,578	0.46
£3,500,000	Glencore Finance Europe 6.5% 2019	3,778	0.49
£2,857,000	Go-Ahead Group 5.375% 2017	2,942	0.38
£3,500,000	Imperial Tobacco Finance 8.125% 2024	4,349	0.56
£8,500,000	Imperial Tobacco Finance 9% 2022	11,053	1.43
£2,000,000	InterContinental Hotels 6% 2016	2,122	0.27
£667,000	KPN 5.75% 2029	686	0.09
£3,500,000	KPN 6% 2019	3,845	0.50
£5,907,000	Kraft Foods (formerly Cadbury Schweppes) 7.25% 2018	6,983	0.90
£3,000,000	Legal & General Group 10 % IL 2041	3,793	0.49
£2,862,000	Lloyds TSB Bank 7.625% 2025	2,847	0.37
£2,624,000	Lloyds TSB Bank Var. Rate 2020	2,641	0.34
£3,800,000	Lloyds TSB Bank Var. Rate 2025	3,396	0.44
£1,000,000	Mexico (United Mexican States) 6.75% 2024	1,080	0.14
£2,000,000	National Westminster Bank 6.5% 2021	1,930	0.25
£8,500,000	Next 5.875% 2016	9,180	1.19
£2,258,000	Northern Gas Networks 5.625% 2040	2,262	0.29
£3,971,000	Northern Gas Networks 5.875% 2019	4,305	0.56
£1,029,000	Northumbrian Water 6% 2017	1,155	0.15

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'BBB' credit rated bonds (continued)</b>			
£2,500,000	Northumbrian Water 6.875% 2023	2,932	0.38
£1,500,000	Pearson 7% 2014	1,690	0.22
£2,400,000	Pearson Funding 6% 2015	2,646	0.34
£3,620,000	PostNL 7.5% 2018	4,163	0.54
£4,000,000	Rentokil Initial 5.75% 2016	4,171	0.54
£1,351,410	RMPA Services 5.337% 2038	1,331	0.17
£6,000,000	RSA Insurance Var. Rate 2039	7,256	0.94
£1,500,000	Severn Trent Water 5.25% 2014	1,626	0.21
£1,575,000	Severn Trent Water 6% 2018	1,751	0.23
£1,250,000	Severn Trent Water 6.125% 2024	1,367	0.18
£3,000,000	Severn Trent Water 6.25% 2029	3,382	0.44
£1,000,000	Siemens Financier. Var. Rate 2066	1,045	0.14
£1,500,000	Smiths Group 7.25% 2016	1,687	0.22
£1,000,000	South Eastern Power Network 5.5% 2026	1,023	0.13
£5,260,000	Southern Gas Network 5.125% 2018	5,512	0.71
£1,000,000	Southern Gas Network FRN 2015	927	0.12
£4,500,000	Stagecoach 5.75% 2016	4,709	0.61
£300,000	Standard Chartered Bank Var. Rate Perp. (7.75%)	316	0.04
£1,637,368	Sutton Bridge Financing 8.625% 2022	1,835	0.24
£2,500,000	Talisman Energy 6.625% 2017	2,830	0.37
£2,000,000	TDC 5.625% 2023	2,090	0.27
£374,000	Telereal Securitisation 6.1645% 2033	358	0.05
£3,000,000	United Business Media 6.5% 2016	3,227	0.42
£7,500,000	United Utilities Water 5.75% 2022	8,053	1.04
£755,000	United Utilities Water 6.125% 2015	844	0.11
£655,000	Vector Group 7.625% 2019	738	0.10
£6,000,000	Virgin Media Secured Finance 7% 2018	6,518	0.84
£804,000	Western Power Distribution 5.25% 2023	803	0.10
£4,000,000	Western Power Distribution 5.5% 2025	4,198	0.54
£3,200,000	Western Power Distribution 5.75% 2040	3,250	0.42
£3,911,000	WPP Finance 6.375% 2020	4,268	0.55
£6,250,000	WPP Group 6% 2017	6,818	0.88
£5,000,000	Xstrata Canada Financial 7.375% 2020	5,773	0.75
£4,319,000	Yorkshire Water Services Var. Rate 2025	4,581	0.59

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>'BB' credit rated bonds</b>		<b>0.89</b>	<b>0.35</b>
£2,350,000	Daily Mail & General Trust 6.375% 2027	2,194	0.28
£500,000	ITV 7.375% 2017	522	0.07
£3,500,000	Lafarge 8.75% 2017	4,198	0.54
<b>'B' credit rated bonds</b>		<b>0.02</b>	<b>0.06</b>
£187,095	Road Management 9.18% 2021	191	0.02
<b>Bonds with no credit rating</b>		<b>12.46</b>	<b>11.15</b>
£127,774	Annington Finance No.1 7.75% 2011	129	0.02
£10,000,000	Annington Finance No.1 8% 2021	12,196	1.58
£1,990,000	Annington Repackaging No.1 5.3236% 2023	2,000	0.26
£5,500,000	BAE Systems 10.75% 2014	6,764	0.88
£345,000	BLD Property Holdings 6.125% 2014	361	0.05
£2,810,000	Brass No. 1 FRN 2048	2,805	0.36
£510,000	British Land 5.264% 2035	467	0.06
£779,324	British Land 5.357% 2028	744	0.10
£2,325,000	British Land 5.357% 2028 (Bearer)	2,220	0.29
£800,000	British Land 6.75% 2020 (Bearer)	889	0.12
£221,494	Capital Shopping Centres (formerly Capital & Counties) 5.562% 2027	197	0.03
£1,918,000	Circle Anglia Social 7.25% 2038	2,470	0.32
£1,000,000	Co-operative Bank Var. Rate 2021	866	0.11
£3,924,000	Coventry Building Society 4.625% 2018	4,001	0.52
£885,000	F&C Commercial Property Var. Rate 2017	914	0.12
£2,500,000	GESB 8.35% 2018	3,082	0.40
£11,142,000	Hammerson 6% 2026	11,387	1.47
£447,020	Highbury Finance 7.017% 2023	492	0.06
£1,420,000	Housing Finance 8.625% 2023	1,929	0.25
£500,000	LAB Investments 7.125% 2019	570	0.07
£3,400,000	Lloyds TSB Bank 7.5% 2024	3,792	0.49
£1,000,000	Lloyds TSB Bank FRN 2016	910	0.12
£4,000,000	National Express 6.25% 2017	4,233	0.55
£3,000,000	Old Mutual 7.125% 2016	3,304	0.43
£3,656,000	Peabody Capital 5.25% 2043	3,725	0.48
£300,000	Peel South East 10% 2026	331	0.04
£2,500,000	Phoenix Natural Gas Finance 5.5% 2017	2,590	0.34
£2,000,000	Places for People 5.875% 2031	2,003	0.26
£7,500,000	Reed Elsevier Investments 5.625% 2016	8,077	1.05

# Portfolio

## Portfolio statement (continued)

as at 31 May 2011

Holding	Value £'000	31.05.11 %	31.05.10 %
<b>Bonds with no credit rating (continued)</b>			
£3,950,000 Segro 5.625% 2020	3,945	0.51	
£3,237,000 Segro 6.75% 2021	3,526	0.46	
£1,500,000 Segro 6.75% 2024	1,608	0.21	
£500,000 Segro 7% 2022	549	0.07	
£1,360,000 Thames Water Utilities Cayman Finance 5.5% 2041	1,400	0.18	
£250,000 Washington Mutual Bank 5.5% 2019 <sup>[a]</sup>	0	0.00	
€ 50,000 Winstar Communications 12.75% 2010 <sup>[a]</sup>	0	0.00	
£1,518,000 Yorkshire Building Society 4.75% 2018	1,558	0.20	
<b>Portfolio of investments (notes 1b &amp; 1d)</b>	<b>767,562</b>	<b>99.39</b>	<b>97.48</b>
<b>Net other assets</b>	<b>4,724</b>	<b>0.61</b>	<b>2.52</b>
<b>Net assets attributable to unitholders</b>	<b>772,286</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> Defaulted.

# Financial statements

for the year ended 31 May 2011

## Statement of total return

	Note	2011		2010	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	3		21,227		102,652
Revenue	4	38,212		51,421	
Expenses	5	(484)		(519)	
Net revenue before taxation		37,728		50,902	
Taxation	6	0		0	
Net revenue after taxation			37,728		50,902
<b>Total return before distributions</b>			<b>58,955</b>		<b>153,554</b>
Finance costs: Distributions	12		(37,731)		(50,904)
<b>Change in net assets attributable to unitholders from investment activities</b>			<b>21,224</b>		<b>102,650</b>

## Statement of change in net assets attributable to unitholders

	2011		2010	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to unitholders</b>		<b>830,492</b>		<b>866,714</b>
Amounts received on issue of units	120,479		24,172	
Amounts paid on cancellation of units	(200,436)		(163,303)	
		(79,957)		(139,131)
Stamp Duty Reserve Tax (SDRT)		(52)		(45)
Dilution levy		577		300
Change in net assets attributable to unitholders from investment activities (see above)		21,224		102,650
Unclaimed distributions		2		4
<b>Closing net assets attributable to unitholders</b>		<b>772,286</b>		<b>830,492</b>

# Financial statements

## Balance sheet

	as at 31 May 2011		as at 31 May 2010	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		767,562		809,530
Debtors				
Amounts receivable on issues	15		0	
Bank interest receivable	1		2	
Debt security interest receivable	14,605		17,370	
Sales awaiting settlement	0		3,691	
		14,621		21,063
Cash and bank balances				
Cash held as bank balances	7,960		15,520	
		7,960		15,520
<b>Total other assets</b>		<b>22,581</b>		<b>36,583</b>
<b>Total assets</b>		<b>790,143</b>		<b>846,113</b>
<b>Liabilities</b>				
Creditors				
Amounts payable on cancellations	(158)		(1,520)	
Expenses payable	(56)		(37)	
Income tax payable	(3,751)		(4,762)	
Net distributions payable on Income units	(8,042)		(9,298)	
Purchases awaiting settlement	(5,849)		0	
SDRT payable	(1)		(4)	
<b>Total liabilities</b>		<b>(17,857)</b>		<b>(15,621)</b>
<b>Net assets attributable to unitholders</b>		<b>772,286</b>		<b>830,492</b>

# Financial statements

## Notes to the financial statements

### 1 Accounting policies

#### a ) **Basis of accounting**

The FSA approved the merger of the trust with the M&G Corporate Bond Fund, a sub-fund of M&G Investment Funds (3) on 1 April 2011.

The assets of the trust, apart from those required to be retained to meet actual and potential liabilities, were transferred to the M&G Corporate Bond Fund, a sub-fund of M&G Investment Funds (3), in accordance with a scheme approved by investors immediately after 17th June 2011. As such, the financial statements have been prepared on a realisation basis, 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 in October 2010. However, there is no difference in measurement between preparation on a realisation or going concern basis.

#### b ) **Basis of valuation of investments**

All investments are valued at their fair value as at 12 noon on 31 May 2011, 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 31 May 2011, being the last business day of the financial year.

# Financial statements

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### e ) Interest income

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.

#### f ) 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.

#### g ) 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.

#### h ) 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.

#### i ) 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.

# Financial statements

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### j ) 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.

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 policies

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

The capital value of 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.

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.

The trust's assets comprise securities that 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 objective. 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 (31.05.10: same).

# Financial statements

## Notes to the financial statements (continued)

### 3 Net capital gains

	2011 £'000	2010 £'000
Non-derivative securities	21,229	102,654
Currency gains	0	1
Transaction charges	(2)	(3)
<b>Net capital gains</b>	<b>21,227</b>	<b>102,652</b>

### 4 Revenue

	2011 £'000	2010 £'000
Bank interest	48	5
Interest on debt securities	38,164	51,416
<b>Total revenue</b>	<b>38,212</b>	<b>51,421</b>

### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Manager or associate</b>		
Manager's periodic charge	345	348
<b>Payable to the Trustee or associate</b>		
Trustee's fee (including VAT)	45	49
Distribution fees	1	1
	46	50
<b>Other expenses</b>		
Audit fee (including VAT)	10	8
Registration fees	34	38
Safe custody charge	49	75
	93	121
<b>Total expenses</b>	<b>484</b>	<b>519</b>

# Financial statements

## Notes to the financial statements (continued)

### 6 Taxation

	2011 £'000	2010 £'000
<b>a ) Analysis of charge in the year</b>		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>0</b>	<b>0</b>
<b>b ) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	37,728	50,902
Corporation tax at 20%	7,546	10,180
Effects of:		
Interest distributions	(7,547)	(10,181)
Current period expenses not utilised	1	1
<b>Current tax charge (note 6a)</b>	<b>0</b>	<b>0</b>
<b>c ) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The trust has not recognised a deferred tax asset of £2,000 (31.05.10: £1,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on unitholders' behalf to HM Revenue & Customs where applicable.

# Financial statements

## 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. As at 31.05.10, the trust had an outstanding commitment to warrants of £26,000.

### 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 net assets attributable to unitholders 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, material unitholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 96.55% (31.05.10: 96.70%) of the trust's units.

# Financial statements

## Notes to the financial statements (continued)

### 9 Financial instruments

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

Short-term debtors and creditors have only been included in respect of the currency exposure when this is applicable (31.05.10: same).

#### Currency exposure

There was no significant foreign currency exposure within the trust at the balance sheet date (31.05.10: same).

#### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.05.11 £'000	as at 31.05.10 £'000	as at 31.05.11 £'000	as at 31.05.10 £'000	as at 31.05.11 £'000	as at 31.05.10 £'000
UK government / corporate bonds	29,476	22,524	738,086	787,006	767,562	809,530
Bank balances	7,960	15,520	0	0	7,960	15,520
<b>Total</b>	<b>37,436</b>	<b>38,044</b>	<b>738,086</b>	<b>787,006</b>	<b>775,522</b>	<b>825,050</b>

The weighted average gross interest rate of these fixed interest-bearing assets at the balance sheet date was 4.70% (31.05.10: 5.01%) and the weighted average period for which the interest rates were fixed was 7.88 years (31.05.10: 9.62 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 or the international equivalent; 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 (31.05.10: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.10: same).

# Financial statements

## Notes to the financial statements (continued)

### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a ) Purchases</b>		
Purchases excluding transaction costs	449,155	456,342
<b>b ) Sales</b>		
Sales excluding transaction costs	511,716	599,934

There were no significant transaction costs during the year (2010: same).

### 11 Unitholder funds

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

The charging structure for each unit class, as at 31 May 2011, is set out in the following table (31.05.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>	3.25	n/a
<b>Withdrawal fee:</b> <sup>[a]</sup>	n/a	n/a
<b>Manager's annual remuneration:</b>	1.25	nil

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

	31.05.11 Inc £'000	31.05.10 Inc £'000
<b>Sterling</b>		
<b>Class 'A'</b>	26,660	27,415
<b>Class 'C'</b>	745,626	803,077

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 table on page 27. Each unit class has the same rights on winding-up.

# Financial statements

## Notes to the financial statements (continued)

### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income units (sterling)</b>		
<b>Class 'A' - First interim</b>	233	252
- Second interim	221	251
- Third interim	204	226
- Final	206	232
<b>Class 'C' - First interim</b>	7,067	10,406
- Second interim	7,030	10,222
- Third interim	7,658	9,041
- Final	7,836	9,066
	30,455	39,696
Income tax deducted at source	7,546	10,179
Finance costs: Interest distributions	38,001	49,875
Income deducted on cancellation of units	670	1,147
Income received on issue of units	(940)	(118)
<b>Finance costs: Distributions</b>	<b>37,731</b>	<b>50,904</b>
Net revenue per statement of total return	37,728	50,902
Undistributed income brought forward	15	17
Undistributed income carried forward	(12)	(15)
<b>Finance costs: Distributions</b>	<b>37,731</b>	<b>50,904</b>

# Financial statements

## Distribution table

Interest distributions on Income units	Gross income	Income tax deducted	Net income	Equal- isation	Distribution paid /payable	
	2010/11	2009/10				
<b>Sterling</b>	p	p	p	p	p	p
<b>Class 'A' - First interim</b>						
Group 1:	0.6070	0.1214	0.4856	-	0.4856	0.4908
Group 2:	0.2350	0.0470	0.1880	0.2976	0.4856	0.4908
<b>- Second interim</b>						
Group 1:	0.5780	0.1156	0.4624	-	0.4624	0.4988
Group 2:	0.2293	0.0459	0.1834	0.2790	0.4624	0.4988
<b>- Third interim</b>						
Group 1:	0.5520	0.1104	0.4416	-	0.4416	0.4652
Group 2:	0.2255	0.0451	0.1804	0.2612	0.4416	0.4652
<b>- Final</b>						
Group 1:	0.5670	0.1134	0.4536	-	0.4536	0.4844
Group 2:	0.2108	0.0422	0.1686	0.2850	0.4536	0.4844
<b>Class 'C' - First interim</b>						
Group 1:	0.8170	0.1634	0.6536	-	0.6536	0.6412
Group 2:	0.0320	0.0064	0.0256	0.6280	0.6536	0.6412
<b>- Second interim</b>						
Group 1:	0.7840	0.1568	0.6272	-	0.6272	0.6564
Group 2:	0.3579	0.0716	0.2863	0.3409	0.6272	0.6564
<b>- Third interim</b>						
Group 1:	0.7500	0.1500	0.6000	-	0.6000	0.6212
Group 2:	0.1333	0.0267	0.1066	0.4934	0.6000	0.6212
<b>- Final</b>						
Group 1:	0.7720	0.1544	0.6176	-	0.6176	0.6460
Group 2:	0.5323	0.1065	0.4258	0.1918	0.6176	0.6460

First interim period 01.06.10 – 31.08.10

Second interim period 01.09.10 – 30.11.10

Third interim period 01.12.10 – 28.02.11

Final period 01.03.11 – 31.05.11

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 31 May 2011

The percentage of the Prudential Corporate Bond Trust held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is 100%.

## 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 October 2010.
- 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 Corporate Bond Trust for the year ended 31 May 2011**

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  
12 July 2011

## 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  
12 July 2011

# Independent auditors' report

## **Independent auditors' report to the unitholders of the Prudential Corporate Bond Trust ('the trust')**

We have audited the financial statements of the Prudential Corporate Bond Trust for the year ended 31 May 2011 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 table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

## **Respective responsibilities of the Authorised Fund Manager and Auditors**

As explained more fully in the Statement of the Manager's Responsibilities the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the trust's unitholders 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 these opinions, 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.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Prudential Corporate Bond Trust annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of the trust at 31 May 2011 and of the net revenue and the net gains of the scheme 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, the Collective Investment Schemes sourcebook and the Trust Deed.

## Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the trust have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
London  
12 July 2011

The financial statements are published at [www.pru.co.uk/managersreports](http://www.pru.co.uk/managersreports), which is a website maintained by Prudential UK ('Prudential'). The maintenance and integrity of the Prudential Unit Trust website is the responsibility of the Authorised Fund Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Notes to unitholders

Mr Trevor Cheal resigned as a Director of Prudential Unit Trusts Limited on 31 March 2010.

Mr Mark Thompson was appointed as a Director of Prudential Unit Trusts Limited on 18 May 2010, and resigned as a Director of Prudential Unit Trusts Limited on 10 December 2010.

Please note that with effect from 1 November 2010 the provision of Fund Accounting and the daily calculation of fund prices (Price Making) for all our funds is being undertaken by State Street Bank and Trust Company.

Following a unitholder vote on 20 May 2011, the Prudential Corporate Bond Trust merged with the M&G Corporate Bond Fund, a sub-fund of M&G Investment Funds (3), immediately after 17 June 2011.

On 23 May 2011 the investment objective and policy of the Trust changed.

Mr John Warburton was appointed as a Director of Prudential Unit Trusts Limited on 28 June 2011.

## 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](http://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 Corporate Bond 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**

L U Darby  
C I Jackson  
M Lewis  
G W MacDowall  
L J Mumford  
W J Nott  
L J Scrine  
J R Talbot  
J Warburton

### **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,  
7 More London Riverside, London SE1 2RT



[www.pru.co.uk](http://www.pru.co.uk)

'Prudential' is a trading name of Prudential Unit Trusts Limited and Prudential Personal Equity Plans Limited. This name is also used by other companies within the Prudential Group, which between them provide a range of financial products including life assurance, pensions, savings and investment products. Prudential Unit Trusts Limited and Prudential Personal Equity Plans Limited are registered in England and Wales under numbers 1796126 and 2059989 respectively. Registered Office at Laurence Pountney Hill, London EC4R 0HH. Authorised and regulated by the Financial Services Authority.