

# Prudential European Trust

Manager's annual report for  
the year ended 21 May 2010  
(audited)

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

# Trust objective and policy

This Trust aims to achieve high capital growth through investment in a range of European (excluding UK) securities, mainly equities. Income is a secondary consideration. The Trust has the flexibility to move between countries and markets and will seek to take advantage of the variations in investment conditions which occur on a day to day basis.

## Manager's comments

Stockmarkets enjoyed a strong rally from March 2009 due to increased optimism about prospects for the global economy. However, from the end of 2009, sentiment towards European equities was dampened due to increasing concerns about the debt problems of Greece and, to a lesser extent, Portugal and Spain. Confidence was improved, however, after the European Union outlined details of an aid plan for Greece and the International Monetary Fund announced details of a loan. Against this backdrop, European equities made solid gains over the 12-month review period, although the region was among the weaker global markets in sterling terms.

During the 12 months under review, the Prudential European Trust produced 10.2%\* in terms of total return (capital performance with net income reinvested). This compares with a total return of 14.7%\*\* from the FTSE World Europe ex UK Index.

It is worth noting that equity markets were volatile for much of the review period, with negative sentiment particularly apparent towards the end of the 12 months. At such times, any news that is perceived to be particularly noteworthy is likely to result in a large reaction by stockmarkets in either direction. Significantly for the trust, during the afternoon of 21 May 2010, the last day of the review period, investors responded favourably to the news that Germany's parliament had agreed to contribute to a €750 billion rescue deal for the eurozone, leading to a sharp rise in the index. However, because the trust is priced at 12 noon while the index is priced at the end of the day, the trust was unable to capture these gains in its total return over the review period. This timing issue is responsible for a large portion of the trust's underperformance. This does mean, however, that the trust started the new reporting year with a significant head start.

## Manager's comments (continued)

In terms of the underlying holdings in the portfolio, performance was held back by a position in Italian bank Intesa Sanpaolo. The bank was hurt by concerns that the rescue package for Greece may not prevent the debt crisis from spreading. Investors were also cautious about prospects for banks because of continued low interest rates. French bank BNP Paribas also detracted from performance for similar reasons.

Meanwhile, Greek gambling company OPAP disappointed as investors feared for its prospects against an extremely challenging backdrop for the domestic economy. However, the company believes that it stands to benefit from the FIFA World Cup and the World Basketball Championship this year.

Against a generally rising stockmarket, a number of defensive positions proved unpopular with more confident investors. Specific examples include French media firm Vivendi, Greek electricity firm Public Power, Telekom Austria and German utilities RWE and E.ON.

On the upside, a holding in Dutch delivery company TNT boosted returns due to news of its plan to separate its mail operations, which led to renewed speculation of a takeover bid for the company's express delivery unit by US giants United Parcel Service or FedEx.

Elsewhere, French media company Publicis Groupe also supported the trust's performance. The company has been hurt by the slump in advertising but has obtained some resilience during the recession thanks to its investment in digital activities and emerging markets.

A number of holdings in the portfolio also benefited from healthy financial results, including Swiss pharmaceutical company Novartis and Swiss food company Nestlé.

Turning to portfolio activity, the fund manager topped up a number of holdings such as German pharmaceutical firm Bayer, Dutch publishing company Wolters Kluwer and German reinsurer Munich Re. Bayer is a solid, attractively valued business with low exposure to generic competition and a good product pipeline, while Wolters Kluwer generates healthy levels of cash and also represents compelling value. Munich Re is a well-capitalised market leader trading at attractive levels.

The fund manager reduced the exposure to TNT as the company's share price had begun to factor in the potential benefits from the proposed split, as described earlier. Although he remains comfortable with the holding, the fund manager felt the stock's valuation no longer justified a highly prominent position within the portfolio.

## Manager's comments (continued)

Finally, the fund manager scaled back a position in Swiss food giant Nestlé following a period of strong performance. Instead, he topped up positions in more attractively valued stocks, including German retailer Metro.

The fund manager believes the likelihood of further volatility remains in the near term. He is concerned about the implications of Greece's sovereign debt problem as well as the situation in Spain and Portugal. Furthermore, he is apprehensive about the effects of a potential withdrawal of emergency stimulation measures that were implemented with the aim of stabilising the financial system. For these reasons, he prefers to focus on large, diversified companies with dependable earnings that should perform well over the longer term, regardless of events in the immediate future.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 21 May 2010.

\*\* Source: Morningstar, Inc.

Basis: Capital performance with net income reinvested to 21 May 2010.

Please note that the views expressed in this Report should not be taken as a recommendation or advice as to how the Prudential European 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	22.11.10	21.01.11
Final	23.05.11	21.07.11

	Final distribution		Total Expense Ratio <sup>[b]</sup>	
	Inc 21.07.10 <sup>[a]</sup>	Acc 24.05.10 <sup>[a]</sup>	21.05.10	21.05.09
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	5.9150	6.4032	1.65	1.67
<b>Class 'C'</b>	11.5720	n/a	0.03	0.03

The Portfolio Turnover Rate (PTR) for the 12 months ending 21 May 2010 was 35.95% compared with 13.42% for the year ending 21 May 2009. <sup>[c]</sup>

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

<sup>[b]</sup> 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.

<sup>[c]</sup> 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.

## Trust performance

Performance of unit classes.

	Net asset value per unit as at 21.05.10		Net asset value per unit as at 21.05.09		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	478.71	524.68	443.87	480.50	+7.85	+9.19
<b>Class 'C'</b>	477.87	n/a	443.50	n/a	+7.75	n/a

# Trust statistics

## Prices <sup>[a]</sup>

Prior to conversion to multi-unit class.

	Calendar year	Income units		Accumulation units	
		Highest	Lowest	Highest	Lowest
<b>Sterling</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
	2005 <sup>[b]</sup> <sup>[c]</sup>	462.30	385.08	465.99	397.25

<sup>[a]</sup> 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 the trust was single priced and from this date now shows both the highest price and lowest price.

<sup>[b]</sup> Up to 21 November 2005.

<sup>[c]</sup> Accumulation units available from 16 May 2005.

Post conversion to multi-unit class.

	Calendar year	Income units		Accumulation units	
		Highest	Lowest	Highest	Lowest
<b>Sterling</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2005 <sup>[a]</sup>	484.58	460.06	488.93	464.20
	2006	551.09	463.00	561.72	470.97
	2007	621.32 <sup>[b]</sup>	543.02	641.85	554.85
	2008	623.77	369.94	645.33	389.30
	2009	556.30	351.86	602.21	372.52
	2010 <sup>[c]</sup>	555.03	475.08	600.84	520.72
<b>Class 'C'</b>	2005 <sup>[a]</sup>	485.35	460.21	n/a	n/a
	2006	554.45	463.39	n/a	n/a
	2007	624.72	545.12	n/a	n/a
	2008	625.04	372.35	n/a	n/a
	2009	559.29	352.81	n/a	n/a
	2010 <sup>[c]</sup>	560.99	474.24	n/a	n/a

<sup>[a]</sup> From 22 November 2005 (the launch date of the unit class).

<sup>[b]</sup> In the Annual Report for the year ended 21 May 2008, this figure was incorrectly quoted as 620.64.

<sup>[c]</sup> Up to 24 May 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

## Income

### Income per unit

Prior to conversion to multi-unit class.

	Calendar year	Interim	Distributed Final	Total	Reinvested
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
	2005	0.9373	3.2189	4.1562	3.7801
	2006 <sup>[a]</sup>	0.5568	n/a	0.5568	n/a

[a] Up to interim: ex-distribution date 22 November 2005;  
payment date 21 January 2006.

Post conversion to multi-unit class.

	Calendar year	Interim	Distributed Final	Total	Reinvested
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2006	n/a	5.1713	5.1713	6.4464
	2007	1.3672	6.6230	7.9902	7.5553
	2008	0.8590	9.9710	10.8300	12.7613
	2009	2.3240	9.8940	12.2180	10.4750
	2010 <sup>[a]</sup>	nil	5.9150	5.9150	6.4032
<b>Class 'C'</b>	2006	n/a	8.4757	8.4757	n/a
	2007	4.6937	10.2928	14.9865	n/a
	2008	4.6450	13.7330	18.3780	n/a
	2009	5.6260	12.6360	18.2620	n/a
	2010 <sup>[a]</sup>	1.0740	11.5720	12.6460	n/a

[a] Up to final: ex-distribution date 24 May 2010;  
payment date 21 July 2010.

## Trust information

The Prudential European Opportunities Trust merged into the Prudential European Trust immediately after 13 May 2005. Following the merger, Accumulation units became available for investment.

# Trust statistics

## Net assets

	Year ended	Value per unit		Number of units	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
<b>Class 'A'</b>	May 2008	590.35	621.24	6,507,629	900,825
	May 2009	443.87	480.50	6,318,829	883,725
	May 2010	478.71	524.68	6,017,129	801,725
<b>Class 'C'</b>	May 2008	590.85	n/a	130,886,700	n/a
	May 2009	443.50	n/a	130,158,700	n/a
	May 2010	477.87	n/a	130,378,600	n/a

## Total net asset value of trust

Year ended	£
May 2008	817,358,000
May 2009	609,550,000
May 2010	656,046,000

# Portfolio

## Portfolio statement

as at 21 May 2010

Holding	Value £'000	21.05.10 %	21.05.09 %
<b>Austria</b>			
972,683	Telekom Austria	8,415	1.28
25,077	Vienna Insurance Group	710	0.11
41,080	voestalpine	793	0.12
<b>Belgium</b>			
1,700,309	Ageas (formerly Fortis)	2,775	0.42
47,055	Anheuser-Busch InBev	1,519	0.23
62,220	Groupe Bruxelles Lambert	3,127	0.48
201,330	Solvay	12,010	1.83
<b>Denmark</b>			
247	AP Moller-Maersk	1,255	0.19
19,450	Carlsberg 'B'	1,050	0.16
27,039	Vestas Wind Systems	903	0.14
<b>Eire</b>			
73,514	CRH	1,119	0.17
<b>Finland</b>			
98,573	Fortum	1,517	0.23
40,699	Kesko	938	0.14
991,175	Nokia	6,848	1.05
52,069	UPM-Kymmene	477	0.07
<b>France</b>			
11,671	Air Liquide	816	0.12
10,000	Air Liquide (prime de fidélité 2012)	699	0.11
2,226,709	Alcatel-Lucent	3,748	0.57
19,671	Atos Origin	614	0.09
494,230	AXA	5,570	0.85
20,415	BIC	959	0.15
498,155	BNP Paribas	19,675	3.00
51,948	Bouygues	1,474	0.23
48,721	Carrefour	1,400	0.21
11,718	Casino Guichard Perrachon	611	0.09
51,886	Compagnie de Saint Gobain	1,389	0.21
71,453	European Aeronautic Defence and Space	984	0.15
146,117	France Telecom	1,942	0.30
132,565	GDF Suez	2,847	0.43
34,120	Groupe Danone	1,196	0.18
83,913	Imerys	3,007	0.46
23,253	L'Oréal	1,486	0.23
10,000	L'Oréal (prime de fidélité 2012)	639	0.10
15,898	LVMH	1,135	0.17
63,630	Michelin	2,947	0.45
15,690	Pernod Ricard	817	0.12
213,000	Publicis Groupe	5,922	0.90

# Portfolio

## Portfolio statement (continued)

as at 21 May 2010

Holding	Value £'000	21.05.10 %	21.05.09 %
<b>France (continued)</b>			
17,290	Renault	428	0.07
619,842	Sanofi-Aventis	25,013	3.81
20,805	Schneider Electric	1,404	0.21
82,747	Société Générale	2,478	0.38
120,909	STMicroelectronics	656	0.10
36,409	Suez Environnement	460	0.07
35,201	Technip	1,559	0.24
780,702	Total	25,285	3.86
11,336	Unibail-Rodamco	1,232	0.19
270,986	Valeo	5,117	0.78
38,913	Vinci	1,189	0.18
1,549,617	Vivendi	22,586	3.44
		<b>22.99</b>	<b>22.54</b>
<b>Germany</b>			
136,480	adidas	4,709	0.72
212,926	Allianz	14,801	2.26
197,121	BASF	7,118	1.08
271,976	Bayer	10,742	1.64
222,319	Bayerische Motoren Werke	6,895	1.05
251,822	Commerzbank	1,292	0.20
394,897	Daimler	13,049	1.99
186,481	Deutsche Bank	7,636	1.16
8,230	Deutsche Börse	368	0.06
83,436	Deutsche Lufthansa	780	0.12
88,428	Deutsche Post	894	0.14
1,343,626	Deutsche Telekom	10,227	1.56
845,377	E.ON	17,937	2.73
77,542	Fresenius Medical Care	2,602	0.40
37,193	Hamburger Hafen und Logistik	807	0.12
11,761	MAN	664	0.10
223,245	Metro	8,056	1.23
105,758	Munich Re	9,269	1.41
213,404	RWE	10,670	1.63
9,755	Salzgitter	432	0.07
63,857	SAP	1,927	0.29
296,411	Siemens	18,273	2.79
40,154	ThyssenKrupp	739	0.11
14,473	Volkswagen Pref.	828	0.13
		<b>2.15</b>	<b>3.58</b>
<b>Greece</b>			
76,679	National Bank of Greece	697	0.11
291,285	OPAP	3,236	0.49
698,630	Public Power	7,566	1.15
189,421	Titan Cement	2,612	0.40

# Portfolio

## Portfolio statement (continued)

as at 21 May 2010

Holding	Value £'000	21.05.10 %	21.05.09 %
<b>Italy</b>		<b>5.16</b>	<b>4.99</b>
823,493	Banca Monte dei Paschi di Siena	630	0.10
172,725	Banca Popolare di Milano	518	0.08
187,044	Banco Popolare	685	0.10
85,564	Buzzi Unicem	688	0.10
621,722	Enel	1,904	0.29
648,773	Eni	8,586	1.31
100,656	Fiat	423	0.06
7,290,803	Intesa Sanpaolo	13,498	2.06
475,666	Parmalat	787	0.12
1,857,686	Telecom Italia (Savings shares)	1,313	0.20
2,868,075	UniCredit (formerly UniCredito Italiano)	4,290	0.65
978,075	Unipol	599	0.09
<b>Luxembourg</b>		<b>0.23</b>	<b>0.77</b>
166,409	Reinet Investments	1,522	0.23
<b>Netherlands</b>		<b>11.00</b>	<b>10.88</b>
309,170	Aegon	1,245	0.19
82,982	Ahold	723	0.11
189,103	Akzo Nobel	6,667	1.02
80,387	ArcelorMittal	1,667	0.25
38,587	ASML Holding	752	0.11
17,097	Heineken	497	0.08
264,874	Heineken Holding	6,563	1.00
257,223	ING Groep	1,398	0.21
1,070,526	KPN	9,704	1.48
75,115	Philips Electronics	1,529	0.23
1,007,560	TNT	17,503	2.67
727,967	Unilever	13,648	2.08
348,793	Wessanen	851	0.13
737,607	Wolters Kluwer	9,427	1.44
<b>Norway</b>		<b>0.51</b>	<b>0.00</b>
200,839	Norsk Hydro	810	0.12
142,003	Statoil	1,864	0.29
169,707	Storebrand	654	0.10
<b>Portugal</b>		<b>0.07</b>	<b>0.00</b>
182,396	ZON Multimedia	474	0.07
<b>Spain</b>		<b>4.83</b>	<b>3.67</b>
362,751	Banco Bilbao Vizcaya Argentaria	2,677	0.41
666,735	Banco Santander (formerly Banco Santander Central Hispano)	4,832	0.74
78,084	Enagas	881	0.13
386,713	Iberdrola	1,746	0.27
33,069	Inditex	1,253	0.19
779,869	Repsol	11,126	1.70
688,272	Telefónica	9,156	1.39

# Portfolio

## Portfolio statement (continued)

as at 21 May 2010

Holding	Value £'000	21.05.10 %	21.05.09 %
<b>Sweden</b>		<b>4.85</b>	<b>3.30</b>
142,813 Atlas Copco 'B'	1,210	0.18	
74,590 Electrolux 'B'	1,151	0.18	
1,129,507 Ericsson 'B'	7,765	1.18	
10,256 Holmen 'B'	163	0.02	
71,052 Investor 'B'	772	0.12	
149,543 Sandvik	1,170	0.18	
75,136 Securitas 'B'	466	0.07	
111,455 Skanska 'B'	1,109	0.17	
93,625 SKF 'B'	1,130	0.17	
1,149,360 Svenska Cellulosa 'B'	8,698	1.33	
125,475 Svenska Handelsbanken 'A'	2,061	0.31	
223,479 TeliaSonera	898	0.14	
741,042 Volvo 'B'	5,228	0.80	
<b>Switzerland</b>		<b>16.95</b>	<b>17.91</b>
170,721 ABB (Regd.)	1,975	0.30	
19,401 Adecco (Regd.)	639	0.10	
106,802 Baloise Holdings (Regd.)	5,100	0.78	
37,661 Compagnie Financière Richemont (Bearer)	846	0.13	
447,960 Credit Suisse Group (Regd.)	12,171	1.85	
52,528 GAM Holding (Regd.)	382	0.06	
47,060 Julius Baer Gruppe (Regd.)	958	0.15	
17,388 Lonza Group (Regd.)	799	0.12	
951,340 Nestlé (Regd.)	29,846	4.55	
805,746 Novartis (Regd.)	24,937	3.80	
136,480 Roche Holding 'Genussscheine' (non-voting)	12,994	1.98	
26,135 Swatch Group (Regd.)	863	0.13	
44,022 Swisscom (Regd.)	9,692	1.48	
7,531 Syngenta (Regd.)	1,171	0.18	
802,488 UBS (Regd.)	7,354	1.12	
10,603 Zurich Financial Services Group (Regd.)	1,462	0.22	
<b>Portfolio of investments</b> (notes 1b & 1d)	<b>641,666</b>	<b>97.81</b>	<b>100.28</b>
<b>Net other assets / (liabilities)</b>	<b>14,380</b>	<b>2.19</b>	<b>(0.28)</b>
<b>Net assets attributable to unitholders</b>	<b>656,046</b>	<b>100.00</b>	<b>100.00</b>

# Financial statements

for the year ended 21 May 2010

## Statement of total return

	Note	2010		2009	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		51,491		(212,928)
Revenue	4	25,160		31,877	
Expenses	5	(782)		(755)	
Finance costs: Interest	13	(5)		0	
Net revenue before taxation		24,373		31,122	
Taxation	6	(3,822)		(5,389)	
Net revenue after taxation			20,551		25,733
<b>Total return before distributions</b>			<b>72,042</b>		<b>(187,195)</b>
Finance costs: Distributions	13		(17,246)		(25,187)
<b>Change in net assets attributable to unitholders from investment activities</b>			<b>54,796</b>		<b>(212,382)</b>

## Statement of change in net assets attributable to unitholders

	2010		2009	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to unitholders</b>		<b>609,550</b>		<b>817,358</b>
Amounts received on issue of units	85,114		119,175	
Amounts paid on cancellation of units	(93,529)		(114,716)	
		(8,415)		4,459
Dilution levy		63		0
Change in net assets attributable to unitholders from investment activities (see above)		54,796		(212,382)
Retained distributions on Accumulation units		52		115
<b>Closing net assets attributable to unitholders</b>		<b>656,046</b>		<b>609,550</b>

# Financial statements

## Balance sheet

	as at 21 May 2010		as at 21 May 2009	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		641,666		611,238
<b>Debtors</b>				
Amounts receivable on issues	2,996		0	
Bank interest receivable	1		0	
Currency deals outstanding	234		2,991	
Dividends receivable	2,383		3,336	
Overseas tax recoverable	998		608	
Stock lending fee receivable	369		324	
		6,981		7,259
Cash held as bank balances	27,935		12,782	
		27,935		12,782
<b>Total other assets</b>		<b>34,916</b>		<b>20,041</b>
<b>Total assets</b>		<b>676,582</b>		<b>631,279</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Amounts payable on cancellations	0		(75)	
Corporation tax payable	(405)		(1,228)	
Currency deals outstanding	(238)		(3,000)	
Deferred taxation	0		(261)	
Expenses payable	(73)		(93)	
Net distributions payable on Income units	(15,443)		(17,072)	
Purchases awaiting settlement	(4,377)		0	
		(20,536)		(21,729)
<b>Total liabilities</b>		<b>(20,536)</b>		<b>(21,729)</b>
<b>Net assets attributable to unitholders</b>		<b>656,046</b>		<b>609,550</b>

# 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 in November 2008.

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

All investments are valued at their fair value as at 12 noon on 21 May 2010, being the last business day of the financial year. The fair value of non-derivative securities is bid price.

#### 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 21 May 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.

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

#### 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 ) **Stock lending**

Income from stock lending is accounted for net of agents' fees and commissions and is recognised on an accruals basis and treated as revenue.

# Financial statements

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### 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 ) Allocation of income and expenses to multiple unit classes

With the exception of the Manager's periodic charge, which is 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.

#### 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. Stock dividends do not 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.

# Financial statements

## Notes to the financial statements (continued)

### 2 Risk management policy

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

The capital value of investments within the trust is influenced by the performance of the stockmarkets the trust is invested in.

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 holds overseas investments and exchange rate fluctuations can affect both capital and income values.

The capital and income value of the trust's underlying investments can be affected by currency translation movements, where the assets are denominated in currencies other than sterling, which is the trust's functional currency. The fund manager reviews the underlying risk when considering asset allocation. Currency risk resulting from investing in stocks listed outside the UK is not hedged.

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

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 (21.05.09: same).

# Financial statements

## Notes to the financial statements (continued)

### 3 Net capital gains / (losses)

	2010 £'000	2009 £'000
Non-derivative securities	51,352	(214,443)
Currency gains	88	1,522
Special dividends taken to capital	77	0
Transaction charges	(26)	(7)
<b>Net capital gains / (losses)</b>	<b>51,491</b>	<b>(212,928)</b>

### 4 Revenue

	2010 £'000	2009 £'000
Bank interest	38	471
HM Revenue & Customs interest	0	7
Overseas dividends	20,816	30,114
Stock dividends	3,732	548
Stock lending fee income	574	737
<b>Total revenue</b>	<b>25,160</b>	<b>31,877</b>

### 5 Expenses

	2010 £'000	2009 £'000
<b>Payable to the Manager or associate</b>		
Manager's periodic charge	537	513
<b>Payable to the Trustee or associate</b>		
Trustee's fee (including VAT)	44	42
<b>Other expenses</b>		
Audit fee (including VAT)	10	10
Registration fees	40	38
Regulatory fees	3	2
Safe custody charge	132	134
Transaction charges relating to stock lending	16	16
	201	200
<b>Total expenses</b>	<b>782</b>	<b>755</b>

# Financial statements

## Notes to the financial statements (continued)

### 6 Taxation

	2010 £'000	2009 £'000
<b>a ) Analysis of charge in the year</b>		
Corporation tax	1,772	6,490
Overseas tax	3,120	3,917
Overseas tax recoverable: exchange rate movements	(32)	(25)
Overseas tax recoverable: written off	511	0
Overseas tax recoverable: previously written off	(169)	(706)
Double taxation relief	(1,119)	(4,110)
Prior period adjustment	0	5
	<hr/>	<hr/>
Current tax charge (note 6b)	4,083	5,571
Deferred tax (note 6c)	(261)	(182)
<b>Total taxation</b>	<b>3,822</b>	<b>5,389</b>

### b ) Factors affecting taxation charge for the year

Net revenue before taxation	24,373	31,122
	<hr/>	<hr/>
Corporation tax at 20%	4,875	6,224
Effects of:		
Stock dividends not taxable	(683)	(109)
Overseas dividends not taxable <sup>[a]</sup>	(3,269)	0
Revenue taxable in different periods	849	375
Overseas tax	3,120	3,917
Overseas tax recoverable: exchange rate movements	(32)	(25)
Overseas tax recoverable: written off	511	0
Overseas tax recoverable: previously written off	(169)	(706)
Double taxation relief	(1,119)	(4,110)
Prior period adjustment	0	5
<b>Current tax charge (note 6a)</b>	<b>4,083</b>	<b>5,571</b>

[a] As an Authorised Unit Trust this item is not subject to corporation tax.

### c ) Provision for deferred taxation

Provision at the start of the year	261	443
Deferred tax in profit and loss account (note 6a)	(261)	(182)
<b>Provision at the end of the year</b>	<b>0</b>	<b>261</b>

The trust does not have an unrecognised deferred tax asset at the year end (21.05.09: same).

# Financial statements

## Notes to the financial statements (continued)

### 7 Stock lending activities

The gross income earned from stock lending activities was £1,435,000 (2009: £1,826,000). The income shown in note 4 is net of commissions amounting to £861,000 (2009: £1,089,000) payable to M&G Investment Management Limited. Transaction charges relating to stock lending are shown in note 5.

The value of stock on loan at the balance sheet date was £195,374,000 (21.05.09: £214,001,000). The total value of collateral held at the balance sheet date was £208,395,000 (21.05.09: £239,821,000). This collateral consisted of equities to the value of £106,954,000 (21.05.09: £155,815,000), bonds to the value of £87,372,000 (21.05.09: £60,040,000) and cash to the value of £14,069,000 (21.05.09: £23,966,000).

### 8 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (21.05.09: same).

### 9 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 13. 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 95.03% (21.05.09: 94.76%) of the trust's units.

# Financial statements

## Notes to the financial statements (continued)

### 10 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 (21.05.09: same).

#### Currency exposure

The currency profile of the trust's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 21.05.10 £'000	as at 21.05.09 £'000	as at 21.05.10 £'000	as at 21.05.09 £'000	as at 21.05.10 £'000	as at 21.05.09 £'000
Danish krone	3,208	1,044	2	0	3,210	1,044
Euro	492,120	480,935	25,339	15,579	517,459	496,514
Norwegian krone	3,328	0	78	0	3,406	0
Swedish krona	31,821	20,084	0	0	31,821	20,084
Swiss franc	111,189	109,175	1,417	585	112,606	109,760
US dollar	0	0	9	0	9	0
	641,666	611,238	26,845	16,164	668,511	627,402
Sterling	0	0	(12,465)	(17,852)	(12,465)	(17,852)
<b>Total</b>	<b>641,666</b>	<b>611,238</b>	<b>14,380</b>	<b>(1,688)</b>	<b>656,046</b>	<b>609,550</b>

#### Interest rate profile

The majority of the trust's assets comprise equity shares which neither pay interest nor have a maturity date (21.05.09: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (21.05.09: same).

# Financial statements

## Notes to the financial statements (continued)

### 11 Portfolio transaction costs

	2010 £'000	2009 £'000
<b>a ) Purchases</b>		
Purchases excluding transaction costs	208,198	166,800
Commissions	126	241
Taxes	14	1
Total transaction costs	140	242
<b>Total purchases including transaction costs</b>	<b>208,338</b>	<b>167,042</b>
<b>b ) Sales</b>		
Sales excluding transaction costs	229,446	157,402
Commissions	(173)	(280)
Taxes	(10)	0
Total transaction costs	(183)	(280)
<b>Total sales net of transaction costs</b>	<b>229,263</b>	<b>157,122</b>

### 12 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 21 May 2010, is set out in the following table (21.05.09: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>	4.75	n/a
<b>Withdrawal fee:</b> <sup>[a]</sup>	n/a	n/a
<b>Manager's annual remuneration:</b>	1.50	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.

# Financial statements

## Notes to the financial statements (continued)

### 12 Unitholder funds (continued)

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

	21.05.10		21.05.09	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	28,805	4,206	28,047	4,246
Class 'C'	623,035	n/a	577,257	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 opposite. Each unit class has the same rights on winding-up.

### 13 Finance costs

	2010 £'000	2009 £'000
<b>Income units (sterling)</b>		
Class 'A' - Interim	0	149
- Final	356	625
Class 'C' - Interim	1,409	7,957
- Final	15,087	16,447
<b>Accumulation units (sterling)</b>		
Class 'A' - Interim	0	22
- Final	52	93
Finance costs: Dividend distributions	16,904	25,293
Income deducted on cancellation of units	486	677
Income received on issue of units	(144)	(783)
<b>Finance costs: Distributions</b>	<b>17,246</b>	<b>25,187</b>
Finance costs: Interest	5	0
<b>Total finance costs</b>	<b>17,251</b>	<b>25,187</b>
Net revenue per statement of total return	20,551	25,733
Stock dividends not distributed	(3,732)	(548)
Tax relief on stock dividends not distributed	16	0
Overseas tax offset against capital	418	0
Undistributed income brought forward	6	8
Undistributed income carried forward	(13)	(6)
<b>Finance costs: Distributions</b>	<b>17,246</b>	<b>25,187</b>

# Financial statements

## Distribution tables

Dividend distributions on Income units	Net income	Equal- isation	Distribution paid / payable	
			2010	2009
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A' - Interim</b>				
Group 1:	-	-	-	2.3240
Group 2:	-	-	-	2.3240
<b>- Final</b>				
Group 1:	5.9150	-	5.9150	9.8940
Group 2:	4.1260	1.7890	5.9150	9.8940
<b>Class 'C' - Interim</b>				
Group 1:	1.0740	-	1.0740	5.6260
Group 2:	-	1.0740	1.0740	5.6260
<b>- Final</b>				
Group 1:	11.5720	-	11.5720	12.6360
Group 2:	9.6761	1.8959	11.5720	12.6360

Dividend distributions on Accumulation units	Net income	Equal- isation	Amount reinvested	
			2009/10	2008/09
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A' - Interim</b>				
Group 1:	-	-	-	2.4456
Group 2:	-	-	-	2.4456
<b>- Final</b>				
Group 1:	6.4032	-	6.4032	10.4750
Group 2:	4.4665	1.9367	6.4032	10.4750

Interim period 22.05.09 – 21.11.09

Final period 22.11.09 – 21.05.10

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 21 May 2010

The percentage of the Prudential European Trust held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is 2.19%.

## 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 European Trust for the year ended 21 May 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  
1 July 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  
1 July 2010

# Independent auditors' report

## To the unitholders of the Prudential European Trust ('the trust')

We have audited the financial statements of the Prudential European Trust for the year ended 21 May 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 21 May 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  
1 July 2010

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 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](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 European 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



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

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