PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2003

Supplementary notes to the returns

Form 9

0901 Section 148 waivers and Section 68 orders

(a) The Secretary of State, on the application of the Company, made an order on 1 August 1992 pursuant to section 68 of the Insurance Companies Act 1982 directing that section 31 of the Insurance Companies Act 1982 should not apply to the Company in respect of transactions entered into by the Company with The Prudential Assurance Company Limited, Prudential (AN) Limited and Prudential Pensions Limited pursuant to the reassurance agreements dated 1 August 1992.

(b) The Secretary of State, on the application of the Company, issued to the Company in December 1995 an Order under section 68 of the Insurance Companies Act 1982 requiring the Company to calculate the rates of interest to be used in calculating the present value of future payments by or to the Company on the aggregate yield basis defined as that rate of interest which equates the discounted value of the aggregate cash flows on the relevant asset portfolio with the total market value of that portfolio.

The Section 68 orders granted in December 1995 and August 1992 under the Insurance Companies Act 1982 (as amended) continue to have effect under the transitional arrangements set out in the Supervision Manual. Section 31 of the Insurance Companies Act 1982, referred to above, now exists as Rule 3.4 of the Interim Prudential Sourcebook for Insurers.

Supplementary notes to the returns (continued)

Form 10

1001 Reconciliation to shareholder accounts

	2003 £'000s	2002 £'000s
Net assets per FSA return		
Line 99 on Form 13 (OLTB)	857,859	870,502
Line 59 on Form 15	(12,300)	(87,624)
	845,559	782,878
Per shareholder accounts		
Capital and reserves	1,215,779	1,103,984
Difference		
Additional reserves held in long term fund	452,279	383,008
Valuation difference Line 94 on Form 13	4,882	4,239
Deferred tax held on additional reserves and valuation differences	(136,941)	(116,141)
Unappropriated surplus held in long term fund Line 49 on Form 58	50,000	50,000
	370,220	321,106

Form 13

Notes 1301 to 1306 apply to the other than long term business fund.

1301 The Company held £59m in unlisted securities.

1302 The Company held £26m in hybrid securities.

1304 Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

1305 The maximum permitted exposure to any one counterparty other than short term deposits with an approved credit institution is set at 5% of the long term business amount. Maximum permitted exposure to any one approved credit institution is set at 20%. There were no breaches of these limits during the year.

1306 No counterparty exposure at the year end exceeded 5% of the long term business amount. Counterparty limits set were not exceeded during the year.

Notes 1308 to 1313 apply to the long term business fund.

1308 The Company held £1,192m in unlisted securities.

Supplementary notes to the returns (continued)

1309 The Company held £1,360m in hybrid securities.

1310 Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

1311 The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the Interim Prudential Sourcebook for Insurers Appendix 4.2 Rule 4.14. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.

1312 No counterparty exposure at the year end exceeded 5% of the long term business amount.

1313 No "secured obligations" were held at the year end.

<u>Form 14</u>

1401 The long term fund held a number of interest rate and foreign currency swaps and foreign currency futures, during the year. The swaps involved the exchange of cash flows and not the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.

1402 (a) There were no charges attributable to the long term business assets.

(b) The long term fund does not attract tax, and therefore no provision, potential or otherwise, has been made for any liability to tax which might arise if the company disposed of its assets at the values stated in this return.

(c) There were no contingent liabilities at the year end.

(d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

<u>Form 15</u>

1501 The other than long term fund held a number of interest rate swaps and foreign currency futures, during the year. The swaps involved the exchange of cash flows and not the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.

Supplementary notes to the returns (continued)

1502 (a) There were no charges attributable to the other than long term business assets.

(b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £1,200k. Full provision has been made at the year end.

(c) There were no contingent liabilities at the year end.

(d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

Form 16

1601 Revenue account items are translated at rates ruling on the transaction date.

1603 Balances in line 21 relate to management expenses.

Form 40

4008 Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd (the immediate holding company), Prudential Financial Services Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, PPM America Inc., Prudential UK Services Limited and Prudential Services Ltd, all being group companies.

4009 The Company has a reassurance agreement with a related company, The Prudential Assurance Company Limited, in respect of non-participating approved annuity contracts. Included in earned premiums for the year is an amount of £816m received under this reassurance agreement. The reassurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

Also included within claims incurred is an amount of £595m arising from claims under this reassurance agreement.

The liabilities included in the return, relating to this business amount to £8,098m at the year end.

Form 48

4801 The amounts of accrued interest included in the value of admissible assets is:

Line	Description	2003 £'000
12	Fixed interest – approved securities	36,966
13	Fixed interest – unapproved securities	154,922
15	Variable interest – unapproved securities	672
		192,560

These amounts are included in line 84 on form 13.

Supplementary notes to the returns (continued)

4802 There are ten assets where the payment of interest is in default/doubtful. The expected income from five of these assets has been reduced by 50% and for the other five by 100%.

Form 51

5101 The tables of mortality and disability assumed in the valuation are indicated in columns 3 of Forms 51 and 54 by the following code letters:

A 102% PMA92 (U=2004) medium cohort improvement table with 2% floor / 84% PFA92 (U=2004) medium cohort improvement table

B 102% PMA92 (U=2004) medium cohort improvement table with 2% floor + 2 years / 84% PFA92 (U=2004) medium cohort improvement table + 2 years

C [AM / AF92] - 3 years (in deferment), 102% PMA92 (U=2004) medium cohort improvement table with 2% floor + 2 years / 84% PFA92 (U=2004) medium cohort improvement table + 2 years (in possession)

D [AM / AF92] - 3 years (in deferment), 75% PMA92 (C=2004) / 68% PFA92 (C=2004) (in possession)

E Nil (in deferment), 102% PMA92 (U=2004) medium cohort improvement table with 2% floor / 84% PFA92 (U=2004) medium cohort improvement table (in possession)

For A, B, C & E the CMIR17 improvement factors from 1992 to 2004 are applied to PMA92 and PFA92 mortality tables respectively. Future improvement factors from 2005 onwards are in line with the Medium Cohort projection (CMI mortality subcommittee 2002: Working paper 1: An interim basis for adjusting the '92' series mortality projections for cohort effects). Male improvement factors are subject to a minimum improvement of 2% in any year.

Provision for the cost of paying annuities in possession is generally made by increasing the value of the annuity. The percentage addition to the value of the annuity, or the explicit expense provision per annum, is shown by a code letter in column 3, the meaning of the code letters being as follows:

a Expense loading of 2.00%

b Expense loading of 4.00%

5102 Annuities included in Forms 51 and 54 are categorised depending on the type of escalation of benefits once an annuity is in payment. Form 51 includes annuities that increase at a guaranteed fixed rate and Form 54 includes annuities where benefits are dependent on changes in RPI. Deferred annuities with revaluation in line with RPI in deferment and fixed increases in payment are included in Form 51.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2003

Directors' Certificate pursuant to Rule 9.34(a) of the Interim Prudential Sourcebook for Insurers

We certify:

1. (a) in relation to the part of this return comprising Forms 9, 9A, 10, 13 to 17 and 40 to 42 (and the supplementary notes thereto) and statements required by rules 9.29 and 9.30 that:

   (i) the return has been prepared in accordance with the Accounts and Statements Rules as modified by the Section 68 orders granted in August 1992 and December 1995 under the Insurance Companies Act 1982 which continue to have effect;

   (ii) proper accounting records have been maintained and adequate information has been obtained by the company; and

   (iii) an appropriate system of control has been established and maintained by the company over its transactions and records;

   (b) that in respect of the company's business which is not excluded by rule 7.6, the assets held throughout the financial year enabled the company to comply with rules 7.1 to 7.5 (matching and localisation); and

   (c) in relation to the statement required by rule 9.36 that:

   (i) for the purpose of preparing the statement, proper accounts and records have been maintained; and

   (ii) the information given has been ascertained in conformity with that Rule.

   (d) that proper records have been maintained and adequate information obtained by the insurer for the purpose of the declaration required by rule 9.39.

Certificate required by Rule 9.34(a) (continued)

2. that the margin of solvency required by rule 2.1 has been maintained throughout the financial year.

3. (a) that the requirements of rules 3.1 to 3.4 have been fully complied with and in particular that, subject to the provisions of rules 3.2(2) to (4) and 3.3, assets attributable to long term insurance business, the income arising therefrom, the proceeds of any realisation of such assets and any other income or proceeds allocated to the long term insurance business fund has not been applied otherwise than for the purpose of the long term insurance business;

   (b) that any amount payable from or receivable by the long term insurance business fund in respect of services rendered by or to any other business carried on by the company or by a person who, for the purposes of rule 3.4, is connected with it or is a subsidiary company of it has been determined and where appropriate apportioned on terms which are believed to be no less than fair to that fund, and any exchange of assets representing such fund for other assets of the company has been made at fair market value;

   (c) that no guarantees have been given by the company of the performance by a related company of a contract binding on the related company which would fall to be met by any long term insurance business fund;

   (d) that no internal linked funds are maintained;

   (e) that the return in respect of long term insurance business is not distorted by agreements with any other company carrying on insurance business with which the company has financial, commercial or administrative links or by any arrangements which could affect the apportionment of expenses and income; and

   (f) that the company has fully complied with the requirement of rule 3.5.

Certificate required by Rule 9.34(a) (continued)

4. (a) that the systems of control established and maintained by the company in respect of its business complied at the end of the financial year, and it is reasonable to believe that those systems continued to so comply subsequently and will continue to so comply in the future, with the following published guidance:

   (i) Guidance Note P.1 – 'Systems of control over the investments of insurers'; and

   (ii) Guidance notes for the Insurance and Retail Products Financial Sector (issued by the Joint Money Laundering Steering Group);

   (b) that the return has been prepared in accordance with the following published guidance:

   (i) Guidance Note 4.1 – 'Guidance for insurers and auditors on the Valuation of Assets Rules';

   (ii) Guidance Note 4.2 – 'Use of derivative contracts in insurance funds'; and

   (iii) Guidance Note 9.1 – 'Preparation of annual returns'.

....	....	....
G M Wood Chief Executive	D J Belsham Director	T J W Tookey Director

24 March 2004

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2003

Appointed Actuary's Certificate pursuant to Rule 9.34(b) of the Interim Prudential Sourcebook for Insurers

I certify that:

(a) (i) in my opinion proper records have been kept by the Company adequate for the purpose of the valuation of the liabilities of its long-term insurance business;

(ii) the mathematical reserves as shown in Form 14 constitute proper provision at 31 December 2003 for the liabilities (other than the liabilities which had fallen due before 31 December 2003) arising under or in connection with contracts for long-term insurance business including the increase in those liabilities arising from the distribution of surplus as a result of the investigation as at 31 December 2003 into the financial condition of the long-term insurance business;

(iii) for the purposes of sub-paragraph (ii) above, the liabilities have been assessed in accordance with Determination of Liabilities Rules in the context of assets valued in accordance with the Valuation of Assets Rules, as shown in Form 13;

(iv) the valuation complies with the guidance notes "GN1: The Prudential Supervision in the UK of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries dated 1 September 2003 and "GN8: Additional Guidance on Valuation of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries, dated 30 December 2002;

(v) in my opinion, premiums for contracts entered into during the financial year and the income earned thereon are sufficient, on reasonable actuarial assumptions, and taking into account the other financial resources of the Company that are available for the purpose, to enable the Company to meet its commitments in respect of these contracts and, in particular, to establish adequate mathematical reserves.

(b) the amount of the required minimum solvency margin applicable to the Company's long-term insurance business immediately following 31 December 2003 (including the amount resulting from any increase in liabilities arising from a distribution of surplus as a result of the investigation into the financial condition of the long-term insurance business) is £539,537,000.

D J Belsham
Appointed Actuary

24 March 2004

PRUDENTIAL ANNUITIES LIMITED

Financial Year ended 31 December 2003

Report of the auditor to the Directors pursuant to Rule 9.35 of the Accounts and Statements Rules.

We have examined the following documents prepared by the company pursuant to the Accounts and Statements Rules set out in part I of chapter 9 to the Interim Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority ("FSA") under section 138 of the Financial Services and Markets Act 2000:

- Forms 9, 9A, 10, 13 to 17 and 40 to 42 (including the supplementary notes thereto) ("the Forms");

- the statement required by Rule 9.29 on pages 64 to 66 ("the statement"); and

- the certificate signed in accordance with Rule 9.34(a) on pages 57 to 59 ("the certificate").

In the case of the certificate, our examination did not extend to:

(a) paragraph 1 in relation to the statements required by Rules 9.30 and 9.36 concerning shareholders controllers and information on the appointed actuary;

(b) sub-paragraph 3 (d) concerning the investment policy and practice of internal linked funds required by paragraph 4 (d) of Appendix 9.6; and

(c) paragraph 4(a) in so far as it relates to controls with respect to Money Laundering.

This report is made solely to the company's directors, as a body, in accordance with the requirements of rule 9.35 of the Rules. We acknowledge that the directors are required to submit this report to the FSA, to enable the FSA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirements of rule 9.35 of the Rules and to facilitate the discharge by the FSA of its regulatory functions in respect of the company, conferred on the FSA by or under the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to rule 9.35 of the Rules and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Company and its auditors

The Company is responsible for the preparation of an annual return (including the Forms, statements and the certificate) under the provisions of the Rules. The requirements of the Rules have been modified, under section 68 of the Insurance Companies Act 1982, by orders issued in August 1992 and December 1995, which continue to have effect under the transitional arrangements. Under rule 9.11 the Forms and statement are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

It is our responsibility to form an independent opinion as to whether the Forms and statements meet these requirements, and in the case of the certificate whether it was or was not unreasonable for the persons giving the certificate to have made the statements therein, and to report our opinions to you. Our responsibilities, as independent auditors, are established in the United Kingdom, by statute, the Auditing Practices Board, and by our profession's ethical guidance.

Basis of opinions

We conducted our work in accordance with Practice note 20: "The Audit of Insurers in the United Kingdom" issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms and statements. The evidence included that obtained by us relating to the audit of the financial statements of the company for the financial year. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms and statements.

We planned and performed our work 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 Forms and statements are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with Rule 9.11.

In the case of the certificate, the work performed involved a review of the procedures undertaken by the signatories to enable them to make the statements therein, and does not extend to an evaluation of the effectiveness of the company's internal control systems.

In giving our opinion we have relied on the certificate of the actuary on page 60 with respect to the mathematical reserves and the required minimum margin.

Opinions

In our opinion:

(a) the Forms and statements fairly state the information provided on the basis required by the Rules as modified by section 68 orders granted on 1 August 1992 and December 1995 and have been properly prepared in accordance with the provisions of those Rules; and

(b) based on the information and explanations received by us:

   (i) the certificate has been properly prepared in accordance with the provisions of the Rules; and

   (ii) it was not unreasonable for the persons giving the certificate to have made the statements therein.

KPMG Audit Plc
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

24 March 2004

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2003

Statement required by Rule 9.29 of the Interim Prudential Sourcebook for Insurers

(a) Investment guidelines

As requested by Rule 9.29 of the Interim Prudential Sourcebook for Insurers (Volume One: Rules) Chapter 9, the investment guidelines for the use of derivative contracts for both long term and other than long term funds are set out below. These are fully explained in the Company's Investment Management Agreement with its fund managers and are consistent with the investment strategy.

(i) Derivatives are used for the purpose of efficient portfolio management or to reduce risk, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, or control the risk profile of an identified strategy.

(ii) A number of restrictions on the use of derivatives have been agreed with the Company's fund managers and can only be overruled by prior agreement between the two parties:

- all derivatives that impose obligations on the fund must be strictly covered.
- all derivative contracts must satisfy the definition of approved under Rule 4.12 of the Interim Prudential Sourcebook for Insurers (Volume One: Rules)
- the maximum allowable exposure to counterparties should not be exceeded.
- only certain permitted exchanges and contracts can be used.

(iii) During the year the company has used interest rate, currency and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

(b) Derivatives where exercise is unlikely.

There are no specific guidelines for the use of contracts not reasonably likely to be exercised. However the Investment Management Agreement only allows the use of derivatives for the purpose of efficient portfolio management or to reduce risk and the Company's investment managers work within these constraints.

(c) Quantification of derivatives in (b) above

During 2003 no such contracts were used.

(d) Effect on form 13 at 31 December 2003 of exercising derivatives where it would be prudent to assume options would be exercised. Decreases are shown in brackets

Long term funds

Form 13 line 44;	(£89,851k)
Form 13 line 54/55/81;	£44,014k

Other than long term funds

Form 13 line 54/55/81;	(£1,488k)

(e) Effect on form 13 at 31 December 2003 of exercising all derivatives. Decreases are shown in brackets

Long term funds

Form 13 line 44;	(£89,851k)
Form 13 line 54/55/81;	£44,014k

Other than long term funds

Form 13 line 54/55/81;	(£1,488k)

(f) Effect on form 13 under the conditions noted in (d) and (e) above at any other time during the year. Decreases are shown in brackets

Conditions noted in (d)

Long term funds

Form 13 line 44;	(£55,019k)
Form 13 line 54/55/81;	(£52,650k)

Other than long term funds

Form 13 line 54/55/81;	(£8,642k)

Conditions noted in (e)

Long term funds

Form 13 line 44;	(£55,019k)
Form 13 line 54/55/81;	(£52,650k)

Other than long term funds

Form 13 line 54/55/81;	(£8,642k)

The above figures are the maximum impact on the individual line items of exercising derivatives at any time during the year. The maximum impacts for each line will not necessarily occur on the same day.

(g) Maximum exposure

Long term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £20,674k.

Under foreseeable market conditions the company's exposure would not increase beyond £21,708k. The maximum loss at any other time during the year was £20,463k.

Other than long term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £0.

Under foreseeable market conditions the company's exposure would not increase beyond £10,000k as timely actions would be taken by the Investment Manager in line with its collateral management policies to prevent further exposures arising. The maximum loss at any other time during the year was £0.

(h) Derivatives not covered by Paragraph (2) of Rule 4.12 or the definition of a permitted derivative contract in the Interim Prudential Sourcebook for Insurers.

There were no derivative contracts held during 2003 that did not satisfy the Rule 4.12 requirements of the Interim Prudential Sourcebook for Insurers.

(i) Consideration for granting rights under derivative contracts

No rights under derivative contracts have been granted.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2003

Statement in accordance with Rule 9.30 of the Interim Prudential Sourcebook for Insurers

Additional information on shareholder controllers

We confirm that the following is a list of:

(a) Persons who, to the knowledge of Prudential Annuities Limited ("the Company"), have been, at any time during the year ended 31 December 2003, a shareholder controller of the Company; and

(b) In the case of each person who was a shareholder controller of the Company at 31 December 2003:

(i) the percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking; and

(ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking;

in each case, either alone or with any associate or associates.

Persons who, to the knowledge of the Company, have been, at any time during the year ended 31 December 2003, a shareholder controller of the Company.	**In the case of each person who was a shareholder controller of the Company at 31 December 2003:**	
	The percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking, either alone or (*shown separately*) with any associate or associates	**The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking, either alone or (*shown separately*) with any associate or associates**
The Prudential Assurance Company Limited, being its immediate holding company	100%	100%
Prudential plc, being its ultimate holding company	100%	100%

PRUDENTIAL ANNUITIES LIMITED

Year ended 31 December 2003

Statement of information on the appointed actuary pursuant to Rule 9.36 of the Interim Prudential Sourcebook for Insurers

In accordance with Rule 9.36 of the above sourcebook, David Belsham, the appointed actuary of the Company, was requested to furnish and has provided the following information:

(a) (i) He had an interest in 56,085 and 56,188 shares in the share capital of the holding company, Prudential plc, at the beginning and at the end of the year respectively.

(ii) He had an interest under the Prudential Restricted Share Plan in shares in Prudential plc held in trust, representing the maximum award that could be made if performance requirements of the Plan were met, of 34,262 and 47,748 shares at the beginning and at the end of the year respectively. During the year no shares were released to him but under the 2003 Scheme 23,251 shares were conditionally awarded to him.

(iii) He held the following options granted under the Prudential Savings-Related Share Option Scheme to subscribe for shares in Prudential plc:

Number of Shares	Exercise Price	Exercise Dates
5,866	280p	Between June 2008 and December 2008

(iv) He also had an interest in 1,410 shares in Egg plc, a subsidiary of Prudential plc, both at the beginning and the end of the year.

(b) He was interested in the following life and general insurance policies issued by the Company:

(i) Three endowment assurance with-profits policies maturing between 2009 and 2011 with participating sums assured totalling £18,720, non-participating minimum death benefits of £48,000 and annual premiums of £776.

(ii) Two temporary assurance without-profits policies expiring in 2011 with sums assured totalling £202,000 and annual premiums of £457.

(iii) A home insurance policy covering buildings, household contents, travel and personal effects and a motor insurance policy (now underwritten by Churchill).

(c) His total remuneration for the year was £256,581.

(d) He is a member of the Prudential Staff Pension Scheme and contributions in respect of the year were paid by the Company.