Registered No 1347088

PRUDENTIAL (AN) LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

PRUDENTIAL (AN) LIMITED

Incorporated and registered in England and Wales. Registered no. 1347088.
Registered Office: Laurence Pountney Hill, London, EC4R 0HH

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PRUDENTIAL (AN) LIMITED

Directors

D J Belsham (Chairman)
M Sheppard

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL (AN) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Principal activity

The principal activity of the Company is the transaction of long-term pensions and life insurance business in the United Kingdom. This will continue in 2007.

Business review

The Company writes mostly pension and some life products that were previously sold to the customers of Abbey National. Although no active selling continues, new business is generated as policyholders top up existing policies and when existing policyholders switch from pensions into annuity contracts. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending upon the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies. With-profits policies can be single or regular premium and are reinsured to the Prudential Assurance Company Limited. The profits from almost all of the Company's non-participating business accrue solely to shareholders.

At the start of 2006 the Company held unit-linked funds to back the unit-linked pensions business that it had sold to the customers of Abbey National. On 13 May 2006 the Company entered into a reinsurance arrangement with the Prudential Assurance Company Limited (PACL) under which it ceded the risks associated with this business. The Company paid for this reinsurance with a one-off premium to PACL equal to the unit-linked funds backing this business. This premium was effected by an in-specie transfer of unit-linked funds on 13 May 2006.

At the start of 2006 the Company was underwriting linked pension business that it accepted, by way of a reinsurance arrangement, from the PACL. On 13 May 2006 that arrangement was terminated. As the arrangement unwound the Company settled a claim to PACL equal to the unit-linked funds backing this business. This claim was effected by an in-specie transfer of unit-linked funds on 13 May 2006.

Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group. The operations of UKIO are structured into three business units: Retail Retirement; Wholesale and Mature, Life and Pensions. The operations of the Company fall into the Mature, Life and Pensions. UKIO has committed to continuing to safeguard the embedded value through the Mature Life and Pensions business area. It has an aggressive target to reduce per policy unit processing costs by internal cost cutting, further off-shoring and possible out-sourcing.

The transfer of unit linked funds to PACL made possible by the changes to the reinsurance arrangements furthered the objectives of UKIO by reducing the costs for administering these funds that are paid to Mellon Funds Services.

Risks & uncertainties

The Company is a wholly owned subsidiary within the Group, Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the acceptance and management of risk. The Group has a Risk Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The system of internal control is an essential and integral part of the risk management process. As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks including an assessment of the impact and likelihood of key risks and effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year and all businesses and functions within the Group are required to confirm annually that they have undertaken risk management. Actual performance is regularly monitored against the business plans. Detailed procedures are laid down in financial and actuarial procedure manuals. The insurance operations of the Group, such as the Company, also prepare a financial condition report.

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Financial risk management, Market risk, Credit Risk and Liquidity risk below and in the financial statements of the parent company, Prudential Assurance Company Limited.

Performance and measurement

The results of the Company for the year as set out on pages 8 and 9 show a profit on ordinary activities before tax of £8,324,000 (2005:£3,889,000).

The shareholders' funds of the Company total £28,796,000 (2005:£22,248,000).

Corporate responsibility

The Company is a wholly owned subsidiary within the Group, Prudential plc, and as such forms a part of the overall approach to corporate responsibility (CR) for the Group. For the Group, CR is not an optional extra. It is fundamental to how the Group and its businesses and functions operate and is a philosophy that is now embedded therein. It is recognised that stakeholders increasingly support those companies that define and exhibit sound values around trust, ethics and environmental responsibility. It is also believed that performance in key areas of conduct such as corporate governance, environmental management and employment practices can have a significant impact on its financial performance. The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example the Group Code of Business Conduct, the CR policy and Health and Safety Policy. "Treating Customers Fairly" is a key ethic on which the Company conducts its business.

There is also a Corporate Responsibility Committee which is Group-wide and has responsibility for reviewing business conduct and social and environmental policy. A CR unit develops the Group's strategy, provides training across the Group and works closely with the businesses and functions, of which the Company is a part, to provide advice and ensuring that core values are maintained and assisting with the adaptation of Group-wide initiatives to meet local needs.

Post balance sheet events

There have been no significant events affecting the Company since the balance sheet date.

Accounts

The state of affairs of the Company at 31 December 2006 is shown in the balance sheet on page 11. The profit and loss account appears on pages 8 and 9.

Share Capital

There have been no changes to share capital in the year.

Dividends

No dividend is proposed for the year (2005: £3,000,000).

Payment policy

The Company does not have any trade creditors and therefore codes or standards on payment practice and disclosure of trade creditor days are not applicable.

Directors

The present directors of the Company are shown on page 1.

Ms M Sheppard was appointed as director of the Company on 22 January 2007. Mrs R Harris was appointed as director of the Company on 30 October 2006 and resigned as a director of the Company on 2 February 2007. Mr R C Everett and Mr B Hurd resigned as directors of the Company on 19 May 2006 and 2 November 2006 respectively.

There were no other changes during the year.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

Directors' interests

Of the directors in office at the end of the year, Mr D J Belsham and Mrs R Harris were directors of the immediate parent company, The Prudential Assurance Company Limited, and their interests are shown in the annual report and accounts of the company.

Financial risk management

The Company holds and has held no derivatives in the year under review.

Market risk

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The primary market risks that the Company faces are equity risk and interest rate risk because most of its assets are investments that are either equity type of investments and subject to equity price risk, or bonds, mortgages or cash deposits, the values of which are subject to interest rate risk. The amount of risk borne by the Company's shareholders depends on the extent to which its customers share the investment risk through the structure of the Company's products.

The split of the Company's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Company has available. This mix of liabilities allows the Company to invest a substantial portion of its investment funds in equity and real estate investments that the Company believes produce greater returns over the long term. On the other hand the Company has some liabilities that contain guaranteed returns which generally will be supported by fixed income investments.

Credit risk

Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract. The Company's long-term fund holds large amounts of interest rate sensitive investments that contain credit risk on which a certain level of defaults is expected. These expected losses are considered when the Company determines the crediting rates, deposit rates and premium rates for the products that will be supported by these assets. Although the investment guidelines of the Company permit the use of derivatives contracts none were used during 2006 or 2005. The Company is exposed to credit-related losses in the event of non-performance by counterparties.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management in the Company seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

In practice, most of the Company's assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contains discretionary surrender values or surrenders charges, reduces the liquidity risk.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with Section 386 of the Companies Act 1985, an elective resolution has been passed by the Company dispensing with the need to appoint an auditor annually. Accordingly, KPMG Audit Plc will be deemed to be re-appointed auditor of the Company for the current financial year.

Qualifying Third Party Indemnities

The Articles of Association of the Company provide for the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides certain protections for directors and senior managers of companies within the Prudential Group against personal financial exposure that they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined under section 309B of the Companies Act 1985) in force for the benefit of the directors of Prudential plc and of certain directors of associated companies (as defined under section 309A of the Companies Act 1985) at the time this directors' report was approved under section 234A of the Companies Act 1985 and during 2006.

On behalf of the board of directors

Prudential Group Secretarial Services Limited
Secretary
29 March 2007

PRUDENTIAL (AN) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

D J Bell

D J Belsham
Director

29 March 2007

PRUDENTIAL (AN) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL (AN) LIMITED

We have audited the financial statements of Prudential (AN) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Reconciliation of movements in shareholders' funds, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

29 March 2007

PRUDENTIAL (AN) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

Technical Account - Long Term Business	Notes	**2006 £000**	**2005 £000**
Earned premiums, net of reinsurance			
Gross premiums written	2	2,621	26,702
Outward reinsurance premiums		(2,621)	(1,750)
		-	**24,952**
Investment income	3	18,530	27,182
Unrealised gains on investments	3	4,781	39,802
Other technical income		10,619	6
		33,930	**66,990**
Claims incurred, net of reinsurance			
Claims paid - gross amount		(5,534)	(69,401)
- reinsurers' share		5,534	8,366
		-	**(61,035)**
Change in the provision for claims			
- gross amount	10	275	(422)
		275	**(61,457)**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		2,953	4,325
- reinsurers' share		(1,914)	(1,311)
	10	1,039	3,014
Technical provisions for linked liabilities, net of reinsurance	10	(19,118)	(28,615)
		(18,079)	**(25,601)**
Other charges			
Net operating expenses - administrative expenses		(7,400)	(935)
Investment expenses and charges	3	(1,247)	(933)
Tax attributable to the long term business	4	(2,244)	(905)
		(10,891)	**(2,773)**
Balance on the technical account - long term business		**5,235**	**2,111**

All of the amounts above are in respect of continuing operations.

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL (AN) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

Non-Technical Account	Notes	2006 £000	2005 £000
Balance on the technical account – long term business		**5,235**	**2,111**
Tax credit attributable to the balance on the technical account – long term business		2,244	905
Balance on the long term business technical account before tax		**7,479**	**3,016**
Investment income	3	555	834
Unrealised gains	3	290	39
Operating profit on ordinary activities before tax		**8,324**	**3,889**
Tax on profit on ordinary activities	4	(1,776)	(1,605)
Profit after tax		**6,548**	**2,284**

The Company has no recognised gains or losses other than those reported in the profit and loss account.

In accordance with the amendment to Financial Reporting Standard 3 (FRS 3) published in June 1999 no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments.

All of the amounts above are in respect of continuing operations.

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL (AN) LIMITED

Reconciliation of movements in shareholders' funds for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	6,548	2,284
Dividends paid	-	(3,000)
Net movement in shareholders' funds	6,548	(716)
Shareholders' funds at beginning of year as originally reported	25,706	26,422
Effect of FRS26 on the opening balance sheet	(3,458)	-
Shareholders' funds at beginning of year as restated	22,248	26,422
Shareholders' funds at end of year	28,796	25,706

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL (AN) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
ASSETS			
Investments			
Other financial investments	7	40,751	38,156
Assets held to cover linked liabilities	8	-	394,197
Reinsurers' share of technical provisions			
Long term business provision	10	124,706	124,625
Technical provision for linked liabilities	10	127,638	908
		252,344	**125,533**
Debtors			
Debtors arising out of direct insurance operations: Policyholders		95	-
Other debtors	9	2,282	-
Other Assets			
Cash at bank and in hand	16	1,177	2,704
Prepayment and accrued income			
Accrued interest and rent		389	438
Total assets		**297,038**	**561,028**
LIABILITIES			
Capital and reserves			
Called up share capital	18	18,000	18,000
Profit and loss account	19,10	10,796	7,706
Total shareholders' funds attributable to equity interests		**28,796**	**25,706**
Technical provisions			
Long term business provision	10,11	130,414	134,390
Claims outstanding	10	705	980
		131,119	**135,370**
Technical provisions for linked liabilities	10,12	127,638	394,360
Provision for other risks and charges			
Deferred taxation	4	18	199
Other provisions	13	-	941
		18	1,140
Creditors			
Other creditors including taxation and social security	14	9,030	4,452
		9,030	4,452
Accruals and deferred income	15	437	-
Total liabilities		**297,038**	**561,028**

The accounts on pages 8 to 26 were approved by the board of directors on 29 March 2007

D J Belsham
Director

D J Bell

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS

1. Accounting Policies

A. Change in accounting policies

The Company has implemented the following accounting standards in preparing its results for the year ended 31 December 2006. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

FRS 23 "The effects of changes in foreign exchange rates", FRS 24 "Financial reporting in hyperinflationary economies", FRS 25 "Financial Instruments: Disclosures and Presentation" and FRS 26 "Financial instruments: Measurement"

These accounting standards are part of a package of standards comprising FRS 23, FRS 24, the disclosure requirements of FRS 25 and FRS 26. The Company adopted these standards on 1 January 2006. The presentation requirements of FRS25 were adopted by the Company from 1 January 2005.

The main impacts of the adoption of these standards are described below:

FRS 23 "The effects of changes in foreign exchange rates"

The adoption of this standard has no impact on the balance sheet or profit and loss account of the Company. However, certain changes have been made on the disclosures relating to foreign exchange differences as a result of adopting this standard.

FRS 24 "Financial reporting in hyperinflationary economies"

The adoption of this standard has no impact on the results of the Company.

FRS 25 "Financial instruments: disclosures and presentation"

FRS 25 is based on the text of IAS 32 "Financial instruments: disclosures and presentation" as at 31 March 2004, incorporating the revised version of IAS 32 issued by the IASB in December 2003 and includes amendments made by IFRS 4 "Insurance contracts".

The disclosures required under FRS 25 are set out in note 7. The Company has taken advantage of the provisions within FRS 25 that allows the comparatives not to be restated to comply with this standard in the first year of adoption.

FRS 26 "Financial instruments: measurement"

FRS 26 is based on the text of IAS 39, "Financial instruments: recognition and measurement" as at 31 March 2004, incorporating the revised version of IAS 39 issued by the IASB in December 2003 together with the amendments to IAS39 on "Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk" and those made by IFRS 4 "Insurance contracts".

Similar to FRS 25, the comparative information has not been restated to comply with this standard.

Certain provisions of the Statement of Recommended Practice, "Accounting for Insurance Business", issued in December 2005 (as amended in December 2006) by the Association of British Insurers ABI SORP ("the ABI SORP") relating to application of FRS 26 also became effective for the Company upon its adoption of FRS 26 in 2006. The principal effects of adopting FRS 26 arise in the Company's long-term business contracts and financial assets.

NOTES TO THE ACCOUNTS (continued)

1. Accounting Policies (continued)

A. Change in accounting policies (continued)

Long-term business

On adoption of FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. Insurance contracts and investment contracts with discretionary participation features are to be accounted for under previously applied UK GAAP, which is as set out in the ABI SORP. Discretionary participation features represent the contractual right to receive additional benefits as a supplement to guaranteed benefits. The Company's insurance contracts and investment contracts with discretionary participation features are with-profits policies.

For investment contracts without discretionary participation features, FRS 26 and, where the contract includes an investment management element, the provisions of ABI SORP apply measurement principles to the assets and liabilities attaching to the contract that may diverge from those applied under the previous UK GAAP. The changes primarily arise in respect of deferred acquisition costs, deferred income reserves and provisions for future expenses commonly called "sterling reserves".

The investment contract without discretionary participation features classification applies primarily to certain unit-linked and similar contracts in the Company.

Under previous UK GAAP acquisition costs were deferred with amortisation on a basis commensurate with the anticipated emergence of margins under the contract. Under FRS 26 and the ABI SORP, the costs potentially capable of deferral are limited to incremental costs which are directly attributable to securing investment management contracts, are recognised as an asset that represents the entity's contractual right to benefit from providing investment management services and is amortised as the entity recognises the related revenue. Deferred acquisition costs are amortised to the long-term business technical account in line with service provision.

Deferred income provisions for front-end fees and similar arrangements are required to be established for these contracts with amortisation over the expected life of the contract in line with service provision.

Sterling reserves are not permitted to be recognised under FRS 26.

A further feature is that investment contracts without discretionary participation features are closer in nature to a deposit style arrangement between the investors and the Company. Premiums and withdrawals for these contracts are recorded within the balance sheet as a movement on the investors liability and the long-term business technical account reflects the fee income, expenses and taxation on the contract. The provisions for investment contracts without discretionary participation features are included in Technical Provisions for Linked Liabilities in the balance sheet. FRS26 impacts the following captions in the Long Term Business Technical Account: gross premiums written, outwards reinsurance premiums, claims paid gross amount, claims paid reinsurers' share, net operating expenses, investment income (inclusion of policy fees for administration and management services) and change in technical provisions for linked liabilities.

1. Accounting Policies (continued)

A. Change in accounting policies (continued)

<u>Financial Investments</u>

The other main impact arising from the adoption of FRS 26 is in relation to recognition and measurement of financial instruments (other than long-term business contracts classified as financial instrument as described above). Upon initial recognition, financial investments are measured at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases:

(i) Financial investments at fair value through profit and loss – this comprises assets designated by management as fair value through profit and loss on inception. These investments (including all derivatives) are valued at fair value with all changes thereon being recognised in the profit and loss account.

Under the previous UK GAAP, quoted financial investments are carried at market value at the mid-market prices. Upon the adoption of FRS 26, the Company uses bid prices to value its quoted financial investments.

(ii) Loans and receivables – this comprises investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, deposits and loans to policyholders and other unsecured loans and receivables. These investments were held at fair value under the previous UK GAAP. Under FRS 26, these investments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

The effects of the changes in accounting policies from the adoption of the standards above on opening shareholders' funds and profit and loss account are as follows:

	Profit and loss account £'000	Shareholders' funds £'000
31 December 2005 as previously published	7,706	25,706
Effect of adoption of FRS 26:		
Deferred acquisition costs	3,093	3,093
Deferred Income reserve	(11,050)	(11,050)
Sterling Reserves	3,018	3,018
Deferred tax impact	1,481	1,481
1 January 2006 (including FRS 26 adjustments)	4,248	22,248

No quantitative details of the effects of the adoption of these standards on the results of the Company for the year ended 31 December 2006 have been given as it is not practical to do so.

B. Basis of Preparation

The financial statements are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements comply with applicable accounting standards and the ABI SORP, and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The Company has taken advantage of the exemption under FRS1 (Revised) from preparing a cash flow statement. The Company has not presented a capital position statement with supporting disclosures under FRS 27 on the basis that the Company is more than 90 per cent owned within a group and the Company is included in the publicly available Prudential group financial statements which provide information on a group basis complying with this requirement.

1. Accounting Policies (continued)

C. Long-term Business

Technical account treatment - 2005

Premiums and annuity considerations for conventional with-profit policies and other protection type life insurance policies are accounted for when due. For unit linked business and unitised with-profit policies, premiums are accounted for when the liabilities arising from the premiums are created. Premiums exclude any taxes or duties based on premiums. Pensions annuity contracts that vest during the year are included in claims incurred and premium income at the annuity purchase price.

Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.

The costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, which are not matched by policy charges are amortised against margins in future revenues on the related insurance contracts for non-profit business.

Profits comprise actuarial surpluses allocated to shareholders adjusted, other than for with-profits business, for the deferral of acquisition costs and movements in the shareholders' interest in reserves held within long-term funds.

Technical account treatment - 2006

For 2006, upon the adoption of FRS 26 and the related provisions within the ABI SORP, the recognition basis in the technical account remains the same except for investment contracts which do not contain discretionary participation features, where the accounting reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet.

Investment contracts (excluding those with discretionary participation features) are required to be accounted for as financial liabilities with FRS 26 and where relevant, the provisions of the ABI SORP, in respect of the attaching investment management features of the contracts. The Company's investment contracts primarily comprise certain unit-linked pensions contracts.

Incremental, directly attributable acquisition costs relating to the investment management element of these contracts are capitalised and amortised in line with related revenue. If the contracts involve up-front charges, this income is also deferred and amortised through the technical account in line with contractual service provision.

D. Long-term business provision

The long term business provision is determined by the Company's directors based on advice from the Company's actuarial function holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by Prudential Sourcebook issued by the Financial Services Authority.

For unit-linked business, the calculation of the long-term business provision in respect of the provision for future expenses compares the projected future revenue stream from each individual policy against the policy's share of projected future expenses using prudent assumptions. Where there is a deficit in the projected revenue compared to the projected level of charges, and such deficits will not be offset by projected excesses in the preceding years, a provision for future expenses is required. This provision is calculated by discounting the deficits at a prudent discount rate. The assumptions to which the long-term business provision is particularly sensitive are the interest rate used to discount the provision, the rate of fund growth on units and the assumed level of future expenses. The key assumptions are disclosed in note 11 of the financial statements.

NOTES TO THE ACCOUNTS (continued)

1. Accounting Policies (continued)

D. Long-term business provision (continued)

For annuity business, the calculation is based on a discounted value of projected future annuity payments plus an allowance for expenses. The projected amounts are based on prudent assumptions of mortality and expenses, and these are discounted at a prudent discount rate. The provision is sensitive to each of these assumptions, but almost all of this business is reassured.

For temporary assurance business, the net premium valuation method has been used to calculate the long-term business provision. The net premium is calculated such that it would be exactly sufficient at the outset of the policy to provide the discounted value of the guaranteed death and maturity benefits. The provision is then calculated by subtracting the present value of future net premiums from the present value of future benefits using a prudent discount rate. As this business forms only a small part of the long-term business provision, the provision is not particularly sensitive to the assumptions used.

For permanent health insurance business, the liability is calculated to be twice the office premium.

For accumulating with-profits policies the provision has been taken as the lower of:
- the accumulated fund or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding terminal bonus, and
- the surrender or transfer value which, having regard to policyholders' reasonable expectations, would be payable at the valuation date,

or, if greater, the value of the guaranteed liabilities excluding terminal bonus calculated on a gross premium bonus reserve method. For the purpose of calculating the liability using the bonus reserve method, the assumed interest rate of 3.2% has been used and future reversionary bonuses are assumed to fall from current levels to zero immediately.

E. Technical provision for linked liabilities

The technical provision for linked liabilities is based on the market value of the related assets.

F. Investments

Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised gains and unrealised gains are included in the non-technical account.

Realised gains are determined as the difference between net proceeds on disposal and the purchase price. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

Other investments are shown at market value. The Company uses current bid prices to value its quoted investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cash flow technique.

G. Tax

Tax is charged on all taxable profits arising in the accounting period. Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

H. Foreign Currencies

Foreign currency revenue transactions are translated at average exchange rates for the year. Foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences on long-term business and on net investments in foreign enterprises less matching borrowings are taken to reserves. Other exchange differences are included in the profit and loss account.

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

2. Segmental analysis

(a) Long-term business

Gross Premiums

	2006 £000	2005 £000
Regular premiums – direct, pensions	-	1,028
Single premiums		
- direct:		
pensions	2,621	3,955
life insurance	-	9
- intragroup reassurance accepted, pensions	-	21,710
	2,621	26,702

In 2006 all premiums were in respect of annuity purchases sold in the United Kingdom.

New Business

	2006 £000	2005 £000
Regular premiums – direct, pensions	763	1,028
Single premiums		
-direct:		
pensions	7,134	3,955
life insurance	-	9
- intragroup reassurance accepted, pensions	9,745	21,710
	17,642	26,702

New business premiums include those contracts excluded from premium income in the 2006 technical account under FRS26 and the ABI SORP (as amended in December 2006). These are investment contracts without discretionary participation features and carry no significant insurance risk.

When classifying new business premiums for pension business the adopted basis of recognition is to include increments under existing pension schemes. Premiums include new single premiums with a gross value of £7,134,000 (2005: £3,955,000). The annualised gross value of new premiums (other than single) is £Nil (2005: £Nil). All new business premiums are in respect of investment linked contracts.

New business premiums for life business are in respect of individual unitised with profits contracts. All such business is single premium contributions and therefore all £3,000 is classified as new business (2005: £9,000).

(b) Assets attributable to the long term business fund

Of the total amount of assets shown on page 11, £274,831,000 (2005: £539,054,000) is attributable to the long term business fund.

NOTES TO THE ACCOUNTS (continued)

3. Investment return

	Long-term business technical account		Non technical account	
	2006	2005	2006	2005
	£000	£000	£000	£000
Investment Income				
Income from land and buildings	297	990	-	-
Income from other investments	5,065	9,565	555	834
Gains on the realisation of investments	13,168	16,627	-	-
	18,530	27,182	555	834
Investment expenses and charges				
Investment managers' expenses	(1,228)	(922)	-	-
Interest payable – other than bank	(19)	(11)	-	-
Unrealised gains on investments	4,781	39,802	290	39
Total investment return	22,064	66,051	845	873

4. Taxation

	Long-term business technical account		Non technical account	
	2006	2005	2006	2005
	£000	£000	£000	£000
(a) Analysis of charge in the period				
Current tax				
UK Corporation tax on profit for the period	2,244	905	1,198	1,736
Adjustments in respect of prior years	-	-	(722)	438
Total current tax	2,244	905	476	2,174
Deferred tax				
Origination and reversal of timing differences	-	-	1,300	(569)
Total deferred tax	-	-	1,300	(569)
Tax charge on profit on ordinary activities	2,244	905	1,776	1,605

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

4. Taxation (continued)

b) Factors affecting tax charge for period

The tax assessed in the period is lower this year than the standard rate of Corporate Tax in the UK and the differences are explained below.

The standard rate of tax has been determined by using the UK rate of corporation tax in force for the period for which the profits of the Company will be taxed.

	2006 £000	2005 £000
Profit on ordinary activities before tax	8,324	3,889
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 : 30%)	2,497	1,167
Effects of		
Tax on disallowable expenses	6	17
Tax credit on capital allowances	(5)	(17)
Deferred tax recognised in the period	(1,300)	569
Adjustments to current tax in respect of previous periods	(722)	438
Current tax charge for the period	476	2,174

(c) Balance Sheet

	2006 £000	2005 £000
Provision for Deferred Tax		
Short term timing differences	-	199
Undiscounted provision for deferred tax liability	-	199
Deferred tax liability at start of period	199	768
Deferred tax (credited) / charged in technical / non technical account for the period	1,300	(569)
Effect of FRS26 on opening balance sheet	(1,481)	-
	18	199

5. Auditors' remuneration

During the year the Company obtained the following services from KPMG Audit plc (KPMG) at costs as detailed below

	2006 £000	2005 £000
Audit Services		
Fees payable to KPMG for the audit of the Company's accounts	22,202	10,228
Non-audit services		
Fees payable to KPMG and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	8,000	7,000

NOTES TO THE ACCOUNTS (continued)

6. Directors' emoluments and staff costs

The directors of the Company received emoluments of £7,937 during the year in connection with services to the Company (2005: £8,625). There was no compensation for loss of office (2005: £Nil).

Retirement benefits are accruing to all of the directors under the Group's defined benefit scheme.

The Company has no employees. Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

7. Investments

Other financial investments

	Current Value		Cost	
	2006	2005	2006	2005
	£000	£000	£000	£000
Debt securities and other fixed interest securities	5,671	6,069	5,309	5,998
Loans secured by mortgages	607	859	607	859
Loans secured by insurance policies	47	60	47	60
Holding in Open Ended Investment Company	11,640	11,176	11,278	11,104
Deposits with credit institutions	22,786	19,992	22,786	19,992
	40,751	38,156	40,027	38,013

All debt securities and other fixed interest securities are listed on a recognised UK investment exchange.

Financial instruments – designation and fair values

On application of FRS26 all financial assets are designated as either fair value through profit and loss or loans and receivables.

Designation and fair values

2006	Fair value through profit and loss	Loans and receivables	Total carrying value	Fair value
	£000	£000	£000	£000
Financial Assets				
Deposits	-	22,786	22,786	22.786
Debt securities	5,761	-	5,761	5,761
Loans and receivables:				
Mortgage loans	-	607	607	607
Policy loans	-	47	47	47
Other investments	11,640	-	11,640	11,640
Other debtors	-	2,282	2,282	2,282
Accrued interest and rent	-	389	389	389
Total	17,401	26,111	43,512	43,512

None of the debt securities held at 31 December 2006 are convertible.

All financial assets as at year end were valued with reference to observable market prices except loans and receivables.

Loan and receivables have are shown net of provisions for impairment where applicable. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

At 31 December 2006 the maximum exposure to credit risk on loans and receivables was £607,000. Credit risk on the loans secured by mortgages is mitigated by the collateral held in the form of mortgage interests over property. The Company has not invested in any derivative instruments to further mitigate this risk. Given that the loans are secured by the property the amount of change in the fair value of the loans secured by property the amount of change in the fair value of the loans secured by mortgages attributable to changes in credit risk is insignificant.

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

The fair values of quoted investments are based on current bid prices, where appropriate. If the market for a financial asset is not active, fair value is established using quotations from independent third parties such as brokers or by using valuation techniques. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

Interest income on deposits was £1,210,000. No other interest income or expenses was recognised in respect of financial assets that are not valued at fair value through the profit and loss account.

Interest rate risk

2006	Fair value interest rate risk	Cash flow interest rate risk	Total
	£000	£000	£000
Financial Assets			
Deposits	22,786	-	22,786
Debt securities	5,671	-	5,671
Loans and receivables:			
Mortgage loans	-	607	607
Policy loans	-	47	47
Other loans	-	-	-
Other investments	11,640	-	11,640
	40,097	654	40,751

The Company has no commitments to lend at a fixed interest rate.

Effective interest rates

2006	Balance of financial instruments not at fair value through profit and loss £000	Range of effective interest rates applicable as at 31 Dec 2006 %
Financial Assets		
Deposits	22,786	4.5 – 5.4
Loans and receivables:	607	4.5 – 5.4
Mortgage loans	47	4.5 – 5.4
	23,440	

Contractual maturities and repricing dates

2006	One year or less £'000	After 5 years to 10 years £'000	After 10 years to 15 years £'000	After 15 years to 20 years £'000	Over 20 years £'000	Total carrying value £'000
Financial Assets						
Deposits	22,786	-	-	-	-	22,786
Debt securities	689	4,982	-	-	-	5,671
Loans and receivables						
Mortgage loans	-	64	219	283	41	607
Policy loans	-	-	11	36	-	47
Other investments	11,640	-	-	-	-	11,640
Other debtors	2,282					2,282
Accrued interest and rent	389					389
Total	37,786	5,046	230	319	41	43,422

Currency risk and geographical concentration

All financial assets are denominated in pounds sterling and none are exposed to credit risk outside of the United Kingdom.

NOTES TO THE ACCOUNTS (continued)

8. Assets held to cover linked liabilities – at current value

	2006 £000	2005 £000
Land and buildings	-	18,978
Shares and units in unit trusts	-	301,535
British government securities – fixed income	-	30,441
British government securities – index linked	-	4,134
Debentures, loan stocks, preference shares and gilt stocks	-	5,258
Deposits with credit institutions	-	12,600
Tax recoverable	-	678
Other assets held to cover linked liabilities	-	20,573
	-	394,197
Assets held to cover linked liabilities – at cost	-	271,357

Included in the carrying values above are amounts in respect of listed investments as follows:

	2006 £000	2005 £000
Shares and other variable yield securities and units in unit trusts	-	301,535
British government securities – fixed income	-	30,441
British government securities – index linked	-	4,134
Debentures, loan stocks, preference shares and gilt stocks	-	5,258
	-	341,368

9. Other debtors

	2006 £000	2005 £000
Amounts due from group undertakings	2,255	-
Sundry debtors	27	-
	2,282	-

NOTES TO THE ACCOUNTS (continued)

10. Reserves and policyholder liabilities

	Long-term business provision net of reinsurance £000	Claims outstanding £000	Provision for linked liabilities net of reinsurance £000	Profit and Loss Account £000
Balance at beginning of year	9,765	980	393,452	7,706
Movement in profit and loss account for the year:				
Movement in technical provisions	(1,039)	(275)	19,118	-
Profit after tax	-	-	-	6,548
Deposits received from policyholders under investment contracts	-	-	15,021	-
Payments made to policyholders of, and fees deducted from, investment contracts*	-	-	(324,417)	-
Net transfers to reinsurers for investment contracts**	-	-	(103,174)	-
Effect of FRS26 on opening balance sheet	(3,018)	-	-	(3,458)
Net balance at end of year	5,708	705	-	10,796

* Included within payments made to policyholders of investment contracts is a £267,042,000 one off claim paid to Prudential Assurance Company Limited on 13 May 2006 when the existing reinsurance arrangement with that company was unwound.
** Included within net transfers to reinsurers for investment contracts is a £120,719,000 one off premium paid to Prudential Assurance Company Limited on 13 May 2006 when a new reinsurance arrangement with that company was set up.

11. Long term business provision

The long term business provision has been calculated by the Company's Actuarial function holder.

For unit linked business the long term business provision comprises provisions for future expenses and mortality risks.

The provision for future expenses is calculated using a discounted cashflow method. The level of expenses allowed for has been increased broadly in line with inflation. In addition an explicit allowance has been made for the effect of regular income withdrawals. The following changes to the valuation method have been implemented due to the new FSA regulations in policy statements PS 06/14.

(i) The introduction of lapse rates into the calculation of non-unit reserves at a homogenous risk group level for linked business;
(ii) The split of renewal expenses into those which we directly attributable to a policy and those which are non-attributable.

The mortality basis for wholly reassured non-linked annuities in payment has been amended following a review of current and anticipated future experience.

Valuation interest rates and other economic assumptions reflect current market yields.

There have been no other significant changes in the bases or assumptions adopted for the calculation of the long term business provision during the year.

The unit-linked provisions have been calculated on the following bases:

	2006	2005
Discount Rate	4.00% gross	3.75% gross
Fund Growth	5.25% gross	5% gross
Expense Inflation	3.75%	3.5%
Mortality	AM/AF92-3	AM/AF92-3
Personal / Self-Employed Pensions		
Expenses - Single Premium	£37.40	£41.20
Expenses - Regular Premium - per policy	£65.12	£71.28
Executive Pensions		
Expenses - Single Premium	£98.62	£111.98
Expenses - Regular Premium - per policy	£545.05	£571.62

As a wholly owned subsidiary undertaking of Prudential Plc the disclosures of capital position and movements in capital required by FRS 27 are provided on a group basis in the accounts of Prudential Plc. The Company has no options and guarantees in the life insurance liabilities.

12. Technical provision for linked liabilities

The technical provision for linked liabilities comprises provision for the value of units attributed to policyholders.

13. Provision for other costs and charges

At the end of 2005, the Company had instigated a review of underlying unit trust charges in the linked funds. That review was completed in 2006 as expected.

	2006 £000	2005 £000
Balance at 1 January	941	1,485
Movement in year	(941)	(544)
Balance at 31 December	-	941

14. Other creditors including taxation and social security

	2006 £000	2005 £000
Tax payable	1,509	1,155
Amounts due to group undertakings	2,481	2,464
Sundry creditors	5,040	833
	9,030	4,452

On application of FRS26 all financial liabilities are designated as either fair value through profit and loss, amortised costs or for investment contracts with discretionary participation features accounted for under FRS26 and the ABI SORP as described in the Accounting Policies section.

Designation and fair values

2006	Fair value through profit and loss £000	Amortised cost £000	Total carrying value £000	Fair value £000
Financial Liabilities				
Investment contracts without discretionary participation features		127,638	127,638	127,638
Other creditors	-	7,521	7,521	7,521
Accruals and deferred income	-	437	437	437
Total	-	135,596	135,596	135,596

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at amortised cost. Most non-participating investment contracts measured at amortised cost are unit-linked. Amortised cost for unit-linked non-participating investment contract liabilities is determined as the amount payable to the policyholder which reflects the value of the underlying net assets which are held to meet those liabilities, as the investor has the right to demand payment at any time. The amortised cost of these liabilities therefore approximates to fair value.

At 31 December 2006 the Company held no financial liabilities that were exposed to interest rate risk and none with a contractual repricing date. All financial liabilities held at 31 December 2006 are denominated in pounds sterling and none are exposed to credit risk outside of the United Kingdom.

15. Accruals and deferred income

Deferred income reserve

	2006 £000
Balance at 1 January	-
Effect of FRS26 on opening balance sheet	11,050
Deferred fees released to income	(10,613)
Balance at 31 December	437

16. Bank accounts

Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances (other than those of long term business funds) and all overdrawn balances of those Group undertakings with similar arrangements.

17. Charges

No reinsurance liabilities were secured by a floating charge at 31 December 2006. At 31 December 2005 amounts secured by charges of this nature were £246.2m.

18. Share capital

	2006 £000	2005 £000
Authorised:		
40 million ordinary shares (2005: 40 million) of £1 each	40,000	40,000
Allotted and fully paid:		
18 million ordinary shares (2005: 18 million) of £1 each	18,000	18,000

NOTES TO THE ACCOUNTS (continued)

19. Transfer to the Profit and Loss account

	2006 £000	2005 £000
Distributable profit		
Balance at beginning of year	2,329	6,630
Transfer for the year	5,370	(4,301)
Balance at end of year	7,699	2,329
Non-distributable profit		
Balance at beginning of year	5,377	1,792
Transfer for the year	(2,280)	3,585
Balance at end of year	3,097	5,377
	10,796	7,706

Distributable profit relates to surplus allocated out of the long term fund by the Directors on advice from the Company's Actuarial Function holder as a result of an actuarial investigation whereas non-distributable profit relates to surplus which has not yet been allocated out of the long term fund.

20. Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

21. Immediate and ultimate parent company

The immediate parent company is the Prudential Assurance Company Limited. The ultimate parent company is Prudential plc which prepares group accounts. Copies of these accounts can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.