Registered No 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Accounts 2006

PRUDENTIAL PENSIONS LIMITED

Incorporated and registered in England and Wales. Registered No. 992726.
Registered Office: Laurence Pountney Hill, London EC4R 0HH.

Annual Report and Accounts 2006

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PRUDENTIAL PENSIONS LIMITED

Directors

D J Belsham (Chairman)
P Burgess

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Principal activity

The principal activity of the Company is the transaction of pension business. This will continue in 2007. The Company primarily accepts reassurance from the Prudential Assurance Company Limited in respect of corporate pensions. The review of the Prudential's UK business is dealt with in the directors' report of that company.

Business review

The Company accepts reassurance from the Prudential Assurance Company Limited in respect of corporate pension schemes. In addition the Company sells direct investment only business to group pension schemes. All of the Company's products are unit-linked products. The profits from the Company's business accrue solely to shareholders.

During 2005 the Company accepted reassurance in respect of a portfolio of in-force pension annuities from Phoenix Life and Pensions Limited. This reassurance was recaptured during 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 unit. UKIO has committed to continuing to safeguard the embedded value through the Mature Life and Pensions unit. It has an aggressive target to reduce per policy unit processing costs by internal cost cutting, further off-shoring and possible outsourcing.

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 in note 7 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 loss on ordinary activities before tax of £66,520,000 (2005: Profit £50,257,000).

The shareholders' funds of the Company total £3,526,000 (2005:£94,289,000).

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 to 9.

Share Capital

Changes in the Company's share capital during 2006 are shown on page 25 in notes 15 and 16.

Dividend

An interim dividend of £10m was paid during the year. No final dividend is proposed for the year (2005 : Nil).

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.

Mr R C Everett and Mr B Hurd resigned as directors on 19 May 2006 and 2 November 2006 respectively.

There were no other changes during the year.

Directors' interests

Of the directors in office at the end of the year, Mr D J Belsham was a director of the immediate parent company, The Prudential Assurance Company Limited, and his interests are shown in the annual report and accounts of that company.

The other director in office at the end of the year had interests in shares of 5p each in Prudential plc as follows:

	01.01.06	31.12.06
P Burgess	5,927	8,970

Except as stated above , none of the directors in office at the end of the year:

(a) had any interest in shares, or debentures of, any Group company either at the beginning of the year or at their later date of appointment or at the end of the year; or

(b) were granted or excercised any right to subscribe for shares in, or debentures of , any Group company during the year, or if appointed during the year since the date of their appointment up to the end of the year.

PRUDENTIAL PENSIONS LIMITED

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

Financial risk management

The Company's objectives and policy in relation to the management of financial risk resulting from its financial assets and liabilities is to minimise any risk. The Company's exposure to financial risk through its financial assets and liabilities is not considered material to the assessment of the Company's assets, liabilities, financial position and the profit and loss of the Company.

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 directors 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. Prudential plc provides certain protections for its directors and senior managers, who may be directors of its associated companies, 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 associated companies (as defined under section 309A of the Companies Act 1985) at the time this annual report was approved under section 234A of the Companies Act 1985 and during 2006.

On behalf of the board of directors.

On behalf of Prudential Group Secretarial Services Limited
Secretary
29 March 2007

PRUDENTIAL PENSIONS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTOR'S 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 and applicable law (UK Generally Accepted Accounting Practice).

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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

D J Bell

D J Belsham
Director

29 March 2007

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF PRUDENTIAL PENSIONS LIMITED

We have audited the financial statements of The Prudential Pensions Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Reconciliation of Movement in Shareholders' Fund, 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 loss 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 PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

Technical Account	Notes	2006 £000	2005 £000
Earned premiums			
Gross premiums written	2	(1,437,428)	2,181,333
Investment income	3	399,090	483,703
Unrealised gains on investment	3	361,964	409,901
Interest receivable	3	234	209
Other technical income		19,041	-
		(657,099)	**3,075,146**
Claims incurred, net of reinsurance			
Claims paid - gross amount		(54,172)	(541,284)
- reinsurers' share		0	7,674
		(54,172)	**(533,610)**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount	9	1,423,418	(1,418,776)
- reinsurers' share	9	(9,015)	3,712
		1,414,403	(1,415,064)
Technical provisions for linked liabilities, net of reinsurance	9	(659,975)	(1,080,536)
		754,428	**(2,495,600)**
Other charges			
Foreign exchange (losses)/gains	3	(95,463)	24,879
Interest payable	3	(1,795)	(1,599)
Net Operating Expenses			
- Acquisition costs		(2,449)	(4,984)
- Administrative expenses		(4,031)	(7,346)
Investment expenses and charges	3	(7,279)	(7,682)
Tax attributable to long term business	4	24,066	(15,721)
		(86,951)	**(12,453)**
Balance on the technical account - long term business		**(43,794)**	**33,483**

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 PENSIONS LIMITED

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

Non-Technical Account	**Notes**	**2006 £000**	**2005 £000**
Balance on technical account – long term business		**(43,794)**	**33,483**
Tax (charge)/credit attributable to the balance on the long term business technical account		(24,066)	14,567
Balance on the long term business technical account before tax		(67,860)	48,050
Investment income	3	1,322	1,821
Investment managers' expenses	3	-	(12)
Unrealised gains	3	-	380
Bank interest receivable	3	18	18
Operating (loss)/ profit on ordinary activities before tax		**(66,520)**	**50,257**
Tax on (loss)/ profit on ordinary activities	4	23,664	(15,229)
(Loss)/Profit after tax		**(42,856)**	**35,028**

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 PENSIONS LIMITED

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND FOR THE YEAR ENDED 31ST DECEMBER 2006

	2006 £000	2005 £000
(Loss)/Profit for the financial year	(42,856)	35,028
Dividends	(10,000)	-
Net movement in shareholder's fund	(52,856)	35,028
Issue of redeemable preference shares		40,000
Redemption of redeemable preference shares	(40,000)	
Shareholders' fund at the beginning of the year as originally reported	94,289	19,261
Effect of FRS 26 on the opening balance sheet	2,093	
Shareholders' fund at the beginning of the year as restated	96,382	19,261
Shareholders' fund at the end of the year	3,526	94,289

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

PRUDENTIAL PENSIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
ASSETS			
Investments			
Other financial investments	7	19,945	1,511,012
Assets held to cover linked liabilities	8	7,204,192	6,312,902
Reinsurers' share of technical provisions			
Long term business provision	9, 10	104,115	107,671
Debtors			
Other debtors	12	5,152	3,734
Other assets			
Cash at bank and in hand	13	4,822	35,550
Prepayments and accrued income			
Other prepayments and accrued income		460	25,019
Total assets		7,338,686	7,995,888
LIABILITIES			
Capital and reserves			
Called up share capital	15	6,000	46,000
Profit and loss account	9, 16	(6,562)	48,289
Capital redemption reserve	9	4,088	-
Total shareholders' funds attributable to equity interests		**3,526**	**94,289**
Technical provisions			
Long term business provision	9, 10	98,898	1,525,305
Claims outstanding	9	366	366
Technical provisions for linked liabilities	9	7,175,489	6,298,497
Provisions for other risks and charges			
Deferred taxation	4	1,120	13,922
Creditors			
Other creditors including taxation and social security	11	59,287	63,509
Total liabilities		7,338,686	7,995,888

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

D J Bell

D J Belsham
Director

PRUDENTIAL PENSIONS 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 IAS39, "Financial instruments: recognition and measurement" as at 31 March 2004, incorporating the revised version of IAS39 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.

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.

For investment contracts without discretionary participation features, FRS 26 and, 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 2005 ABI SORP, the costs potentially capable of deferral are limited to incremental costs which are directly attributable to securing investment management contracts. These 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 these investment contracts without discretionary participation features are closer in nature to a deposit style arrangement between the investors and the Company. Under FRS 26 premiums and withdrawals for these contracts are recorded within the balance sheet directly as a movement on the investors liability and the long-term business technical account reflects fee income on the contract, expenses and taxation. 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.

Financial Investments

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:

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.

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 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 £'000	Shareholders' fund £'000
31 December 2005 as previously published	48,289	94,289
Effect of adoption of FRS 26:		
Sterling Reserve	2,093	2,093
1 January 2006 (including FRS 26 adjustments)	50,382	96,382

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 presentation

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

(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) 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, except in respect of shareholder investments in subsidiaries, 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.

Properties are valued annually by professional external valuers at market value as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors in particular Practice statement 3.2. In accordance with SSAP 19, no depreciation is provided on investment properties as the directors consider that to depreciate them would not give a true and fair view.

(e) 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 the Prudential Sourcebook issued by the Financial Services Authority.

The technical provisions are the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in Note 10. These bases have been derived from an analysis of recent population and internal mortality experience and make allowance for improvements in mortality in the future.

The interest rates used for discounting claim payments are derived from the yield on the assets held and makes allowance for potential defaults on those assets. Historical market rates of defaults have been investigated. The analysis takes into account credit rating, term to redemption and security. Using this information, default rates are derived appropriate to the assets within the portfolio. (See Note 10.)

(f) Allocation of surpluses

Surpluses arising from linked long term business, as a result of the annual investigation of the long term business, are carried forward to the profit and loss account.

(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, in compliance with Financial Reporting Standard 19 (FRS 19).

(h) Cash flow statement

The Company has taken advantage of the exemption under IFRS 1 (Revised) from preparing a cash flow statement.

(i) Foreign currencies

Foreign currency assets and liabilities are translated at year end exchange rates. Foreign currency revenue transactions are translated at rates ruling at the transaction dates, except for accrued revenue items that are translated at year end exchange rates.

PRUDENTIAL PENSIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

2. Segmental analysis

(a) Gross Premiums

	2006 £000	2005 £000
Single Premiums		
- direct		550,493
- external reinsurance accepted	(1,437,428)	1,505,701
- intragroup reinsurance accepted	-	123,895
Regular premiums		
- direct	-	1,244
Gross premiums	(1,437,428)	2,181,333

Premiums comprise corporate pension business and for 2005 reassured bulk annuity business. For premiums in respect of corporate pension business investment risk is borne by policyholders, and transacted within the UK. For the reassured bulk annuity business investment risk is borne by the shareholders. All direct single and regular premiums are group pension business. Intragroup reinsurance accepted is individual pension business. The £1.5 billion bulk annuity reassurance accepted from Phoenix Life in 2005 to Prudential Pensions Limited was re-captured by Phoenix Life in 2006 giving rise to the substantial refund of premiums in Prudential Pensions Ltd in 2006.

New Business

	2006 £000	2005 £000
Regular premiums – direct, pensions	807	1
Single premiums		
-direct:		
pensions	503,924	550,493
external reinsurance	6,219	1,505,701
- intragroup reassurance accepted, pensions	321,663	123,895
	832,613	2,180,090

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 £(831,806,000) (2005: £2,180,089,000). 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.

(b) Assets attributable to the long term business fund

Of the total amount of assets shown on page 11, £7,328,134,000 (2005: £7,931,926,000) is attributable to the long term business fund.

3. Investment return

	Long-term business Technical account 2006 £000	2005 £000	Non technical account 2006 £000	2005 £000
Investment Income				
Income from land and buildings	35,646	30,840		
Income from listed investments	239,151	209,290		
Income from other investments	29,437	19,647	1,322	1,821
Gains on the realisation of investments	94,856	223,926		
	399,090	483,703	1,322	1,821
Investment expenses and charges				
Investment managers' expenses	(7,279)	(7,682)	0	(12)
Unrealised gains on investments				
Debt securities	2,774	16,107	0	380
Linked assets	359,190	393,794		
Exchange (losses)/gains on investments	(95,463)	24,879		
Bank interest receivable/(payable)	234	209	18	18
Intragroup interest payable	(1,795)	(1,599)		
Total investment return	**656,751**	**909,411**	**1,340**	**2,207**

4. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	Long-term business technical account 2006 £000	2005 £000	Non technical account 2006 £000	2005 £000
Current tax				
UK Corporation tax on profits of the period	(5,939)	1,076	402	662
Adjustments in respect of previous years	(4,428)	80	-	
	(10,367)	1,156	402	662
Foreign tax	-	1,154	-	-
Total current tax	(10,367)	2,310	402	662
Deferred tax				
Origination and reversal of timing difference	(13,699)	13,411	-	
Tax charge on profit on ordinary activities	**(24,066)**	**15,721**	**402**	**662**
Shareholder tax attributable on the balance on the long term business technical account:				
Current tax			(10,367)	1,156
Deferred tax			(13,699)	13,411
	-	-	(24,066)	14,567
Total	**(24,066)**	**15,721**	**(23,664)**	**15,229**

FRS 19 requires the disclosure of tax attributable to the technical account separately as part of the non-technical tax charge. This has revised the tax charge.

NOTES TO THE ACCOUNTS (continued)

(b) Factors affecting tax charge for period

The tax credit in the period is lower than the standard rate of corporation 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
(Loss)/Profit on ordinary activities before tax	(66,520)	50,257
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 : 30%)	(19,956)	15,077
Effects of		
Permanent differences	720	72
Deferred tax recognised in period	13,699	(13,411)
Adjustments to current tax in respect of previous periods	(4,428)	80
Current tax (credit)/ charge for the period	**(9,965)**	**1,818**

(c) Balance sheet

	2006 £000	2005 £000
Provision for Deferred Tax		
Policy reserves	1,120	13,922
Undiscounted provision for deferred tax liability	**1,120**	**13,922**
Deferred tax liability at start of the period	13,922	511
Prior year adjustment on adoption of FRS 26	897	-
Deferred tax (credited)/charged in technical/non-technical account for the period	(13,699)	13,411
Deferred tax liability at the end of period	**1,120**	**13,922**

5. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's accounts amounted to £58,538 (2005 total audit fee: £34,455). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £8,000 (2005: £8,000)

6. Directors' emoluments and staff costs

During the year the directors of the Company received the following emoluments in respect of work on behalf of the Company:

	2006 £000	2005 £000
Aggregate emoluments and benefits	36	21

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

	Current value		Cost	
	2006 £000	2005 £000	2006 £000	2005 £000
Other financial investments				
Debt securities and other fixed income securities	1,945	1,486,812	1,654	1,471,363
Deposits with credit institutions	18,000	24,200	18,000	24,200
	19,945	1,511,012	19,654	1,495,563

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

A. Financial instruments

(i) 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 and financial liabilities are designated as either fair value through profit and loss or amortised cost.

2006	Fair value through profit and loss £'000	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
Financial Assets				
Deposits		18,000	18,000	18,000
Debt securities	1,945	-	1,945	1,945
Other debtors		5,512	5,512	5,512
Total	1,945	23,512	25,457	25,457

2006	Fair value through profit and loss £'000	Amortised Cost £'000	Total carrying value £'000	Fair value £'000
Financial Liabilities				
Amounts due to group undertaking		23,015	23,015	23,015
Other creditors		36,272	36,272	36,272
Total	-	59,287	59,287	59,287

Note 7 (continued)

(ii) Determination of fair value

The fair values of quoted investments are based on current bid prices, where appropriate. The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amounts of the estimated cashflows. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holding of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument.

B. Market Risk

(i) Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities with direct exposure to interest rate risk. Each applicable class of the Company's assets or liabilities are analysed between those exposed to fair value interest rate risk, cash-flow interest rate risk and those with no direct interest rate risk exposure.

Interest rate risk

2006	Fair value interest rate risk	Total
	£'000	£'000
Financial Assets		
Deposits	18,000	18,000
Debt securities	1,945	1,945
	19,945	**19,945**

2006	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
Financial Liabilities				
Contingent Loan due to group undertakings	-	-	20,518	20,518
	-	-	**20,518**	**20,518**

Effective interest rates

2006	Balance of financial instruments not at fair value in profit and loss	Range of effective interest rate applicable as at 31st December 2006
	£'000	%
Financial Assets		
Deposits with credit institutions	18,000	5.12 % - 5.22%
	18,000	

PRUDENTIAL PENSIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

Note 7 (continued)

Contractual maturities

The following table details the maturity dates of the financial instrument:

2006	Balance of financial instruments not at fair value in profit and loss	Maturing
	£'000	
Financial Assets		
Deposits with credit institutions	18,000	Less then one year
Debt securities (UK Govt Stock)	1,945	07/12/2015
	19,945	

Currency risk and geographical concentration

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

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

	2006 £000	2005 £000
Land and buildings	684,119	532,203
Shares and other variable yield securities	3,399,891	2,739,713
British government securities - fixed income	911,179	936,557
British government securities - index linked	323,621	340,167
Debentures and loan stocks	1,575,614	1,507,365
Deposits with credit institutions	298,486	257,676
Tax payable	(270)	(173)
Other liabilities	11,552	(606)
	7,204,192	**6,312,902**
Assets held to cover linked liabilities - at cost	6,345,289	5,535,314

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	3,399,891	2,739,713
British government securities - fixed income	911,179	936,557
British government securities - index linked	323,621	340,167
Debentures and loan stocks	1,575,614	1,507,365
	6,210,305	**5,523,802**

Linked assets are stated gross of accounting liabilities of £34.16m giving rise to the surplus of assets over liabilities.

PRUDENTIAL PENSIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

9. Reserves and policyholder liabilities

	Long-term business provision net of reassurance	Provision for linked liabilities	Provision for claims outstanding	Profit and Loss account	Capital Redemption Reserve
	£000	£000	£000	£000	£000
Balance at beginning of year	1,417,634	6,298,497	366	48,289	-
Effect of FRS 26 on the opening balance sheet	(2,989)	-	-	2,093	-
Dividend	-	-	-	(10,000)	
Movement in technical provisions for year	(1,414,403)	659,975	-	-	-
Movement in profit & loss account for year	-	-	-	(42,856)	-
Transfer to Capital Redemption Reserve			-	(4,088)	4,088
Deposits received from policyholders under investment contracts	-	832,613	-	-	-
Payments made to policyholders of investment contracts	-	(621,055)	-	-	-
Net balance at end of year	242	7,170,030	366	(6,562)	4,088

Provision for claims outstanding: the company has instigated a full review of its defined benefit payment processes and has set up a reasonable and prudent provision to cover the cost of performing the review and the cost of any contingent loss, if any, arising out of the review's findings. The expected completion of the review is 2007.

The balance on the profit and loss account at 31 December 2006 includes a loss of £7,026,000 (2005: profit £34,675,000) relating to shareholders' reserves held in the long term business. These amounts are required not to be treated as realised profits in determining the company's profits available for distribution.

10. Long term business provision

The long term business provision has been calculated by the Company's directors with advice from the Company's actuarial function holder.

The long term business provision comprises a provision for the value of units allocated to policyholders.

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.

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

Valuation interest rates have been amended, where necessary, in line with changes in market yields.

Note 10 Long term business provision (continued)

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 reinsurers' share of the long term business provision relates mainly to cessions to Prudential Annuities Limited, a fellow subsidiary.

The provisions have been calculated on the following bases:

	2006	2005
Discount Rate	4.00% for GILP/PIA/Prulink	3.75% for GILP/PIA/Prulink 4.24% for the reassured bulk annuity business
Fund Growth	5.25% gross N/A for annuities	5.00% gross N/A for annuities
Expense Inflation	3.75% gross	3.50% gross (inc. the reassured bulk annuity business)
Mortality	AM92/AF92-3	AM92/AF92-3 (See below for the reassured bulk annuity business)
Renewal expenses: GILP (includes reassurance from Investment Solutions Limited)	GILP: £3,517,725 p.a. including £986 p.a. per scheme (of which £794,607 p.a. is covered by charges for additional administration services) * includes reassurance from Investment Solutions Limited	GILP*: £3,853,505 p.a. including £950 p.a. per scheme (of which £640,000 p.a. is covered by charges for additional administration services) * includes reassurance from Investment Solutions Limited
SAS	PIA: £64,160 p.a. including £135 p.a. per scheme	PIA: £61,841 p.a. including £130 p.a. per scheme
Prulink	£22.27 p.a. per policy for premium-paying policies; £14.84 p.a. per policy for other policies; £86.38 per claim	£30.00 p.a. per policy for premium-paying policies; £20.00 p.a. per policy for other policies; £62.00 per claim
Reassurance from PAC	Reassurance from PACL: £328,966 p.a.	Reassurance from PACL: £697,282 p.a.
Reassured bulk annuity business	N/A	£23.93 per policy
Annuity Mortality:		
Reassured bulk annuity business	N/A	79% PMA92 (C=2004), 100% mc, 1.25% floor / 77% PFA92 (C=2004), 75% mc, 0.75% floor

PRUDENTIAL PENSIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

11. Creditors

All creditors are payable within a period of five years.

	2006 £000	2005 £000
Creditors arising from direct insurance operations	792	-
Other creditors including taxation and social security	-	7,188
Due to group undertakings	23,015	35,133
Sundry creditors	1,223	1,279
Other creditors in linked funds	34,162	14,405
Corporation tax payable	-	5,408
Other tax payable	95	96
	59,287	63,509

12. Other debtors

All debtors are due within one year.

	2006 £000	2005 £000
Corporation tax	2,975	-
Amounts owed by group undertakings	793	2,535
Other debtors	1,384	1,199
	5,152	3,734

13. 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.

14. Charges

In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the Company. Amounts secured by charges of this nature were £1,351.6m and £78.0m, representing liabilities to two different customers.

NOTES TO THE ACCOUNTS (continued)

15. Share capital

	2006 £000	2005 £000
Authorised 6 million ordinary shares (2005: 6 million) of £1 each	6,000	6,000
Authorised 40 million non-cumulative preference shares (2005: 40 million) of £1 each	40,000	40,000
Allotted and fully paid in the year 6 million ordinary shares (2005: 6 million) of £1 each	6,000	6,000
Allotted and fully paid in the year Non-cumulative preference shares of £1 each	-	40,000

16. Transfer to the Profit and Loss account

	2006 £000	2005 £000
Distributable profit		
Balance at the beginning of the year	13,614	12,069
Dividend paid during the year	(10,000)	-
Profit for the year	938	1,545
Transfer to capital redemption reserve	(4,088)	-
Balance at the end of the year	464	13,614
Non-distributable profit		
Balance at the beginning of the year	34,675	1,192
Effect of FRS 26 on opening balance sheet	2,093	-
(Loss)/Profit for the year	(43,794)	33,483
Balance at the end of the year	(7,026)	34,675
	(6,562)	48,289
Capital redemption reserve		
Balance at the beginning of the year	-	-
Transfer from distributable profit	4,088	-
Balance at the end of the year	4,088	-

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.

17. Related party transactions

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

18. Ultimate and immediate parent companies

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