Registered No 1347088

PRUDENTIAL (AN) LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

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)
A Allen
G Shaughnessy
M Sheppard

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL (AN) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

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 2008.

Business review

Throughout 2007 the Company continued it's arrangements with PACL (The Prudential Assurance Company) under which it reinsures the risks associated with both it's unit linked pensions business and with-profits policies. 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. The profits from almost all of the Company's non-participating business accrue solely to shareholders.

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential Group and the Group's business is managed on a divisional basis such as UK Insurance Operations. Key Performance Indicators exist for the management of the divisions, of which this Company's business forms a part.

The divisional Key Performance Indicators can be found in the Annual Report of Prudential plc.

Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group. UKIO's long-term products consist of life insurance, pension products and pension annuities. In 2007, it continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns. The Company remains focussed on maximising value from the opportunity afforded by the fast growing need for retirement solutions.

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, The 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 £1,790,000 (2006:£8,324,000).

The shareholders' funds of the Company total £23,244,000 (2006:£28,796,000).

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 2007 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

A dividend of £7,000,000 was paid in the year (2006: £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.

Ms M Sheppard was appointed as a director of the Company on 22 January 2007.

Mrs R Harris resigned as a director of the Company on 2 February 2007.

Mssrs G Shaughnessy and A Allen were appointed as directors of the Company on 21 February 2008 and 29 February 2008 respectively.

There were no other changes during the year.

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.

The company's exposure to financial risk is limited due to the matching of policyholder liabilities to attaching asset value movements for the unit linked business and the reinsured with-profits business.

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 2007 or 2006. 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

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. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditor

In accordance with Section 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to be re-appointed auditor of the Company for the current financial year.

Directors' and Officers' Protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company provide that, to the extent permitted by law, every Director, manager, Secretary and other officer or servant of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors out of the funds of the Company to pay to him, all costs, losses and expenses which he may incur or become liable to by reason of any contract entered into or any act or deed done by him as such officer or servant or in any way in the discharge of his duties.

On behalf of the board of directors

On behalf of Prudential Group Secretarial Services Limited
Secretary
27th March 2008

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 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.

D J Bell

D J Belsham
Director

27th March 2008

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 2007 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 2007 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
27th March 2008

PRUDENTIAL (AN) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

Technical Account - Long Term Business	Notes	**2007 £000**	**2006 £000**
Earned premiums, net of reinsurance			
Gross premiums written	2	2,972	2,621
Outward reinsurance premiums		(2,957)	(2,621)
		15	-
Investment income	3	1,126	18,530
Unrealised (losses)/gains on investments	3	(204)	4,781
Other technical income		1,362	10,619
		2,284	**33,930**
Claims incurred, net of reinsurance			
Claims paid - gross amount		(6,088)	(5,534)
- reinsurers' share		5,619	5,534
		(469)	-
Change in the provision for claims			
- gross amount	9	(1,081)	275
		(1,081)	**275**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		5,161	2,953
- reinsurers' share		(5,129)	(1,914)
	9	32	1,039
Technical provisions for linked liabilities, net of reinsurance	9	-	(19,118)
		32	**(18,079)**
Other charges			
Net operating expenses - administrative expenses		432	(7,400)
Investment expenses and charges	3	(273)	(1,247)
Tax attributable to the long term business	4	(282)	(2,244)
		(123)	**(10,891)**
Balance on the technical account - long term business		**658**	**5,235**

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.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

Non-Technical Account	Notes	2007 £000	2006 £000
Balance on the technical account – long term business		**658**	**5,235**
Tax credit attributable to the balance on the technical account – long term business		282	2,244
Balance on the long term business technical account before tax		**940**	**7,479**
Investment income	3	1,030	555
Unrealised (losses)/gains	3	(180)	290
Operating profit on ordinary activities before tax		**1,790**	**8,324**
Tax on profit on ordinary activities	4	(342)	(1,776)
Profit after tax		**1,448**	**6,548**

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 2007

	2007 £000	2006 £000
Profit for the financial year	1,448	6,548
Dividends paid	(7,000)	-
Net movement in shareholders' funds	(5,552)	6,548
Shareholders' funds at beginning of year as originally reported	28,796	25,706
Effect of FRS26 on the opening balance sheet	-	(3,458)
Shareholders' funds at beginning of year as restated	28,796	22,248
Shareholders' funds at end of year	23,244	28,796

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

PRUDENTIAL (AN) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 £000	2006 £000
ASSETS			
Investments			
Other financial investments	7	23,460	40,751
Reinsurers' share of technical provisions			
Long term business provision	9	119,577	124,706
Technical provision for linked liabilities	9	105,054	127,638
		224,631	**252,344**
Debtors			
Debtors arising out of direct insurance operations: Policyholders		4	95
Other debtors	8	2,930	2,282
Other Assets			
Cash at bank and in hand	14	6,644	1,177
Prepayment and accrued income			
Accrued interest and rent		756	389
Total assets		**258,425**	**297,038**
LIABILITIES			
Capital and reserves			
Called up share capital	16	18,000	18,000
Profit and loss account	17,9	5,244	10,796
Total shareholders' funds attributable to equity interests		**23,244**	**28,796**
Technical provisions			
Long term business provision	9,10	125,253	130,414
Claims outstanding	9	1,786	705
		127,039	**131,119**
Technical provisions for linked liabilities	9,11	105,054	127,638
Provision for other risks and charges			
Deferred taxation	4	245	18
Creditors			
Other creditors including taxation and social security	12	2,552	9,030
Accruals and deferred income	13	291	437
Total liabilities		**258,425**	**297,038**

The accounts on pages 8 to 26 were approved by the board of directors on 27th March 2008

D J Belsham D J Bel
Director

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS

1. Accounting Policies

A. Change in accounting policies

The Company has implemented the following accounting standard and amendment in preparing its results for the year ended 31 December 2007. 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 29 "Financial instruments: disclosures"

FRS 29 "Financial instruments: disclosures" implements IFRS 7 "Financial instruments: disclosures" into UK GAAP and replaces the disclosure requirements of FRS 25, "Financial Instruments: Disclosure and Presentation". The latter, therefore, becomes a standard dealing wholly with presentation of financial instruments. FRS 29 is intended to complement the principles for recognising, measuring and presenting financial assets and financial liabilities in FRS 25 and FRS 26, 'Financial Instruments: Recognition and Measurement'. The objective of FRS 29 is to require entities to provide disclosures in their financial statements to enable the users of financial statements to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Additionally, under FRS 29, the Company is also required to explain its objectives, policies and processes for managing capital.

The disclosures required are shown in Note 7. The adoption of this standard represents a change in accounting policy and comparatives have been provided accordingly in the disclosures.

Amendment to FRS 26 "Financial Instruments: Recognition and measurement"

An amendment to FRS 26 "Financial Instruments: Recognition and measurement" was issued in April 2006 which brings the recognition and derecognition requirements of IAS 39 "Financial Instruments: Recognition and measurement" into FRS 26. The amendment applies only to financial assets and liabilities, the relevant requirements of FRS 5 "Reporting the Substance of Transactions" continue to apply to the recognition and derecognition of non-financial assets. The adoption of this amendment to FRS 26 did not have an impact on the balance sheet or profit and loss account of the Company.

Long-term business

Following adoption of FRS 26 in 2006, 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 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.

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.

1. Accounting Policies (continued)

A. Change in accounting policies (continued)

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.

B. Basis of Preparation

The financial statements are prepared in accordance with the provisions of Section 255 of, and part 1 of 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

Following the adoption of FRS 26 in 2006, 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. A further distinction is made between investment contracts with and without discretionary participation features. Discretionary participation features represent the contractual right to receive additional benefits as a supplement to guaranteed benefits. The Company's contracts are mainly unit-linked contracts which are investment contracts without discretionary participating features. Insurance contracts and investment contracts with discretionary participation features are accounted for under previously applied UK GAAP, as set out in the ABI SORP.

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.

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 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 1.6% 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.

Following adoption of FRS 26, 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.

NOTES TO THE ACCOUNTS (continued)

1. Accounting Policies (continued)

F. Investments (continued)

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.

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 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.

NOTES TO THE ACCOUNTS (continued)

2. Segmental analysis

(a) Long-term business

Gross Premiums

	2007 £000	2006 £000
Single premiums		
- direct:		
pensions	2,972	2,621
	2,972	2,621

All premiums were in respect of annuity purchases sold in the United Kingdom.

New Business

	2007 £000	2006 £000
Regular premiums – direct, pensions	-	763
Single premiums		
-direct:		
pensions	3,177	7,134
- intragroup reassurance accepted, pensions	6	9,745
	3,183	17,642

New business premiums include those contracts excluded from premium income in the 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 £3,177,000 (2006: £7,134,000). The annualised gross value of new premiums (other than single) is £Nil (2006: £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, £238,647,000 (2006: £274,831,000) is attributable to the long term business fund.

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

3. Investment return

	Long-term business technical account		Non technical account	
	2007	2006	2007	2006
	£000	£000	£000	£000
Investment Income				
Income from land and buildings	-	297	-	-
Income from other investments	1,126	5,065	1,030	555
Gains on the realisation of investments	-	13,168	-	-
	1,126	18,530	1,030	555
Investment expenses and charges				
Investment managers' expenses	(264)	(1,228)	-	-
Interest payable – other than bank	(9)	(19)	-	-
Unrealised (losses)/gains on investments	(204)	4,781	(180)	290
Total investment return	649	22,064	850	845

4. Taxation

	Long-term business technical account		Non technical account	
	2007	2006	2007	2006
	£000	£000	£000	£000
(a) Analysis of charge in the period				
Current tax				
UK Corporation tax on profit for the period	282	2,244	285	1,198
Adjustments in respect of prior years	-	-	(170)	(722)
Total current tax	282	2,244	115	476
Deferred tax				
Origination and reversal of timing differences	-	-	236	1,300
Adjustment in respect of prior years	-	-	(9)	-
Total deferred tax	-	-	227	1,300
Tax charge on profit on ordinary activities	282	2,244	342	1,776

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.

	2007 £000	2006 £000
Profit on ordinary activities before tax	1,790	8,324
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 : 30%)	537	2,497
Effects of		
Tax on disallowable expenses	1	6
Tax credit on capital allowances	(2)	(5)
Deferred tax recognised in the period	(251)	(1,300)
Adjustments to current tax in respect of previous periods	(170)	(722)
Current tax charge for the period	115	476

(c) Balance Sheet

	2007 £000	2006 £000
Provision for Deferred Tax		
Short term timing differences	245	18
Undiscounted provision for deferred tax liability	245	18
Deferred tax liability at start of period	18	199
Deferred tax charged in non technical account for the period	227	1,300
Effect of FRS26 on opening balance sheet	-	(1,481)
	245	18

5. Auditors' remuneration

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

	2007 £	2006 £
Audit Services		
Fees payable to KPMG for the audit of the Company's accounts	16,572	22,202
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	8,000

6. Directors' emoluments and staff costs

The directors of the Company received emoluments of £1,130 during the year in connection with services to the Company (2006: £7,937). There was no compensation for loss of office (2006: £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	
	2007 £000	2006 £000	2007 £000	2006 £000
Debt securities and other fixed interest securities	5,461	5,671	5,998	5,309
Loans secured by mortgages	442	607	442	607
Loans secured by insurance policies	2	47	2	47
Holding in Open Ended Investment Company	12,062	11,640	11,880	11,278
Deposits with credit institutions	5,493	22,786	5,493	22,786
	23,460	**40,751**	**23,815**	**40,027**

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 of the company are designated as either fair value through profit and loss or loans receivables. Financial liabilities are designated as either fair value through profit and loss, amortised cost or 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

2007	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial Assets				
Deposits	-	5,493	5,493	5,493
Debt securities	5,461	-	5,461	5,461
Loans and receivables:				
Mortgage loans	-	442	442	442
Policy loans	-	2	2	2
Other investments	12,062	-	12,062	12,062
Other debtors	-	2,930	2,930	2,930
Accrued interest and rent	-	756	756	756
Total	17,523	9,623	27,146	27,146

2006	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £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

7. Investments (continued)

None of the debt securities held at 31 December 2007 are convertible.

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

Loan and receivables 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 2007 the maximum exposure to credit risk on loans and receivables was £442,000. 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 mortgages attributable to changes in credit risk is insignificant.

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 £978,000. 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.

Concentration of credit risk

The following table summarises by the rating the securities held by the Company as at 31 December 2007 and 2006:

Standard & Poors (S&P) rating (or equivalent when not available from S&P)	2007 £000	2006 £000
AAA	5,461	5,671
AA	-	5,000
A	5,493	14,800
BBB	-	-
Moody's – below BBB or not rated	12,506	15,280
	23,460	40,751

Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions of £224.6 million at 31 December 2007, 0.03% of the balance relates to companies outside of the Prudential Group and of these 100% of the balance were from reinsurers with S&P's rating of AA- and above. Similar conditions existed at 31 December 2006.

Market Risk

Due to the matching of policyholder liabilities to attaching asset value movements the unit-linked business is not directly affected by market risk. The principal factor affecting the results is investment performance through fund management fees.

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

Interest rate risk

2007	Fair value interest rate risk	Cash flow interest rate risk	Total
	£000	£000	£000
Financial Assets			
Deposits	5,493	-	5,493
Debt securities	5,461	-	5,461
Loans and receivables:			
Mortgage loans	-	442	442
Policy loans	-	2	2
Other investments	12,062	-	12,062
	23,016	444	23,460

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 investments	11,640	-	11,640
	40,097	654	40,751

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

Contractual maturities and repricing dates

2007	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	5,493	-	-	-	-	5,493
Debt securities	-	5,461	-	-	-	5,461
Loans and receivables						
Mortgage loans	-	69	57	258	58	442
Policy loans	2	-	-	-	-	2
Other investments	12,062	-	-	-	-	12,062
Other debtors	2,930	-	-	-	-	2,930
Accrued interest and rent	756	-	-	-	-	756
Total	21,243	5,530	57	258	58	27,146

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

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

The table below shows the maturity profile for investment contracts on an undiscounted basis to the nearest million. This maturity profile has been based on the cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing the EEV basis results for the Prudential Group.

	1 Year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	Total carrying value £m
Financial Liabilities							
Investment Contracts without Discretionary Participation Features - 2007	19	60	45	20	3	1	148
Investment Contracts without Discretionary Participation Features - 2006	26	65	59	30	7	2	189

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

2007	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	-	105,054	105,054	105,054
Other creditors	-	2,526	2,526	2,526
Accruals and deferred income	-	291	291	291
Total	-	107,871	107,871	107,871

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 2007 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 2007 are denominated in pounds sterling and none are exposed to credit risk outside of the United Kingdom.

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.

8. Other debtors

	2007 £000	2006 £000
Amounts due from group undertakings	2,392	2,255
Sundry debtors	538	27
	2,930	2,282

9. 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	5,708	705	-	10,796
Movement in profit and loss account for the year:				
Movement in technical provisions	(32)	1,081	-	-
Profit after tax	-	-	-	1,448
Dividends paid	-	-	-	(7,000)
Net balance at end of year	5,676	1,786	-	5,244

10. 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 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:

	2007	2006
Discount Rate	4.00% gross	4.00% gross
Fund Growth	5.25% gross	5.25% gross
Expense Inflation	3.75%	3.75%
Mortality	AM/AF92-3	AM/AF92-3

10. Long term business provision (continued)

Personal / Self-Employed Pensions		
Expenses - Single Premium	£31.39	£37.40
Expenses - Regular Premium - per policy	£98.43	£65.12
Executive Pensions		
Expenses - Single Premium	£82.08	£98.62
Expenses - Regular Premium - per policy	£935.75	£545.05

11. Technical provision for linked liabilities

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

12. Other creditors including taxation and social security

	2007 £000	2006 £000
Tax payable	26	1,509
Amounts due to group undertakings	2,456	2,481
Sundry creditors	70	5,040
	2,552	9,030

13. Accruals and deferred income

Deferred income reserve	2007 £000	2006 £000
Balance at 1 January	437	-
Effect of FRS26 on opening balance sheet	-	11,050
Deferred fees released to income	(146)	(10,613)
Balance at 31 December	291	437

14. 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.

15. Capital requirements and management

Regulatory capital requirements apply at both an individual company level and at the Prudential Group level, of which the Company is a part, for life assurance and investment management business. The Prudential Group, of which the Company is a part, is currently subject to the solvency requirements of the Insurance Groups Directive (IGD) as implemented by the FSA. Under the IGD a continuous parent company solvency test is applied: Under this test the surplus capital held in each of the regulated subsidiaries, including the Company, is aggregated with the free assets of non-regulated subsidiaries. From this total, Prudential Group borrowings are deducted, other than subordinated debt issues which qualify as capital.

In addition to obligations under subsidiary and Prudential Group regulatory requirements, the Prudential Group applies an economic framework to its management of capital. Economic capital provides a realistic and consistent view of the Group's capital requirements, allowing for diversification benefits.

NOTES TO THE ACCOUNTS (continued)

15. Capital requirements and management (continued)

At the Company level, the FSA rules which govern the Prudential regulation of insurance form part of the Prudential's Sourcebook for Insurers, the General Prudential Sourcebook and Interim Prudential Sourcebook for Insurers. Overall, the requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance business more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets. An insurer must hold capital resources equal at least to the Minimum Capital Requirement (MCR).

The Prudential Sourcebook for Insurers also contains rules on Individual Capital Assessments. Under these rules and the rules of the General Prudential Sourcebook all insurers must assess for themselves the amount of capital needed to back their business. If the FSA views the results of this assessment as insufficient, it may draw up its own Individual Capital Guidance for a firm, which can be superimposed as a requirement.

The available capital of £23m (2006: £29m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £6m (2006: £6m). This excess of available capital over capital resources requirement is monitored during the year. In addition, a realistic assessment of available capital and capital requirements sufficient to cover a 1 in 200 year event is undertaken. Additional capital is sought from the parent company as necessary.

The capital requirement required by regulation was maintained during the year.

The Company's capital position for life assurance businesses with reconciliations to shareholders' equity is shown below. Available capital for each fund is determined by reference to the FSA regulations at 31 December 2007 and 2006.

	2007	2006
	£m	£m
Shareholders Equity		
Net Assets held outside long-term funds	20	26
Total Shareholder Equity	20	26
Held in long-term funds	3	3
Total available capital resources	23	29

16. Share capital

	2007 £000	2006 £000
Authorised:		
40 million ordinary shares (2006: 40 million) of £1 each	40,000	40,000
Allotted and fully paid:		
18 million ordinary shares (2006: 18 million) of £1 each	18,000	18,000

17. Transfer to the Profit and Loss account

	2007 £000	2006 £000
Distributable profit		
Balance at beginning of year	7,699	2,329
Transfer for the year	799	5,370
Dividend	(7,000)	-
Balance at end of year	1,498	7,699
Non-distributable profit		
Balance at beginning of year	3,097	5,377
Transfer for the year	649	(2,280)
Balance at end of year	3,746	3,097
	5,244	10,796

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.

18. 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.

19. 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.