Registered No 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Accounts 2007

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 2007

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PRUDENTIAL PENSIONS LIMITED

Directors

D J Belsham (Chairman)
M Price
G Shaughnessy
J Talbot
M Thompson
J Willcocks

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

Principal activity

The principal activity of the Company is the writing of long-term insurance business in the United Kingdom. This activity will continue in 2008.

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.

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential plc 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 focused 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 Prudential plc Group 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 immediate parent company, Prudential Assurance Company Limited, and the ultimate parent company, Prudential plc.

Performance and measurement

The results of the Company for the year as set out on pages 9 and 10 show a profit on ordinary activities before tax of £12,343,000 (2006: Loss £66,520,000).

The shareholders' funds of the Company total £11,477,000 (2006:£3,526,000).

Corporate responsibility

The Company is a wholly owned subsidiary within the Prudential plc Group, 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 12. The profit and loss account appears on pages 9 to 10.

Share Capital

There were no changes in the Company's share capital during 2007.

Dividend

No dividend is proposed for the year (2006 : £10m).

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 3.

Ms P Burgess resigned as director on 11 June 2007.

Mssrs G Shaughnessy, J Talbot, M Thompson, J Willcocks and M Price were appointed as directors on 15 August 2007, 29 August 2007, 30 August 2007, 6 September 2007 and 25 September 2007 respectively.

Mr J Willcocks was appointed an alternate director to Mr M Thompson on 7 December 2007.

PRUDENTIAL PENSIONS LIMITED

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

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 unit linked business.

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 ought to have taken as a director to make himself 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 plc Group. In addition, the Articles of Association of the Company provide that, subject to the provisions of the Companies Act, but without prejudice to any indemnity to which a director may otherwise be entitled, every director or other officer or auditor of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgement is given in his favour or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or trust in relation to the affairs of the Company.

On behalf of the board of directors.

On behalf of Prudential Group Secretarial Services Limited
Secretary
26 March 2008

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 Belsham

D J Belsham
Director

26th March 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL PENSIONS LIMITED

We have audited the financial statements of Prudential Pensions Limited for the year ended 31 December 2007 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 7.

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
27 March 2008

PRUDENTIAL PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

Technical Account	Notes	2007 £000	2006 £000
Earned premiums			
Gross premiums written	2	-	(1,437,428)
Investment income	3	797,709	399,090
Unrealised (losses)/gains on investment	3	(537,969)	361,964
Interest receivable	3	-	234
Other technical income		22,659	19,041
		282,399	**(657,099)**
Claims incurred, net of reinsurance			
Claims paid - gross amount		-	(54,172)
		-	**(54,172)**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount	10	13,259	1,423,418
- reinsurers' share	10	(13,036)	(9,015)
		223	1,414,403
Technical provisions for linked liabilities, net of reinsurance	10	(309,347)	(659,975)
		(309,124)	**754,428**
Other charges			
Foreign exchange gains/ (losses)	3	54,962	(95,463)
Interest payable	3	(1,528)	(1,795)
Net Operating Expenses			
- Acquisition costs		(1,993)	(2,449)
- Administrative expenses		(5,997)	(4,031)
Investment expenses and charges	3	(7,074)	(7,279)
Tax attributable to long term business	4	(4,183)	24,066
		34,187	**(86,951)**
Balance on the technical account - long term business		**7,462**	**(43,794)**

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

The notes on pages 13 to 28 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

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

Non-Technical Account	Notes	2007 £000	2006 £000
Balance on technical account – long term business		**7,462**	**(43,794)**
Tax credit/(charges) attributable to the balance on the long term business technical account		2,573	(24,066)
Balance on the long term business technical account before tax		10,035	(67,860)
Investment income	3	670	1,322
Bank interest receivable	3	28	18
Operating profit/ (loss) on ordinary activities before tax		**10,733**	**(66,520)**
Tax on profit/(loss) on ordinary activities	4	(2,782)	23,664
Profit/(Loss) after tax		**7,951**	**(42,856)**

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 13 to 28 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 £000	2006 £000
Profit/(Loss) for the financial year	7,951	(42,856)
Dividends	-	(10,000)
Net movement in shareholder's fund	7,951	(52,856)
Redemption of redeemable preference shares	-	(40,000)
Shareholders' fund at the beginning of the year as originally reported	3,526	94,289
Effect of FRS 26 on the opening balance sheet	-	2,093
Shareholders' fund at the beginning of the year as restated	3,526	96,382
Shareholders' fund at the end of the year	**11,477**	**3,526**

The notes on pages 13 to 28 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 £000	2006 £000
ASSETS			
Investments			
Other financial investments	7	41,936	19,945
Assets held to cover linked liabilities	9	7,519,573	7,204,192
Reinsurers' share of technical provisions			
Long term business provision	10, 11	85,620	104,115
Technical provision for linked liabilities	10, 11	527,823	-
Debtors			
Other debtors	13	8,759	5,152
Other assets			
Cash at bank and in hand	14	6,080	4,822
Prepayments and accrued income			
Other prepayments and accrued income		440	460
Total assets		**8,190,231**	**7,338,686**
LIABILITIES			
Capital and reserves			
Called up share capital	16	6,000	6,000
Profit and loss account	10, 17	1,389	(6,562)
Capital redemption reserve	10	4,088	4,088
Total shareholders' funds attributable to equity interests		**11,477**	**3,526**
Technical provisions			
Long term business provision	10, 11	85,639	98,898
Claims outstanding	10	366	366
Technical provisions for linked liabilities	10	8,014,377	7,175,489
Provisions for other risks and charges			
Deferred taxation	4	3,440	1,120
Creditors			
Other creditors including taxation and social security	12	74,932	59,287
Total liabilities		**8,190,231**	**7,338,686**

The accounts on pages 9 to 28 were approved by the board of directors on 26th March 2008.

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 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.

(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

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 has no investment contracts with discretionary participating features. 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.

Investment contracts without discretionary participation features are accounted for as financial liabilities under FRS 26 and, where relevant the provisions of the ABI SORP in respect of the attaching investment management features of the contracts. FRS 26 applies a different accounting treatment to these contracts than the previously applied UK GAAP primarily in respect of deferred acquisition costs, deferred income reserves, and provisions for future expenses commonly called "sterling reserves" (see below).

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.

Technical account treatment

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.

Claims paid include maturities, annuities, surrenders, and death. Maturity claims are accounted for on the policy maturity date. Annuity claims are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.

Following the adoption of FRS26 in 2006, the accounting treatment for investment contracts without discretionary participation features reflects the deposit nature of the arrangement with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet as a movement on the investors liability with the long-term technical account reflecting fee income, expense, and taxation on these contracts.

Sterling reserves are not permitted to be recognised under FRS26 for investment contracts.

(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.

Following the adoption of FRS26 in 2006, upon initial recognition financial investments are recognised 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 (and including all derivatives) are valued at fair value with all changes thereon being recognised in the profit and loss account.

(ii) The Company uses bid prices to value its quoted financial 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.

(iii) 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 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.

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.

(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 FRS 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

	2007 £000	2006 £000
Single Premiums – external reinsurance accepted	-	(1,437,428)
Gross premiums	**-**	**(1,437,428)**

Premiums comprise corporate pension business. For premiums in respect of corporate pension business investment risk is borne by policyholders and transacted within the UK. All direct single and regular premiums are group 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. Premiums for 2007 are nil as all business is investment contracts without discretionary participation features and are deposit accounted, as described in note 1 (c).

New Business

	2007 £000	2006 £000
Regular premiums – direct, pensions	750	807
Single premiums		
-direct:		
pensions	982,162	503,924
external reinsurance	7,898	6,219
- intragroup reassurance accepted, pensions	631,135	321,663
	1,621,195	832,613

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 £ 1,409,113,000 (2006: £831,806,000). 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 12, £8,179,190,000 (2006: £7,328,134,000) is attributable to the long term business fund.

PRUDENTIAL PENSIONS 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	31,300	35,646		
Income from listed investments	240,090	239,151		
Income from other investments	28,364	29,437	670	1,322
Gains on the realisation of investments	497,955	94,856		
	797,709	399,090	670	1,322
Investment expenses and charges				
Investment managers' expenses	(7,074)	(7,279)		
Unrealised (losses)/gains on investments				
Debt securities	(9)	2,774		
Linked assets	(537,960)	359,190		
Exchange gains/(losses) on investments	54,962	(95,463)		
Bank interest (payable) /receivable	(711)	234	28	18
Intragroup interest payable	(817)	(1,795)		
Total investment return	**306,100**	**656,751**	**698**	**1,340**

4. Tax on profit on ordinary activities

(a) Analysis of charge/(credit) in the period

	Long-term business technical account		Non technical account	
	2007	2006	2007	2006
	£000	£000	£000	£000
Current tax				
UK Corporation tax on profits of the period	1,409	(5,939)	209	402
Adjustments in respect of previous years	(1,156)	(4,428)		-
	253	(10,367)	209	402
Foreign tax	1,610	-	-	-
Total current tax	1,863	(10,367)	209	402
Deferred tax				
Adjustment in respect of previous years	460	-	-	-
Origination and reversal of timing difference	1,860	(13,699)	-	-
Tax charge on profit on ordinary activities	**4,183**	**(24,066)**	**209**	**402**
Shareholder tax attributable on the balance on the long term business technical account:				
Current tax			253	(10,367)
Deferred tax			2,320	(13,699)
			2,573	(24,066)
Total	**4,183**	**(24,066)**	**2,782**	**(23,664)**

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.

	2007 £000	2006 £000
Profit/ (Loss) on ordinary activities before tax	10,733	(66,520)
Profit/ (Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 : 30%)	3,220	(19,956)
Effects of		
Permanent differences	719	720
Deferred tax recognised in period	(2,321)	13,699
Adjustments to current tax in respect of previous periods	(1,156)	(4,428)
Current tax charge/(credit) for the period	**462**	**(9,965)**

(c) Balance sheet

	2007 £000	2006 £000
Provision for Deferred Tax		
Policy reserves	3,440	1,120
Undiscounted provision for deferred tax liability	**3,440**	**1,120**
Deferred tax liability at start of the period	1,120	13,922
Prior year adjustment on adoption of FRS 26	-	897
Deferred tax charged/ (credited) in technical/non-technical account for the period	2,320	(13,699)
Deferred tax liability at the end of period	**3,440**	**1,120**

5. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's accounts amounted to £47,625 (2006 total audit fee: £58,538). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £8,000 (2006: £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:

	2007 £000	2006 £000
Aggregate emoluments and benefits	3	36

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	
	2007 £000	2006 £000	2007 £000	2006 £000
Other financial investments				
Debt securities and other fixed income securities	1,936	1,945	1,654	1,654
Deposits with credit institutions	40,000	18,000	40,000	18,000
	41,936	19,945	41,654	19,654

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

A. Financial instruments

(i) Designation and fair values

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.

2007	Fair value through profit and loss £'000	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
Financial Assets				
Deposits	-	40,000	40,000	40,000
Debt securities	1,936	-	1,936	1,936
Other debtors	-	10,562	10,562	10,562
Total	1,936	50,562	52,498	52,498

2007	Fair value through profit and loss £'000	Amortised Cost £'000	Total carrying value £'000	Fair value £'000
Financial Liabilities				
Amounts due to group undertaking	-	25,384	25,384	25,384
Other creditors	-	51,351	51,351	51,351
Total	-	76,735	76,735	76,735

NOTES TO THE ACCOUNTS (continued)

Note 7 Investments (continued)

2006	**Fair value through profit and loss**	**Loans and receivables**	**Total carrying value**	**Fair value**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Deposits	-	18,000	18,000	18,000
Debt securities	1,945	-	1,945	1,945
Other debtors	-	5,152	5,152	5,152
Total	1,945	23,152	25,097	25,097

2006	**Fair value through profit and loss**	**Amortised Cost**	**Total carrying value**	**Fair value**
	£'000	**£'000**	**£'000**	**£'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

(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

Due to the matching of policyholders 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.

(i) Interest rate risk

The following table shows an analysis of the classes of financial assets 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 is minimal for the shareholder assets as the deposits are all less than one month, whereas for the unit-linked assets the risk is borne by the policyholders.

Interest rate risk

2007	**Fair value interest rate risk**	**Total**
	£'000	**£'000**
Financial Assets		
Deposits	40,000	40,000
Debt securities	1,936	1,936
	41,936	**41,936**

PRUDENTIAL PENSIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

Note 7 Investments (continued)

2007	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	-	-	21,957	21,957
	-	**-**	**21,957**	**21,957**

Effective interest rates

2007	Balance of financial instruments not at fair value in profit and loss	Range of effective interest rate applicable as at 31st December 2007
	£'000	%
Financial Assets		
Deposits with credit institutions	40,000	5.65 % - 6.68%
	40,000	

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	

NOTES TO THE ACCOUNTS (continued)

Note 7 Investments (continued)

Contractual maturities

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

2007	Balance of financial instruments not at fair value in profit and loss £'000	Maturing
Financial Assets		
Deposits with credit institutions	40,000	Less then one year
Debt securities (UK Govt Stock)	1,936	07/12/2015
	41,936	

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

Maturity profile for investment contracts and durations of long-term business contracts on an undiscounted basis

The majority of the In Force business consists of pooled investment vehicles used for Pension Scheme business which by nature do not have any contractual repricing or maturity dates, as the benefits are the realisation values of the units held in the internal linked funds and may be surrendered at any time.

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.

Concentration of credit risk

	2007 £'000	2006 £'000
AAA	1,936	1,945
AA	15,000	-
A	19,000	18,000
NR	6,000	-
	41,936	19,945
Unit-linked	7,519,573	7,204,192
Total assets bearing credit risk	7,561,509	7,224,137

There is minimal credit risk for the Company on the Unit linked contracts as the risks are borne by the policyholders.

Note 7 Investments (continued)

Risk management

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with the Group Risk Framework adopted by the Prudential Group in 1999.

A number of risk factors affect the Company's operating results and financial condition. The financial risk factors affecting the Company include the effects of market risk, credit risk and liquidity risk on the financial instruments of the Company.

The Company's investment guidelines allow the use of derivatives to facilitate efficient portfolio management or to reduce investment risk.

It is the Company's policy that cash or corresponding assets cover amounts at risk through derivative transactions. Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value included in the profit and loss account. The Company does not apply hedge accounting to its derivatives.

For unit linked insurance and investment contracts, the liability to policyholders is determined by the value of the assets in the unit-linked portfolios. There is therefore minimal net equity price, currency, interest rate or credit risk exposure to the Company for these contracts as the risks are borne by the policyholders.

(i) Market risk

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by market or credit 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.

Sensitivity analysis has not been performed because interest rate risk is minimal for the shareholder as the deposits are all less than 1 month whereas for the unit-linked the risk is borne by the policyholder.

(ii) Credit risk

Credit risk is the risk that a counterparty or an issuere of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract. Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by credit risk. The Company is also exposed to credit-related losses in the event of non-performance by counterparties,

(iii) 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.

For the unit-linked funds, there is a risk that significant policyholder outflows could exceed the short-term liquidity within the funds. The Company has the power to defer settlement to policyholders in certain circumstances by between one and six months, depending on the fund.

NOTES TO THE ACCOUNTS (continued)

8. Capital requirements and management

The available capital of £20.2m (2006: £19.6m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £7.6m (2006: £7.2m). 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.

	2007 £m	2006 £m
Shareholders' equity		
Held outside long-term funds	11,041	10,552
Held in long-term funds	436	(7,026)
Total shareholders' equity	11,477	3,526
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	8,691	16,109
Total available capital resources on FSA regulatory basis	20,168	19,635

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

	2007 £000	2006 £000
Land and buildings	640,077	684,119
Shares and other variable yield securities	2,991,636	3,399,891
British government securities - fixed income	1,044,680	911,179
British government securities - index linked	369,872	323,621
Debentures and loan stocks	1,996,435	1,575,614
Deposits with credit institutions	401,208	298,486
Tax payable	21	(270)
Other assets	75,644	11,552
	7,519,573	**7,204,192**
Assets held to cover linked liabilities - at cost	7,140,216	6,345,289

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

	2007 £000	2006 £000
Shares and other variable yield securities	2,991,636	3,399,891
British government securities - fixed income	1,044,680	911,179
British government securities - index linked	369,872	323,621
Debentures and loan stocks	1,996,435	1,575,614
	6,402,623	**6,210,305**

Linked assets are stated gross of accounting liabilities of £33.0m (2006: £34.2m) giving rise to the surplus of assets over liabilities.

10. 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	242	7,170,030	366	(6,562)	4,088
Movement in technical provisions for year	(223)	309,347	-	-	-
Movement in profit & loss account for year	-	-	-	7,951	-
Deposits received from policyholders under investment contracts	-	1,409,863	-	-	-
Payments made to policyholders of investment contracts	-	(1,402,686)	-	-	-
Net balance at end of year	19	7,486,554	366	1,389	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 2008.

The balance on the profit and loss account at 31 December 2007 includes a profit of £938,000 (2006: loss £7,026,000) 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.

11. 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, and a provision for future expenses.

The provision for future expenses is calculated using a discounted cashflow method. The level of expenses allowed for has been updated to allow for inflation, and adjusted where appropriate in view of experience.

Valuation interest rates have been amended, where necessary, in line with changes in 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 reinsurers' share of the long term business provision relates mainly to cessions to Prudential Annuities Limited, a fellow subsidiary company.

PRUDENTIAL PENSIONS LIMITED

NOTES TO THE ACCOUNTS (continued)

11. Long term business provision (continued)

The provisions have been calculated on the following bases:

	2007	2006
Discount Rate	4.00% for GILP/PIA/Prulink	4.00% for GILP/PIA/Prulink
Fund Growth	5.25% gross N/A for annuities	5.25% gross N/A for annuities
Expense Inflation	3.75% gross	3.75% gross
Mortality	AM92/AF92-3	AM92/AF92-3
Renewal expenses:		
GILP (includes reassurance from Investment Solutions Limited)	GILP:* £3,904,898 p.a. including £1,023 p.a. per scheme (of which £725,556 p.a. is covered by charges for additional administration services) * 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
SAS	PIA: £66,566 p.a. including £140 p.a. per scheme	PIA: £64,160 p.a. including £135 p.a. per scheme
Prulink	£22.98 p.a. per policy for premium-paying policies; £15.32 p.a. per policy for other policies; £89.15 per claim	£22.27 p.a. per policy for premium-paying policies; £14.84 p.a. per policy for other policies; £86.38 per claim
Reassurance from PAC	Reassurance from PACL: £540,235 p.a.	Reassurance from PACL: £328,966 p.a.
Reassured bulk annuity business	N/A	N/A
Annuity Mortality:		
Reassured bulk annuity business	N/A	N/A

NOTES TO THE ACCOUNTS (continued)

12. Creditors

All creditors are payable within a period of five years.

	2007 £000	2006 £000
Creditors arising from reinsurance operations	12,565	792
Due to group undertakings	25,384	23,015
Sundry creditors	3,705	1,223
Other creditors in linked funds	33,019	34,162
Other tax payable	259	95
	74,932	**59,287**

13. Other debtors

All debtors are due within one year.

	2007 £000	2006 £000
Tax recoverable	1,531	2,975
Amounts owed by group undertakings	7,228	793
Other debtors	-	1,384
	8,759	**5,152**

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. 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.

16. Share capital

	2007 £000	2006 £000
Authorised 6 million ordinary shares (2006: 6 million) of £1 each	6,000	6,000
Authorised 40 million non-cumulative preference shares (2006: 40 million) of £1 each	40,000	40,000
Allotted and fully paid in the year 6 million ordinary shares (2006: 6 million) of £1 each	6,000	6,000

17. Transfer to the Profit and Loss account

	2007 £000	2006 £000
Distributable profit		
Balance at the beginning of the year	464	13,614
Dividend paid during the year	-	(10,000)
Profit for the year	489	938
Transfer to capital redemption reserve	-	(4,088)
Balance at the end of the year	**953**	**464**
Non-distributable profit		
Balance at the beginning of the year	(7,026)	34,675
Effect of FRS 26 on opening balance sheet	-	2,093
Profit/(Loss) for the year	7,462	(43,794)
Balance at the end of the year	436	(7,026)
	1,389	**(6,562)**
Capital redemption reserve		
Balance at the beginning of the year	4,088	-
Transfer from distributable profit	-	4,088
Balance at the end of the year	**4,088**	**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.

18. 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.

19. 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.