Registered No 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Accounts 2008

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 2008

CONTENTS	**Pages**

PRUDENTIAL PENSIONS LIMITED

Directors

D J Belsham (Chairman)
I A Haasz
K Nunn
M Thompson

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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 2009.

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 by UK Insurance Operations. Key Performance Indicators exist for the management of the division, 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 2008, 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 of 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 managed acceptance of risk. The Group has a Risk Governance 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 6 and in the financial statements of the immediate parent company, The 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 £12,146,000 (2007: Profit £10,733,000).

The shareholders' funds of the Company total £20,835,000 (2007:£11,477,000).

Corporate responsibility

The Company is a wholly owned subsidiary within Prudential plc and corporate responsibility (CR) is a philosophy that is firmly embedded in Prudential's operations around the world and has become a fundamental and integral part of how the Company does business. Strong commitment to CR reflects the recognition that stakeholders including customers, employees, shareholders and communities increasingly favour companies that embrace and exhibit sound values around trust, ethics and environmental responsibility. As the Company strives to meet this need, it is helped by the fact that these values have been fundamental to Prudential throughout the past 160 years, underpinning the long-established brand values of reliability and stability. At the same time, it is recognised that performance in key areas of CR such as corporate governance, environmental management and employment practices can have a significant and positive impact on 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. The Company remains committed to providing a high level of customer service, communicating openly with customers, providing clear information and to monitoring levels of satisfaction.

There is a Responsibility Committee which is a specialist Group-wide committee and has responsibility for reviewing Prudential's business conduct and social and environmental policy, and ensures consistency of approach across the Group's international businesses. The CR team develops Prudential's CR strategy and works closely with individual business units to provide advice. The team also assists with the development and adaptation of Group-wide initiatives so that they not only fit with overall Group principles but are also adapted 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 2008 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 2008.

Dividend

No dividend is proposed for the year (2007: 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 3.

Mssrs I A Haasz and K Nunn were appointed as directors on 1 May 2008 and 13 May 2008 respectively.

Mssrs M Price, G Shaughnessy, J Talbot and J Willcocks resigned as directors on 12 June 2008. Mr J Willcocks resigned as alternate director for Mr M Thompson on 25 June 2008.

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 Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

On behalf of the board of directors.

On behalf of Prudential Group Secretarial Services Limited
Secretary
27th March 2009

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;
- 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 that 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

D J Belsham
Director

27th March 2009

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 2008 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 2008 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
Chartered Accountants
Registered Auditor
London
27th March 2009

PRUDENTIAL PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

Technical Account	**Notes**	**2008 £000**	**2007 £000**
Investment income	2	103,367	797,709
Unrealised losses on investment	2	(1,383,504)	(537,969)
Other technical income		27,865	22,659
		(1,252,272)	**282,399**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		5,071	13,259
- reinsurers' share		(5,552)	(13,036)
	9	(481)	223
Technical provisions for linked liabilities, net of reinsurance	9	1,042,008	(309,347)
		1,041,527	**(309,124)**
Other charges			
Foreign exchange gains	2	237,912	54,962
Interest payable	2	(2,336)	(1,528)
Net Operating Expenses			
- Acquisition costs		(1,486)	(1,993)
- Administrative expenses		(4,732)	(5,997)
Investment expenses and charges	2	(4,375)	(7,074)
Tax attributable to long term business	3	(5,348)	(4,183)
		219,635	**34,187**
Balance on the technical account - long term business		**8,890**	**7,462**

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

The accounting policies and 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 2008 (continued)

Non-Technical Account	**Notes**	**2008 £000**	**2007 £000**
Balance on technical account – long term business		**8,890**	**7,462**
Tax attributable to the balance on the long term business technical account		2,602	2,573
Balance on the long term business technical account before tax		11,492	10,035
Investment income	2	636	670
Bank interest receivable	2	18	28
Operating profit on ordinary activities before tax		**12,146**	**10,733**
Tax on profit on ordinary activities	3	(2,788)	(2,782)
Profit after tax		**9,358**	**7,951**

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 accounting policies and notes on pages 13 to 28 form an integral part of these financial statements.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £000	2007 £000
Shareholders' fund at the beginning of the year	11,477	3,526
Profit for the financial year	9,358	7,951
Shareholders' fund at the end of the year	**20,835**	**11,477**

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

PRUDENTIAL PENSIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	2008 £000	2007 £000
ASSETS			
Investments			
Other financial investments	6	39,050	41,936
Assets held to cover linked liabilities	8	6,913,070	7,519,573
Reinsurers' share of technical provisions			
Long term business provision	10	80,067	85,620
Technical provision for linked liabilities	10	581,780	527,823
Debtors			
Other debtors	12	11,224	8,759
Other assets			
Cash at bank and in hand	13	2,437	6,080
Prepayments and accrued income			
Other prepayments and accrued income		2,401	440
Total assets		**7,630,029**	**8,190,231**
LIABILITIES			
Capital and reserves			
Called up share capital	15	6,000	6,000
Profit and loss account	9	10,747	1,389
Capital redemption reserve	9	4,088	4,088
Total shareholders' funds attributable to equity interests		**20,835**	**11,477**
Technical provisions			
Long term business provision	9, 10	80,567	85,639
Claims outstanding	9	366	366
Technical provisions for linked liabilities	9	7,470,802	8,014,377
Provisions for other risks and charges			
Deferred taxation	3	4,695	3,440
Creditors			
Other creditors including taxation and social security	11	52,764	74,932
Total liabilities		**7,630,029**	**8,190,231**

The accounts on pages 9 to 28 were approved by the board of directors on 27th March 2009.

D J Belsham
Director

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 2008. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

Amendments to FRS 26 (IAS 39) and FRS 29 (IFRS 7): Reclassification of Financial Assets

In October 2008, the Accounting Standards Board (ASB) approved the 'Amendments to FRS 26 (IAS 39) and FRS 29 (IFRS 7): Reclassification of Financial Assets' that permit the reclassification of certain 'held for trading' and 'available-for-sale' financial assets into the 'loans and receivables' category carried at amortised cost if specific conditions are met and additional disclosures are made regarding any assets so reclassified. The adoption of these amendments to FRS 26 and FRS 29 did not have an impact on the balance sheet or profit and loss account of the Company as the Company has not made any such reclassification of financial assets as permitted by the amendments.

(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

Under FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. 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

For unit linked business, 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.

ACCOUNTING POLICIES (continued)

(c) Long term business - continued

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.

Under FRS26, 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.

Under FRS26, 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.

ACCOUNTING POLICIES (continued)

(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.

NOTES TO THE ACCOUNTS

1. Segmental analysis

(a) Gross Premiums

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. Premiums for 2008 and 2007 are nil as all business is investment contracts without discretionary participation features and are deposit accounted, as described in the accounting policies part (c).

	2008	**2007**
	£000	£000
Regular premiums – direct, pensions	848	750
New Business		
Single premiums		
-direct:		
pensions	1,027,028	982,162
external reinsurance	18,928	7,898
- intragroup reassurance accepted, pensions	708,786	631,135
	1,754,742	1,621,195

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 £1,535,555,000 (2007: £1,409,113,000). The annualised gross value of new premiums (other than single) is £Nil (2007: £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, £7,618,520,000 (2006: £8,179,190,000) is attributable to the long term business fund.

NOTES TO THE ACCOUNTS (continued)

2. Investment return

	Long-term business Technical account		Non technical account	
	2008	2007	2008	2007
	£000	£000	£000	£000
Investment Income				
Income from land and buildings	30,646	31,300	-	-
Income from listed investments	288,484	240,090	-	-
Income from other investments	29,776	28,364	636	670
(Losses)/Gains on the realisation of investments	(245,539)	497,955	-	-
	103,367	797,709	636	670
Investment expenses and charges				
Investment managers' expenses	(4,375)	(7,074)	-	-
Unrealised gains/(losses) on investments				
Debt securities	114	(9)	-	-
Linked assets	(1,383,618)	(537,960)	-	-
Exchange gains on investments	237,912	54,962	-	-
Bank interest (payable) /receivable	(1,149)	(711)	18	28
Intragroup interest payable	(1,187)	(817)	-	-
Total investment return	**(1,048,936)**	**306,100**	**654**	**698**

3. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	Long-term business technical account		Non technical account	
	2008	2007	2008	2007
	£000	£000	£000	£000
Current tax				
UK Corporation tax on profits of the period	1,989	1,409	186	209
Adjustments in respect of previous years	(642)	(1,156)	-	-
	1,347	253	186	209
Foreign tax	2,746	1,610	-	-
Total current tax	4,093	1,863	186	209
Deferred tax				
Adjustment in respect of previous years	-	460	-	-
Origination and reversal of timing difference	1,255	1,860	-	-
Tax charge on profit on ordinary activities	**5,348**	**4,183**	**186**	**209**

Shareholder tax attributable on the balance on the long term business technical account:

	2008	2007
Current tax	1,347	253
Deferred tax	1,255	2,320
	2,602	2,573
Total	**2,788**	**2,782**

NOTES TO THE ACCOUNTS (continued)

3. Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for period

The tax charge in the period is lower than the effective rate of corporation tax in the UK and the differences are explained below.

The rate of corporation tax in the UK fell to 28% with effect from 1 April 2008. The effective rate applying for the year to 31 December 2008 is therefore 28.5%.

	2008 £000	2007 £000
Profit on ordinary activities before tax	12,146	10,733
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28.5% (2007: 30%)	3,462	3,220
Effects of		
Permanent differences	(32)	719
Deferred tax recognised in period	(1,255)	(2,321)
Adjustments to current tax in respect of previous periods	(642)	(1,156)
Current tax charge for the period	**1,533**	**462**

(c) Balance sheet

	2008 £000	2007 £000
Provision for Deferred Tax		
Policy reserves	4,695	3,440
Undiscounted provision for deferred tax liability	**4,695**	**3,440**
Deferred tax liability at start of the period	3,440	1,120
Deferred tax charged in technical/non-technical account for the period	1,255	2,320
Deferred tax liability at the end of period	**4,695**	**3,440**

4. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's accounts amounted to £50,007 (2007 total audit fee: £47,625). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £8,000 (2007: £8,000)

NOTES TO THE ACCOUNTS (continued)

5. 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:

	2008 £000	2007 £000
Aggregate emoluments and benefits	11	3

Retirement benefits are accruing to 3 of the directors under the Group's defined benefit scheme and 1 of the directors under the Group's defined contribution 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.

6. Investments

	Current value		Cost	
	2008 £000	2007 £000	2008 £000	2007 £000
Other financial investments				
Debt securities and other fixed income securities	2,050	1,936	1,654	1,654
Deposits with credit institutions	37,000	40,000	37,000	40,000
	39,050	**41,936**	**38,654**	**41,654**

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 all at amortised cost (in both years).

2008	Fair value through profit and loss £'000	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
Financial Assets				
Deposits	-	37,000	37,000	37,000
Debt securities	2,050	-	2,050	2,050
Accrued investment income	-	2,401	2,401	2,401
Other debtors	-	252	252	252
Cash at bank and in hand	-	2,437	2,437	2,437
Total	2,050	42,090	44,140	44,140

2008	Fair value through profit and loss £'000	Amortised Cost £'000	Total carrying value £'000	Fair value £'000
Financial Liabilities				
Creditors arising out of reinsurance operations	-	340	340	340
Other creditors	-	28,374	28,374	28,374
Investment contracts without discretionary participating features	7,470,802	-	7,470,802	7,470,802
Total	7,470,802	28,714	7,499,516	7,499,516

NOTES TO THE ACCOUNTS (continued)

6. Investments (continued)

(i) Designation and fair values (continued)

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
Accrued investment income	-	440	440	440
Cash at bank and in hand		6,080	6,080	6,080
Total	1,936	46,520	48,456	48,456

2007	**Fair value through profit and loss £'000**	**Amortised Cost £'000**	**Total carrying value £'000**	**Fair value £'000**
Financial Liabilities				
Creditors arising out of direct insurance operations	-	12,565	12,565	12,565
Other creditors	-	29,089	29,089	29,089
Investment contracts without discretionary participating features	8,014,377	-	8,014,377	8,014,377
Total	8,014,377	41,654	8,056,031	8,056,031

(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.

6. Investments (continued)

(i) Interest rate risk (continued)

2008	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Not directly exposed to interest rate risk**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Deposits with credit institutions	-	37,000	-	37,000
Debt securities	2,050	-	-	2,050
Cash at bank and in hand	-	-	2,437	2,437
	2,050	**37,000**	**2,437**	**41,487**

2007	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Not directly exposed to interest rate risk**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Deposits	-	40,000	-	40,000
Debt securities	1,936	-	-	1,936
Cash at bank and in hand	-	-	6,080	6,080
	1,936	**40,000**	**6,080**	**48,016**

Effective interest rates

2008	**Balance of financial instruments not at fair value in profit and loss**	**Range of effective interest rate applicable as at 31st December 2008**
	£'000	**%**
Financial Assets		
Deposits with credit institutions	37,000	1.60 % - 2.70%
Cash at bank and in hand	2,437	1.7%
	39,437	

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%
Cash at Bank	6,080	5.5%
	46,080	

NOTES TO THE ACCOUNTS (continued)

6. Investments (continued)

(ii) Contractual maturities

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

2008	**Balance of financial instruments not at fair value in profit and loss £'000**	**Maturing**
Financial Assets		
Deposits with credit institutions	37,000	Less than one year
Debt securities (UK Govt Stock)	2,050	07/12/2015
	39,050	

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

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.

C. Credit Risk

(i) 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.

(ii) Concentration of credit risk

	2008 £'000	**2007 £'000**
AAA	2,050	1,936
AA	2,000	15,000
A+	6,000	-
A	22,000	19,000
A-	7,000	-
NR	-	6,000
	39,050	41,936
Unit-linked	6,913,070	7,519,573
Total assets bearing credit risk	6,952,120	7,561,509

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

NOTES TO THE ACCOUNTS (continued)

6. Investments (continued)

D. 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 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. 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)

7. Capital requirements and management

The available capital of £20.7m (2007: £20.2m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £7.6m (2007: £7.6m). 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.

	2008 £m	2007 £m
Shareholders' equity		
Held outside long-term funds	11,509	11,041
Held in long-term funds	9,326	436
Total shareholders' equity	20,835	11,477
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	(128)	8,691
Total available capital resources on FSA regulatory basis	20,707	20,168

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

	2008 £000	2007 £000
Land and buildings	465,013	640,077
Shares and other variable yield securities	2,318,995	2,991,636
British government securities - fixed income	860,085	1,044,680
British government securities - index linked	308,789	369,872
Debentures and loan stocks	2,458,846	1,996,435
Deposits with credit institutions	88,041	401,208
Tax payable	-	21
Other assets	413,301	75,644
	6,913,070	**7,519,573**
Assets held to cover linked liabilities - at cost	8,224,128	7,140,216

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

	2008 £000	2007 £000
Shares and other variable yield securities	2,318,995	2,991,636
British government securities - fixed income	860,085	1,044,680
British government securities - index linked	308,789	369,872
Debentures and loan stocks	2,458,846	1,996,435
	5,946,715	**6,402,623**

Linked assets are stated gross of accounting liabilities of £24.0m (2007: £33.0m) giving rise to the surplus of assets over liabilities.

NOTES TO THE ACCOUNTS (continued)

9. Reserves and policyholder liabilities

	Long-term business provision net of reassurance	Provision for linked liabilities	Provision for claims outstanding	Profit and Loss account	Capital Redemption Reserve
	£000	£000	£000	£000	£000
Balance at beginning of year	19	7,486,554	366	1,389	4,088
Movement in technical provisions for year	481	(1,042,008)	-	-	-
Movement in profit & loss account for year	-	-	-	9,358	-
Deposits received from policyholders under investment contracts	-	1,536,403	-	-	-
Payments made to policyholders of investment contracts	-	(1,091,927)	- -	-	-
Net balance at end of year	**500**	**6,889,022**	**366**	**10,747**	**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 2009.

Of the reinsurer's share of technical provisions for linked liabilities of £581.8m at 31 December 2008 (2007: £527.8m), the entire balance relates to companies outside of the Prudential Group and of this 99% (2007: 99%) of the balance was from reinsurers with S&P's rating of A and above.

The entire reinsurer's share of technical provisions for long term business of £80.1m at 31 December 2008 (2007: £85.6m) relates to reinsurance agreements with other Prudential Group companies.

Of the balance on the profit and loss account at 31 December 2008 the amount required not to be treated as realised profits in determining the company's profits available for distribution is £Nil (2007:£Nil).

10. Long term business provision

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

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

NOTES TO THE ACCOUNTS (continued)

10. Long term business provision (continued)

The provisions have been calculated on the following bases:

	2008	**2007**
Discount Rate	2.50% for GILP/PIA/Prulink	4.00% for GILP/PIA/Prulink
Fund Growth	5.00% gross N/A for annuities	5.25% gross N/A for annuities
Expense Inflation	3.50% gross	3.75% gross
Mortality	AM92/AF92-3	AM92/AF92-3
Renewal expenses:		
GILP (includes reassurance from Investment Solutions Limited)	GILP:* £5,311,375 p.a. including £1,053 p.a. per scheme (having allowed for £730,805 p.a. of additional administration service charges) * includes reassurance from Investment Solutions Limited	GILP:* £3,904,898 p.a. including £1,023 p.a. per scheme (having allowed for £725,556 p.a. of additional administration service charges) * includes reassurance from Investment Solutions Limited
SAS	PIA: £69,069 p.a. including £144 p.a. per scheme	PIA: £66,566 p.a. including £140 p.a. per scheme
Prulink	£23.29 p.a. per policy for premium-paying policies; £15.94 p.a. per policy for other policies; £91.42 per claim	£22.98 p.a. per policy for premium-paying policies; £15.32 p.a. per policy for other policies; £89.15 per claim
Reassurance from PAC	Reassurance from PACL: £537,709 p.a.	Reassurance from PACL: £540,235 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)

11. Creditors

All creditors are payable within a period of five years.

	2008 £000	2007 £000
Creditors arising from reinsurance operations	340	12,565
Due to group undertakings	20,947	25,384
Sundry creditors	7,427	3,705
Other creditors in linked funds	24,048	33,019
Other tax payable	2	259
	52,764	**74,932**

Included within amounts owed to group undertakings at 31 December 2008 was an amount of £19m (2007: £22m), which represents one contingent loan (including interest) repayable to The Prudential Assurance Company Limited. The loan and interest on the loan are repayable out of surplus emerging on its business and is contingent on surpluses arising but can be repaid by the Company at any time.

The loan is repayable to the extent of a specified percentage of surplus of the Company, a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company.

In accordance with the terms, the loan might be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

12. Other debtors

All debtors are due within one year.

	2008 £000	2007 £000
Tax recoverable	1,215	1,531
Amounts owed by policyholders	9,757	-
Amounts owed by group undertakings	-	7,228
Other debtors	252	-
	11,224	**8,759**

13. Bank accounts

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

14. Charges

In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the Company. Amounts secured by charges of this nature were £1,830.0m, £31.5m, £10.9m and £0.3m, representing liabilities to four different customers.

15. Share capital

	2008 £000	2007 £000
Authorised		
6 million ordinary shares (2007: 6 million) of £1 each	6,000	6,000
Authorised		
40 million non-cumulative preference shares (2007: 40 million) of £1 each	40,000	40,000
Allotted and fully paid		
6 million ordinary shares (2007: 6 million) of £1 each	6,000	6,000

16. 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.

17. 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.