

PRUDENTIAL (AN) LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

PRUDENTIAL (AN) LIMITED

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

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PRUDENTIAL (AN) LIMITED

Directors

D J Belsham (Chairman)
M Sheppard

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL (AN) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Principal activity

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

Business review

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

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

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

Market review and strategy

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

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

Risks & uncertainties

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

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

PRUDENTIAL (AN) LIMITED

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

Performance and measurement

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

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

Corporate responsibility

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

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

Post balance sheet events

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

Accounts

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

Share Capital

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

Dividends

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

Payment policy

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

Directors

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

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

There were no other changes during the year.

PRUDENTIAL (AN) LIMITED

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

Directors' interests

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

Financial risk management

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

Market risk

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

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

Credit risk

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

Liquidity risk

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

PRUDENTIAL (AN) LIMITED

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

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

Disclosure of information to auditor

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

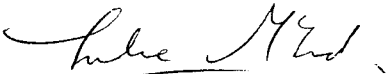
Auditor

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

Qualifying Third Party Indemnities

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

On behalf of the board of directors



Prudential Group Secretarial Services Limited
Secretary

29 March 2007

PRUDENTIAL (AN) LIMITED

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

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

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

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

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

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

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



D J Belsham
Director

29 March 2007

PRUDENTIAL (AN) LIMITED

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

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

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

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

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

29 March 2007

PRUDENTIAL (AN) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

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

PRUDENTIAL (AN) LIMITED

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

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

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

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

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

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

PRUDENTIAL (AN) LIMITED

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

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

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

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

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

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

D J Belsham
 Director

