

Registered No 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Accounts 2006

PRUDENTIAL PENSIONS LIMITED

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

Annual Report and Accounts 2006

CONTENTS	Pages
Directors	1
Directors' report	2 - 5
Statement of directors' responsibilities	6
Report of the auditors	7
Profit and loss account	8 - 9
Reconciliation of movement in shareholders fund	10
Balance sheet	11
Notes to the accounts	12 - 26

PRUDENTIAL PENSIONS LIMITED

Directors

D J Belsham (Chairman)
P Burgess

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Principal activity

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

Business review

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

During 2005 the Company accepted reinsurance in respect of a portfolio of in-force pension annuities from Phoenix Life and Pensions Limited. This reinsurance was recaptured during 2006.

Market review and strategy

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

Risks & uncertainties

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

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Financial risk management, Market risk, Credit Risk and Liquidity risk in note 7 and in the financial statements of the parent company, Prudential Assurance Company Limited.

Performance and measurement

The results of the Company for the year as set out on pages 8 and 9 show a loss on ordinary activities before tax of £66,520,000 (2005: Profit £50,257,000).

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

PRUDENTIAL PENSIONS LIMITED

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

Corporate responsibility

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

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

Post balance sheet events

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

Accounts

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

Share Capital

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

Dividend

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

Payment policy

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

Directors

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

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

There were no other changes during the year.

PRUDENTIAL PENSIONS 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 was a director of the immediate parent company, The Prudential Assurance Company Limited, and his interests are shown in the annual report and accounts of that company.

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

	01.01.06	31.12.06
P Burgess	5,927	8,970

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

- (a) had any interest in shares, or debentures of, any Group company either at the beginning of the year or at their later date of appointment or at the end of the year; or
- (b) were granted or exercised any right to subscribe for shares in, or debentures of, any Group company during the year, or if appointed during the year since the date of their appointment up to the end of the year.

PRUDENTIAL PENSIONS LIMITED

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

Financial risk management

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

Disclosure of information to auditor

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

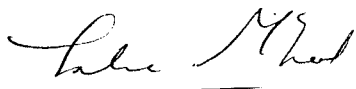
Auditor

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

Qualifying Third Party Indemnities

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

On behalf of the board of directors.



On behalf of Prudential Group Secretarial Services Limited
Secretary

29 March 2007

PRUDENTIAL PENSIONS LIMITED

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

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

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

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

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



D J Belsham
Director

29 March 2007

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF PRUDENTIAL PENSIONS LIMITED

We have audited the financial statements of The Prudential Pensions Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Reconciliation of Movement in Shareholders' Fund, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of Directors and Auditors

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

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

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements:

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

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
29 March 2007

PRUDENTIAL PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

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

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

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

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

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

PRUDENTIAL PENSIONS LIMITED

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

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

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

PRUDENTIAL PENSIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

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

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



D J Belsham
Director

