

Registered Number 47842

Prudential Retirement Income Limited

**Annual Report and Financial Statements
For the year ended 31 December 2006**

Prudential Retirement Income Limited

Incorporated and registered in Scotland Registered Number 47842
Registered Office: P.O. Box 25, Craigforth, Stirling, FK9 4UE

Contents	Page
Directors	2
Directors' report	3 - 7
Profit and loss account	8 - 9
Statement of total recognised gains and losses	9
Reconciliation of movement in Shareholder's funds	9
Balance sheet	10 - 11
Accounting policies	12 - 15
Notes to the financial statements	16 - 30
Statement of Directors' responsibilities in respect of the financial statements	31
Independent auditor's report	32 - 33

Prudential Retirement Income Limited

Directors

D J Belsham (Chairman)
T V Boardman
H McKee
N E T Prettejohn
G Shaughnessy

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2006

Principal activity

The principal activity of the Prudential Retirement Income Limited (the Company) is the writing of pension annuity long-term insurance business. This will continue in 2007.

Business review

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 £196m (2005 : £204m).

The profits during 2006 are mainly as a result of:

- strong new business sales volumes and margins.
- profits emerging from in-force business primarily due to strong performance by the Company's investment managers.

The Shareholders' funds of the Company total £971m (2005 : £782m).

The assets and liabilities of the Company increased significantly during 2006 as a result primarily of very strong new business single premiums of £3.4bn (2005 : £2.2bn). In addition, assets and liabilities increased by £1.4bn following the transfer of ex-Phoenix Life and Pensions Limited business to the Company in 2006. The increase was partly offset by a reduction in the value of assets and liabilities as a result of an increase in interest rates over 2006.

In order to finance the new business growth (therefore ensuring that the Company maintained sufficient assets to cover its regulatory solvency requirements) the Company's long-term fund received capital injections (by means of contingent loans) of £129m during 2006. In addition, injections of £52m of share capital were made into the shareholder fund.

The Company remained in a strong financial position at 31 December 2006.

Market review and strategy

The impact of A-Day, the implementation of pensions simplification legislation on 6th April, initially dampened new business in the annuities market, but subsequently led to considerable market growth.

The wholesale annuity market experienced increased competition over 2006 as short run demand slowed and several new entrants started to participate. However, the long term potential of this market remains considerable.

The Company expect the UK Individual annuity business volume to be maintained over the coming years due to the size of the pension pipeline. The remaining annuity business is sourced externally, which includes new partnership deals, such as an agreement with Royal London that came into effect in September. This agreement allows the Company to provide annuity quotes to all Royal London customers with maturing pensions originally written under various brands within the Royal London Group. In addition Prudential signed an exclusive 5 year agreement with Threadneedle as their supplier of annuities for Threadneedle's Stakeholder Scheme along with future defined contribution (DC) schemes which Threadneedle acquires. With the future growth in DC schemes within the UK we expect more agreements of this type in the future.

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2006 (continued)

Business review (continued)

Market review and strategy (continued)

During the year the Company completed three new transactions with other insurers and a transfer in of a book of business previously reassured to Prudential Pensions Limited from Phoenix Life and Pensions Limited in 2005.

In January, an agreement was reached with Royal London to acquire the portfolio of in-payment pension annuities that had been written primarily under the Royal London brand but which also included some annuities written under the Refuge Assurance brand. The transaction generated premium income of £817 million.

In June, Prudential Assurance Company (PAC) agreed to reinsure the non-profit immediate pension annuity portfolio of the Scottish Amicable Insurance Fund (SAIF) to the Company. SAIF is a closed sub-fund established by a court approved Scheme of Arrangement in September 1997, in which Prudential shareholders have no economic interest. It contains a large proportion of the business originally written by the Scottish Amicable Life Assurance Society that was acquired by PAC in September 1997. The reinsurance premium for this transaction was £560 million.

In July, Phoenix Life and Pensions Limited transferred to the Company a portfolio of in-payment pension annuities. This generated premium income of £1,437 million.

In December, an agreement was reached with Save & Prosper to acquire the portfolio of in-payment pension annuities that had been written under the Save & Prosper brand. The transaction generated premium income of £147 million.

Results and dividends

The state of affairs of the Company at 31 December 2006 is shown in the balance sheet on pages 10 and 11. The profit and loss account appears on pages 8 and 9. No dividend for 2006 is proposed (2005: £Nil).

Post balance sheet events

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

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.

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2006 (continued)

Share Capital

The authorised share capital of the Company was increased to £700,000,000 during the year by the addition of £100,000,000 £1 Ordinary Shares. Of these, 52,000,000 £1 Ordinary shares were issued at par. The increase in capital was to support the growth of business.

Directors and their interests

The directors who served during the year were:

D J Belsham	
T V Boardman	
M E Tucker	Resigned 9 January 2006
N E T Prettejohn	Appointed 9 January 2006
T J W Tookey	Resigned 16 March 2006
K Coleman	Appointed 18 April 2006, resigned 15 December 2006
R C Ramsden	Resigned 31 May 2006
A D Briggs	Resigned 2 October 2006
G Shaughnessy	Appointed 14 December 2006
H McKee	Appointed 15 December 2006

The interests of Mr D J Belsham, Mr N E T Prettejohn and Mr G Shaughnessy who were directors in office at the end of the year and who were also directors of the immediate parent Company, The Prudential Assurance Company Limited, are shown in the annual report and financial statements of that Company.

- (i) The other directors in office at the end of the year had interests in shares of 5p each in Prudential plc as follows:
- (a) in shares, including rights granted under the Prudential Restricted Share Plan where the directors have yet to exercise their right to receive shares, and shares held in relevant Prudential Share Incentive plans:

	01/01/06 or at a date of appointment if later	31/12/06
T V Boardman	37,740	35,314
H McKee	1,726	1,726

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2006 (continued)

Directors and their interests (continued)

- (b) in conditional awards that have been made under the Prudential Restricted Share Plan, in which the shares are held in trust and represent the maximum awards for which rights may be granted, at the end of the relevant performance period, if the performance requirements of the Plan are met:

	01/01/06 or at a date of appointment if later	31/12/06
T V Boardman	32,919	34,695
H McKee	15,425	15,425

- (c) in conditional awards that have been made under the Prudential 1000 Day Long Term Incentive Plan, in which shares are held in trust and represent the maximum awards for which shares may be released, at the end of the relevant performance period, if the performance requirements of the Plan are met:

	01/01/06 or at a date of appointment if later	31/12/06
T V Boardman	20,907	20,907
H McKee	10,510	10,510

- (d) in options to subscribe for shares under the Prudential Savings-Related Share Option Scheme:

	01/01/06	Granted	Exercised	Lapsed or cancelled	31/12/06
T V Boardman	5,162	-	2,865	-	2,297
	15/12/06	Granted	Exercised	Lapsed or cancelled	31/12/06
H McKee	-	-	-	-	-

- (ii) Except as stated above, none of the directors in office at the end of the year:
- (a) had any interest in shares in, or debentures of, any Group Company either at the beginning of the year 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 up to the end of the year.

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2006 (continued)

Financial risk management objectives, policies and exposure

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 provided in detail in note 8 of the notes to the financial statements.

Disclosure of information to auditors

The directors who held the 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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

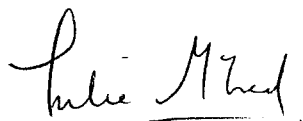
Auditors

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 auditors annually. Accordingly, KPMG Audit Plc will be deemed to be re-appointed auditors 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 its 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
Company Secretary
22 March 2007

Prudential Retirement Income Limited

Profit and Loss Account for the year ended 31 December 2006

Long Term Business - Technical Account	Note	2006 £m	2005 £m
Earned premiums, net of reinsurance			
Gross premiums written	1	4,847	2,203
		4,847	2,203
Investment income	2	559	416
Unrealised (losses)/gains on investments		(365)	451
		194	867
Claims incurred, net of reinsurance			
Claims paid		(716)	(457)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance	10	(3,998)	(1,997)
Change in technical provision for linked liabilities, net of reinsurance			
	10	(28)	(375)
		(4,026)	(2,372)
Net operating expenses			
- Acquisition costs	7	(65)	(56)
- Administrative costs		(25)	(10)
- Investment expenses and charges		(17)	(8)
		(107)	(74)
Tax attributable to the long term business		(58)	(50)
Balance on the technical account – long term business		134	117

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 12 to 30 form an integral part of these financial statements.

Prudential Retirement Income Limited

Profit and Loss Account for the year ended 31 December 2006 (continued)

Non-Technical Account	Note	2006 £m	2005 £m
Balance on the long term business technical account		134	117
Tax credit attributable to balance on the long term business technical account		58	50
Investment income	2	25	27
Unrealised (losses)/gains on investments		(20)	10
Investment expenses and charges		(1)	-
Profit on ordinary activities before tax		196	204
Tax on profit on ordinary activities	4	(59)	(51)
Retained profit for the financial year transferred to reserves	10	137	153

Statement of total recognised gains and losses

Year ended 31 December 2006

	2006 £m	2005 £m
Retained profit for the financial year	137	153
Total gains and losses recognised since the last annual report	137	153

Reconciliation of movement in Shareholder's Funds

Year ended 31 December 2006

	Note	2006 £m	2005 £m
Shareholder's capital and reserves at beginning of year		782	500
Retained profit for the financial year		137	153
New share capital subscribed	15	52	129
Shareholder's capital and reserves at end of year		971	782

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 12 to 30 form an integral part of these financial statements.

Prudential Retirement Income Limited

Balance sheet as at 31 December 2006

ASSETS	Note	2006 £m	2005 £m
Investments			
Land and buildings		422	198
Other financial investments		11,995	7,764
	8	12,417	7,962
Assets held to cover linked liabilities	9	1,520	1,492
Debtors			
Debtors arising out of direct insurance operations		26	27
Debtors arising out of reinsurance operations		14	5
Tax recoverable		-	13
Other debtors		14	10
		54	55
Other assets			
Cash at bank and in hand		30	23
Prepayments and accrued income			
Accrued interest and rent		217	121
Other prepayments and accrued income		-	6
		217	127
Total assets	1(b)	14,238	9,659

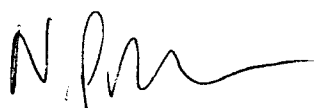
The accounting policies and notes on pages 12 to 30 form an integral part of these financial statements.

Prudential Retirement Income Limited

Balance sheet as at 31 December 2006 (continued)

LIABILITIES	Note	2006 £m	2005 £m
Capital and reserves			
Called up share capital	15	538	486
Profit and loss account	10	433	296
Total shareholder's funds		971	782
Technical provisions			
Long term business provision	10	10,830	6,857
Claims outstanding	10	3	2
Technical provisions for linked liabilities	10	1,520	1,492
Provision for other risks and charges			
Deferred tax	12	188	140
Creditors			
Derivative liabilities		11	6
Amounts owed to credit institutions		533	359
Creditors arising out of direct insurance operations		7	4
Creditors arising out of reinsurance operations		4	1
Other creditors including taxation and social security	13	170	15
		725	385
Accruals and deferred income		1	1
Total liabilities		14,238	9,659

The financial statements on pages 8 to 30 were approved by the board of directors on 22 March 2007.



N E T Prettejohn
Chairman

The accounting policies and notes on pages 12 to 30 form an integral part of these financial statements.

Prudential Retirement Income Limited

Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005.

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. The process for setting assumptions and determining liabilities, as required to be disclosed by FRS 27, is described in note 11 of the financial statements (together with key assumptions).

Change in accounting policies

The Company has implemented the following accounting standards in preparing its results for the year ended 31 December 2006. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

FRS 23 "The effects of changes in foreign exchange rates", FRS 24 "Financial reporting in hyperinflationary economies", FRS 25 "Financial Instruments: Disclosures and Presentation" and FRS 26 "Financial instruments: Measurement"

These accounting standards are part of a package of standards comprising FRS 23, FRS 24, the disclosure requirements of FRS 25 and FRS 26. The Company adopted these standards on 1 January 2006. The presentation requirements of FRS25 were adopted by the Company from 1 January 2005.

The main impacts of the adoption of these standards are described below:

FRS 23 "The effects of changes in foreign exchange rates"

The adoption of this standard has no impact on the balance sheet or profit and loss account of the Company. However, certain changes have been made on the disclosures relating to foreign exchange differences as a result of adopting this standard.

FRS 24 "Financial reporting in hyperinflationary economies"

The adoption of this standard has no impact on the results of the Company.

FRS 25 "Financial instruments: disclosures and presentation"

FRS 25 is based on the text of IAS 32 "Financial instruments: disclosures and presentation" as at 31 March 2004, incorporating the revised version of IAS 32 issued by the IASB in December 2003 and includes amendments made by IFRS 4 "Insurance contracts".

