

Registered Number 2554213

Prudential Annuities Limited

**Annual Report and Financial Statements
For the year ended 31 December 2007**

Prudential Annuities Limited

Incorporated and registered in England and Wales Registered Number 2554213
Registered Office: Laurence Pountney Hill, London, EC4R 0HH

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Prudential Annuities Limited

Directors

N E T Prettejohn (Chairman)

D J Belsham

T V Boardman

A M Crossley

I Haasz

G P J Shaughnessy

Secretary

Prudential Group Secretarial Services Limited

Auditors

KPMG Audit Plc, London

Prudential Annuities Limited

Directors' report for the year ended 31 December 2007

Principal activity

The principal activity of Prudential Annuities Limited (the Company) is the writing of pension annuity long term insurance business.

The Company ceased to accept annuity business reassured from group companies during 2004. This represented the majority of the Company's new business. The amount of new business in future years is expected to be negligible.

Business review

The results of the Company for the year as set out on pages 6 and 7, show a profit on ordinary activities before tax of £117m (2006 : £49m).

The increase in profits compared to 2006 is mainly due to:

- a one-off increase to in-force reserves in 2006 which has not been repeated in 2007
- investment return on the surplus assets held by the Company

In addition, a rebalancing of assumptions has contributed to profits, as detailed in note 11.

The Shareholders' capital of the Company total £1,722m (2006: £1,625m).

The assets and liabilities of the Company have reduced during 2007 as a result of an increase in the yield on the underlying assets, and the payment of annuity claims.

The Company remained in a strong financial position at 31 December 2007.

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential Group and the Group's business is managed on a divisional basis such as UK Insurance Operations. Key Performance Indicators exist for the management of the divisions, of which this Company's business forms a part. The divisional Key Performance Indicators can be found in the Annual Report of Prudential plc.

Results and dividends

The state of affairs of the Company at 31 December 2007 is shown in the balance sheet on pages 8 and 9. The profit and loss account appears on pages 6 and 7. No dividend for 2007 is proposed (2006: £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 Annuities Limited

Directors' report for the year ended 31 December 2007 (continued)

Share Capital

The authorised share capital of the Company is £800,000,000 (2006: £800,000,000). There were no changes to the issued share capital in the year.

Directors

The directors who served during the year were:

N E T Prettejohn

D J Belsham

T V Boardman

A M Crossley

Appointed 13 March 2007

I Haasz

Appointed 19 July 2007

H McKee

Resigned 30 March 2007

G P J Shaughnessy

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 are to minimise any risk. The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in note 7 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 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to be re-appointed auditors of the Company for the current financial year.

Prudential Annuities Limited

Directors' report for the year ended 31 December 2007 (continued)

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 provide that to the extent permitted by law every Director, manager, Secretary and other officer or servant of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors out of the funds of the Company, to pay to him all costs, losses and expenses which he may incur or become liable to by reason of any contract entered into or any act or deed done by him as such officer or servant of the Company or in any way in the discharge of his duties. Prudential plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of Prudential plc, including, where applicable, in their capacity as a director of the Company (being Mr Prettejohn) and other companies within the Group. These indemnities were in force during 2007 and remain in force.

On behalf of the board of directors.



Prudential Group Secretarial Services Limited
Company Secretary
27 March 2008

Prudential Annuities Limited

Profit and Loss Account for the year ended 31 December 2007

Long Term Business - Technical Account	Note	2007 £m	2006 £m
Earned premiums, net of reinsurance			
Gross premiums written	1	2	4
		2	4
Investment income	2	839	944
Unrealised losses on investments		(659)	(651)
		180	293
Claims incurred, net of reinsurance			
Claims paid		(894)	(921)
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance	10	795	605
Technical provision for linked liabilities, net of reinsurance	10	5	90
		800	695
Net operating expenses			
- Acquisition costs		(1)	(1)
- Administrative expenses		(14)	(15)
- Investment expenses and charges		(10)	(12)
		(25)	(28)
Tax attributable to the long term business			
		(4)	(11)
Balance on the technical account – long term business			
		59	32

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

Prudential Annuities Limited

Profit and Loss Account for the year ended 31 December 2007 (continued)

Non-Technical Account	Note	2007 £m	2006 £m
Balance on the long term business technical account		59	32
Tax credit attributable to the balance on the long term business technical account		4	11
Investment income	2	47	62
Unrealised gains / (losses) on investments		8	(55)
Investment expenses and charges		(1)	(1)
Profit on ordinary activities before tax		117	49
Tax on profit on ordinary activities	4	(20)	(14)
Retained profit for the financial year transferred to reserves	10	97	35

Statement of total recognised gains and losses

Year ended 31 December 2007

	2007 £m	2006 £m
Retained profit for the financial year	97	35
Total gains and losses recognised since the last annual report	97	35

Reconciliation of movement in Shareholder's Funds

Year ended 31 December 2007

	2007 £m	2006 £m
Shareholders' capital and reserves at beginning of year	1,625	1,590
Retained profit for the financial year	97	35
Shareholders' capital and reserves at end of year	1,722	1,625

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

Prudential Annuities Limited

Balance sheet as at 31 December 2007

ASSETS	Note	2007 £m	2006 £m
Investments			
Land and buildings		480	381
Other financial investments		12,032	12,913
	7	12,512	13,294
Assets held to cover linked liabilities			
	9	2,026	2,031
Reinsurers' share of technical provisions			
Long term business provision	10	4	4
Technical provision for linked liabilities	10	2	2
		6	6
Debtors			
Tax recoverable		3	10
Other debtors		24	21
		27	31
Other assets			
Cash at bank and in hand		56	123
Prepayments and accrued income			
Accrued interest and rent		231	221
Total assets	1(b)	14,858	15,706

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

Prudential Annuities Limited

Balance sheet as at 31 December 2007 (continued)

LIABILITIES	Note	2007 £m	2006 £m
Capital and reserves			
Called up share capital	15	550	550
Profit and loss account	10	1,172	1,075
Total shareholders' funds		1,722	1,625
Technical provisions			
Long term business provision	10	10,528	11,323
Claims outstanding	10	8	23
Technical provisions for linked liabilities	10	2,028	2,033
Provision for other risks and charges			
Deferred tax	12	227	216
Creditors			
Derivative liabilities	7	47	44
Amounts owed to credit institutions		275	411
Other creditors including taxation and social security	13	23	31
Total liabilities		14,858	15,706

The financial statements on pages 6 to 31 were approved by the board of directors on 27 March 2008.



A M Crossley
Director

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

Prudential Annuities Limited

Accounting Policies

(a) Change in accounting policies

The Company has implemented the following accounting standard and amendment in preparing its results for the year ended 31 December 2007. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

FRS 29 “Financial instruments: disclosures”

FRS 29 “Financial instruments: disclosures” implements IFRS 7 “Financial instruments: disclosures” into UK GAAP and replaces the disclosure requirements of FRS 25, “Financial Instruments: Disclosure and Presentation”. The latter, therefore, becomes a standard dealing wholly with presentation of financial instruments. FRS 29 is intended to complement the principles for recognising, measuring and presenting financial assets and financial liabilities in FRS 25 and FRS 26, ‘Financial Instruments: Recognition and Measurement’. The objective of FRS 29 is to require entities to provide disclosures in their financial statements to enable the users of financial statements to evaluate the significance of financial instruments for the entity’s financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Additionally, under FRS 29, the Company is also required to explain its objectives, policies and processes for managing capital.

The disclosures required are shown in Note 7. The adoption of this standard represents a change in accounting policy and comparatives have been provided accordingly in the disclosures.

Amendment to FRS 26 “Financial Instruments: Recognition and measurement”

An amendment to FRS 26 “Financial Instruments: Recognition and measurement” was issued in April 2006 which brings the recognition and derecognition requirements of IAS 39 “Financial Instruments: Recognition and measurement” into FRS 26. The amendment applies only to financial assets and liabilities, the relevant requirements of FRS 5 “Reporting the Substance of Transactions” continue to apply to the recognition and derecognition of non-financial assets. The adoption of this amendment to FRS 26 did not have an impact on the balance sheet or profit and loss account of the Company.

(b) Basis of 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).

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Accounting Policies (continued)

(c) Long term business

Following the adoption of FRS 26 in 2006, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. The Company's contracts are all classed as insurance contracts.

Annuity considerations are accounted for when due. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified. Index linked business has been disclosed as linked for the purposes of these financial statements.

Investment income and realised and unrealised investment gains attributable to long-term business are credited to the long term business technical account.

The costs of acquiring new business, principally commission and certain costs associated with policy issue and underwriting which are not matched by policy charges, are written off in the year they are incurred.

(d) Investments

(i) *Land and buildings*

Land and buildings are valued annually by professional external valuers on a Market Value basis, as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, in particular Practice Statement 3.2. No depreciation is provided on land and buildings, held for investment purposes, in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties.

On historical cost basis buildings are depreciated over 40 years. Leasehold buildings are depreciated over the 40 years or if the lease is less than 40 years over the length of the lease.

(ii) *Other financial investments valuation*

Listed investments are shown at fair value. Unlisted investments are valued on quotations provided by external fund managers, brokers, independent pricing services or values as determined by the directors.

(iii) *Realised gains and losses on investments*

Realised gains and losses on investments represent the difference between net proceeds on disposal and the purchase price.

(iv) *Unrealised gains and losses on investments*

Unrealised gains and losses on investments represent the difference between 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.

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Accounting Policies (continued)

(d) *Investments (Continued)*

An impact arising from the adoption of FRS 26 is in relation to recognition and measurement of financial instruments (other than long-term business contracts classified as financial instrument as described above). Upon initial recognition, financial investments are measured 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:

(v) *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, including all derivatives, are valued at fair value with all changes thereon being recognised in the profit and loss account.

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.

(vi) *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 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.

(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 for Insurers and the General Prudential Sourcebook issued by the Financial Services Authority.

The technical provisions are the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in Note 11. These bases have been derived from an analysis of recent population and internal mortality experience and include an allowance for improvements in mortality in the future.

The interest rates used for discounting claim payments are derived from the yield on the assets held and makes allowance for potential defaults on those assets. Historical market rates of defaults have been investigated. The analysis takes into account credit rating, term to redemption and security. Using this information, default rates are derived appropriate to the assets within the portfolio. (See Note 11.)

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Accounting Policies (continued)

(f) Cash flow statement

The Company has availed itself of the exemption from preparing a cash flow statement allowed under section 5(a) of FRS 1, "Cash Flow Statements", on the grounds that it is a wholly owned subsidiary of Prudential plc which publishes a consolidated cash flow statement incorporating the cash flows of the Company.

(g) Taxation

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.

(h) Foreign Currencies

Foreign currency revenue transactions are translated at the rate applied at the time of execution. Monetary foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences on long-term business and on net investments in foreign enterprises less matching borrowings are taken to reserves. Other exchange differences are included in the profit and loss account.

