

PRUDENTIAL UK SERVICES LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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COMPANIES HOUSE

Incorporated and Registered in Scotland Registered No 176097
Registered Office Craigforth, Stirling, P O Box 25, FK9 4UE

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PRUDENTIAL UK SERVICES LIMITED

Directors

J Board
K Nunn

Secretary

Prudential Group Secretarial Services Limited

Independent Auditors

KPMG Audit Plc, London

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors present the directors' report and financial statement for the year ended 31st December 2007

Principal activity and business review

The principal activity of Prudential UK Services Limited ("the Company") until 31 December 2007 was Single Service Company for UK Insurance Operations of the Prudential Group (UKIO). On 1 January 2007, the Company transferred its principal activity to Prudential Distribution Limited, another group company, along with the employment contracts of all UKIO Staff, which were transferred via a Transfer of Undertaking (Protection of Employment) (TUPE). TUPE is an employment law in the UK which ensures that an employee whose employment transfers to another company, has (his/hers) employment rights respected.

The Company continued with the tariff arrangement with Scottish Amicable Insurance Fund (SAIF) and Scottish Amicable Assurance (SAA) and also continued incurring the expenses for Prudential International Assurance (PIA).

The Company incurred a pre tax loss of £29,503,140 (2006 £53,528,876) during the year. During the year the Company incurred a loss of £ 16,390,296 (2006 £22,087,388) and £ 3,988,965 (2006 £4,971,521) due to the above arrangement with SAIF & SAA respectively. Expenses allocated in excess of PIA recharges resulted in a loss of £ 6,834,257 (2006 £17,204,864).

With the expiry of the tariff arrangement on 31 December 2007 and transfer of PIA activities to PDL from 1 January 2008, the Company's operations will be reduced to bearing a share of the management expenses and pool interest earned on cash balances in 2008.

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 2007 is shown in the balance sheet on page 7. The profit and loss account appears on page 6.

Share Capital

Changes in the Company's share capital during 2007 are shown on page 16 in note 13.

Dividends

No dividend is proposed for the year (2006 Nil).

Directors

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

Mr K Nunn was appointed a director of the Company on 1 March 2007. Mr A Crossley was appointed as an alternate director to Ms J Board on 20 July 2007.

Mrs R Harris was appointed a director on 26 May 2006 and resigned on 2 February 2007.

There were no other changes during the year.

Donations

During the year the company did not make any donations (2006 £334,890).

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

Employees

The following information is given in respect of the employees of the Company in the United Kingdom

Equal opportunity

The Company's policy is to recruit, develop and employ staff on the basis of suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees. The requirements of the Disability Discrimination Act 1996 have been put into effect.

Employee involvement

It is the Company's policy to communicate with employees on issues that concern them and to provide information to them through employee reports and regular manager briefings. Views of employees are sought through a number of channels including consultation through the medium of a staff consultative group. Employees were invited to participate in the Prudential Savings Related Share Option Scheme.

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 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 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. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditors

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 provide for directors, officers and employees of the Company to be indemnified in respect of liabilities incurred in their capacity as such.

On behalf of the Board of Directors



On behalf of Prudential Group Secretarial Services Limited

Secretary

16 October 2008

**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

UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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



16 October 2008

Director

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL UK SERVICES LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2007**

We have audited the financial statements of Prudential UK Services Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Recognised Gains and Losses 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 auditor's 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

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not 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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc 2008

KPMG Audit Plc
Chartered Accountants/Registered Auditor
Salisbury Square, London

20 October 2008

PRUDENTIAL UK SERVICES LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Turnover					
Continuing operations		-			
Discontinued operations		<u>29,280</u>		<u>671,715</u>	
			29,280		671,715
Staff costs	1				
Continuing operations		308		4,593	
Discontinued operations		<u>-</u>		<u>272,769</u>	
			308		277,362
Other operating charges					
Continuing operations		6		20	
Discontinued operations		<u>57,980</u>		<u>447,573</u>	
			57,986		447,593
Operating costs			58,294		724,955
Operating Loss	2				
- Continuing operations		(314)		(4,613)	
Discontinued operations		<u>(28,700)</u>		<u>(48,627)</u>	
			(29,014)		(53,240)
Interest receivable	3		375		6,827
Interest payable	4		<u>(864)</u>		<u>(7,116)</u>
Loss on ordinary activities before tax			(29,503)		(53,529)
Tax credit on loss	5		5,842		14,888
Retained loss for the year			<u>(23,661)</u>		<u>(38,641)</u>

A statement of historical cost profits and losses has not been prepared as the amounts are not materially different from the losses for the financial year

Turnover and loss on ordinary activities before taxation for the period relate to continuing and discontinued operations as defined under the terms of Financial Reporting Standard 3

PRUDENTIAL UK SERVICES LIMITED


**BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Note	2007 £000	2006 £000
Unpaid Called up share capital	13	40,103	40,103
Fixed assets			
Tangible assets	6	-	21,178
Investments	7		
Shares in group undertaking		1	1
Others		<u>2,739</u>	-
		2,740	21,179
Current assets			
Debtors and prepayments	- 8	4,179	147,834
Cash at bank	9	<u>5,389</u>	<u>39,752</u>
		9,568	187,586
Creditors: amounts falling due within one year	10	<u>(19,649)</u>	(139,826)
Net current assets		<u>(10,081)</u>	47,760
Total assets less current liabilities		32,762	109,042
Provisions for liabilities and charges	11	<u>(255)</u>	(76,782)
Net Assets		<u>32,507</u>	32,260
Capital and reserves			
Called up share capital	13	185,900	162,300
Retained earnings	14	(167,394)	(143,733)
Capital Contribution		<u>14,001</u>	<u>13,693</u>
Shareholders' funds	15	<u>32,507</u>	32,260

Statement of Recognised Gains and Losses

	2007 £000	2006 £000
Loss for the financial year	(23,661)	(38,641)
Prior year adjustment for additional charge in respect of Share based payment on adoption of FRS 20	-	(4,971)
Total gains and losses recognized since last annual report	<u>(23,661)</u>	<u>(43,612)</u>

The financial statements on pages 6 to 17 were approved by the board of directors on 16 October 2008


Director

ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The accounts have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The accounts have been prepared on a going concern basis.

b) Turnover

Turnover represents the value of services sold to group companies and third parties for transactions undertaken by the Company. Turnover is accounted for on an accruals basis.

c) Fixed assets

Depreciation is provided at a rate calculated to write off the cost or value of the assets less their estimated residual value over their estimated useful lives as follows:

Leasehold improvements	Up to a maximum of 20 years
Fixtures and fittings	Up to a maximum of 10 years
Computer equipment	Up to a maximum of 5 years
Motor vehicles	Up to a maximum of 4 years

As discussed in note 6, there are no tangible fixed assets held by the company at 31 December 2007.

d) Leased assets

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term.

Tangible fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased asset at the inception of the lease. Finance charges are charged to the profit and loss account as they arise.

As per note 2, there are no operating leases remaining and all tangible assets were transferred to PDL on 1st January 2007.

e) Taxation

Tax is charged on all profits earned in the period. Except when otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

f) Pension costs

The charge to revenue in respect of employer's contributions is calculated in accordance with applicable accounting standards.

g) Cash flow statement

The Company has taken advantage of the exemption under paragraph 8(c) of Financial Reporting Standard 1 (Revised) from disclosing a cash flow statement on the basis that a consolidated statement including the cash flows of the Company is prepared by the Ultimate Parent Company.

h) Investments

Investments including market investments are stated at the lower of cost or net asset value of the undertaking. Changes in value are shown in the profit and loss account.

PRUDENTIAL UK SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. Staff costs

	2007 £000	2006 £000
Wages and salaries	-	197,300
Social security costs	-	18,423
Other pension costs	-	57,046
Share based payment expenses	<u>308</u>	<u>4,593</u>
	<u>308</u>	<u>277,362</u>
	No.	No
 Average number of employees during the period	 <u>435</u>	 <u>5,588</u>

The directors, who are employed by Prudential UK Services Limited, did not receive any remuneration in respect of their services on behalf of the Company

Details of the pension schemes operated by the company are disclosed in the accounts of The Prudential Assurance Company Limited

Staff related costs in 2007 are included in the accounts of Prudential Distribution Limited (PDL) as part of the transfer of the Service Company activities during the year with effect from 1st January 2007

There is no loss or gain on the transfer of the Service Company activities from PUKSL to PDL, all the assets and liabilities related to the service company activities have been transferred at cost and the balance payable/receivable represented in the Group Company Debtors/Creditors balances in both the companies

2. Operating loss

The operating loss is stated after charging the following

	2007 £000	2006 £000
Auditors' remuneration	29	36
Operating lease rentals buildings	-	3,833
other	-	8

3. Interest receivable

	2007 £000	2006 £000
Loan interest receivable from group undertakings	48	282
Bank interest recharged	-	2,675
Pool Interest received	327	
Loan interest recharged	-	219
Policyholder interest recharged	-	2,865
Company car interest recharged	-	386
Loan interest	<u>-</u>	<u>400</u>
	<u>375</u>	<u>6,827</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Interest payable

	2007 £000	2006 £000
Loan interest payable to group undertakings	408	247
Bank interest paid	388	3,017
Finance lease interest payable to group undertakings	-	164
Policyholder interest	28	2,898
Company car interest	40	436
Loan interest reallocated	-	354
	<u>864</u>	<u>7,116</u>

5. Taxation

	2007 £000	2006 £000
Analysis of tax credit in the year		
Current tax		
Current period corporation tax at 30% (2006 30%)	8,806	13,530
Adjustments in respect of previous years	(4,665)	1,159
	<u>4,141</u>	<u>14,689</u>
Deferred tax.		
Origination and reversal of timing differences	(2,592)	(40)
Adjustments in respect of previous years	4,293	239
	<u>1,701</u>	<u>199</u>
Tax credit on ordinary activities	<u>5,842</u>	<u>14,888</u>
The factors affecting the tax charge for the years are		
Loss on ordinary activities before tax	<u>29,503</u>	<u>53,529</u>
Tax on loss at 30% (2005 30%)	8,851	16,059
Permanent differences	(2,545)	(1,191)
Decelerated capital allowances	(18)	40
Effect of short term timing difference	2,610	
Adjustments to current tax in respect of previous years	(4,665)	1,159
FRS 20 Charge	(92)	(1,378)
Current tax credit for the year	<u>4,141</u>	<u>14,689</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tangible fixed assets

	Fixtures and fittings £000	Plant and machinery £000	Motor vehicles £000	Computer equipment £000	Leasehold improve- ments £000	Total £000
Cost						
At 1 January 2007	2,850	330	1,011	78,575	16,701	99,467
Additions						
Disposals						
Transfer to PDL	(2,850)	(330)	(1,011)	(78,575)	(16,701)	(99,467)
At 31 December 2007	-	-	-	-	-	-
Depreciation						
At 1 January 2007	2,837	153	981	67,580	6,738	78,289
Charge for year						
Disposals						
Transfer to PDL	(2,837)	(153)	(981)	(67,580)	(6,738)	(78,289)
At 31 December 2007	-	-	-	-	-	-
Net book value						
At 31 December 2007	-	-	-	-	-	-
At 31 December 2006	13	177	30	10,995	9,963	21,178

The tangible assets were transferred from the Company to Prudential Distribution Limited (PDL) as part of the transfer of the Service Company activities with effect from 1st January 2007

7. Investments

	2007 £000	2006 £000
Shares in group undertaking		
Cost at 1 January and 31 December	1	1
Others		
Investment in COFUNDS Holding Limited	2,739	
Total	2,740	1

In 2003 Prudential UK Services Limited purchased 10,000 equity shares of 10 Rupees each in Prudential Process Management Services India Private Limited, a company incorporated in India. During 2007 the Company purchased 10,639,715 shares of 1p each in COFUNDS Holding Limited' representing an interest of 2.25%. COFUNDS Holding is a joint venture to promote and develop a

NOTES TO THE FINANCIAL STATEMENTS (continued)

fund market principally for the sale of retail mutual funds through independent intermediaries, initially in the United Kingdom. The joint venture in Cofunds is considered a simple investment under FRS 9 and as such, is recorded at the lower of cost or market valuation.

8. Debtors and prepayments

	2007	2006
	£000	£000
Amounts falling due within one year		
Amount owed by group undertakings	1,986	91,361
Prepayments & Accrued income	-	49,712
Deferred tax	2,193	6,761
Total debtors	<u>4,179</u>	<u>147,834</u>
Deferred tax asset explained by		
Accelerated capital allowances	18	6,172
Short term timing differences	2,175	589
	<u>2,193</u>	<u>6,761</u>
Deferred tax asset at start of period	6,761	6,562
Deferred tax for the period	1,700	199
Movements arising on acquisition and transfer	(6,268)	
Deferred tax asset at end of period	<u>2,193</u>	<u>6,761</u>

9. 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.

10. Creditors

	2007	2006
	£000	£000
Amounts falling due within one year		
Amount owed to group undertakings	16,375	66,975
Obligations under finance leases	491	457
Taxation and social security	-	10,985
Other creditors	248	22,235
Accruals and deferred income	75	47,042
Group Relief payable	2,460	(7,868)
	<u>19,649</u>	<u>139,826</u>

Payment policy

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Provisions for liabilities and charges

	Balance as at 1 January 2007 £000	Spend in the year £000	Transferred during the year £000	Provided in the year £000	Balance as at 31 December 2007 £000
Restructure costs	74,504		(74,504)		
A Day development costs	278		(278)		
Provision for compensation	2,000	(3,745)		2,000	255
	76,782	(3,745)	(74,782)	2,000	255

During the year the provisions for liabilities and charges pertaining to the Service company activities were transferred with effect from 1st January 2007 to Prudential Distribution Limited

An additional provision of £2m was made during the year to cover the potential compensation to customers relating to the ex Scot Am Europe flexible whole life products sold into the UK. An amount of £ 3.7m was paid during the year and the balance is expected to be settled during 2008

12. Share-based payments

The Company participates in a number of share award and share option plans relating to Prudential plc shares, which are described below

The Group Performance Share Plan (GPSP) is the incentive plan in which all executive directors and other senior executives within the Group can participate. This scheme was established as a replacement for the Restricted Share Plan (RSP) under which no further awards could be made after March 2006. Awards are granted either in the form of a nil cost option, conditional right over shares, or such other form that shall confer to the participant an equivalent economic benefit, with a vesting period of three years. The performance measure for the awards is that Prudential's Total Shareholder Return (TSR) outperforms an index comprising of peer companies. Vesting of the awards between each performance point is on a straight line sliding scale basis. Participants are entitled to the value of reinvested dividends that would have accrued on the shares that vest. Shares are currently purchased in the open market by a trust for the benefit of qualifying employees.

The RSP was, until March 2006, the Group's long term incentive plan for executive directors and other senior executives designed to provide rewards linked to shareholder return. Each year participants were granted a conditional option to receive a number of shares. There was a deferment period of three years at the end of which the award vested to an extent that depended on the performance of the Group's shares including notional reinvested dividends and on the Group's underlying financial performance. After vesting, the option may be exercised at zero cost at any time, subject to closed period rules, in the balance of a 10 year period. Shares are purchased in the open market by a trust for the benefit of qualifying employees. The RSP replaced the executive Share option Scheme in 1995 and all options under this plan had been exercised at 31 December 2005.

No rights were granted in the RSP if the Company's TSR performance as ranked against the comparator group is below 50th percentile. An option of 25 per cent of the maximum award is made. The maximum grant is made only if the TSR ranking of the Company is 20th percentile or above.

Between these points, the size of the grant of option made is calculated on a straight line sliding scale.

UK based executive directors are eligible to participate in the Prudential HM Revenue and Customs (HMRC) approved UK Savings Related Share Option Scheme (SAYE scheme) and the Asia based

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Share-based payments (continued)

executive director can participate in the equivalent International SAYE scheme. The schemes allow employees to save towards the exercise of options over Prudential plc shares, at an option price set at the beginning of the savings period at a discount of up to 20 per cent to the market price. Savings contracts may be up to £250 per month for three or five years, or additionally in the UK scheme seven years. On maturity at the end of the set term, participants may exercise their options within six months of the end of the savings period and purchase Prudential plc shares. If an option is not exercised within six months, participants are entitled to a refund of their cash contributions plus interest if applicable under the rules. Shares are issued to satisfy options that are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and other share option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

UK based executive directors are also eligible to participate in the Company's HMRC approved Share Incentive Plan which allows all UK based employees to purchase shares of Prudential plc (partnership shares) on a monthly basis out of gross salary. For every four partnership shares bought, an additional matching share is awarded, purchased on the open market. Dividend shares accumulate while the employee participates in the plan. Partnership shares may be withdrawn from the scheme at any time. If the employee withdraws from the plan within five years the matching shares are forfeit and if within three years, dividend shares are forfeit.

The Business Unit Performance Plan (BUPP) is an incentive plan created to provide a common framework under which awards would be made to senior employees in the UK, Jackson and Asia also including the Chief Executive Officers. Awards under this plan in 2006 and 2007 were based on growth in Shareholder Capital Value on the European Embedded Value (EEV) basis with performance measured over three years. For 2008 the basis will be Market Consistent Embedded Value (MCEV). Upon vesting, half of the vested award is released as shares and the other half released in cash. Participants are entitled to receive the value of reinvested dividends over the performance period for those shares that vest. The growth parameters for the awards are relevant to each region and vesting of the awards between each performance point is on a straight line sliding scale basis.

The other arrangements relate to various awards that have been made without performance conditions to individual employees, typically to ensure their appointment or retention.

Movements in share options outstanding under the Company's share based compensation plans relating to Prudential plc shares during 2007 and 2006 were as follows:

	2007		2006	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Options outstanding (including conditional options)				
Beginning of year	6,138,654	3.31	8,342,476	2.75
Granted	81,826	4.48	2,789,965	3.96
Exercised	(101,152)	3.35	(3,152,535)	2.77
Forfeited	(24,450)	2.38	(575,138)	0.80
Expired	(87,926)	2.61	(1,266,114)	3.55
Transferred during the year	(5,471,909)			
End of year	535,043	3.06	6,138,654	3.31
Options immediately exercisable, end of year	25,765	1.15	60,691	2.96

PRUDENTIAL UK SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Share-based payments (continued)

Movements in share awards outstanding under the Group's share based compensation plans relating to Prudential plc shares at 31 December 2007 and 2006 were as follows

	2007	2006
	Number of awards	Number of awards
Awards outstanding		
Beginning of year	465,339	408,420
Granted	62,281	685,233
Exercised	(17,863)	(365,060)
Forfeited	(29,331)	(263,254)
Expired	-	-
Transferred during the year	(414,797)	-
End of year	65,629	465,339

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2007

Range of exercise prices	Number outstanding	Outstanding Weighted average remaining contractual life (years)	Weighted average exercise prices £	Exercisable Number exercisable	Weighted average exercise prices £
Between £0 and £1	49,308	6.25	0.00	17,027	0.00
Between £1 and £2	-	-	-	-	-
Between £2 and £3	166,987	1.19	2.66	-	-
Between £3 and £4	75,666	1.66	3.63	8,635	3.36
Between £4 and £5	160,632	2.45	4.58	-	-
Between £5 and £6	82,263	3.24	5.61	-	-
Between £6 and £7	187	0.78	6.60	103	6.95
Between £7 and £8	-	-	-	-	-
	535,043	2.42	3.58	25,765	1.15

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2006

Range of exercise prices	Number outstanding	Outstanding Weighted average remaining contractual life (years)	Weighted average exercise prices £	Exercisable Number exercisable	Weighted average exercise prices £
Between £0 and £1	671,190	8.27	0.00	15,635	0.00
Between £1 and £2	-	-	-	-	-
Between £2 and £3	1,848,089	2.28	2.66	6,017	2.66
Between £3 and £4	1,489,152	2.1	3.53	31,138	3.62
Between £4 and £5	1,781,030	3.53	4.58	-	-
Between £5 and £6	334,503	5.56	5.63	989	5.79
Between £6 and £7	10,897	0.85	6.65	6,912	6.57
Between £7 and £8	3,793	0.92	7.15	-	-
	6,138,654	3.43	3.31	60,691	2.96

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Share-based payments (continued)

The fair value amounts relating to RSP options and other options were determined using the Black Scholes and the Monte Carlo option pricing models using the following assumptions

	2007		2006	
	RSP	Other options	RSP	Other options
Dividend yield (%)	2.32	2.32	2.64	2.64
Expected volatility (%)	27.00	26.93	25.48	34.32
Risk free interest rate (%)	5.23	5.78	4.47	4.70
Expected option life (years)	3.46	3.00	3.00	3.41
Weighted average exercise price (£)	7.47	7.10	7.14	6.52
Weighted average share price (£)	-	-	5.61	5.09

Compensation costs for all share based compensation plans are determined using the Black Scholes model and the Monte Carlo model. Share options and awards are valued using the share price at the date of grant. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Black Scholes model is used to value all options other than RSP. For the RSP the Monte Carlo model is used to allow for the performance conditions. The models are used to calculate fair values at the grant date based on the quoted market price of the stock, the amount, if any that the employees are required to pay, the dividend yield, expected volatility, risk free interest rates and exercise prices.

The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of daily share prices over a period up to the grant date equal to the expected life of options. Risk free interest rates are UK gilt rates with projections for three, five and seven year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over the year of the grant and expected dividends are not incorporated into the measurement of fair value.

13. Called-up share capital

	2007 £000	2006 £000
Authorised		
Ordinary shares of £1 each	<u>217,200</u>	<u>217,200</u>
Issued and fully paid		
Ordinary shares of £1 each	<u>145,797</u>	<u>122,197</u>
Issued and not paid.		
Ordinary shares of £1 each	<u>40,103</u>	<u>40,103</u>

In 2007 the company issued 23,600,000 ordinary shares of £1 each to Prudential Financial Services Limited. The total consideration was £23,600,000 which was received in cash prior to the year end.

14. Movement in Retained Earnings

	2007 £000	2006 £000
Balance at start of year	(143,733)	(105,092)
Loss for the year	<u>(23,661)</u>	<u>(38,641)</u>
Balance at end of year	<u>(167,394)</u>	<u>(143,733)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Reconciliation of movement in shareholders' funds

	2007	2006
	£000	£000
Opening reserves	32,260	29,508
Issued share capital	23,600	36,800
Profit and loss account	(23,661)	(38,641)
Capital Contribution	308	4,593
Closing reserves	<u>32,507</u>	<u>32,260</u>

Capital contribution represents the Share Based Expense Reserve created during the year consequent to adoption of FRS 20 (Share Based Payment)

16. Operating lease commitments

Operating lease commitments are as follows on leases expiring

	2007	2006
	£000	£000
Over five years	-	4,163
	<u>-</u>	<u>4,163</u>

17. Capital commitments

The Company is committed to the following expenditure as of 31 December 2007 and 2006

	2007	2006
	£000	£000
General buildings refurbishment	-	728
	<u>-</u>	<u>728</u>

18. Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 relating to the disclosure of transactions with other subsidiary undertakings of the Prudential group

19. Immediate and ultimate parent company

The immediate parent company is Prudential Financial Services Limited. The ultimate parent company is Prudential plc, which is the parent company which prepares group accounts. Copies of these accounts can be obtained from the company secretary, Laurence Pountney Hill, London, EC4R 0HH