

Registered No. 2042953

PRUDENTIAL FINANCIAL SERVICES LIMITED

Annual Report and Accounts 1999



PRUDENTIAL FINANCIAL SERVICES LIMITED

Incorporated and registered in England and Wales Registered no 2042953

Registered office: 142 Holborn Bars London EC1N 2NH

Annual report and accounts 1999

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PRUDENTIAL FINANCIAL SERVICES LIMITED

Directors

J K Elbourne (Chairman)
N G Bradley
R P Flynn

Secretary

S Windridge

Auditors

KPMG Audit Plc

PRUDENTIAL FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999

Principal activity and business review

The principle activity of the Company is that of a parent company. Particulars of subsidiary undertakings are given in note 6 on the accounts. The Company also provides services to the Prudential group of companies. This will continue in 2000.

Accounts and dividend

The state of affairs of the Company at 31 December 1999 is shown in the balance sheet on page 5. The profit and loss account appears on page 4. No dividend is proposed for the year (1998: £3,000,000). A transfer of £(18,533,763) has been made to the profit and loss reserve in the year (1998: £426,085).

Directors

The present directors of the Company are shown on page 1. S J Cook resigned as a director on 30 July 1999. N G R Bradley and R P Flynn were appointed directors of the Company on 4 October 1999. There were no other changes during the year.

Millennium Issue

The Company's operations have not been significantly affected by the millennium issue and, given the nature of the Company's computer systems, the directors have concluded that they do not expect there to be any residual risks from this issue.

In the unlikely event of residual risk crystallising the directors believe there are sufficient contingency plans in place.

Directors' interests

Directors had interests in shares of 5p each in Prudential plc as follows:

- (a) in shares, including shares awarded under the Prudential Share Participation Plan and shares allocated under the Prudential Restricted Share Plan:

	1.1.99 or later date of appointment	<u>31.12.99</u>
N G Bradley	7,680	7,720
J K Elbourne	10,261	26,762
R P Flynn	4,333	4,333

- (b) under the Prudential Restricted Share Plan, in which the shares are held in trust and represent the maximum allocated that can be made if the performance requirements of the Plan are met:

	1.1.99 or later date of appointment	<u>31.12.99</u>
N G Bradley	17,439	17,439
J K Elbourne	68,079	82,360
R P Flynn	18,701	18,701

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999 (continued)

Directors' interests (continued)

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

	1.1.99 or later date of appointment	During the year:		31.12.99
		<u>Granted</u>	<u>Exercised</u>	
N G Bradley	2,866	265	543	2,588
J K Elbourne	3,929	Nil	Nil	3,929
R P Flynn	2,726	Nil	Nil	2,726

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 their later date of appointment or at the end of the year; or

(b) was 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 year.

Auditors

PricewaterhouseCoopers resigned as auditors of the company on 6 December 1999. KPMG Audit Plc were appointed by the directors on 14 January 2000.

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.

On behalf of the board of directors.



S Windridge
Secretary

17 March 2000

PRUDENTIAL FINANCIAL SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £000	1998 £000
Turnover		3,591	-
Operating Expenses		(16,108)	(346)
Operating loss from continuing activities	2	(12,517)	(346)
Income from shares in group undertakings		4,000	4,000
Other interest receivable and similar income	3	2,693	3,351
Amounts written off investments	6	(12,400)	-
Interest payable and similar charges	4	(4,370)	(3,834)
(Loss)/Profit on ordinary activities before tax		(22,594)	3,171
Tax on (loss)/profit on ordinary activities	5	4,060	255
(Loss)/Profit on ordinary activities after tax		(18,534)	3,426
Dividends		-	(3,000)
Retained (loss)/profit for the year		(18,534)	426
Retained profit brought forward		2,825	2,399
Retained (loss)/profit carried forward		(15,709)	2,825

The Company has no recognised gains or losses other than the loss for the year as disclosed above all of which is derived from continuing activities.


RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £000	1998 £000
Retained (loss)/profit for the year	(18,534)	426
Shareholders' funds at beginning of the year	13,325	12,899
Shareholders' funds at end of the year	(5,209)	13,325

BALANCE SHEET OF THE COMPANY AT 31 DECEMBER 1999

	Notes	1999 £000	1998 £000
FIXED ASSETS			
Investments			
Shares in group undertakings	6	47,720	32,720
Loans to group undertakings	6	2,200	15,473
		<hr/>	<hr/>
		49,920	48,193
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	7	246,268	237,677
		<hr/>	<hr/>
		246,268	237,677
Creditors: amounts falling due within one year	9	(301,397)	(260,813)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(55,129)	(23,136)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		(5,209)	25,057
PROVISION FOR LIABILITIES AND CHARGES			
Creditors: amounts falling due after More than one year	10	-	(11,732)
		<hr/>	<hr/>
		(5,209)	13,325
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	11	10,500	10,500
Profit and loss account		(15,709)	2,825
		<hr/>	<hr/>
Shareholders' funds at the end of the year		(5,209)	13,325
		<hr/>	<hr/>

The accounts on pages 4 to 10 were approved by the board of directors on *17 March* 2000.


J K Elbourne
Chairman

NOTES ON THE ACCOUNTS

1. ACCOUNTING POLICIES

a) Accounting convention

The accounts are prepared on the historical cost basis of accounting and in accordance with applicable accounting standards.

b) Group accounts

As permitted by section 229 (2) of the Companies Act 1985, no group accounts have been prepared for the year because the company is a wholly owned subsidiary undertaking of Prudential plc.

c) Investments

Investments in group undertakings are stated at the lower of cost or market value.

d) Taxation

Deferred taxation is provided on the liability method on all short-term timing differences. Provision is also made for long-term timing differences, except those which are not expected to reverse in the foreseeable future.

e) Leasing

Equipment and other assets until August 1999, were acquired under finance leases from another group company and then immediately leased under a finance lease to other group companies. Assets were not capitalised by this Company. The profit and loss account was credited with income from finance leases, using the actuarial method to give a constant periodic rate of return on the net cash investment. In August 1999 the leases were closed out by the receipt of the net present value of the future lease streams outstanding.

f) Cashflow

The company which is a wholly owned subsidiary, has elected to take advantage of the dispensation provided in FRS1 and does not produce a cashflow statement.

g) Turnover

Turnover consists of commission and other fees relating to the sale of products on behalf of another group company. The company operates a facility with other group companies for the payment and full recovery of expenses. The payment and subsequent reimbursements are not reflected in turnover or operating expenses.

2. OPERATING LOSS

	1999 £000	1998 £000
The operating loss is stated after charging:-		
Auditors' remuneration	3	5
Interest from group loans written off	766	-
	<hr/>	<hr/>

Amounts included in operating loss includes a loss of £8,593,879 (1998: £nil) relating to sales of mortgages on behalf of another group company.

The directors received no emoluments during the period for their services to the Company (1998:£Nil). There were no employees of the company during 1999 (1998:none).

PRUDENTIAL FINANCIAL SERVICES LIMITED

NOTES ON THE ACCOUNTS (continued)

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1999	1998
	£000	£000
Bank deposit	346	355
Interest receivable from group undertakings	1,014	1,779
- under finance leases		
- other	923	1,134
Sundry interest	410	83
	<u>2,693</u>	<u>3,351</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1999	1998
	£000	£000
Interest payable to parent undertaking	2,293	1,381
Interest payable to other group undertakings	-	627
- under finance leases		
- other	1,997	1,826
Sundry Interest	80	-
	<u>4,370</u>	<u>3,834</u>

5. TAXATION

Tax relief has been recognised on losses at 30.25% (1998: 31%).

	1999	1998
	£000	£000
UK Corporation tax current year	(4,060)	(255)
	<u>(4,060)</u>	<u>(255)</u>

6. FIXED ASSET INVESTMENTS

	Shares in group undertakings £000	Loans to group undertakings £000
Cost at 1 January 1999	32,720	15,473
Additional capital	15,000	-
Repayments	-	(873)
Amounts written off	-	(12,400)
Cost at 31 December 1999	<u>47,720</u>	<u>2,200</u>

The loans are to group undertakings at an annual interest rate of 1% above LIBOR, repayable on or before 31 December 2000.

NOTES ON THE ACCOUNTS (continued)

6. FIXED ASSET INVESTMENTS (continued)

Particulars of wholly owned group undertakings at 31 December 1999 are as follows:

	Class of shares held	Principal activity	Place of registration
PruTech Limited	£1 Ordinary	IT services	England and Wales
Prudential Pensions Administration Limited	£1 Ordinary	Pension fund services	England and Wales
Prudential Collective Investments Limited	£1 Ordinary	Parent company	England and Wales
Prudential Direct Limited	£1 Ordinary	Non-trading	England and Wales
Craigforth Services Limited	£1 Ordinary	Service company	Scotland
Prudential Holborn Pensions Limited	£1 Ordinary	Long term insurance business	England and Wales
Prudential Holborn Life Limited	£1 Ordinary	Long term insurance business	England and Wales

7. DEBTORS

Amounts falling due within one year

	1999 £000	1998 £000
Amounts owed by group undertakings	202,687	192,158
Sundry debtors	39,648	33,579
Corporation tax recoverable	3,933	252
	<hr/>	<hr/>
	246,268	225,989
	<hr/>	<hr/>

Amounts owed by group undertakings includes an amount of £nil (1998: £6,987,790) due under finance leases.

Amount falling after one year

	1999 £000	1998 £000
Amounts owed by group undertakings under finance leases	-	11,688
	<hr/>	<hr/>

NOTES ON THE ACCOUNTS (continued)

8. CASH AT BANK

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 and all overdrawn balances of those group undertakings with similar arrangements

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999	1998
	£000	£000
Amounts due to group undertakings	21,480	40,757
Amounts due to parent company	45,696	28,003
Sundry creditors	222,851	191,169
Bank loans and overdrafts	11,370	884
	<hr/>	<hr/>
	301,397	260,813
	<hr/>	<hr/>

10. CREDITORS: AMOUNT FALLING DUE AFTER ONE YEAR

	1999	1998
	£000	£000
Loan due to group undertakings	-	11,732
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11. SHARE CAPITAL

	1999	1998
	£000	£000
Authorised ordinary shares of £1 each	13,000	13,000
	<hr/>	<hr/>
Issued, allotted, and fully paid 10,500,000 ordinary shares of £1 each	10,500	10,500
	<hr/>	<hr/>

12. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking is Prudential Corporation plc, which is the only parent undertaking which prepares group accounts, copies of which can be obtained from the Company Secretary, Laurence Pountney Hill, London EC4R 0HH.

13. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group.

15. PARENT COMPANY SUPPORT

The immediate parent company, Prudential Corporation plc, has indicated its current intention to continue to support the activities of the Company, including providing the means to enable it to meet its liabilities as they fall due.

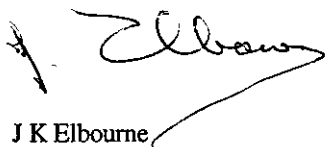
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 those 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 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After making appropriate enquiries, the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to use the going concern basis in preparing the financial statements.



J K Elbourne
Chairman

17 March 2000

AUDITORS' REPORT TO THE SHAREHOLDERS OF PRUDENTIAL FINANCIAL SERVICES LIMITED

We have audited the financial statements on pages 4 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 11, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 of the state of the company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4 8BB

17 March 2000