

# Bulletin

*for Combined Nuclear Pension Plan*

## A quarterly update on your pension fund investments

### **M&G funds:**

- › Index-Linked Passive
- › Cash
- › Retirement Protection

### **BGI Aquila funds:**

- › 50:50 Global Equity Index
- › UK Equity Index
- › World (ex-UK) Index

### **Prudential funds:**

- › With-Profits

Quarter 4 2008



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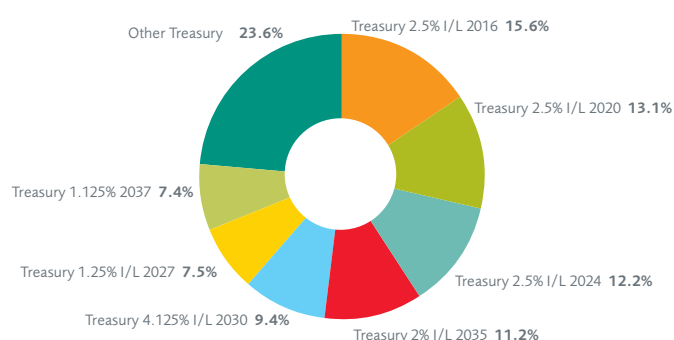
# Prudential Index-Linked Passive fund (series 3)



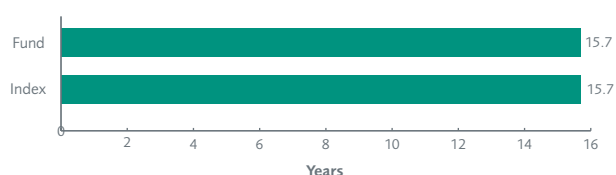
## Fund description

The Fund invests in British Government index-linked gilts with over five years to go until maturity. The Fund is passively managed tracking movements in its benchmark FTSE British Government Over 5 Years Index-Linked All Stocks Index. Tracking this index is achieved by fully replicating the small number of stocks in the Index.

## Fund breakdown



## Duration



## Key facts

Underlying fund size	£148m
Number of holdings	12
Underlying fund launch date	04/02/1998
Portfolio Manager	David Lloyd
Benchmark	FTSE British Government Over 5 Years Index-Linked All-Stocks Index
Investment Style	Passive
Sedol code (series 3)	3282441
Performance Objective	To match the performance of the benchmark as closely as possible.

## Commentary

The performance of index-linked gilts over the three-month period was lacklustre as fears of rising inflation were replaced by the possibility of deflation, due to rising unemployment, contracting manufacturing activity, falling household incomes and a massive decline in commodity prices. The oil price, for example, has fallen back to below \$40 - levels last seen in 2004. As a result, the Consumer Prices Index annual inflation fell to 3.1% in December, considerably lower than the high of 5.2% in September.

At the same time, government figures showed that the UK economy contracted 1.5% during the fourth quarter while the number of unemployed jumped to its highest level since 1997 in the three months to November. The Bank of England cut interest rates three times during the quarter, dramatically lowering the key lending rate to a 57-year low of 2% on 4 December.

Source: M&G  
All figures are as at 31 December 2008, unless otherwise stated.

## Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 30/12/06	31/12/04 to 31/12/05	31/12/03 to 31/12/04
Index-Linked Passive fund series 3	4.0	8.7	2.8	9.7	9.2
Benchmark	3.3	8.6	2.6	9.6	9.0

Past performance of the fund to 31 December 2008

	Quarter	1 Year*	3 Years*	5 Years*
Index-Linked Passive fund series 3	-0.9	4.0	5.1	6.8
Benchmark	-0.5	3.3	4.8	6.6

Source: Prudential. \* annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.

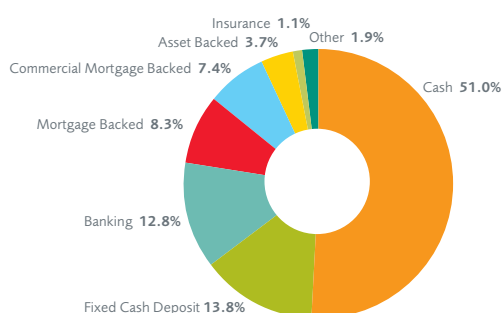
# Prudential Cash fund (series 3)



## Fund description

The fund invests in both high quality Floating Rate Notes (FRNs) and short-term deposits. The fund is actively managed with the aim of beating its benchmark of the London Interbank 7 Day Deposit Rate. The financial instruments held in the fund are issued by well known banks and leading financial institutions.

## Fund breakdown



## Top 10 cash instruments

		%
1	Bank of Scotland CD 6.2% 08/01/2009	4.6
2	Bank of Scotland CD 6.2% 08/01/2009	4.6
3	Banco Pop Soc Co-Op CD 6.15%08/01/2009	4.6
4	UBS AG Jersey FR MTN SUB 11/15	1.2
5	Nationwide B/S FRN 06/2010	1.0
6	Citigroup Inc FR SNR EMTN 03/09	0.9
7	Spoletto Mortgages FRN M/BK 02/35	0.9
8	Dunfermline B/S FRN 03/09	0.9
9	Royal Bank of Scotland FR SUB EMTN 08/2017	0.9
10	Epic (Barchester) FRN M/BKD 09/2031	0.9

Source: M&G  
All figures are as at 31 December 2008, unless otherwise stated.

## Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 31/12/06	31/12/04 to 31/12/05	31/12/03 to 31/12/04
Cash fund series 3	1.0	5.5	4.7	5.2	5.0
Benchmark	4.8	5.8	4.8	4.7	4.5

Source: Prudential. \* annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.

## Key facts

Underlying fund size	£222m
Number of holdings	79
Underlying fund launch date	28/04/1982
Portfolio Manager	Claire Bews
Benchmark	LIBID 7 Day Deposit Rate
Investment Style	Prudent active
Sedol code (series 3)	3168110
Performance Objective	To outperform the investment benchmark on a consistent basis

## Commentary

The fund underperformed its benchmark, the 7 Day Deposit Rate. A relatively high weighting in floating rate notes (FRNs) proved detrimental. While these holdings are of a high quality, the ongoing turmoil in the financial markets had a negative effect on their prices. In particular, forced sales by certain groups of investors, who were formerly natural buyers and holders of FRNs, also drove the prices of these assets lower.

Signs that interest rate cuts would have the desired effect of encouraging banks to lend to each other and therefore improve liquidity emerged during the period. After remaining high since the onset of the credit crunch, the interbank lending rate (LIBOR) fell from a peak of 6.8% at the beginning of October to 2.8% at the end of December, its lowest level in more than 12 months.

The fund manager remains comfortable with the portfolio's well diversified exposure to FRNs. In our opinion, the prices of FRNs held by the fund will not stay at the current distressed levels beyond the short term. We will therefore continue to hold these yield-enhancing assets.

Approximately 65% of the fund is invested in cash. This portion of the portfolio is actively managed, allowing the fund manager to take advantage of the high rates available for one-month and three-month deposits.

Past performance of the fund to 31 December 2008

	Quarter	1 Year*	3 Years*	5 Years*
Cash fund series 3	-1.7	1.0	3.7	4.3
Benchmark	0.8	4.8	5.1	4.9

# Prudential Retirement Protection fund (series 3)



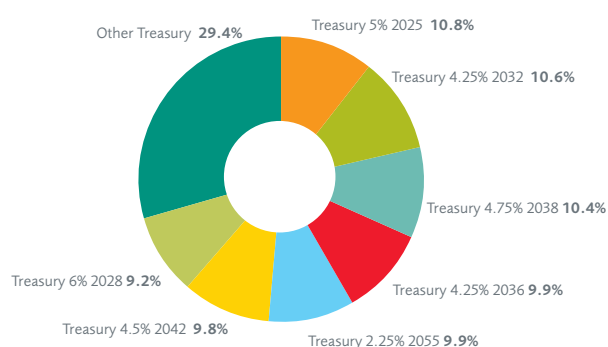
## Fund description

The fund invests in British Government Gilts with over 15 years to maturity. The fund is passively managed tracking movements in its benchmark FTSE British Government Over 15 Years Gilt Index. Tracking this index is achieved by fully replicating the small number of stocks in the Index.

## Key facts

Underlying fund size	£413m
Number of holdings	11
Underlying fund launch date	05/04/1994
Portfolio Manager	David Lloyd
Benchmark	FTSE British Government Over 15 Years Gilt Index
Investment Style	Passive
Sedol code (series 3)	3169425
Performance Objective	To match the performance of the benchmark as closely as possible.

## Fund breakdown



## Duration



## Commentary

The UK economy contracted by 1.5% during the fourth quarter while the number of unemployed jumped to its highest level since 1997 in the three months to November. The Bank of England cut interest rates three times during the quarter, dramatically lowering the key lending rate to a 57-year low of 2% at the beginning of December. The downbeat economic data and the series of interest rate reductions sparked a strong rally in UK government bonds (gilts). The benchmark 10-year gilt yield fell to a low of 3.1% as investors anticipated further gloom ahead for the UK.

When government bonds rally, longer dated issues tend to perform best and this is what happened during the quarter with gilts maturing in more than 15 years producing the best returns.

Source: M&G  
All figures are as at 31 December 2008, unless otherwise stated.

## Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 30/12/06	31/12/04 to 31/12/05	31/12/03 to 31/12/04
Retirement Protection fund series 3	14.0	2.7	0.1	11.1	8.4
Benchmark	13.6	2.7	0.0	11.0	8.4

Past performance of the fund to 31 December 2008

	Quarter	1 Year*	3 Years*	5 Years*
Retirement Protection fund series 3	13.8	14.0	5.4	7.1
Benchmark	13.9	13.6	5.3	7.0

Source: Prudential. \* annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.

# Prudential With-Profits fund

This document is not a financial promotion and is designed for trustees and advisers to use to help members understand how their fund is performing. If you are an occupational pension scheme member and need further clarity on this information please speak to your adviser.

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## Fund description

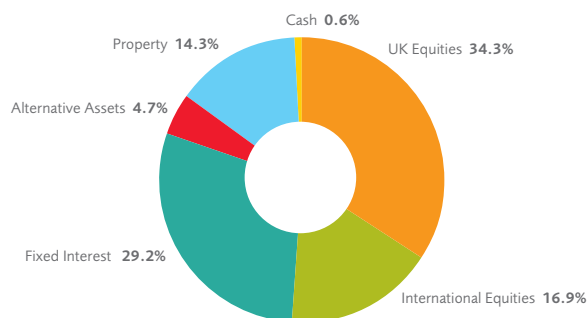
The fund offers the prospect of competitive long-term real returns whilst smoothing the peaks and troughs of day-to-day market movements. Investment returns are passed to policyholders through bonuses. The fund is invested in a diversified portfolio of UK and overseas shares, bonds, property and cash. A significant proportion of the fund is invested in shares and property which can be expected to produce attractive long-term returns, but the return on these assets can be volatile and so the fund is actively managed to optimise the returns while controlling risk.

## Key facts

Fund size	£52.3 billion as at 31 December 2008
Solvency Rating*	AA+
Portfolio Manager	Martin Brookes
Investment Style	Prudent Active
Performance Objective	To offer competitive long term returns.

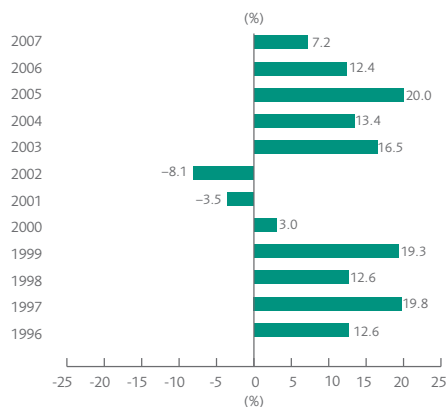
\* Standard & Poor's as at December 2008

## Fund breakdown



Source: Prudential as at 31 December 2008  
Asset mix is likely to vary in the future.

## Underlying investment returns



Source: Prudential. The above are calendar year returns for the With-Profits fund (before charges, tax and effects of smoothing). The value your policy will depend on when you actually invested, tax, charges and smoothing and will be sent out in your annual statement, or is available on request. The value could change by more or less than the underlying investment return of the overall fund. Past performance is not a reliable indicator of future performance.

## Performance

Performance for December 2008 is currently unavailable.

## Commentary

The speed of deterioration in both the financial sector and the broader global economy accelerated due largely to the bankruptcy of Lehman Brothers on 16 September. Equity markets fell on average 20% from "Lehman Monday" to the end of October, and corporate bond spreads widened. Many markets became extremely illiquid and there was panic selling. Markets were further spooked by the economic ramifications of the crisis. Almost everyone, confronted with lurid headlines about the impending collapse of the financial system, cut discretionary spending and became more cautious. In 2009 investment markets will be volatile. On one hand the outlook for economies looks bad. The damage done to the western banking system is enormous and will take years to put right. Also, the crisis has substantially diminished banks' ability to make new loans, which will continue to impact the economy.

On the other hand, governments around the world have recognised the extent of the problem and taken vigorous action. Measures to stimulate markets are being applied to avoid the global economy going into depression. In the UK, for example, base rates have fallen to levels that have not been seen for 314 years. Also, importantly, valuations on equity and credit markets are as low as they have been for many years. An almost apocalyptic outcome is currently discounted and our view is that although 2009 will be a bad year some stability will appear in 2010. Investors with long-term investment horizons, current market pricing potentially offers very attractive returns.

# Prudential BGI Aquila

## (50:50) Global Equity Index fund (series 3)



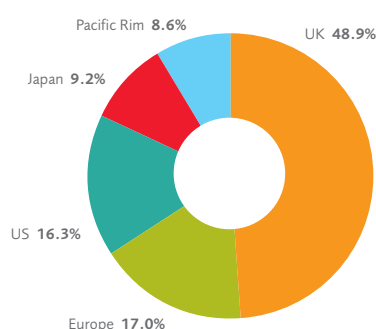
### Fund description

The fund invests in both the UK and overseas equity markets. Looking to achieve low tracking error versus the index benchmark, the fund has approximately 50% invested in the shares of UK companies and the remaining 50% invested in the shares of overseas companies, split between the US, Europe ex-UK, Japan and Pacific Rim.

### Key facts

Underlying fund size	£3,363m
Number of holdings	5
Underlying fund launch date	31/07/2002
Portfolio Manager	Team Approach
Benchmark	Composite Benchmark
Investment Style	Passive
Sedol code (series 3)	B08ZTM1
Performance Objective	To replicate the performance of its objective

### Fund breakdown



### Commentary

The fourth quarter saw much of the developed world slip into recession. For many markets there are very real prospects of a severe recession and risky assets such as property and equities continued to suffer. By contrast, government bonds and money market instruments have benefitted from their safe-haven status and because of rapidly falling inflation and interest rates. Talk of inflation has now been replaced by talk of deflation.

Policymakers are trying a combination of measures to minimise the slowdown. These include monetary stimulus in the form of large interest rate cuts, as well as quantitative and qualitative easing (the former being printing money and buying back government money market instruments, the latter extending this to less credit-worthy assets), fiscal stimulus in the form of tax cuts and government spending, and intervention and support in the credit markets in order to allow the credit market to function properly.

However, the banks, having realised that they have lent too loosely and are too leveraged to asset price returns, have continued to deleverage their balance sheets. This means that they continue to reduce their lending, with consequences for businesses and consumption.

### Top holdings

	%
1 BGI Aquila life UK Equity Index fund	48.9
2 BGI Aquila life European Equity Index fund	17.0
3 BGI Aquila life US Equity Index fund	16.3
4 BGI Aquila life Japanese Equity Index fund	9.2
5 BGI Aquila life Pacific Rim Equity Index fund	8.6

Source: BGI  
All figures are as at 31 December 2008, unless otherwise stated.

### Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 31/12/06	31/12/04 to 31/12/05	31/12/03 to 31/12/04
50:50 Global Equity Index fund series 3	-23.9	8.2	12.8	-	-
Benchmark	-24.0	8.0	12.6	-	-

Past performance of the fund to 31 December 2008

	Quarter	1 Year*	3 Years*	5 Years*
50:50 Global Equity Index fund series 3	-5.2	-23.9	-2.4	-
Benchmark	-5.4	-24.0	-2.6	-

Source: Prudential and BGI. \* annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.



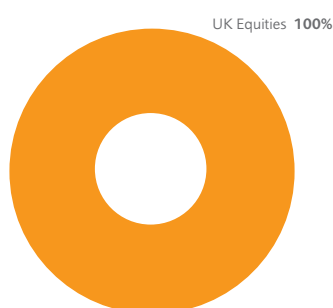
# Prudential BGI Aquila UK Equity Index fund (series 3)



## Fund description

This fund is passively managed and invests in the shares of UK companies aiming to achieve a return that is consistent with the return of the Index. The benchmark is the FTSE All-Share Index. Tracking is achieved by full replication of the Index.

## Fund breakdown



## Top holdings

	%
1 BP	8.1
2 HSBC	6.5
3 Vodafone	5.9
4 GlaxoSmithKline	5.5
5 Royal Dutch Shell 'A' Shares	5.2
6 Royal Dutch Shell 'B' Shares	3.8
7 AstraZeneca	3.3
8 British American Tobacco	2.9
9 BG	2.6
10 BHP Billiton	2.3

Source: BGI  
All figures are as at 31 December 2008, unless otherwise stated.

## Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 31/12/06	31/12/04 to 31/12/05	31/12/03 to 31/12/04
UK Equity Index fund series 3	-29.8	5.4	16.8	22.0	12.9
Benchmark	-29.9	5.3	16.8	22.0	12.8

Source: Prudential and BGI. \* annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.

## Key facts

Underlying fund size	£15,097m
Number of holdings	618
Underlying fund launch date	01/09/1994
Portfolio Manager	Team Approach
Benchmark	FTSE All-Share Index
Investment Style	Passive
Sedol code (series 3)	B08ZTQ5
Performance Objective	To replicate the performance of its benchmark

## Commentary

The fund continued to track its benchmark closely and year to date has outperformed the FTSE All-Share Index. In December, the fund was rebalanced in line with the quarterly index changes.

The FTSE Regional Committee met on 10 December 2008 to approve the full annual changes to the UK series of the FTSE Actuaries Share Indices. Most notable was the large number of exclusions from the FTSE All-Share Index (50 in total). This followed the introduction of new liquidity requirements for membership of the index, which are designed to retain a suitably investable universe of stocks that adequately reflect the UK market.

Continued economic uncertainty saw the fund's benchmark fall. To counteract these conditions and to replenish depleted share capital a number of UK companies offered rights issues to existing shareholders. These included Standard Chartered, Centrica, HBOS and Lloyds. In the case of HBOS and Lloyds, this was part of the government's recapitalisation programme designed to restore confidence to the banking sector. Other significant corporate events included the takeover of Imperial Energy by Jarpeno Ltd.

Past performance of the fund to 31 December 2008

	Quarter	1 Year*	3 Years*	5 Years*
UK Equity Index fund series 3	-10.1	-29.8	-4.8	3.5
Benchmark	-10.2	-29.9	-4.8	3.5

# Prudential BGI Aquila

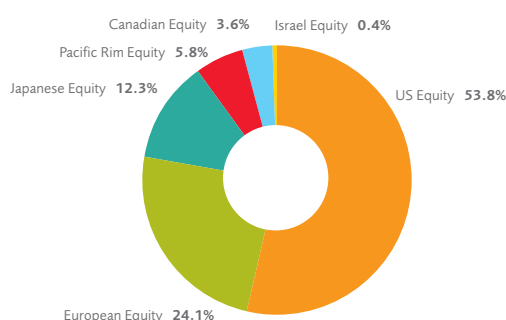
## World ex-UK Index fund (series 3)



### Fund description

The fund invests in shares of overseas companies according to the market capitalisation weights of the FTSE All-World Developed ex-UK Index. Within each of those markets, the fund aims to generate returns consistent with those of each country's primary share market.

### Fund breakdown



### Top holdings

	%
1 BGI Aquila life US Equity Index fund	53.8
2 BGI Aquila life European Equity Index fund	24.1
3 BGI Aquila life Japanese Equity Index fund	12.3
4 BGI Aquila life Pacific Rim Equity Index fund	5.8
5 BGI Aquila life Canadian Equity fund	3.6
6 BGI Aquila life Israel Equity fund	0.4

### Key facts

Underlying fund size	£1,905m
Number of holdings	6
Underlying fund launch date	30/09/1999
Portfolio Manager	Team Approach
Benchmark	FTSE All World (Developed) ex-UK Index
Investment Style	Passive
Sedol code (series 3)	B08ZTN2
Performance Objective	To replicate the performance of its benchmark

### Commentary

The fourth quarter saw much of the developed world slip into recession. For many markets there are very real prospects of a severe recession and risky assets such as property and equities continued to suffer. By contrast, government bonds and money market instruments have benefitted from their safe-haven status and because of rapidly falling inflation and interest rates. Talk of inflation has now been replaced by talk of deflation.

Policymakers are trying a combination of measures to minimise the slowdown. These include monetary stimulus in the form of large interest rate cuts, as well as quantitative and qualitative easing (the former being printing money and buying back government money market instruments, the latter extending this to less credit-worthy assets), fiscal stimulus in the form of tax cuts and government spending, and intervention and support in the credit markets in order to allow the credit market to function properly.

However, the banks, having realised that they have lent too loosely and are too leveraged to asset price returns, have continued to deleverage their balance sheets. This means that they continue to reduce their lending, with consequences for businesses and consumption.

Source: BGI  
All figures are as at 31 December 2008, unless otherwise stated.

### Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/07 to 31/12/08	31/12/06 to 31/12/07	31/12/05 to 31/12/06	31/12/04 to 31/12/05	31/12/03 to 31/12/04
World ex-UK Index fund series 3	-16.0	8.3	5.6	-	-
Benchmark	-16.3	8.0	5.1	-	-

Past performance of the fund to 31 December 2008

	Quarter	1 Year*	3 Years*	5 Years*
World ex-UK Index fund series 3	-2.1	-16.0	-1.3	-
Benchmark	-2.2	-16.3	-1.7	-

Source: Prudential and BGI. \* annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.



## Important information

### Who manages the funds?

All of the series 3 funds are Prudential funds.

Prudential has delegated the investment management of the unit-linked funds to either M&G Investments or various fund managers outside of Prudential.

Prudential Assurance Company Limited holds the assets of the With-Profits Fund through custodians. Prudential has delegated the investment management of the fund through agreements with various investment managers including Prudential M&G.

### How are the fund prices calculated?

The Series 3 funds operate on a single swinging price basis. The pricing basis on which units in the fund are transacted is dependent upon the cash flow into/out of the fund. This is also the price that is published.

### What is the dealing cycle?

The Pensions Series 3 fund range is forward priced which means that the unit price is set after money is invested.

M&G Investments has a dealing cycle of T+0. This means that money received on day T buys units at the valuation date price applicable at close of business on the same day.

Funds managed by BGI have a dealing cycle of T+2. This means that money received on day T buys units at the valuation date price applicable at close of business 2 days later.

### Can I get advice?

These factsheets should not be considered as financial promotions and any changes to investment arrangements should be discussed with an adviser. It is not our intention to give an indication of how any particular funds will perform in the future. The commentary in these factsheets reflects the general views of the individual fund managers and should not be taken as a recommendation or advice as to how a specific market or fund is likely to perform.

### How are the unit-linked performance figures calculated?

Performance is measured on an offer price to offer price basis.

For the purposes of comparison with the benchmark we have used unit prices with the closest valuation point to that of the benchmark, taking into consideration the relevant dealing cycle.

To obtain current unit price and performance information for all funds in the Prudential Fund range, simply log on to [www.pru.co.uk/fundprices](http://www.pru.co.uk/fundprices) and choose "Pension Funds" and then select Group Pensions (series 3).

### Other important information

Exchange Rate Risk – exchange rate fluctuations may cause the Sterling values of overseas investments to rise or fall.

### How are the With-Profits performance figures calculated?

The performance figures are declared by Prudential Assurance Company Limited, usually each February.

The performance figures shown on page 1 are overall annualised returns for contributions made on the dates specified.

The returns include both regular (or reversionary) and final (or terminal) bonuses added to a benefit paid at normal retirement date.

Final bonus may vary and is not guaranteed. The rate of future bonuses cannot be guaranteed.

Past performance is not a reliable indicator of future performance and that past performance obtained from any other sources than Prudential may not be applicable.

### Other important With-Profits information

If money invested in the With-Profits Fund is taken out at any time other than on death or normal retirement date, the amount payable may be reduced to reflect the underlying assets at that time. This is known as a Market Value Reduction (MVR).

For the With-Profits Fund, we deduct an annual charge through the bonus mechanism.

This is currently expected to be 1% a year assuming future investment returns in the With-Profits Fund are 7% a year. Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred. Over time if investment returns are higher then we would expect to increase the charge and if investment returns are lower we would expect to reduce the charge.

There is a charge to pay for all the guarantees the With-Profits Fund supports. We guarantee to not take away regular bonuses already added when a payment is made because of death and your normal retirement date and to only apply a Market Value Reduction in certain circumstances.

This charge will be taken by making a small deduction each year when deciding Regular and Final Bonuses, so you will not see it on any yearly statement. The total deduction over the lifetime of the Plan is not currently more than 2% of any payment made from the Fund. The amount of this charge will be reviewed from time to time and is not guaranteed to remain at the current level.

For further information on MVRs and charges please refer to the Key Features document for the relevant contract. For a copy of the Key Features document, please contact your pensions department for scheme members or usual Prudential contact for trustees and advisers.