UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): May 1, 2003

PRUDENTIAL FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

New Jersey	001-16707	22-3703799
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

**751 Broad Street
Newark, New Jersey 07102**
(Address of principal executive offices and zip code)

(973) 802-6000
(Registrant's telephone number, including area code)

Item 7. Financial Statements and Exhibits.

On May 1, 2003, Prudential Financial, Inc. (the “Company”) reported, as required by Item 2 of Form 8-K, that it had completed the first step in the acquisition of Skandia U.S. Inc. (“Skandia U.S.”) in a transaction described in “Item 1. Business—Financial Services Businesses—Insurance Division—Individual Life and Annuities” section of its Annual Report on Form 10-K for the year ended December 31, 2002. The Company is hereby filing the following financial statements and pro forma financial information in accordance with Item 7 of Form 8-K as an amendment to the Company’s Form 8-K filed on May 1, 2003.

a) Financial statements of business acquired.

   1) The audited historical financial statements of Skandia U.S. Inc. as of and for the year ended December 31, 2002, filed as exhibit 99.0 hereto and the unaudited interim consolidated financial statements of Skandia U.S. Inc. as of and for the three months ended March 31, 2003, filed as exhibit 99.1 hereto.

b) Pro forma financial information.

   1) The unaudited pro forma condensed consolidated statement of financial position of Prudential Financial, Inc. as of March 31, 2003, and the unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2002, and the three months ended March 31, 2003, filed as exhibit 99.2 hereto.

c) Exhibits.

Exhibit No.	Description
23.0	Consent of Ernst & Young LLP with respect to the audited historical financial statements of Skandia U.S. Inc.
99.0	Audited historical financial statements of Skandia U.S. Inc. as of and for the year ended December 31, 2002.
99.1	Unaudited interim consolidated financial statements of Skandia U.S. Inc. as of and for the three months ended March 31, 2003.
99.2	Unaudited pro forma condensed consolidated financial statements as of March 31, 2003, and for the year ended December 31, 2002, and the three months ended March 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 15, 2003

PRUDENTIAL FINANCIAL, INC.

By: /S/ ANTHONY S. PISZEL
Name: Anthony S. Piszel
Title: Controller (Principal Accounting Officer)

Exhibit 23.0

Consent of Independent Auditors

We consent to the incorporation by reference in the documents listed below of our report dated June 30, 2003, with respect to the consolidated financial statements of Skandia U.S. Inc. for the year ended December 31, 2002:

- Registration Statement on Form S-3 (File Nos. 333-104444, 333-104444-01 and 333-104444-02) pertaining to Prudential Financial, Inc., Prudential Financial Capital Trust II and Prudential Financial Capital Trust III and the related Prospectus pertaining to the registration of up to $5,000,000,000 of its senior debt securities, subordinated debt securities, preferred stock, depositary shares, common stock, warrants and stock purchase contracts and units,
- Registration Statement on Form S-8 (File No. 333-105804) pertaining to the Prudential Financial, Inc. Omnibus Incentive Plan,
- Registration Statement on Form S-8 (File No. 333-75226) pertaining to the Prudential Insurance Company of America Deferred Compensation Plan,
- Registration Statement on Form S-8 (File No. 333-75050) pertaining to the Prudential Financial, Inc. Stock Option Plan,
- Registration Statement on Form S-8 (File No. 333-102362) pertaining to the Prudential Deferred Compensation Plan for Non-Employee Directors,
- Registration Statement on Form S-8 (File No. 333-75242) pertaining to the Prudential Employee Savings Plan,
- Registration Statement on Form S-8 (File No. 333-103765) pertaining to the Prumerica Systems Ireland Limited Share Participation Scheme,
- Registration Statement on Form S-8 (File No. 333-75238) pertaining to the PSI 401(k) Plan, and
- Registration Statement on Form S-8 (File No. 333-87778) pertaining to the 2002 Prudential Financial Stock Purchase Program For Eligible Employees Of Prudential Securities Incorporated Participating In Various Prudential Securities Incorporated Programs.

/s/ ERNST & YOUNG LLP

Hartford, Connecticut
July 9, 2003

Exhibit 99.0

Skandia U.S. Inc.

Audited Financial Statements and Report of Independent Auditors for the Year Ended December 31, 2002

Skandia U.S. Inc.

Audited Financial Statements

Year Ended December 31, 2002

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Report of Independent Auditors

To the Board of Directors and Shareholder of
Skandia U.S. Inc.
Shelton, Connecticut

We have audited the consolidated statement of financial condition of Skandia U.S. Inc., (the "Company") as of December 31, 2002, and the related consolidated statements of income, shareholder's equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Skandia U.S. Inc. at December 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3, in 2002 the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

/s/ ERNST & YOUNG LLP

Hartford, Connecticut
June 30, 2003

Skandia U.S. Inc.

Consolidated Statement of Financial Condition
(in thousands, except share data)

		As of December 31, 2002
ASSETS		
Investments:		
Fixed maturities—at fair value (amortized cost of $385,348)	$	404,549
Equity securities—at fair value (amortized cost of $53,010)		52,762
Derivative instruments—at fair value		10,370
Policy loans		7,559
Total investments		475,240
Cash and cash equivalents		167,832
Accrued investment income		4,300
Deferred acquisition costs		1,117,544
Reinsurance receivable		5,447
Receivable from affiliates		9,110
Deferred income taxes		39,783
Fixed assets, at depreciated cost (accumulated depreciation of $37,035)		30,467
Other assets		109,422
Separate account assets		21,905,613
Total assets	$	23,864,758
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Reserves for future policy and contract benefits	$	149,348
Accounts payable and accrued expenses		126,029
Income tax payable		8,797
Capital lease obligations		3,166
Short-term borrowing		255,141
Long-term borrowing		279,459
Collateralized notes		373,211
Separate account liabilities		21,905,613
Total liabilities		23,100,764
Commitments and contingent liabilities (Note 17)		
Shareholder's equity:		
Common stock, $100 par value, 340 shares authorized, issued and outstanding		34
Additional paid-in capital		653,616
Retained earnings		98,638
Accumulated other comprehensive income		11,706
Total shareholder's equity		763,994
Total liabilities and shareholder's equity	$	23,864,758

See notes to consolidated financial statements.

Skandia U.S. Inc.

Consolidated Statement of Income
(in thousands)

	For the Year Ended December 31, 2002
REVENUES	
Annuity and life insurance charges and fees	$ 370,004
Mutual fund charges and fees	23,019
Fee income	135,033
Net investment income	21,298
Sale of 12b-1 fees	18,974
Net realized capital losses	(16,831)
Other	7,080
Total revenues	558,577
EXPENSES	
Benefits:	
Annuity and life insurance benefits	3,391
Change in annuity and life insurance policy reserves	2,741
Guaranteed minimum death benefit claims, net of hedge	23,256
Return credited to contract holders	5,203
Total benefits	34,591
Other:	
Underwriting, acquisition and other insurance expenses	252,670
Amortization of deferred acquisition costs	510,059
Interest expense	74,338
	837,067
Total benefits and expenses	871,658
Loss from operations before income tax benefit	(313,081)
Income tax benefit	(121,430)
Net loss	$ (191,651)

See notes to consolidated financial statements.

Skandia U.S. Inc.

Consolidated Statement of Shareholder's Equity
(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss): Unrealized Gains (Losses)	Total
As of December 31, 2001	$ 34	$ 377,247	$ 290,289	$ 15	$ (919)	$ 666,666
Net loss			(191,651)			(191,651)
Other comprehensive income:						
Unrealized capital gains					10,445	10,445
Reclassification adjustment for realized losses included in net realized capital losses					2,795	2,795
Foreign currency translation				(630)		(630)
Other comprehensive income						12,610
Comprehensive loss						(179,041)
Capital contributions		276,369				276,369
As of December 31, 2002	$ 34	$ 653,616	$ 98,638	$ (615)	$ 12,321	$ 763,994

Unrealized capital gains is shown net of tax expense of $5,624 for 2002. Reclassification adjustment for realized losses included in net realized capital losses is shown net of tax expense of $1,505 for 2002. Foreign currency translation is shown net of tax benefit of $339 for 2002.

See notes to consolidated financial statements.

Skandia U.S. Inc.

Consolidated Statement of Cash Flows
(in thousands)

	For the Year Ended December 31, 2002
Cash flow from operating activities:	
Net loss	$ (191,651)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization and depreciation	29,254
Deferral of acquisition costs	(244,322)
Amortization of deferred acquisition costs	510,059
Deferred tax benefit	(119,499)
Change in unrealized gains on derivatives	(5,149)
Increase in policy reserves	3,292
Increase in receivable from affiliates	(3,823)
Change in net income tax receivable/payable	50,596
Increase in other assets	(12,829)
Decrease in accrued investment income	749
Decrease in reinsurance receivable	2,286
Decrease in accounts payable and accrued expenses	(24,021)
Net realized capital gains on derivatives	(26,654)
Net realized capital losses on investments	16,831
Net cash used in operating activities	(14,881)
Cash flow from investing activities:	
Purchase of fixed maturity investments	(394,003)
Proceeds from sale and maturity of fixed maturity investments	368,263
Purchase of derivatives	(61,998)
Proceeds from exercise or sale of derivative instruments	88,956
Purchase of shares in equity securities and dividend reinvestments	(58,769)
Proceeds from sale of shares in equity securities	44,706
Proceeds from sale of stock	491
Purchase of fixed assets	(5,144)
Increase in policy loans	(1,000)
Net cash used in investing activities	(18,498)
Cash flow from financing activities:	
Capital contribution	276,369
Short-term borrowing	95,141
Long-term borrowing	(273,841)
Issuance of collateralized notes	74,250
Principal payments on collateralized notes	(112,903)
Deferred debt offering costs	(117)
Principal payments under capital lease obligations	(1,169)
Deposits to contract owner accounts	808,209
Withdrawals from contract owner accounts	(164,964)
Change in contract owner accounts, net of investment earnings	(588,315)
Net cash provided by financing activities	112,660
Net increase in cash and cash equivalents	79,281
Change in foreign currency translation	(970)
Cash and cash equivalents at beginning of year	89,521
Cash and cash equivalents at end of year	$ 167,832
Income taxes received	$ 52,529
Interest paid	$ 75,762

See notes to consolidated financial statements.

1. ORGANIZATION AND OPERATION

Skandia U.S. Inc. (the "Company") is a wholly-owned subsidiary of Skandia Insurance Company Ltd. (publ) ("SICL"), an insurance company organized under the laws of the Kingdom of Sweden. The Company, primarily through its wholly-owned subsidiary, American Skandia, Inc. ("ASI"), and, in particular, through ASI's wholly-owned subsidiary, American Skandia Life Assurance Corporation (the "Insurance Company" or "ASLAC"), develops long-term savings and retirement products which are distributed through its broker/dealer, American Skandia Marketing, Incorporated ("ASM"). Currently, ASLAC issues variable life insurance and variable deferred and immediate annuities for individuals and groups in the United States and its territories. On December 19, 2002, SICL entered into a definitive purchase agreement with Prudential Financial, Inc., a New Jersey corporation ("Prudential Financial"), whereby Prudential Financial will acquire the Company and certain of its affiliates (the "Acquisition"). Consummation of the transaction is subject to various closing conditions, including regulatory approvals and approval of certain matters by the board of directors and shareholders of the mutual funds advised by American Skandia Investment Services, Inc. ("ASISI"), a subsidiary of ASI. The transaction is expected to close during the second quarter of 2003 (see Note 18).

The Company also provides investment management and administrative services to registered investment companies (mutual funds), through ASISI. These mutual funds encompass American Skandia Trust ("AST") and American Skandia Advisor Funds ("ASAF"). AST provides particular mutual fund options in support of ASLAC's variable annuity and insurance products and is also available as a funding vehicle for other life insurance companies' variable products. ASAF are retail mutual funds marketed to U.S. residents. Through its wholly-owned subsidiary, American Skandia Advisory Services, Inc. ("ASASI"), the Company also provides investment advice to participants in mutual fund wrap programs that utilize ASAF and other mutual funds.

The consolidated financial statements also include the accounts of ASLAC Funding Trust 1996-1, ASLAC Funding Trust 1997-1, ASLAC Funding Trust 1997-2, ASLAC Funding Trust 1997-3, ASLAC Funding Trust 1998-1, ASLAC Funding Trust 1998-2, ASLAC Funding Trust 1998-3, ASLAC Funding Trust 1999-1, ASLAC Funding Trust 1999-2, ASLAC Funding Trust 2000-1, ASLAC Funding Trust 2000-2, ASLAC Funding Trust 2000-3, ASLAC Funding Trust 2000-4 and ASLAC Funding Trust 2002-1 (collectively the "Trusts"), grantor trusts created in connection with the Company's issuance of collateralized notes (see Note 14).

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") to reflect the carved-out consolidated U.S. annuity and mutual fund businesses of Skandia U.S. Inc. subject to the definitive purchase agreement with Prudential Financial outlined above, as well as Skandia Vida S.A. de C.V. ("Skandia Vida"), the Mexican operations of SICL. The U.S. annuity and mutual fund business of Skandia U.S. Inc. is primarily comprised of the business and operations of ASI. Intercompany transactions and balances have been eliminated in consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. New Accounting Standard

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 "Accounting for Goodwill and Intangible Assets" ("SFAS 142"). Under the new standard, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the new standard. Other intangible assets will continue to be amortized over their useful lives.

The Company applied the new rules on the accounting for goodwill and other intangible assets in the first quarter of 2002. The adoption of SFAS 142 did not have a significant impact on the Company's financial statements.

B. Investments

The Company has classified its fixed maturity investments as available-for-sale and, as such, they are carried at fair value with changes in unrealized gains and losses reported as a component of other comprehensive income.

The Company has classified its equity securities held in support of a deferred compensation plan (see Note 11) as available-for-sale. Such investments are carried at fair value with changes in unrealized gains and losses reported as a component of other comprehensive income.

Policy loans are carried at their unpaid principal balances.

Realized capital gains and losses on disposal of investments are determined by the specific identification method.

Other than temporary impairment charges are determined based on an analysis that is performed on a security by security basis and includes quantitative and qualitative factors.

C. Derivative Instruments

The Company uses derivative instruments, which consist of equity put option contracts, for risk management purposes, and not for trading or speculation. The Company hedges the economic GMDB exposure associated with equity market fluctuations. As the equity markets decline, the Company's exposure to future GMDB claims increases. Conversely, as the equity markets increase, the Company's exposure to future GMDB claims decreases. The claims exposure is reduced by the fair value effect of the option contracts purchased.

Based on criteria described in SFAS 133, the Company's fair value hedges do not qualify as "effective" hedges and, therefore, hedge accounting may not be applied. Accordingly, the derivative investments are carried at fair value with changes in unrealized gains and losses being recorded in income as those changes occur. As such, both realized and unrealized gains and losses are reported in the Consolidated Statement of Income, together with GMDB claims expense, as a component of Guaranteed Minimum Death Benefit Claims, Net of Hedge.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Derivative Intruments (continued)

As of December 31, 2002, the accumulated difference between cost and fair value on the Company's derivatives was an unrealized gain of $1,434. The amount of realized and unrealized gains on the Company's derivatives recorded during 2002 was $31,803.

D. Cash Equivalents

The Company considers all highly liquid time deposits, commercial paper and money market mutual funds purchased with a maturity date, at acquisition, of three months or less to be cash equivalents.

As of December 31, 2002, $50 of cash, reflected on the Company's financial statements, was restricted in compliance with regulatory requirements.

E. Fair Values of Financial Instruments

The methods and assumptions used to determine the fair value of financial instruments are as follows:

Fair values of fixed maturities with active markets are based on quoted market prices. For fixed maturities that trade in less active markets, fair values are obtained from an independent pricing service.

Fair values of equity securities are based on quoted market prices.

The fair value of derivative instruments is based on quoted market prices.

The fair value of long term borrowings are determined based on a discounted cash flow basis.

The carrying value of cash and cash equivalents (cost) approximates fair value due to the short-term nature of these investments.

The carrying value of short-term borrowings (cost) approximates fair value due to the short-term nature of these liabilities.

The carrying value of policy loans approximates fair value.

Fair value of collateralized notes are determined on a discounted cash flow basis, using best estimate assumptions of lapses, mortality, free withdrawals and a long-term fund growth rate of 8% on the Company's assets under management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fair Values of Financial Instruments (continued)

The fair values and carrying values of financial instruments at December 31, 2002 are as follows:

	December 31, 2002	
	Fair Value	Carrying Value
Assets		
Fixed Maturities	$404,549	$404,549
Equity Securities	52,762	52,762
Derivative Instruments	10,370	10,370
Policy Loans	7,559	7,559
Liabilities		
Short-term Borrowing	255,141	255,141
Long-term Borrowing	291,416	279,459
Collateralized Notes	253,419	373,211

F. State Insurance Licenses

ASLAC's licenses to do business in all states have been capitalized and reflected at the purchase price of $6,000 less accumulated amortization of $2,038 at December 31, 2002. Due to the adoption of SFAS 142, the cost of the licenses is no longer being amortized but is subjected to an annual impairment test. As of December 31, 2002, the Company estimated the fair value of the state insurance licenses to be in excess of book value and, therefore, no impairment charge was required.

G. Income Taxes

The Company files a consolidated federal income tax return with its U.S. subsidiaries. In accordance with the tax sharing agreement, the federal income tax provision is computed on a separate return basis as adjusted for consolidated items. Pursuant to the terms of this agreement, the Company has the right to recover the value of losses utilized by the consolidated group in the year of utilization. To the extent the Company generates income in future years, the Company is entitled to offset future taxes on that income through the application of its loss carry forward generated in the current year.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

H. Recognition of Revenue and Contract Benefits

Revenues for variable deferred annuity contracts consist of charges against contract holder account values or separate accounts for mortality and expense risks, administration fees, surrender charges and an annual maintenance fee per contract. Revenues for mortality and expense risk charges and administration fees are recognized as assessed against the contract holder. Surrender charge revenue is recognized when the surrender charge is assessed against the contract holder at the time of surrender. Annual maintenance fees are earned ratably throughout the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Recognition of Revenue and Contract Benefits (continued)

Benefit reserves for the variable investment options on annuity contracts represent the account value of the contracts and are included in the separate account liabilities.

Fee income from mutual fund organizations is recognized when assessed against assets under management.

ASM has entered into agreements to sell its rights to future 12b-1 fees on certain mutual fund business which it underwrites. Under this agreement, at the time of sale, the Company recognizes revenue amounting to approximately 6% of the value of the applicable mutual fund shares sold. These revenues are used to fund the acquisition costs associated with underwriting such business.

Revenues for variable immediate annuity and supplementary contracts with life contingencies consist of certain charges against contract holder account values including mortality and expense risks and administration fees. These charges and fees are recognized as revenue as assessed against the contract holder. Benefit reserves for variable immediate annuity contracts represent the account value of the contracts and are included in the separate account liabilities.

Revenues for the market value adjusted fixed investment option on annuity contracts consist of separate account investment income reduced by amounts credited to the contract holder for interest. This net spread is included in return credited to contract holders on the consolidated statements of income. Benefit reserves for these contracts represent the account value of the contracts plus a market value adjustment, and are included in the general account reserve for future policy and contract benefits to the extent in excess of the separate account assets, typically for the market value adjustment at the reporting date.

Revenues for fixed immediate annuity and fixed supplementary contracts without life contingencies consist of net investment income, reported as a component of return credited to contract holders. Revenues for fixed immediate annuity contracts with life contingencies consist of single premium payments recognized as annuity considerations when received. Benefit reserves for these contracts are based on applicable actuarial standards with assumed interest rates that vary by issue year and are included in the general account reserve for future policy and contract benefits. Assumed interest rates ranged from 6.25% to 8.25% at December 31, 2002.

Revenues for variable life insurance contracts consist of charges against contract owner account values or separate accounts for mortality and expense risk fees, administration fees, cost of insurance fees, taxes and surrender charges. Certain contracts also include charges against premium to pay state premium taxes. All of these charges are recognized as revenue when assessed against the contract holder. Benefit reserves for variable life insurance contracts represent the account value of the contracts and are included in the separate account liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Deferred Acquisition Costs

The costs of acquiring new business, which vary with and are primarily related to new business generated, are being deferred, net of reinsurance. These costs include commissions, purchase credits, costs of contract issuance, and certain selling expenses that vary with production.

The Company uses the retrospective deposit method for amortizing deferred acquisition costs. This method results in deferred acquisition costs being amortized in proportion to expected gross profits, from surrender charges and policy and asset based fees, net of operating and claim costs. The deferred acquisition cost asset is adjusted retrospectively and prospectively when estimates of current and future gross profits to be realized from a group of products are revised. Critical assumptions in estimating gross profits include those for surrenders, the long-term fund growth rate, expenses and death benefits. The long-term fund growth rate, in large part, determines the estimated future asset levels on which the most significant revenues are based. The Company's long-term fund growth rate assumption is 8% (net of charges assessed against the underlying mutual fund, but before charges assessed at the separate account and contract level). When current period actual asset growth is greater or less than the Company's long-term expectation, the Company adjusts the short-term asset growth rate to a level that will allow the Company, in the short-term, to resume the long-term asset growth rate expectation. The short-term asset growth rate is subject to constraints surrounding actual market conditions.

Details of the deferred acquisition costs and related amortization for 2002 are as follows:

	2002
Balance at beginning of year	$1,383,281
Acquisition costs deferred during the year	244,322
Acquisition costs amortized during the year	(510,059)
Balance at end of year	$1,117,544

As asset growth rates during 2002 have been far below the Company's long-term assumption, the adjustment to the short-term asset growth rate had risen to a level, before being capped, that in management's opinion was excessive in the current market environment. Based on an analysis of those short-term rates, the related estimates of future gross profits and an impairment study, management of the Company determined that the short-term asset growth rate should be reset to the level of the long-term growth rate expectation as of September 30, 2002. This resulted in an acceleration of amortization of approximately $206,000.

Throughout the year, the Company also updated its future estimated gross profits with respect to certain mortality assumptions reflecting actual experience and the decline in the equity markets resulting in additional increased amortization of approximately $72,000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Reinsurance

ASLAC cedes reinsurance under modified co-insurance arrangements. These reinsurance arrangements provide additional capacity for growth in supporting the cash flow strain from ASLAC's variable annuity and variable life insurance business. The reinsurance is effected under quota share contracts.

At December 31, 2002, in accordance with the provisions of the modified coinsurance agreements, the Company accrued $5,447 for amounts receivable from favorable reinsurance experience on certain blocks of variable annuity business.

K. Translation of Foreign Currency

The financial position and results of operations of Skandia Vida are measured using local currency as the functional currency. Assets and liabilities are translated at the exchange rate in effect at each year-end. Statement of income and changes in shareholder's equity accounts are translated at the average rate prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are reported as a component of other comprehensive income.

L. Separate Accounts

Assets and liabilities in separate accounts are included as separate captions in the consolidated statement of financial condition. Separate account assets consist principally of long term bonds, investments in mutual funds, short-term securities and cash and cash equivalents, all of which are carried at fair value. The investments are managed predominately through ASISI, utilizing various fund managers as sub-advisors.

The remaining investments are managed by independent investment firms. The contract holder has the option of directing funds to a wide variety of investment options, most of which invest in mutual funds. The investment risk on the variable portion of a contract is borne by the contract holder. Fixed options with minimum guaranteed interest rates are also available. The Company bears the credit risk associated with the investments that support these fixed options.

Included in Separate Account liabilities are reserves of $1,828,048 at December 31, 2002 relating to deferred annuity investment options for which the contract holder is guaranteed a fixed rate of return. These reserves are calculated using the Commissioners Annuity Reserve Valuation Method. Separate Account assets of $1,828,048 at December 31, 2002 consist of fixed maturities, equity securities, short-term securities, cash and cash equivalents, accrued investment income, accrued liabilities and amounts due to/from the General Account are held in support of these annuity obligations, pursuant to state regulation.

Included in the general account, within Reserves for Future Policy and Contract Benefits, is the market value adjustment associated with the guaranteed, fixed rate investment options, assuming the market value adjustment at the reporting date.

Net investment income (including net realized capital gains and losses) and interest credited to contract holders on separate account assets are not separately reflected in the Consolidated Statement of Income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Unearned Performance Credits

The Company defers certain bonus credits applied to contract holder deposits. The credit is reported as a contract holder liability within separate account liabilities and the deferred expense is reported as a component of other assets. As the contract holder must keep the contract in-force for 10 years to earn the bonus credit, the Company amortizes the deferred expense on a straight-line basis over 10 years. If the contract holder surrenders the contract or the contract holder dies prior to the end of 10 years, the bonus credit is returned to the Company. This component of the bonus credit is amortized in proportion to expected surrenders and mortality. As of December 31, 2002, the unearned performance credit asset was $83,288.

N. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates and assumptions are related to deferred acquisition costs and involve estimates of future policy lapses, investment returns and maintenance expenses. Actual results could differ from those estimates.

4. INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair value of fixed maturities and investments in equity securities as of December 31, 2002 are shown below.

Investments in fixed maturities as of December 31, 2002 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	$276,895	$ 15,680	$ (78)	$292,497
Obligations of state and political subdivisions	253	9	(1)	261
Corporate securities	108,200	3,631	(40)	111,791
Totals	$385,348	$ 19,320	$ (119)	$404,549

4. INVESTMENTS (continued)

The amortized cost and fair value of fixed maturities, by contractual maturity, at December 31, 2002 are shown below. Actual maturities may differ from contractual maturities due to call or prepayment provisions.

	Amortized Cost	Fair Value
Due in one year or less	$ 14,763	$ 14,858
Due after one through five years	169,530	175,804
Due after five through ten years	186,609	198,913
Due after ten years	14,446	14,974
Total	$385,348	$404,549

Proceeds from sales of fixed maturities during 2002 were $367,213.

The cost, gross unrealized gains and losses and fair value of investments in equity securities at December 31, 2002 are shown below:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2002	$53,010	$ 136	$ (384)	$52,762

Net realized capital (losses) gains, determined on a specific identification basis, were as follows for 2002:

	2002
Fixed maturities:	
Gross gains	$ 8,213
Gross losses	(4,467)
Investment in equity securities:	
Gross gains	90
Gross losses	(20,667)
Totals	$(16,831)

During 2002, the Company determined that certain amounts of its investment in equity securities were other than temporarily impaired and, accordingly, recorded a loss of $5,168.

As of December 31, 2002, the Company did not own any investments in fixed maturity securities whose carrying value exceeded 10% of the Company's equity.

5. NET INVESTMENT INCOME

The sources of net investment income for 2002 was as follows:

	2002
Fixed maturities	$18,076
Cash and cash equivalents	2,810
Equity securities	809
Policy loans	403
Total investment income	22,098
Investment expenses	(800)
Net investment income	$21,298

6. INCOME TAXES

The significant components of income tax expense for 2002 were as follows:

	2002
Current tax benefit	$ (1,931)
Deferred tax benefit, excluding operating loss carryforwards	(14,436)
Deferred tax benefit for operating and capital loss carryforwards	(105,063)
Total income tax benefit	$(121,430)

Deferred tax assets (liabilities) include the following at December 31, 2002:

	2002
Deferred tax assets:	
GAAP to tax reserve differences	$ 165,348
Deferred compensation	21,378
Net operating loss carryforward	167,865
Interest expense on borrowings	585
AMT credit carryforward	637
Depreciation	1,390
Capital losses/impairments	6,059
Other	2,205
Total deferred tax assets	365,467
Deferred tax liabilities:	
Deferred acquisition costs, net	(312,933)
Collateralized notes	(2,991)
Fixed assets	(1,813)
Policy fees	(1,651)
Net unrealized gains	(6,296)
Total deferred tax liabilities	(325,684)
Net deferred tax asset	$ 39,783

6. INCOME TAXES (continued)

In accordance with SFAS 109, the Company has performed an analysis of its deferred tax assets to assess recoverability. Looking at a variety of items, most notably, the timing of the reversal of temporary items and future taxable income projections, the Company determined that no valuation allowance is needed.

The income tax (benefit) expense was different from the amount computed by applying the federal statutory tax rate of 35% to pre-tax income from continuing operations as follows:

	2002
Loss from operations before taxes	
Domestic	$(310,375)
Foreign	(2,706)
Total	(313,081)
Income tax rate	35%
Tax benefit at federal statutory income tax rate	(109,578)
Tax effect of:	
Dividend received deduction	(12,250)
Losses of foreign subsidiary	947
Meals and entertainment	694
State income taxes	(3,048)
Other	1,805
Income tax benefit	$(121,430)

The Company's net operating loss carryforwards, totaling approximately $461,230 (pre-tax) at December 31, 2002, will expire in 2016 and 2017 (for ASLAC) and 2022 (for all other ASI entities). The Company has a State of Connecticut net operating loss carryforward of approximately $134,054 that will expire in 2021 and 2022.

7. LEASES

The Company leases office space for its Shelton, Connecticut corporate office and in Boston, Massachusetts. The Boston lease payments are paid directly by a related party. The Company entered into an eleven year lease agreement for office space in Westminster, Colorado, effective January 1, 2001. The leases expire on various dates through 2014. Lease expense for 2002 was approximately $11,054. Sub-lease rental income was $964 in 2002. Future minimum lease payments and sub-lease receipts per year and in aggregate as of December 31, 2002 are as follows:

	Lease	Sub-Lease
2003	$ 8,127	$ 2,041
2004	8,744	2,229
2005	8,911	2,364
2006	8,881	2,473
2007	8,736	2,010
2008 and thereafter	33,955	7,380
Total	$77,354	$18,497

The Company has entered into capital leases for certain technology equipment. As of December 31, 2002, fixed assets, supporting the Company's capital lease obligations, were $3,149.

8. RESTRICTED ASSETS

To comply with certain state insurance departments' requirements, ASLAC maintains cash, bonds and notes on deposit with various states. The carrying value of these deposits amounted to approximately $7,665 as of December 31, 2002. These deposits are required to be maintained for the protection of contract owners within the individual states.

9. RETAINED EARNINGS AND DIVIDEND RESTRICTIONS

Payment of dividends to the Company by ASLAC is restricted by the provisions of the Connecticut Insurance Law. The maximum amount of dividends that can be paid to shareholders without prior approval of the state insurance department is subject to restrictions relating to statutory surplus and net gain from operations. For 2003, no amounts may be distributed without prior approval. ASLAC's statutory basis shareholder's equity was $279,957 at December 31, 2002. ASLAC incurred statutory basis net losses in 2002 of $192,474 due primarily to significant declines in the equity markets and increasing GMDB reserves calculated on a statutory basis.

Included in ASLAC's statutory basis capital and surplus at December 31, 2002 are surplus notes, issued to the Company, in the aggregate amount of $110,000. The surplus notes have been eliminated in the Company's consolidated financial statements.

Payment of interest and repayment of principal for these notes is subject to certain conditions and require approval by the Insurance Commissioner of the State of Connecticut. At December 31, 2002, $29,230 of accrued interest on surplus notes was not approved for payment under these criteria.

10. STATUTORY ACCOUNTING PRACTICES

ASLAC prepares its statutory basis financial statements in accordance with accounting practices prescribed by the State of Connecticut Insurance Department. Prescribed statutory accounting practices include publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules.

Effective January 1, 2002, the Company adopted Statement of Statutory Accounting Principles No. 82, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs" ("SSAP 82"). SSAP 82 requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of SSAP 82, the Company expensed all internal use software related costs as incurred. The Company has identified and capitalized $5,935 of costs associated with internal use software as of January 1, 2002 and is amortizing the applicable costs on a straight-line basis over a three year period. The costs capitalized as of January 1, 2002 resulted in a direct increase to surplus. Amortization expense for the year ended December 31, 2002 was $757.

11. EMPLOYEE BENEFITS

The Company has a 401(k) plan for which substantially all employees are eligible. Under this plan, the Company provides a 50% match on employees' contributions up to 6% of an employee's salary (for an aggregate match of up to 3% of the employee's salary). Additionally, the Company may contribute additional amounts based on profitability of the Company. Company contributions to this plan on behalf of the participants were $946 in 2002.

The Company has a deferred compensation plan, which is available to the field marketing staff and certain other employees. Company contributions to this plan on behalf of the participants were $3,486 in 2002.

11. EMPLOYEE BENEFITS (continued)

The Company has a long-term incentive program under which units are awarded to executive officers and other personnel. The Company also has a profit sharing program, which benefits all employees below the officer level. These programs consist of multiple plans with new plans instituted each year. Generally, participants must remain employed by the Company or its affiliates at the time such units are payable in order to receive any payments under the programs. The accrued liability representing the value of these units was $8,578 as of December 31, 2002. Expenses related to these programs in 2002 were $1,927. Payments under these programs were $10,522 in 2002.

12. FINANCIAL REINSURANCE

The Company cedes insurance to other insurers in order to fund the cash strain generated from commission costs on current sales and to limit its risk exposure. The Company uses modified coinsurance reinsurance arrangements whereby the reinsurer shares in the experience of a specified book of business. These reinsurance transactions result in the Company receiving from the reinsurer an upfront ceding commission on the book of business ceded in exchange for the reinsurer receiving in the future, the future fees generated from that book of business. Such transfer does not relieve the Company of its primary liability and, as such, failure of reinsurers to honor their obligation could result in losses to the Company. The Company reduces this risk by evaluating the financial condition and credit worthiness of reinsurers.

The effect of reinsurance for 2002 was as follows:

2002	Gross	Ceded	Net
Annuity and life insurance charges and fees	$406,272	$(36,268)	$370,004
Return credited to contract holders	$ 5,228	$ (25)	$ 5,203
Underwriting, acquisition and other insurance expenses (deferral of acquisition costs)	$218,530	$ 34,140	$252,670
Amortization of deferred acquisition costs	$542,945	$(32,886)	$510,059

In December 2000, the Company entered into a modified coinsurance agreement with SICL covering certain contracts issued since January 1996. The impact of this treaty to the Company was a pre-tax loss of $4,137 in 2002. At December 31, 2002, $675 was receivable from SICL under this agreement.

13. BORROWINGS

Amounts outstanding on short-term and long-term borrowings with affiliates, at December 31, 2002 were as follows:

			2002	
Issue Date	Interest Rate	Maturity Date	Long Term	Short Term
February 28, 1997	3.93%	February 27, 2004	$ 12,000	
March 26, 1997	4.72%	March 26, 2004	1,400	
July 8, 1997	3.98%	July 8, 2004	3,683	
September 11, 1998	6.11%	September 11, 2003		$ 16,762
October 7, 1998	5.55%	October 7, 2003		13,354
November 10, 1998	5.76%	November 10, 2003		16,700
December 29, 1998	5.95%	December 29, 2003		11,200
March 5, 1999	6.50%	March 5, 2004	25,000	
June 24, 1999	6.98%	June 24, 2004	18,800	
September 30, 1999	7.14%	September 30, 2004	10,000	
December 13, 1999	7.32%	December 13, 2004	43,950	
March 31, 2000	7.96%	March 31, 2005	18,000	
August 11, 2000	7.59%	August 11, 2005	10,000	
December 28, 2000	6.54%	December 28, 2005	28,800	
December 29, 2000	6.54%	December 29, 2005	30,200	
December 29, 2000	6.54%	December 29, 2005	34,163	
June 26, 2001	6.02%	June 26, 2006	16,000	
August 20, 2001	4.83%	August 20, 2003		20,000
September 13, 2001	4.33%	September 12, 2003		10,000
September 27, 2001	4.37%	December 29, 2003		10,000
October 17, 2001	3.80%	October 17, 2003		10,000
December 27, 2001	4.37%	December 29, 2003		30,000
December 28, 2001	4.37%	December 29, 2003		10,000
April 14, 2002	5.76%	April 12, 2007	27,463	
August 14, 2002	2.24%	February 14, 2003		2,000
August 30, 2002	2.49%	June 30, 2003		6,600
December 3, 2002	1.99%	January 3, 2003		14,000
December 12, 2002	1.97%	January 13, 2003		10,000
December 15, 2002	1.77%	January 15, 2003		10,000
December 15, 2002	1.77%	January 15, 2003		20,000
December 26, 2002	1.97%	January 17, 2003		10,000
December 30, 2002	1.93%	January 31, 2003		5,287
December 30, 2002	1.93%	January 31, 2003		16,000
December 30, 2002	1.93%	January 31, 2003		13,238
			$279,459	$255,141

The total related interest expense on these borrowings was $38,248 for 2002, of which approximately $1,632 was payable as of December 31, 2002.

14. COLLATERALIZED NOTES

The Company has issued, through the Trusts, collateralized notes in a series of private placement transactions (the "Collateralized Notes"). The interest rates and maturity dates on the outstanding notes are as follows:

Note	Issue Date	Maturity Date	Interest Rate	Issue Amount
1997-1	07/23/97	5/15/05	7.81%	$ 54,350
1997-2	12/30/97	1/15/04	7.33%	65,860
1997-3	12/30/97	11/15/04	7.35%	44,950
1998-1	6/30/98	5/15/05	7.16%	47,940
1998-2	11/10/98	8/15/06	6.38%	51,440
1998-3	12/30/98	10/15/05	6.42%	28,940
1999-1	06/23/99	4/15/07	8.47%	97,315
1999-2	12/14/99	8/15/07	8.93%	113,900
2000-1	03/22/00	2/15/08	10.16%	125,400
2000-2	07/18/00	6/15/08	10.19%	75,100
2000-3	1/18/01	12/15/08	7.34%	77,690
2000-4	12/28/00	11/15/08	7.49%	78,795
2002-1	4/12/02	12/15/09	6.42%	74,250

The Collateralized Notes are collateralized by the Trusts' rights to receive a portion of future fees and charges expected to be realized on the variable portion of designated blocks of deferred annuity contracts issued by ASLAC. The Collateralized Notes are non-recourse to the Company. Pursuant to agreements between ASLAC, the Holding Company and the Trusts, the Trusts are entitled to receive a percentage of future mortality and expense ("M&E") charges and contingent deferred sales charges ("CDSC"), after reinsurance, expected to be realized over the remaining surrender charge period of the designated contracts.

Trust	ASLAC Block of VA Policies
1997-1	3/1/96 – 4/30/97
1997-2	5/1/95 – 12/31/96
1997-3	5/1/96 – 10/31/97
1998-1	1/1/97 – 5/31/98
1998-2	5/1/97 – 8/31/98
1998-3	7/1/96 – 10/31/98
1999-1	4/1/94 – 4/30/99
1999-2	11/30/98 – 7/31/99
2000-1	8/1/99 – 1/31/00
2000-2	2/1/00 – 4/30/00
2000-3	5/1/00 – 10/31/00
2000-4	1/1/98 – 10/31/00
2002-1	11/1/00 – 12/31/01

The Trusts are grantor trusts established in connection with the issuance of the Collateralized Notes. The Trusts accumulate the cash proceeds of fees and charges relating to the designated annuity contracts, which are remitted by ASLAC to the Holding Company and by the Holding Company to the Trusts, and make monthly interest and principal payments on the Collateralized Notes. In addition, the Trusts are required to maintain a reserve as specified in the Trust Agreements. The activities of the Trusts are included in the consolidated financial statements of the Company; however, the assets of the Trusts are not available to satisfy claims by creditors of the Company until all claims against the Trusts have been paid in full. At December 31, 2002, the assets of the Trusts included cash and cash equivalents totaling $10,258 of which $2,826 represents assets held in reserve.

14. COLLATERALIZED NOTES (continued)

Expected maturities of the collateralized notes as of December 31, 2002 are as follows:

	Amount
2003	$ 73,433
2004	61,657
2005	64,416
2006	52,531
2007	25,392
2008	95,782
Total	$373,211

The Commissioner of the State of Connecticut has approved the transfer of future fees and charges; however, in the event that the Insurance Company becomes subject to an order of liquidation or rehabilitation, the Commissioner has the ability to restrict the payments due to the Trusts, into a restricted account, under the securitization purchase agreement, subject to certain terms and conditions.

The Company capitalized certain legal, accounting and other professional service expenses incurred in connection with the issuance of the Collateralized Notes. Capitalization amounted to $117 for 2002. These deferred debt offering costs are being amortized in proportion to the paydown of the collateralized notes.

Interest expense associated with Collateralized Notes was approximately $34,958 for 2002.

15. OBLIGATIONS UNDER CAPITAL LEASES

The Company has entered into capital lease obligations pertaining primarily to the acquisition of office equipment. Future payments under the capital leases at December 31, 2002 are as follows:

2003	$1,889
2004	1,440
2005	58
2006	—
	3,387
Less amounts representing interest	221
Present value of payments for capital lease obligations	$3,166

16. CONTRACT WITHDRAWAL PROVISIONS

Approximately 99% of the Company’s separate account liabilities are subject to discretionary withdrawal by contract holders at market value or with market value adjustment. Separate account assets, which are carried at fair value, are adequate to pay such withdrawals, which are generally subject to surrender charges ranging from 10% to 1% for contracts held less than 10 years.

17. COMMITMENTS AND CONTINGENT LIABILITIES

In recent years, a number of annuity companies have been named as defendants in class action lawsuits relating to the use of variable annuities as funding vehicles for tax-qualified retirement accounts. The Company is currently a defendant in one such lawsuit. A purported class action complaint was filed in the United States District Court for the Southern District of New York on December 12, 2002, by Diane C. Donovan against the Company and certain of its affiliates (the "Donovan Complaint"). The Donovan Complaint seeks unspecified compensatory damages and injunctive relief from the Company and certain of its affiliates. The Donovan Complaint claims that the Company violated federal securities laws in marketing variable annuities. This litigation is in the preliminary stages. The Company believes this action is without merit, and intends to vigorously defend against this action.

The Company is also involved in other lawsuits arising, for the most part, in the ordinary course of its business operations. While the outcome of these other lawsuits cannot be determined at this time, after consideration of the defenses available to the Company, applicable insurance coverage and any related reserves established, these other lawsuits are not expected to result in liability for amounts material to the financial condition of the Company, although it may adversely affect results of operations in future periods.

As discussed previously, on December 19, 2002, SICL entered into a definitive purchase agreement (the "Purchase Agreement") to sell its ownership interest in the Company to Prudential Financial for approximately $1.265 billion. The closing of this transaction, which is conditioned upon certain customary regulatory and other approvals and conditions, is expected in the second quarter of 2003. (see Note 18)

The purchase price that was agreed to between SICL and Prudential Financial was based on a September 30, 2002 valuation of the Company. As a result, assuming the transaction closes, the economics of the Company's business from September 30, 2002 forward will inure to the benefit or detriment of Prudential Financial. Included in the Purchase Agreement, SICL has agreed to indemnify Prudential Financial for certain liabilities that may arise relating to periods prior to September 30, 2002. These liabilities generally include market conduct activities, as well as contract and regulatory compliance (referred to as "Covered Liabilities").

Related to the indemnification provisions contained in the Purchase Agreement, SICL has signed, for the benefit of the Company, an indemnity letter, effective December 19, 2002, to make the Company whole for certain Covered Liabilities that come to fruition during the period beginning December 19, 2002 and ending with the close of the transaction. This indemnification effectively transfers the risk associated with those Covered Liabilities from the Company to SICL concurrent with the signing of the definitive purchase agreement rather than waiting until the transaction closes.

18. SUBSEQUENT EVENT

On May 1, 2003, the first step of the sale of the Company to Prudential Financial was consummated. This step included Prudential Financial acquiring 90% of the Company's outstanding common stock. Under an agreement entered into at the date of acquisition, Prudential Financial has the right to acquire the remaining 10% of the Company's outstanding stock, at cost, beginning July 30, 2003, which right extends to September 13, 2003. Additionally, under the same agreement, SICL has the right to require Prudential Financial to acquire the remaining 10% of the Company's common stock at 103% of cost beginning September 8, 2003, which right extends to September 13, 2003.

Prior to consummation of the first step of the sale of the Company, Skandia Vida was sold to SICL for $4,625. This transaction resulted in a gain of $150.

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Exhibit 99.1

Skandia U.S. Inc.

Unaudited Financial Statements for the Quarterly Period Ended March 31, 2003

Skandia U.S. Inc.

Unaudited Financial Statements

Quarterly Period Ended March 31, 2003

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Skandia U.S. Inc.

Consolidated Statements of Financial Condition
(in thousands, except share data)

	March 31, 2003	December 31, 2002
	(unaudited)	
ASSETS		
Investments:		
Fixed maturities—at fair value (amortized cost of $411,519 and $385,348, respectively)	$ 423,821	$ 404,549
Equity securities—at fair value (amortized cost of $64,667 and $53,010, respectively)	65,583	52,762
Derivative instruments—at fair value	5,602	10,370
Policy loans	7,585	7,559
Total investments	502,591	475,240
Cash and cash equivalents	122,254	167,832
Accrued investment income	4,790	4,300
Deferred acquisition costs	1,100,745	1,117,544
Reinsurance receivable	5,032	5,447
Receivable from affiliates	9,457	9,110
Deferred income taxes	58,031	39,783
Fixed assets, at depreciated cost (accumulated depreciation of $39,430 and $37,035, respectively)	27,810	30,467
Other assets	106,405	109,422
Separate account assets	21,411,003	21,905,613
Total assets	$ 23,348,118	$ 23,864,758
LIABILITIES AND SHAREHOLDER’S EQUITY		
Liabilities:		
Reserves for future policy and contract benefits	$ 172,174	$ 149,348
Accounts payable and accrued expenses	127,424	126,029
Income tax payable	9,058	8,797
Capital lease obligations	2,748	3,166
Short-term borrowing	293,541	255,141
Long-term borrowing	241,059	279,459
Collateralized notes	352,706	373,211
Separate account liabilities	21,411,003	21,905,613
Total liabilities	22,609,713	23,100,764
Commitments and contingent liabilities (Note 7)		
Shareholder’s equity:		
Common stock, $100 par value, 340 shares authorized, issued and outstanding	34	34
Additional paid-in capital	654,900	653,616
Retained earnings	75,397	98,638
Accumulated other comprehensive income	8,074	11,706
Total shareholder’s equity	738,405	763,994
Total liabilities and shareholder’s equity	$ 23,348,118	$ 23,864,758

See notes to unaudited consolidated financial statements.

Skandia U.S. Inc.

Consolidated Statements of Income
(in thousands)

	Three Months Ended March 31, 2003	2002
	(unaudited)	
REVENUES		
Annuity and life insurance charges and fees	$ 83,219	$ 85,649
Mutual fund charges and fees	4,424	6,692
Fee income	28,032	36,445
Net investment income	4,885	5,501
Sale of 12b-1 fees	3,208	6,188
Net realized capital gains (losses)	973	(1,840)
Other	2,288	1,864
Total revenues	127,029	140,499
EXPENSES		
Benefits:		
Annuity and life insurance benefits	1,339	725
Change in annuity and life insurance policy reserves	861	373
Guaranteed minimum death benefit claims, net of hedge	22,138	18,813
Return credited to contract holders	3,698	(11,854)
Total benefits	28,036	8,057
Other:		
Underwriting, acquisition and other insurance expenses	56,751	67,894
Amortization of deferred acquisition costs	66,751	46,926
Interest expense	14,773	19,834
	138,275	134,654
Total benefits and expenses	166,311	142,711
Loss from operations before income tax benefit	(39,282)	(2,212)
Income tax benefit	(16,041)	(3,007)
Net (loss) income	$ (23,241)	$ 795

See notes to unaudited consolidated financial statements.

Skandia U.S. Inc.

Consolidated Statements of Shareholder's Equity
(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss): Unrealized Gains (Losses)	Total
As of December 31, 2001	$ 34	$ 377,247	$ 290,289	$ 15	$ (919)	$ 666,666
Net loss			(191,651)			(191,651)
Other comprehensive income:						
Unrealized capital gains					10,445	10,445
Reclassification adjustment for realized losses included in net realized capital gains (losses)					2,795	2,795
Foreign currency translation				(630)		(630)
Other comprehensive income						12,610
Comprehensive loss						(179,041)
Capital contributions		276,369				276,369
As of December 31, 2002	$ 34	$ 653,616	$ 98,638	$ (615)	$ 12,321	$ 763,994
Net loss			(23,241)			(23,241)
Other comprehensive loss:						
Unrealized capital losses					(1,228)	(1,228)
Reclassification adjustment for realized gains included in net realized capital gains (losses)					(2,502)	(2,502)
Foreign currency translation				98		98
Other comprehensive loss						(3,632)
Comprehensive loss						(26,873)
Capital contributions		1,284				1,284
As of March 31, 2003	$ 34	$ 654,900	$ 75,397	$ (517)	$ 8,591	$ 738,405

Unrealized capital (losses) gains is shown net of tax (benefit) expense of ($661) and $5,624 for periods ended March 31, 2003 and December 31, 2002, respectively. Reclassification adjustment for realized (gains) losses included in net realized capital gains (losses) is shown net of tax (benefit) expense of ($1,347) and $1,505 for periods ended March 31, 2003 and December 31, 2002, respectively. Foreign currency translation is shown net of tax expense (benefit) of $53 and ($339) for periods ended March 31, 2003 and December 31, 2002, respectively.

See notes to unaudited consolidated financial statements.

Skandia U.S. Inc.

Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
	(unaudited)	
Cash flow from operating activities:		
Net (loss) income	$ (23,241)	$ 795
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Amortization and depreciation	6,491	6,269
Deferral of acquisition costs	(49,952)	(51,025)
Amortization of deferred acquisition costs	66,751	46,926
Deferred tax benefit	(16,293)	(2,447)
Change in unrealized losses (gains) on derivatives	3,569	(4,436)
Increase in policy reserves	3,826	1,381
(Increase) decrease in receivable from affiliates	(347)	388
Change in net income tax receivable/payable	261	(2,280)
Decrease (increase) in other assets	14	(3,416)
(Increase) decrease in accrued investment income	(490)	99
Decrease in reinsurance receivable	415	497
Increase (decrease) in accounts payable and accrued expenses	1,395	(32,026)
Net realized capital losses on derivatives	180	8,704
Net realized capital (gains) losses on investments	(974)	1,840
Net cash used in operating activities	(8,395)	(28,731)
Cash flow from investing activities:		
Purchase of fixed maturity investments	(91,955)	(128,982)
Proceeds from sale and maturity of fixed maturity investments	68,455	134,195
Purchase of derivatives	(9,442)	(13,410)
Proceeds from exercise or sale of derivative instruments	10,461	1,926
Purchase of shares in equity securities and dividend reinvestments	(23,568)	(6,203)
Proceeds from sale of shares in equity securities	9,506	5,170
Proceeds from sale of stock	64	—
Purchase of fixed assets	(188)	(914)
Increase in policy loans	(26)	(330)
Net cash used in investing activities	(36,693)	(8,548)
Cash flow from financing activities:		
Capital contribution	1,284	1,340
Short-term borrowing	38,400	(25,123)
Long-term borrowing	(38,400)	40,000
Principal payments on collateralized notes	(20,505)	(27,367)
Deferred debt offering costs	—	(11)
Principal payments under capital lease obligations	(418)	(433)
Deposits to contract owner accounts	401,135	28,446
Withdrawals from contract owner accounts	(45,519)	(74,632)
Change in contract owner accounts, net of investment earnings	(336,618)	48,113
Net cash used in financing activities	(641)	(9,667)
Net decrease in cash and cash equivalents	(45,729)	(46,946)
Change in foreign currency translation	151	(125)
Cash and cash equivalents at beginning of period	167,832	89,521
Cash and cash equivalents at end of period	$ 122,254	$ 42,450
Income taxes (received) paid	$ (9)	$ 1,709
Interest paid	$ 14,743	$ 20,586

See notes to unaudited consolidated financial statements.

1. ORGANIZATION AND OPERATION

Skandia U.S. Inc. (the "Company") is a wholly-owned subsidiary of Skandia Insurance Company Ltd. (publ) ("SICL"), an insurance company organized under the laws of the Kingdom of Sweden. The Company, primarily through its wholly-owned subsidiary, American Skandia, Inc. ("ASI") and, in particular, through ASI's wholly-owned subsidiary, American Skandia Life Assurance Corporation (the "Insurance Company" or "ASLAC"), develops long-term savings and retirement products which are distributed through its broker/dealer, American Skandia Marketing, Incorporated ("ASM"). Currently, ASLAC issues variable life insurance and variable deferred and immediate annuities for individuals and groups in the United States and its territories. On December 19, 2002, SICL entered into a definitive purchase agreement with Prudential Financial, Inc., a New Jersey corporation ("Prudential Financial"), whereby Prudential Financial will acquire the Company and certain of its affiliates (the "Acquisition"). Consummation of the transaction is subject to various closing conditions, including regulatory approvals and approval of certain matters by the board of directors and shareholders of the mutual funds advised by American Skandia Investment Services, Inc. ("ASISI"), a subsidiary of ASI. The transaction is expected to close during the second quarter of 2003 (see Note 9).

The Company also provides investment management and administrative services to registered investment companies (mutual funds), through ASISI. These mutual funds encompass American Skandia Trust ("AST") and American Skandia Advisor Funds ("ASAF"). AST provides particular mutual fund options in support of ASLAC's variable annuity and insurance products and is also available as a funding vehicle for other life insurance companies' variable products. ASAF are retail mutual funds marketed to U.S. residents. Through its wholly-owned subsidiary, American Skandia Advisory Services, Inc. ("ASASI"), the Company also provides investment advice to participants in mutual fund wrap programs that utilize ASAF and other mutual funds.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared to reflect the carved-out consolidated U.S. annuity and mutual fund businesses of Skandia U.S. Inc., subject to the definitive purchase agreement with Prudential Financial outlined above, as well as Skandia Vida S.A. de C.V. ("Skandia Vida"), the Mexican operations of SICL. The U.S. annuity and mutual fund business of Skandia U.S. Inc. is primarily comprised of the business and operations of ASI. The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto in the Company's audited consolidated financial statements for the year ended December 31, 2002.

3. BORROWINGS

As of March 31, 2003 and December 31, 2002, the Company had $534,600 of short-term and long-term borrowings outstanding with affiliates. Interest expense related to these borrowings was $6,912 for the three months ended March 31, 2003.

4. FOREIGN ENTITY

ASLAC has a 99.9% ownership in Skandia Vida. Skandia Vida had total shareholders' equity of $4,625 as of March 31, 2003 and $5,023 as of December 31, 2002 and has generated losses of $1,833 and $694 for the three months ended March 31, 2003 and 2002, respectively. As part of the Acquisition, it is expected that the Company will sell its ownership interest in Skandia Vida to SICL. The Company has filed for and received required regulatory approvals from the State of Connecticut and Mexico related to the sale of Skandia Vida (see Note 9).

5. INCOME TAXES

The Company recorded an income tax benefit of $16,041 and $3,007 for the three months ended March 31, 2003 and 2002, respectively. The effective income tax rate for the three months ended March 31, 2003 and 2002 varied from the corporate rate of 35% due primarily to the deduction for dividends received.

6. DEFERRED ACQUISITION COSTS

Details of deferred acquisition costs and related amortization for the three months ended March 31, 2003 and 2002 are as follows:

	2003	2002
Balance, beginning of period	$ 1,117,544	$ 1,383,281
Commissions and expenses deferred	33,800	37,488
Purchase credits deferred	16,152	13,537
Amortization of commissions and expenses deferred	(56,599)	(40,313)
Amortization of purchase credits deferred	(10,152)	(6,613)
Balance, end of period	$ 1,100,745	$ 1,387,380

7. COMMITMENTS AND CONTINGENT LIABILITIES

In recent years, a number of annuity companies have been named as defendants in class action lawsuits relating to the use of variable annuities as funding vehicles for tax-qualified retirement accounts. The Company is currently a defendant in one such lawsuit. A purported class action complaint was filed in the United States District Court for the Southern District of New York on December 12, 2002, by Diane C. Donovan against the Company and certain of its affiliates (the "Donovan Complaint"). The Donovan Complaint seeks unspecified compensatory damages and injunctive relief from the Company and certain of its affiliates. The Donovan Complaint claims that the Company violated federal securities laws in marketing variable annuities. This litigation is in the preliminary stages. The Company believes this action is without merit, and intends to vigorously defend against this action.

The Company is also involved in other lawsuits arising, for the most part, in the ordinary course of its business operations. While the outcome of these other lawsuits cannot be determined at this time, after consideration of the defenses available to the Company, applicable insurance coverage and any related reserves established, these other lawsuits are not expected to result in liability for amounts material to the financial condition of the Company, although it may adversely affect results of operations in future periods.

As discussed previously, on December 19, 2002, SICL entered into a definitive purchase agreement (the "Purchase Agreement") to sell its ownership interest in the Company to Prudential Financial for approximately $1.265 billion. The closing of this transaction, which is conditioned upon certain customary regulatory and other approvals and conditions, is expected in the second quarter of 2003 (see Note 9).

The purchase price that was agreed to between SICL and Prudential Financial was based on a September 30, 2002 valuation of the Company. As a result, assuming the transaction closes, the economics of the Company's business from September 30, 2002 forward will inure to the benefit or detriment of Prudential Financial. Included in the Purchase Agreement, SICL has agreed to indemnify Prudential Financial for certain liabilities that may arise relating to periods prior to September 30, 2002. These liabilities generally include market conduct activities, as well as contract and regulatory compliance (referred to as "Covered Liabilities").

Related to the indemnification provisions contained in the Purchase Agreement, SICL has signed, for the benefit of the Company, an indemnity letter, effective December 19, 2002, to make the Company whole for certain Covered Liabilities that come to fruition during the period beginning December 19, 2002 and ending with the close of the transaction. This indemnification effectively transfers the risk associated with those Covered Liabilities from the Company to SICL concurrent with the signing of the definitive purchase agreement rather than waiting until the transaction closes.

8. SEGMENT REPORTING

Assets under management and sales for products other than variable annuities have not been significant enough to warrant full segment disclosures as required by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", and the Company does not anticipate that they will be so in the future.

9. SUBSEQUENT EVENT

On May 1, 2003, the first step of the sale of the Company to Prudential Financial was consummated. This step included Prudential Financial acquiring 90% of the Company's outstanding common stock. Under an agreement entered into at the date of acquisition, Prudential Financial has the right to acquire the remaining 10% of the Company's outstanding stock, at cost, beginning July 30, 2003, which right extends to September 13, 2003. Additionally, under the same agreement, the SICL has the right to require Prudential Financial to acquire the remaining 10% of the Company's common stock at 103% of cost beginning September 8, 2003, which right extends to September 13, 2003.

Prior to consummation of the first step of the sale of the Company, Skandia Vida was sold to SICL for $4,625. This transaction resulted in a gain of $150.

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Unaudited Pro Forma Condensed Consolidated Financial Statements of Prudential Financial, Inc.

On May 1, 2003, Prudential Financial, Inc. (the “Company”) acquired Skandia U.S. Inc. (“Skandia U.S.”), a wholly owned subsidiary of Skandia Insurance Company Ltd, (“Skandia”). The Company purchased newly issued shares of common stock representing 90% of the outstanding common stock of Skandia U.S. and one share of a newly issued class of preferred stock (collectively the “Shares”) and entered into an agreement at the date of acquisition whereby the Company has the right to acquire the remaining 10% of outstanding common stock for $165 million beginning July 30, 2003, which right extends to September 13, 2003. Additionally, under the same agreement Skandia has the right to require the Company to acquire the remaining 10% of common stock for $170 million beginning September 8, 2003, which right extends to September 13, 2003. This agreement has been accounted for as a financing whereby the cash to be paid to acquire the remaining 10% of common stock will be reflected as a liability in the statement of financial position, until exercised, and included as a cost of the acquisition at May 1, 2003. The Company’s acquisition of Skandia U.S. included American Skandia, Inc. (“American Skandia”) and its wholly owned subsidiaries, excluding Skandia Vida S.A. de C.V. (“Skandia Vida”), the Mexican insurance operations of Skandia. American Skandia and its wholly owned subsidiaries, excluding Skandia Vida, represent the U.S. annuity and mutual fund businesses of Skandia U.S.

Skandia U.S. was also the parent of Skandia South American Holding Corporation (“SSAHC”), Skandia U.S. Holding, LLC (“SUSH”), Skandia Technology Center, Inc. (“STC”), and Skandia Innovations U.S., Inc. (“SII”), collectively, the “Other Businesses.” Prior to consummation, Skandia purchased from Skandia U.S. all the issued and outstanding shares of the Other Businesses and of Skandia Vida for cash consideration. The Company’s purchase price for Skandia U.S. of $1,184 million reflects the cash consideration paid by Skandia to Skandia U.S. for these businesses as this portion of the purchase price will be paid back to Skandia at the time the Company purchases the remaining 10% of outstanding common stock.

The Company’s acquisition of Skandia U.S. was accounted for using the purchase method of accounting prescribed by Statement of Financial Accounting Standards No. 141 and, accordingly, the assets acquired and liabilities assumed were recorded at their fair values as of the date of acquisition. As of May 1, 2003, 100% of the assets acquired and liabilities assumed have been consolidated into the statement of financial position of the Company. The results of operations of Skandia U.S. have been included in the consolidated results of operations of the Company beginning May 1, 2003.

The unaudited pro forma condensed consolidated financial statements presented below are based on historical financial statements of Skandia U.S., excluding the Other Businesses which were historically managed directly by Skandia and were not acquired by the Company. Accordingly, the financial statements present the financial position and results of operations of Skandia U.S. holding company activities and American Skandia and its subsidiaries including Skandia Vida which were historically operated by the management of the U.S. annuity and mutual fund businesses. These unaudited pro forma condensed consolidated financial statements are intended to provide information about the continuing impact of the acquisition of Skandia U.S. by showing how it might have affected the historical financial statements of the Company and are based on assumptions and adjustments described in the accompanying notes.

The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the separate historical financial statements of the Company as of and for the year ended December 31, 2002, included in the Company’s Annual Report on Form 10-K; the unaudited financial statements of the Company as of and for the period ended March 31, 2003, included in the Company’s Quarterly Report on Form 10-Q; the separate historical audited financial statements of the acquired operations of Skandia U.S. as of and for the year ended December 31, 2002; and the unaudited financial statements of the acquired operations of Skandia U.S. as of March 31, 2003, and for the three months ended March 31, 2003 and 2002, included elsewhere in this Current Report on Form 8-K.

Prudential Financial, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Financial Position
March 31, 2003 (in millions)

	Historical Prudential Financial, Inc.	Historical Skandia U.S. Inc.	Pro Forma Adjustments	Pro Forma Prudential Financial, Inc.
ASSETS				
Total investments	$ 185,189	$ 503	$ (3) (1)	$ 185,689
Cash and cash equivalents	10,691	122	115 (2)	10,017
	—	—	(9) (3)	
	—	—	(902) (4)	
Deferred policy acquisition costs	7,039	1,101	(1,101) (5)	7,039
Other assets	25,623	153	366 (6)	26,114
	—	—	(80) (7)	
	—	—	45 (8)	
	—	—	(7) (9)	
	—	—	15 (10)	
	—	—	(1) (1)	
Separate account assets	70,710	21,411	(53) (1)	92,068
Total assets	299,252	23,290	(1,615)	320,927
LIABILITIES AND ATTRIBUTED EQUITY LIABILITIES				
Future policy benefits	91,601	—	—	91,601
Policyholders' account balances	46,972	172	—	47,144
Unpaid claims and claims adjustment expenses	3,513	—	—	3,513
Policyholders' dividends	4,050	—	—	4,050
Income taxes payable	2,304	9	—	2,313
Short-term debt	4,212	294	(294)(11)	4,212
Long-term debt	4,332	593	(593)(11)	4,332
Other liabilities	49,010	73	(1) (1)	49,146
	—	—	64 (12)	
	—	—	14 (13)	
	—	—	(291)(14)	
	—	—	(3)(11)	
	—	—	165 (15)	
	—	—	115 (2)	
Separate account liabilities	70,710	21,411	(53) (1)	92,068
Total liabilities	276,704	22,552	(877)	298,379
Guaranteed beneficial interest in Trust holding solely debentures of Parent	690	—	—	690
COMMITMENTS AND CONTINGENCIES STOCKHOLDERS' EQUITY				
Preferred Stock	—	—	—	—
Common Stock	6	—	—	6
Class B Stock	—	—	—	—
Additional paid-in capital	19,516	655	(655)(16)	19,516
		—		
Common Stock held in treasury	(990)	—	—	(990)
Deferred compensation	(17)	—	—	(17)
Accumulated other comprehensive income	3,157	8	(8)(16)	3,157
Retained earnings	186	75	(75)(16)	186
Total stockholders' equity	21,858	738	(738)	21,858
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 299,252	$ 23,290	$ (1,615)	$ 320,927

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

Prudential Financial, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
Year Ended December 31, 2002 (in millions, except per share amounts)

	Historical Prudential Financial, Inc.	Historical Skandia U.S. Inc.	Pro Forma Adjustments	Pro Forma Prudential Financial, Inc.
REVENUES				
Premiums	$ 13,531	$ 2	$ —	$ 13,533
Policy charges and fee income	1,653	389	—	2,042
Net investment income	8,832	20	(61)(17)	8,789
	—	—	(2)(18)	
Realized investment gains (losses), net	(1,358)	15	4 (19)	(1,339)
Commission and other income	4,017	199	(1) (1)	4,215
Total revenues	26,675	625	(60)	27,240
BENEFITS AND EXPENSES				
Policyholders' benefits	13,658	60	—	13,718
Interest credited to policyholders' account balances	1,846	84	(78)(20)	1,852
Dividends to policyholders	2,644	—	—	2,644
General and administrative expenses	8,463	794	(4) (1)	8,791
	—	—	(443)(20)	
	—	—	(74)(21)	
	—	—	(5)(22)	
	—	—	2 (23)	
	—	—	58 (24)	
Total benefits and expenses	26,611	938	(544)	27,005
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	64	(313)	484	235
Income tax expense (benefit)	(192)	(121)	174 (14)	(139)
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ 256	$ (192)	$ 310	$ 374
EARNINGS PER SHARE (See Note 4)				
Financial Services Businesses				
Income from continuing operations per share of Common Stock				
Basic	$ 1.36	$ —		$ 1.56
Diluted	$ 1.36	$ —		$ 1.56
Closed Block Business				
Basic and Diluted				
Loss from continuing operations per share of Class B Stock	$ (264.00)	$ —		$ (264.00)
Weighted Average Shares of Common Stock Outstanding				
Basic	576.6	—		576.6
Diluted	578.0	—		578.0
Weighted Average Shares of Class B Stock Outstanding				
Basic and Diluted	2.0	—		2.0

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

Prudential Financial, Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Operations
Three Months Ended March 31, 2003 (in millions, except per share amounts)

	Historical Prudential Financial, Inc.	Historical Skandia U.S. Inc.	Pro Forma Adjustments	Pro Forma Prudential Financial, Inc.
REVENUES				
Premiums	$ 3,372	$ 1	$ —	$ 3,373
Policy charges and fee income	416	87	—	503
Net investment income	2,190	2	(16)(17)	2,175
	—	—	(1)(18)	
Realized investment gains (losses), net	(67)	(3)	1 (19)	(69)
Commission and other income	896	41	—	937
Total revenues	6,807	128	(16)	6,919
BENEFITS AND EXPENSES				
Policyholders’ benefits	3,445	18	—	3,463
Interest credited to policyholders’ account balances	452	12	(12)(20)	452
Dividends to policyholders	645	—	—	645
General and administrative expenses	1,942	137	(2) (1)	2,018
	—	—	(53)(20)	
	—	—	(15)(21)	
	—	—	(1)(22)	
	—	—	1 (23)	
	—	—	9 (24)	
Total benefits and expenses	6,484	167	(73)	6,578
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	323	(39)	57	341
Income tax expense (benefit)	105	(16)	21(14)	110
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ 218	$ (23)	$ 36	$ 231
EARNINGS PER SHARE (See Note 4)				
Financial Services Businesses				
Income from continuing operations per share of Common Stock				
Basic	$ 0.43	$ —		$ 0.45
Diluted	$ 0.43	$ —		$ 0.45
Closed Block Business				
Basic and Diluted				
Loss from continuing operations per share of Class B Stock	$ (9.50)	$ —		$ (9.50)
Weighted Average Shares of Common Stock Outstanding				
Basic	554.4	—		554.4
Diluted	556.5	—		556.5
Weighted Average Shares of Class B Stock Outstanding				
Basic and Diluted	2.0	—		2.0

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements of Prudential Financial, Inc.

1. Basis of Presentation

Prudential Financial, Inc.'s (the "Company") acquisition of Skandia U.S. Inc. ("Skandia U.S.") included American Skandia, Inc. ("American Skandia") and its wholly owned subsidiaries, excluding Skandia Vida S.A. de C.V. ("Skandia Vida"), the Mexican insurance operations of Skandia. American Skandia and its wholly owned subsidiaries, excluding Skandia Vida, represent the U.S. annuity and mutual fund businesses of Skandia U.S. Skandia U.S. was also the parent of Skandia South American Holding Corporation ("SSAHC"), Skandia U.S. Holdings, LLC ("SUSH"), Skandia Technology Center, Inc. ("STC"), and Skandia Innovations U.S., Inc. ("SII"), collectively, the "Other Businesses." Prior to consummation, Skandia purchased from Skandia U.S. all the issued and outstanding shares of the Other Businesses and of Skandia Vida for cash consideration. The Company's purchase price for Skandia U.S. included the amount of the cash consideration paid by Skandia to Skandia U.S. for these businesses. The results of Skandia U.S.'s operations are included in the consoldiated financial statements of the Company beginning May 1, 2003.

The unaudited pro forma condensed consolidated financial statements included herein have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission and are based on the historical financial statements of the Company and the historical financial statements of Skandia U.S. which include the consolidated statement of financial position and results of operations of Skandia U.S.'s holding company activities and American Skandia's operations. The Company believes that these financial statements provide investors with a complete and comprehensive financial history of the U.S. annuity and mutual fund businesses historically managed by American Skandia management.

The unaudited condensed combined pro forma statement of financial position combines the historical consolidated statement of financial position of the Company as of March 31, 2003, with the historical statement of financial position of Skandia U.S. as of March 31, 2003. The historical statement of financial position is then adjusted on a pro forma basis to include the effect of the cash consideration paid by Skandia to purchase the Other Businesses and Skandia Vida, and to give effect to the merger as if it occurred on March 31, 2003. The unaudited condensed combined pro forma statements of operations for the year ended December 31, 2002, and the three months ended March 31, 2003, combine the historical consolidated statement of operations of the Company and the historical statement of operations of Skandia U.S., for these periods. The historical statements of operations are then adjusted on a pro forma basis to exclude the results of operations of Skandia Vida, and to give effect to the acquisition as if it occurred on January 1, 2002. The unaudited pro forma statements of operations do not purport to represent what the Company's actual results of operations would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods. Some information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted in accordance with Article 11—Pro Forma Financial Information, of Regulation S-X.

The preparation of unaudited pro forma condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including deferred policy acquisition costs, investments, intangible assets, the valuation of business acquired ("VOBA"), future policy benefits, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates.

Certain reclassifications have been made to the amounts reflected in the historical financial statements of Skandia U.S. to conform to the Company's presentation.

2. Purchase Price

The Company completed the closing process to acquire the Shares on May 1, 2003. The Company intends to purchase the remaining 10% of the outstanding common stock of Skandia U.S. under an arrangement, whereby the Company has the right to acquire, beginning July 30, 2003, the remaining 10% of common stock for $165 million. This arrangement has been accounted for as a financing transaction. Consequently, the Company's financial statements will reflect the acquisition of 100% of the outstanding common stock of Skandia U.S.

The total purchase price was calculated as follows:

	(in millions)
Purchase price paid for the Shares (a)	$ 646
Assumption of collateralized notes held by third parties	248
Purchase price for the remaining 10% equity of Skandia U.S. which the Company has the right to acquire under an agreement with Skandia	165
Payment to Skandia for the cash held by Skandia U.S. following the Other Businesses and Skandia Vida transactions	115
Transaction costs	10
Total purchase price	$ 1,184

(a) The proceeds were used by Skandia U.S. to purchase an aggregate of $646 million of unsecured debt and collateralized notes held by Skandia.

The allocation of the purchase price at May 1, 2003, is as follows:

	(in millions)
Total investments at market value	$ 486
Cash and cash equivalents	214
VOBA	366
Other assets at fair value	467
Separate account assets	22,311
Policyholder account balances	(168)
Other liabilities at fair value	(181)
Separate account liabilities	(22,311)
Total purchase price	$ 1,184

3. Pro Forma Adjustments

Adjustments included in the "Pro Forma Adjustments" column of the pro forma financial statements relate to the following:

(1) Represents the elimination of assets, liabilities, and results of operations of Skandia Vida, a subsidiary of American Skandia included in the historical financial statements, which Skandia U.S. sold to Skandia for cash consideration just prior to the Company's acquisition of Skandia U.S.

(2) Represents the cash paid to Skandia U.S. from Skandia for Skandia Vida and the Other Businesses which were not acquired by the Company, which cash will be paid to Skandia as purchase consideration.

(3) Represents cash held by Skandia U.S. used to pay collateralized notes.

(4) Represents cash consideration paid to acquire Skandia U.S. and cash payments for certain transaction related expenses.

(5) Represents the unamortized balance of Skandia U.S.'s deferred policy acquisition costs which are considered to have no fair value under purchase accounting.

(6) Represents VOBA established in accordance with purchase accounting guidance. This amount is determined by estimating the net present value of future cash flows expected to result from contracts in force at the date of the transaction. Future positive cash flows include fees and other charges assessed to the contracts for as long as they remain in force as well as fees collected upon surrender, while future negative cash flows include costs to administer the contracts, and benefit payments including payments under the guaranteed minimum death benefit ("GMDB") provisions of the contracts. VOBA will be amortized over the expected life of the contracts (approximately 25 years) in proportion to estimated gross profits arising principally from investment results, mortality and expense margins, and surrender charges based upon historical and estimated future experience, which is updated periodically.

The GMDB provides annuity contract holders with a guarantee that the benefit received at death will be no less than a prescribed minimum amount. This minimum amount is based on the net deposits paid into the contract, the net deposits accumulated at a specified rate, the highest historical account value on a contract anniversary, or the greatest of these values, depending on features offered in various contracts and elected by the contract holders. These contracts generally require payment of additional charges for guarantees other than those based on net deposits paid into the contract. To the extent that the GMDB is higher than the current account value at the time of death, the Company may incur a loss on the contract. This results in increased annuity policy benefits in periods of declining financial markets, and also in periods of stable financial markets following a decline. Current accounting literature does not prescribe advance recognition of the expected future net costs associated with these guarantees, and accordingly, the historical consolidated statements of financial position and the unaudited interim statements of financial position of the Company and the historical statements of financial position of Skandia U.S. do not reflect a liability corresponding to these projected future obligations for death benefits in excess of annuity account values. However, AICPA Statement of Position 03-01, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (the "SOP"), effective for fiscal years beginning after December 15, 2003, requires the recording of a liability associated with these guarantees under certain circumstances. For contracts classified as insurance contracts that have amounts assessed against contractholders each period for the insurance benefit features that are assessed in a manner that is expected to result in profits in earlier years and subsequent losses from that insurance benefit function, a liability is required to be established in addition to the account balance to recognize the portion of such assessments that compensates the insurance enterprise for benefits to be provided in future periods. In valuing the contracts acquired, the Company considered the negative cash flows of future benefit obligations associated with the GMDB on those contracts.

Upon adoption of the SOP on January 1, 2004, the Company intends to establish an explicit liability for GMDB associated with the acquired contracts. This will result in an increase in VOBA and higher future amortization. The higher amortization will be partially offset by lower benefit expenses, as a portion of the future GMDB costs will be charged against the explicit GMDB liability.

The following table provides estimated pro forma amortization of VOBA for 2003 from the date of acquisition and each of the five years following the acquisition. The amounts below are based on the VOBA balance presented in the pro forma statement of financial position. These amounts do not consider the effect of establishing the GMDB related liability described above.

	(in millions)
2003	$34
2004	$46
2005	$41
2006	$36
2007	$31
2008	$27

(7) Represents the derecognition of unearned purchase credits.

(8) Represents an intangible asset related to the acquired distribution arrangements. For purposes of the pro forma financial statements the Company has assumed a 25 year amortization period.

(9) Represents the fair valuation of miscellaneous receivables.

(10) Represents a receivable from Skandia for future reimbursement of certain severance benefits to be paid by the Company. Skandia will reimburse the Company for the first $15 million in severance costs to the extent incurred in one year from the settlement date.

(11) Represents the payoff of unsecured debt and collateralized notes of American Skandia, including accrued interest.

(12) Represents a liability for severance and other costs, costs of operating lease arrangements that will not be utilized by the Company and certain transaction related costs.

(13) Represents an estimate of the exposure for certain liabilities previously indemnified by the parent company, Skandia, for which the Company is now responsible. Under the terms of the purchase agreement, the Company is responsible for the first $10 million, after-tax, of certain liabilities that may arise relating to periods prior to the closing on May 1, 2003, but is indemnified by Skandia for such liabilities for amounts in excess of $10 million, after-tax, up to $1 billion, after-tax.

(14) Represents the net effect of pro forma adjustments on taxes.

(15) Represents a liability associated with the agreement under which the Company intends to acquire the remaining 10% of the outstanding common stock of Skandia U.S.

(16) Represents the elimination of Skandia U.S.'s historical additional paid-in capital, retained earnings, and accumulated other comprehensive income in accordance with purchase accounting guidance.

(17) Represents a decrease in net investment income, resulting from the acquisition of Skandia U.S. The decrease in net investment income assumes a rate of return on those assets of 6%.

(18) Represents bond amortization resulting from the adjusted cost basis due to the application of purchase accounting.

(19) Represents net unrealized investment gains on general account investments associated with certain deferred compensation arrangements. Prior to acquisition, Skandia U.S. classified these investments as "available for sale" for accounting purposes and, as a result, the associated net unrealized investment gains were recorded in accumulated other comprehensive income. Post-acquisition, the investments have been classified as "trading" for accounting purposes to conform to the Company's accounting classification. As a result of this change, net unrealized investment gains associated with these investments have been reflected as a component of income from continuing operations.

(20) Represents the elimination of DAC amortization and amortization of unearned purchase credits to contractholders as the related assets were written-off in purchase accounting.

(21) Represents the elimination of interest expense associated with the unsecured debt and collateralized notes that were paid off as part of the acquisition of Skandia U.S.

(22) Represents the elimination of lease expenses associated with Skandia U.S. operating lease arrangements that will not be utilized by the Company. The Company established a liability for these lease obligations in accordance with purchase accounting guidance.

(23) Represents amortization expense on intangible assets.

(24) Represents amortization of VOBA. See footnote (6) for a detailed explanation of VOBA and estimated pro forma amortization of VOBA for the five years following the purchase.

4. Pro Forma Earnings Per Share

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: Insurance, Investment, and International Insurance and Investments. Businesses that are not sufficiently material to warrant separate disclosure are included in Corporate and Other operations within the Financial Services Businesses. As of the date of acquisition, the results of operations of Skandia U.S. have been included in the Financial Services Businesses. Hence, the pro forma adjustments presented affect only the results of the Financial Services Businesses.

The Closed Block Business was established on the date of demutualization and includes the Company's in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company has ceased offering these participating products.

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock.

The historical income from continuing operations for the Financial Services Businesses and the Closed Block Business is determined in accordance with GAAP and includes general and administrative expenses charged to each of the respective businesses based on the Company's methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after-tax basis, as direct equity adjustments to the equity balances of the businesses. The direct equity adjustments modify the earnings available to each of the classes of common stock for earnings per share purposes. The pro forma adjustments had no impact on the direct equity adjustment.

Common Stock

The pro forma income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment for the year ended December 31, 2002, and the three months ended March 31, 2003, amounted to $902 million and $250 million, respectively. For the year ended December 31, 2002, and the three months ended March 31, 2003, the direct equity adjustment resulted in an increase of $43 million and $18 million, respectively, in the pro forma income from continuing operations attributable to the Financial Services Businesses applicable to holders of Common Stock for earnings per share purposes.

Class B Stock

The pro forma loss from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the year ended December 31, 2002, and the three months ended March 31, 2003 amounted to $(528) million and $(19) million, respectively. For the year ended December 31, 2002, and the three months ended March 31, 2003, the direct equity adjustment resulted in an increase of $43 million and $18 million, respectively, in the pro forma loss from continuing operations attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes.